

Consumer Issues with Prepayment Meters

Issues for Discussion

A Report prepared for the Consumer Advisory Committee by KPMG suggests a range of options and issues which the Essential Services Commission of South Australia might take into account in considering a potential role for prepayment electricity meters for residential customers in South Australia and in addressing issues relating to consumer protection, monitoring and reporting. Briefly the major issues canvassed are as follows:

Potential Benefits

- ▲ ability to monitor and adjust electricity expenditure
- ▲ provision of real time information on usage rates and costs
- ▲ avoidance of disconnection/reconnection fees
- ▲ no need to accommodate meter readers
- ▲ capacity to repay debt over time in small increments
- ▲ potential for flexible tariff structures
- ▲ **Note:** many potential benefits are not exclusive to prepayment meters; they may also be delivered through alternative mechanisms

Consumers most likely to be affected by prepayment meters

- ▲ low income households which need to “juggle” energy and other financial commitments and may need to regularly or occasionally defer payments to a later or last possible time
- ▲ older people whose frailty, health needs or living circumstances may result in difficulties in operating or understanding prepayment systems
- ▲ those with special health needs for heating and cooling who may not be able to take advantage of flexible tariff structures
- ▲ renters in premises which are thermally inefficient
- ▲ people from culturally and linguistically diverse backgrounds who may have difficulty in understanding prepayment systems
- ▲ rural households which may be a long way from prepayment card recharge service centres

Consumer Issues Identified

Impacts of prepayment meters vary across consumer groups. Specific needs, preferences and situation of consumers vary. The following issues were identified as requiring consideration in the development of a regulatory scheme:

- ▲ **Ability of consumers to make informed decisions** – ability to compare tariffs, understanding of meter costs, disconnection and complaints mechanisms, consumption information when bill information is no longer available.
- ▲ **Costs of prepayment meters** relative to other meters – higher cost meters, increase in consumer responsibilities (meter monitoring, credit purchase and recharge), retrieval of credit, linking of past debt to current consumption including limits on the amount of debt to be recovered, retention of energy concessions, potential transaction costs, accuracy of prepayment meters.
- ▲ **Disconnection issues** – frequency, provision of emergency credit, onus on consumer to avoid disconnection, risks due to meter faults.
- ▲ **Consumer operation of system** – active onus on consumer to maintain supply (meter monitoring, credit purchase and recharge), access to points of sale for credit, location of meter, requirement for understanding of physical operation of system and activation of emergency credit.
- ▲ **Coercion** - potential for general coercion to install or to maintain a meter already installed, potential for coercion in cases of poor payment, barrier to switching retailers

Two **overarching consumer issues** identified in the Report were:

- ▲ potential for actual rates of disconnection to be hidden from support services and regulatory scrutiny
- ▲ the lack of safety net for prepayment meter customers – hardship policies, time-to-pay and other matters dealt with by the Retail Code for quarterly billed customers.

The Report suggests a range of regulatory options for dealing with these identified consumer issues.

Consumer Consultation

The Consumer Advisory Committee and the Essential Services Commission invite comment on the matters covered by the KPMG Report and other matters, which may be relevant to consideration of prepayment meters in South Australia. The KPMG Report or the Executive Summary of the Report may be downloaded from the Commission website or hard copies are available by contacting the Commission.

Comments should be forwarded to the Commission by 30th June 2004.

Why is this important?

- ▲ Any electricity retailer can apply to the Commission for approval for a prepayment system. In assessing an application, and in developing a regulatory framework the Commission will take account of consumer issues and concerns identified in the KPMG Report, the consultation process and by the Consumer Advisory Committee.
- ▲ The Commission is undertaking the 2005-2010 Electricity Distribution Price Review. As part of that review the Commission needs to consider the whether the electricity distributor (ETSA Utilities) should be a prepayment meter provider to some small customers as a way of reducing the cost of such meters.

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