South Australian Council of Social Service Inc

Submission to the

Essential Services Commission of South Australia

on

Consumer Issues with Pre-Payment Electricity Meters

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For further information

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Submission
to the
Essential Services Commission of South Australia
from the
South Australian Council of Social Service

Prepayment Electricity Meters (PPMs)

1. Introduction

SACOSS is the peak body for the social service organisations in South Australia. Our membership of 270 includes peak bodies in the community sector and other membership organisations. Our members offer such services as counseling, family support, emergency relief, emergency accommodation, advocacy, information and referral to people in crisis, people with disabilities, migrants and refugees, youth, aged, people on low incomes and those otherwise disadvantaged.

Of note, SACOSS membership represents many, if not all, of the 'consumers most likely to be affected by prepayment meters' identified in the report *Consumer issues with pre-payment meters* (KPMG, 2004), including:

- low income households which need to 'juggle' energy and other financial commitments
- older people
- those with special health needs
- renters in premises that are thermally inefficient
- people from culturally and linguistically diverse backgrounds

This submission was prepared by Mr Andrew Nance, Coordinator, SACOSS Electricity Consumers Advocates Training Project and Ms Pam Simmons, SACOSS Executive Director, in discussion with SACOSS members and Policy Council.

2. Position

Consultation on this issue has revealed a high level of recognition of the potential benefits and a clear intent not to simply dismiss PPMs. However, there is also a high degree of scepticism and concern over some of the related issues. The key issues that emerged are:

- Self-disconnection. Consumers unable to pay are no longer 'connected' to either electricity or the hardship and consumer protection provisions that would otherwise exist between defaulting on a bill and physical disconnection.
- Use of PPMs to recover debt. Many examples of PPM use in the KPMG report have debt recovery as part of the PPM 'system' (usually as a 'surcharge on the tariff', capped at a weekly figure – such as $5pw in NSW). Collectively we know very little about current levels and distribution of debt.
- Coercion. How to ensure PPMs are only used by those who really choose them (and not forced on to them or 'end up with one' through changing tenancies).
- Concessions. How to ensure ongoing access to concessions. Should they be paid as $ amounts or provided as a daily 'credit of energy' to ensure those on concessions cannot fully disconnect.
- Price. How to maintain parity with the 'standard contract'. Many examples show higher tariffs.

Despite the apparent benefits for many customers of accessing more choice in the market, the introduction of PPMs introduces a new ‘trap’ for households – self disconnection. It has been clearly acknowledged that to avoid this ‘trap’ for some means denying for others what may be a desirable ‘choice’.

While it is conceivable that alternate mechanisms could provide a safety net for those households most likely to self-disconnect there is little confidence that the current market is mature enough to respond to such situations - especially given current experience with mechanisms for hardship. At present, resources would be better allocated to promotion and refinement of existing hardship programs and payment options.

SACOSS recommends a moratorium on the introduction of prepayment meters of at least two years to allow further debate and progress on the issues and market conditions that would minimise the risk of adverse outcomes for the most vulnerable electricity consumers.

3. Consultation

SACOSS acknowledges and commends the efforts of ESCoSA and consultants KPMG in researching and communicating the issues outlined in the KPMG report *Consumer issues with pre-payment meters* (KPMG, 2004).

We have had access to the full report and distributed copies of the comprehensive executive summary and two-page overview, and distributed our own briefing paper. We have also had access to the December 2003 *Draft Guidelines for Implementation of Prepayment Metering in NSW*. Further:

- We have been in contact with the Tasmanian Council of Social Service (TASCOSS) about the Tasmanian experience (please read the recent article attached).
- We participated in a special meeting of the Western Region Energy Action Group on May 20th on the issue of PPMs.
- We have conducted a workshop with representatives of eight member organisations on May 25th.
- We have participated in numerous informal discussions on the subject of PPMs.
- A briefing paper and draft position was debated (and adopted) by the SACoSS Policy Council on June 7th, 2004.

4. Rationale

4.1 Rights of access and an inadequate Safety Net

SACOSS believes that energy is an essential service for households and every household is entitled to affordable access to sufficient amounts of energy to sustain a decent standard of living and meet the health needs of the occupants.

In support of such a position, the 2004 report from the Senate Community Affairs References Committee Inquiry into Poverty and Financial Hardship (Senate Poverty Inquiry) made the following observation (Ch9, p191):

> *Evidence indicated the importance of ensuring access for low income households to essential utilities such as electricity, gas, water and telephone services. These services provide the basic means by which any household is able to function in a modern society.*

The Poverty Inquiry also made the following recommendation (Recommendation 33)

That public and private utilities have in place hardship provisions that provide for the reduction or waiver of debt to ensure that customers genuinely unable to pay for the provision of utilities retain access to these essential services.

In reviewing any aspect of the electricity market, SACOSS is continually aware of this need to preserve a 'right of access' for those unable to pay. The KPMG study (para 1.4.6 p5) identified two major systemic consumer protection issues:

- The hidden nature of fuel related poverty where PPMs are installed
- The absence of an effective safety net for PPM customers

Both relate to this new 'trap' for households – self disconnection.

There is also more attention required on the role of social service organisations in the safety net. Adequate education and resourcing of financial counselors, emergency relief service providers and other advocates to negotiate the consumer protection provisions of the market and with retailer hardship programs has not occurred. It is therefore difficult to support the introduction of PPMs knowing the potential ramifications of issues such as coercion and self disconnection on the demand for crisis support.

Further, given the trends indicated by the 'affordability' data discussed below and knowing little about post full retail contestability (FRC) activity, there is little confidence in the sector in the overall robustness of the consumer protection provisions of the market and the adequacy of the overall 'safety net' afforded South Australian households. We know that, even with an increasing reliance on the goodwill of a number of agencies, people are 'falling through' the net.

Tasmania is generally regarded as a PPM success story with a perception of widespread support for the technology. However prices are currently un-regulated and a review is underway by the Office of the Tasmanian Energy Regulator. The review, " … will consider the prices, terms and conditions of Aurora Pay As You Go (APAYG), the extent to which APAYG is a genuine "product of choice" for residential customers, the interaction of APAYG and Aurora's credit policy and the extent to which regulation of APAYG may be necessary to protect the interest of consumers." (www.energyregulator.tas.gov.au).

The attached correspondence from TASCOSS highlights the concern held by the social service sector there.

4.2 Electricity Affordability

Emergency relief agencies have been reporting an increase in demand for their services attributable to the impact of large electricity bills since the introduction of FRC for electricity on January 1st 2003. Electricity bills have long been a trigger for financial crisis but the situation is clearly getting worse. It is also obvious that there are real issues around the affordability of electricity in SA but we are, collectively, yet to have a solid understanding of the details.

The *4th Annual Performance Report of Regulated Electricity Businesses in SA 2002-2003* published by ESCoSA in 2003 provides the most recent report on payment difficulties (para 3.2.4 p37-40). It is noted that this report only contained data for the period until end June 2003 – the first six months under FRC. The 5th report is greatly anticipated as, alarmingly, the 4th report highlighted dramatic increases in the June quarter for both the number of extended payment arrangements sought by customers and the number of disconnection notices issued. This highlights the need for more frequent reporting of such information.

Customer debt levels are not reported and very little is known about them. Anecdotally, at least one householder on AGL's *Staying Connected* hardship program entered into payment arrangements that, for their level of consumption, saw them getting further into debt (exceeding $1500 at the end of 2003). With over 1700 *Staying Connected* plans reportedly taken out in the first six months of FRC, providing individual attention to each customer has, understandably, been a challenge.

The work being conducted on fuel driven poverty by the National Institute of Labour Studies is proving valuable but suffers from a time-lag when relying on ABS data. As such, little in known about post-FRC fuel driven poverty in SA – the most recent work (*Household Energy Expenditure: Measures of Hardship & Changes in Income*, February 2004) however indicates that **<u>prior to FRC</u>**:

- 58.7 percent of low-income households in South Australia spent 4 percent or more of their income on domestic fuel and power, compared to 45.6 percent for Australia. The median for South Australia lies between 4 and 5 percent, while for Australia it is between 3 and 4 percent
- Low income households who are spending 10 percent or more of their income on fuel increased from 4.4 percent in 1993/94 to 8.2 percent in 1998/99. An increase of 86 percent.

It is also SACOSS's experience that there is insufficient household level consumption data to allow for the accurate assessment of the potential equity impacts of pre-payment metering (and many other issues for that matter). ETSA Utilities' recent 2005-10 Expenditure Submission to ESCoSA contained an encouraging acknowledgment of the need to acquire more detailed data about household electricity consumption. In order to more accurately assess the impacts of initiatives such as pre-payment or interval meters, this data would need to be correlated to household attributes such as the number of occupants, income, ages, health needs, building type, location, etc.

4.3 There are alternatives

It is acknowledged that PPMs offer some attractive features. However, as the KPMG study notes, many of these are not exclusive to PPM technology and can be delivered via alternate mechanisms. Given the 'costs' of PPMs – in terms of the cost of the technology itself and the 'cost' of self-disconnections – it seems more appropriate to advocate for the alternatives.

The ability to monitor usage and adjust consumption is a clear benefit. However, the technology that provides this feature is independent of the pre-payment function. A device could provide the same information without being linked to payment.

Buying credit in more manageable 'chunks' is also a benefit. However other options are already available that 'smooth' bill payments. These include Centrepay (for Centrelink beneficiaries) and other 'products' offered by retailers. Further promotion and refinement of these mechanisms would be an appropriate alternative to PPMs.

Providing a 'convenient' way to repay debt is another benefit cited for PPMs. As noted above, we know too little about utility consumer debt (levels, distribution etc) to allow PPMs to be used for debt repayment. Much more work is required in the avoidance of debt in preference to a 'quick fix' like PPMs. Community Service Obligations for utilities requires review and must be more closely linked to indicators of electricity affordability. Further work is also required on tariff structures that better reflect the 'essential service' nature of electricity and the 'right of access' each householder has to some amount of electricity. More socially responsible tariff structures would be an appropriate alternative to PPMs.

5. Conclusion

SACOSS believes that energy is an essential service for households and every household is entitled to affordable access to sufficient amounts of energy to sustain a decent standard of living and meet the health needs of the occupants.

With respect to household affordability and market maturity, the South Australian Electricity Market is a unique context for the potential impact of PPM technology. It is therefore very important to be cautious when considering PPM examples from elsewhere. Through the various discussions that have lead to this submission, SACOSS has formed the view that the South Australian electricity market, as it currently functions in its entirety, is an inappropriate application for PPM technology.

Despite the apparent benefits for some customers of more choice in metering and method of payment, the introduction of PPMs introduces a new ‘trap’ for households – self disconnection. It has been clearly acknowledged that to avoid this ‘trap’ for some means denying for others what may be a desirable ‘choice’. At present, resources would be better allocated to promotion and refinement of existing hardship programs and payment options.

SACOSS recommends a moratorium on the introduction of prepayment meters of at least two years to allow further debate and progress on the issues and market conditions that would minimise the risk of adverse outcomes for the most vulnerable electricity consumers.

Tasmanian Update **(from 'On the Wire' May 2004, Consumer Law Centre Victoria)**

Pre-payment meters – have they slipped through cracks?

The Tasmanian Energy Regulator has recently announced a review of Aurora Energy's (Aurora) pre-payment meter (PPM) tariff system, Aurora Pay As You Go (APAYG). This system, introduced as a trial in 1995 and opened up to general use in 1997, has so far remained unregulated. The move to investigate the PPM system was prompted by the fact that the take-up rate has been so high (around 28,000 customers) and that the pricing structure differs so markedly from the standard tariff, not allowing easy comparison between the two. In addition, Aurora has recently introduced a APAYG 'Progress Rate' that allows consumers with PPMs to pay off outstanding debts through an increased per kilowatt-hour charge (1.5c/kWh).

The review will consider prices, terms and conditions, the extent to which APAYG is a 'product of choice', the interaction between APAYG and Aurora's credit policy, and the extent to which regulation may be necessary to protect consumers. It will also look into 'the incidence, duration and impact of self-disconnection' on APAYG. The Regulator is seeking an initial submission from Aurora and will then prepare an issues paper to which the public will be invited to respond.

The community services sector in Tasmania welcomes the investigation since, despite their apparent popularity with consumers, it has a number of concerns about PPMs. One concern is the lack of comparability with the standard tariff, the PPM tariffs are time-of-use tariffs that differ between times of day and between summer and winter periods while the standard tariff is a block tariff that declines with increased use. Both tariffs have a standing daily charge, with the PPM daily charge around 20c higher than that of the standard tariff. Another major concern is that PPMs allow for self-disconnection, resulting in consumer protection measures afforded to consumers on the standard tariff to be unavailable to PPM users.

The issue of the lack of affordability of electricity for many, which is highlighted by monitored disconnection rates, is masked by disconnection being privatised and removed from the public gaze.

We are also concerned with the use of PPMs to recover debt. Although seen by many as a 'painless' way to pay off debts, signing up to the APAYG 'Progress Rate' locks consumers into an often long-term payment regime that removes their ability to make decisions about the best use of their money at any given time. It is essential that PPMs are a real choice among a range of other choices, and that certain categories of consumers do not feel forced into this system.

It will be interesting to see what this investigation reveals about PPM use in Tasmania and what kind of regulation, if any, is proposed as a result.

If anyone would like more information about the investigation or would like to discuss PPMs, please feel free to contact Kath McLean on *kath@tascoss.org.au*.

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