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Mr Lew Owens
Chairman
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

Dear Mr Owens,

Prepayment Metering Code: Consultation Draft

AGL SA welcomes the opportunity to provide comment on the Consultation Draft Prepayment Metering Code.

Prepayment Metering (PPM) has been operating successfully in Tasmania for a number of years, with approximately 13 percent of its customer base enjoying the meters while AGL SA ran a successful trial during 2002. In both cases the customers involved have been enthusiastic in their support of the product. We therefore believe PPM, in a competitive environment, is an innovative product that will offer customers a range of payment methods, choice of metering and tariff configurations and a tool for monitoring their electricity usage and their budgeting for energy costs. To a retailer it will provide another means of differentiating themselves from other retailers.

For the benefits of PPM to be realised we consider that the regulatory framework should meet the following principles:

- The offer of Prepayment Meters should be a product of choice for customers and provided by retailers under market contracts (prepayment meters should not be “forced” onto customers) with appropriate disclosure of the features and obligations attached with the product;
- Customers may revert to standard metering subject to the terms of their contract (which may include termination and/or reversion fees) or at the expiry of their contracts; and
- Encourage the development of innovative product offerings by retailers which add to the development of competition in the market place.

AGL SA notes that much of the Code is focussed on ensuring customers rights are protected above and beyond those already available to a customer through the Energy Retail Code. This appears to be based on the premise that retailers will force prepayment meters onto customers in genuine hardship who are least able to pay.



Such an approach presumes market failure and that the existing regulatory framework will not protect customers, especially customers in genuine hardship. We believe this approach is likely to make the operation of PPM uneconomic and unworkable effectively creating an "economic ban" on their introduction.

PPM will be a product of choice and only available to customers after they have been fully informed of the conditions of the product. ESCOSA can ensure this is built into the market contract at the time retailers obtain approval for the contract as is required under our Licences.

AGL SA opposes a mandatory trial period on the basis that PPM is a product of choice (ie customers willingly choose the product) and that all required information including any termination or reversion costs have been explained before the customer makes their decision about the product. Some retailers may choose to offer a trial period but this should be allowed as a point of differentiation not mandated.

Further we believe it is unreasonable for the retailer to have to bear the cost of removing PPMs and replacing them with standard meters just because the customer changes their mind. Consideration of such costs would be included in the development of any PPM market offer and would be explained to any prospective customer. This requirement we believe will lead to the product being uneconomic and unworkable and deprive customers (who voluntarily select the product) from obtaining the benefits of using PPMs.

Consideration also needs to be given to ensure the metering industry has meters available which are capable of meeting the regulations proposed and that they are capable of providing this information in a customer friendly manner. This is particularly relevant to the meter display requirements which may not be possible of being met by existing metering technology.

Additional detailed comments on the "Areas for Focus" are included in the appendix attached.

Please contact Robert Shannahan, Manager Retail Regulation SA, on 8299 5542 should you wish to discuss this submission further.

Yours sincerely

Sean Kelly
General Manager, Retail Regulation

Specific Comments on Prepayment Metering Code - Consultation Draft

Areas of Focus:

The information to be provided to the customer (the written disclosure statement: clause 2.3 and operating information: clause 2.4),

AGL SA supports full disclosure of information which will assist the customer to better understand the implications of entering into a market contract involving the use of a prepayment meter. We also support the provision of information to the customer on the operation of the prepayment meter.

The proposal for a mandatory trial period (clause 2.5.1(a)),

There are a number of prepayment meters in the market place. Some are capable of being simply switched from prepayment mode to standard mode while others need to be physically removed and replaced. The trade off is that not all are capable of delivering all the "meter display" requirements specified in the draft Code. If it is possible to use the meter that can be switched simply to standard mode then a trial period could work as it limits the costs incurred by the retailer in the process. If it is not possible to use this type of meter due to regulatory restrictions then AGL SA would oppose a mandatory trial on the basis that:

- PPM is a product of choice (ie customers willingly choose the product) and all required information including any termination or reversion costs have been explained before the customer makes their decision about the product; and
- It is unreasonable for the retailer to have to bear the cost of removing PPMs and replacing them with standard meters just because the customer changes their mind.

We believe this requirement will lead to the product becoming uneconomic and unworkable and thus not likely to be offered by retailers. Customers who would otherwise have selected the product will therefore lose out on the benefits offered by prepayment meters.

The proposal for limitations on the recovery of debt and charging for other goods and services (clause 2.5.1(d)&(e)),

This proposal ignores the fact that many customer segments will opt for a pre paid meter for a range of reasons. The ability to bundle related products with energy is widely sought after by customers. The ability for consumers to also pay off existing debt to their energy retailer in small planned increments is also a feature widely sought after by consumers, particularly those that are challenged with managing their money and budgets. To preclude these features would severely undermine the real advantages of pre paid metering to consumers.

It is AGL SA's view that these matters should be dealt with by negotiation and included in the market contract. The customer can then make an informed decision before deciding to accept the product. We see this as one area where retailers have the opportunity to offer an innovative solution to its customer and would be a clear point of differentiation from other retailers.

It is AGL SA's view that regulation should not be established on the assumption that the existing regulatory framework will not protect customers, especially customers in genuine hardship. Rather the Commission should closely monitor those retailers offering the prepayment product to ensure customers are not being disadvantaged and retailers are meeting their obligations as set out under the current regulatory framework.

The level of emergency credit (clause 2.7.1(f)),

AGL SA believes the level of credit should be as determined by negotiation with the customer. This would be part of how retailers could differentiate themselves from other retailers. In addition, depending on the availability of technology, an alarm feature such as those on battery operated fire alarms could provide customers with advance notice to enable them to recharge PPM's prior to credit running out.

We believe that emergency credit, if provided, should only be provided to assist customers who have not purchased credit or are unable to purchase credit due to limitations of recharge facilities. It should not be a mandated product specification designed to manage customer hardship. The credit should be tailored to suit the recharge facilities offered by a retailer. The trial in South Australia in 2002 has shown that customers who choose the product only require emergency credit to tide them over until they can purchase more credit.

The proposed provisions dealing with payment difficulties and hardship (clause 2.8).

AGL SA believes that there has been an undue focus in the draft on customer hardship issues. Customer hardship should be managed by ensuring PPMs are a product of choice, and through existing retailer/government assistance programs, which should be sought prior to expiry of available credit.

By seeking assistance at this time a retailer's credit management and hardship programs can come into effect. The customer's debt at that stage will be much smaller than for a customer with standard metering and there are no late payment or reconnection fees involved. It will therefore be easier to establish a payment arrangement with a customer with prepayment metering than with standard metering.

As PPMs are to be offered under a market contract and because there are additional costs involved in setting up the product we believe it is likely that the only customers who initially will access the product are those who can afford the product and not those on hardship. Nevertheless, AGL SA believes it is unreasonable for the retailer to be required to meet all the costs of removing and replacing meters, including where required to under self disconnection provisions, without the option of being able to recover these from the customer.

We understand that there is only one meter currently in the market place which can provide the self disconnection information to the level required in the draft Code. It is also our understanding that this meter has significant functionality and customer friendliness deficiencies.

Payment towards prepayment meter account.

By mandating all of the proposed payment methods, retailers will be required to establish extensive and expensive infrastructure to manage these methods. Considering that PPMs will be a new product in SA and take-up not likely to be rapid then this requirement could act as a barrier to introduction of PPMs. AGL SA believes that provision should therefore be made to allow for a "start-up" period during which only option 2.9.1 (b) ie 24 hour, 7 days a week telephone service is mandated. As the product becomes more widespread then the other payment methods could be introduced.

In addition, as technology is rapidly developing in this area provision should be made in the Code for current payment options plus future electronic methods. AGL SA therefore suggests:

- adding to clause 2.9.1 (b) provision for "any other electronic payment method" as well as any other telephone payment method; and
- adding direct debit to clause 2.9.1 (b) and (c).

Other Considerations:

Metering Issues

Reversion Policy

Prepayment meters may be Interval meters (type 5) or Time of Use meters (type 6) or simple Accumulation meters (also type 6). AGL SA notes that the non-reversion policy under the current metrology procedures may lead to issues if a customer seeks to revert to basic meters. AGL SA supports the concept that PPM customers should be able to revert to basic metering which in some cases may simply be achieved by changing a setting on the meter.

In addition provision needs to be made for issues that arise if a customer with a prepayment meter churns from one retailer to another and retains their prepayment capability with the new retailer. The concern here is that any requirement to remove the old prepayment meter just to install another merely leads to unnecessary additional costs.