South Australian Council of Social Service Inc

Submission to the

Essential Services Commission of South Australia

on

DRAFT Pre-Payment Metering Code

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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 Metering (PPM) Code

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 – for ESCoSA), 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 has been based on our June 2004 submission to ESCoSA on 'Consumer Issues with pre-payment meters' and aims to identify whether or not the DRAFT Code addresses the concerns raised at that time.

SACoSS certainly appreciate the efforts of ESCoSA in crafting the DRAFT PPM Code to address a range of concerns. However we are concerned at the timing of the consultation in relation to the just commenced ESCoSA Disconnection/Vulnerable Customer study. It is our view that this study (at least) needs to be conducted prior to evaluating the risks and benefits that pre-payment meters present to the customers we refer to as vulnerable (note this term has been elaborated on in the SACoSS-WREAG submission to the Commission's Inquiry into Retail Electricity Price Path).

2. Previous Position

As reported in our earlier submission, our 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, a number of key issues emerged and these are outlined below,

a. 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.

b. 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.

c. 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).

d. 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.

e. 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 recommended 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. Revised position based on the DRAFT Code

The points raised above are annotated below with the elements of the DRAFT PPM Code that aims to address them and some commentary on how effective this might be:

a. Self-disconnection. We note that this is predominantly covered in section 2.8 'Payment difficulties and hardship'. Para 2.8.1 requires the retailer's information management system to be capable of identifying every instance of self-disconnection at the next payment/recharge occasion and para 2.8.2 outlines how this should be dealt with. We note that items (c) and (d) refer to intervention by State Government and independent financial and other counselling services. It is not clear that adequate resourcing provisions have been made for such services to ensure they are available and accessible. It appears as though giving out the phone number of an already under-resourced welfare agency would be a compliant response to the code by a retailer. This is not an adequate response to the issue.

b. Recovery of debt. The provisions of para 2.5.1 (e), proscribing debt recovery under any circumstances other than for undercharging (para 2.13) and illegal energy use (para 2.14) appear to adequately address concerns over this issue. However, we do not believe that vulnerable households should be asked to repay undercharged amounts at all if they have occurred due to an error by the retailer or distributor. Likewise we would like to see some guidance around the rate of recovery (ie more than that outlined in 2.13.2 and prescribing the proportions of pre-payments allocated to 'debt', repaying 'emergency credit' and credit. This is discussed further in section 4 'Further comments and recommendations', para (h).

c. Coercion. We note that PPMs may only be offered on a market contract (para 2.1) and that this is intended to ensure that householders only use a PPM by choice. We further note that the Written Disclosure Statement (para 2.3), mandatory trial period (para 2.5.1) and reversion provisions (para 2.15.3) are further attempts to minimise incidences of coercion. Please refer to further recommendations at section 4 of this submission.

d. Concessions. We note that continued access to State Government energy concessions is a requirement (para 2.7.1.d). However, it is unclear just how these concessions will be delivered (frequency etc) and SACoSS continues to see a need to consider the delivery of concessions on a daily basis with the level of the concession set so that it exceeds the daily fixed costs of supply and ensures a modest supply of ENERGY (not just $) every day (further work is obviously required to ascertain some level of 'essential consumption'). This is expected to significantly reduce the ability of concession eligible households to self-disconnect for substantial periods (concession eligibility continues to require review). We note that the KPMG study (para 1.4.6 p5) identified two major systemic consumer protection issues with PPMs - the hidden nature of fuel related poverty where PPMs are installed and the absence of an effective safety net for PPM customers. Although there has been insufficient time to consult more widely on this suggestion, it would be appropriate to explore more deeply whether or not more thorough consideration of concession delivery mechanisms could go some way to addressing these 'major systemic issues' identified by the consultants.

e. Price. We note that there is no guarantee that energy delivered via a PPM will result in costs lower than that provided under the standing contract. We acknowledge that this is difficult to achieve with time-of-use metering and charging as it becomes quite behaviour dependant. However, consumers must be able to compare their current (PPM) deal with the standing contract in order to assess the 'cost' of whatever 'benefits' they see in a PPM arrangement. We therefore recommend that the information described at para 2.4.2 be not only available on request but must be sent to the PPM customer on an annual basis AND include a comparison to the standing contract.

Again, 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'. However, concern over the disconnection figures and other indicators presented in ESCoSA's 2003-4 Performance Report for Regulated Electricity Businesses has spawned a study into disconnections and vulnerable customers by ESCoSA, EIOSA and members of ESCoSA's Consumer Advisory Committee. SACoSS has serious concerns around introducing a new way for householders to disconnect themselves before this study (at least) is conducted.

In the six months since our last submission on this issue there has been little to instil further confidence that the market is mature enough to respond to self-disconnection situations. While we are encouraged by the progress being made on hardship by AGL and Origin in particular, it remains our view that, at present, resources would be better allocated to promotion and refinement of existing hardship programs and payment options.

4. Further comments and recommendations

Noting the above overall concerns SACoSS offer the following specific comments and recommendations regarding the draft code:

a. We note that the code is intended to apply to not just electricity but gas as well. While we have been appraised of the technology proposed by Aurora Energy for electricity we have had no exposure to proposed gas PPM technology and have reservations about endorsing an 'energy' code without understanding the implications for gas.

b. We are also concerned that the code may not be 'technology neutral' i.e. it appears to deal quite well with our understanding of the system proposed by Aurora but we are less confident it will be as 'watertight' for other technologies and/or retailers (especially first-tier retailers). Technology specific codes may be required if ESCoSA intends to allow PPMs in SA.

c. There is no mention of 'load limiting' and how this might be used – technology that is available with the Aurora hardware.

d. A much deeper exploration of the potential to deliver energy concessions as a daily 'energy allowance' as a response to self-disconnection issues would be appropriate. This may (or may not) be combined with 'load limiting' features.

e. Para 2.4.2 'Consumption Information' should require a simple calculation of the comparative costs under the standing contract.

f. Para 2.5.1.a 'Mandatory Trial Period' of three months. Our preference would be for a longer trial period (of, say, 12 months) but, regardless, must include a requirement for specific contact with the household prior to the end of the period that includes a review of consumption, comparison to costs under the standing contract and the identification and review of any incidences of self-disconnection.

g. Para 2.5.1.b 'Meter Removal Charges'. These charges must not exceed the installation costs – ie to enhance protection from coercion it must always be (financially) easier to have a PPM removed than installed.

h. Para 2.5.1.e 'Limitation on the recovery of debt' should include a cap on the recovery rate (for the limited instances where 'debt' is recovered) of no more than $5 pw. Further guidance is also required on retailer's treatment of payments and the allocation of any payment to 'debt' vs 'credit' – including the repayment of 'emergency credit'.

i. Para 2.8.1. We note that the requirement to check for self-disconnections at the 'next' payment event may be in conflict with para 2.9.1.b & c which allow for 'over the phone' and postal payments. Achieving both would require remote meter reading technology. In such cases the 'self disconnection' check could become much more timely and would warrant/allow a different response to 'Dealing with Payment Difficulties' (para 2.8.2). Again, different technologies require different forms (and degrees) of regulation.

j. Para 2.7.1.e Telephone Information Services. Recommend that the contact details and information about what 'self-disconnection' is and what can be done about it, be displayed clearly adjacent the PPM.

k. Para 2.7.1.f – Emergency Credit. A minimum of $10 as proposed in the draft code would allow for over 3 days of (SA average) consumption (at around 20c/kWh and an estimated 50c/day supply charge). This seems reasonable.

l. Para 2.15.3 Reversion. There is concern that, upon arrival at new premises, a requirement to establish an account (ie get the power on) in quick time is required. Tenants may therefore be 'indirectly' coerced into accepting the PPM contract as there would be a delay of x days until a new 'standard' meter could be reinstated. The consequential payment of PPM account establishment fee including a charge for the 'smartcard' (as opposed to an 'installation charge' when the meter was first fitted) may result in diminished 'choice' for householders (ie reverting to the standing contract or a market contract if the PPM 'doesn't suit' would result in two account establishment fees needing to be paid. Our preference is that the PPM contract explicitly and clearly state that as a new tenant (at a site with an existing PPM) you have NO OBLIGATION to use the PPM and a 'free' trial period is available (ie cost of energy & refundable card deposit only) and the account fee only be charged at the successful completion of the trial.

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.

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 genuinely unable to pay. The KPMG study (para 1.4.6 p5) identified two major systemic consumer protection issues with PPMs:

- 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 increased costs and self disconnection on the demand for crisis support.

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 these submissions, 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.

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 – and has a better chance of being located inside the dwelling where ongoing feedback to consumers becomes possible.

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.

We also note that the review by the Office of the Tasmanian Energy Regulator of the Aurora Pay As You Go (APAYG) scheme has not made a final report. 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). This is likely to provide some guidance towards further considerations for SA.

While we believe that this Draft PPM code represents significant progress toward a workable solution, SACOSS continues to recommend a moratorium on the introduction of prepayment meters of at least eighteen months 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.