



**Comment
on the
SCONRRR
Discussion
Paper: National
Energy Retail
performance
Indicators**

April 2006

INTRODUCTION

ACTCOSS acknowledges that modern day Canberra has been built on the traditional lands of the Ngunnawal people. We pay our respects to their elders and recognise the displacement and disadvantage they have suffered since European settlement. ACTCOSS celebrates the Ngunnawal's living culture and valuable contribution to the ACT community.

The ACT Council of Social Service Inc. (ACTCOSS) is the peak representative body for not-for-profit community organisations, people living with disadvantage, and low-income citizens of the Territory. ACTCOSS is a member of the nationwide COSS network, made up of each of the state Councils and the national body, the Australian Council of Social Service (ACOSS).

ACTCOSS' objectives are representation of people living with disadvantage, the promotion of equitable social policy, and the development of a professional, cohesive and effective community sector.

The membership of the Council includes the majority of community based service providers in the social welfare area, a range of community associations and networks, self-help and consumer groups and interested individuals.

ACTCOSS receives funding from the Community Services Program (CSP) which is funded by the ACT Government.

ACTCOSS advises that this document may be publicly distributed, including by placing a copy on our website.

Retail performance –small residential consumers

ACTCOSS has contributed to inquiries and discussions on National Electricity Market policy since the proposal to introduce Full Retail Contestability into the ACT. The main issue for this organisation is the continued supply of essential services at affordable prices to households experiencing poverty and various other forms of disadvantage.

The South Australian Western Energy Group (WREG) found in its 2004 report, "Powering Poverty" that low income households used a variety of methods to manage the increasing cost of energy. In that state, electricity prices increased over 43% over 2002-2003¹ and a wide range of strategies were employed by consumers to manage the financial stress caused by that extreme price increase. The strategies included short term loans, reducing use (in one case to the detriment of health and education), pawning possessions and emergency assistance from local welfare agencies².

Barry Duggan and Andrea Sharam, writing in 2004³, found that low income households would also "juggle" their rent and utilities payments, incurring penalties such as shortened billing periods in their efforts to keep their essential services connected.

Many retail companies have introduced services specifically aimed at keeping small end users connected to electricity and gas services; however the market has few strategies to deal with fuel poverty and takes a punitive approach to those households that cannot afford the rapidly increasing cost of utilities⁴ as a proportion of household spending.

ACTCOSS believes that there is a role for regulators in ensuring that energy is available to all Australians as an essential service. While the cohort of low income households may be small in terms of the energy market, the needs of households experiencing poverty and disadvantage should not be overlooked by a system that takes a macro outlook.

Revised Template Definitions

ACTCOSS is pleased that the new template for telephone response includes the number of abandoned calls. With a high take-up rate of prepaid mobile phones among low income households, it can be anticipated that a higher number of calls will be abandoned if people are required to wait for a response, or be passed between automated and personal response systems.

ACTCOSS notes that nowhere is there mention of alternate forms of communication or community languages in receiving comments on a utility's performance. This would lead to an under-representation of comments and complaints from culturally and linguistically diverse populations, including people who use Auslan.

ACTCOSS also notes that a certain level of confidence and mastery of social interaction is required to make a complaint via phone or in writing. The discussion

¹ Western Region Energy Group, Powering Poverty. Adelaide, 2004. Page 7.

² Op cit, p. 8.

³ Duggan, Barry and Sharam, Andrea. Bleak House. Institute for Social Research, Working Paper No. 9, Melbourne, 2004.

⁴ While the proportion of income spent on energy and fuels has declined in terms of the overall economy, ACTCOSS, SACOSS and other commentators have found that, for the lowest quintiles, that proportion has been increasing.

document puts an emphasis on a complainant making a direct contact with the utility; however ACTCOSS hopes that in other standards the regulator would be looking at the utility company's ability to negotiate with advocates and to take comments and complaints via a wide range of media.

ACTCOSS would also like to specifically address the issue of Direct Debit Payment Defaults. While these are one proxy measure for financial distress, the number of people asking for instalment plans to cover utility debt, the length of time in debt and consumers requesting time to pay would also indicate personal financial stress. It must also be noted that direct debit defaults incur proportionately large penalties from banks and financial institutions, so it can be assumed that only particular cohorts of electricity and gas consumers take advantage of such plans. That is, low income households or those with variable incomes are unlikely to sign up for commercial debit payment plans as they run the risk of high penalties if they default.

As discussed earlier, most low income households will go to considerable lengths to ensure that utility supply is not disconnected and many juggle their commitments to maintain some control over their finances. This organisation understands that direct debit payment plans can be offered as part of a debt repayment scheme and therefore for many people using this facility, financial distress can be assumed without reference to defaults.

Again, ACTCOSS believes that more details of how many people are asking for such payment options, including time to pay, would serve as a better indicator of financial distress.

Proposed New Affordability Indicators

The National Regulatory Reporting for Electricity Distribution and Retailing Businesses discussion paper states that:

The objectives in collecting and publishing data on retail performance are to:

- ❖ *monitor key indicators of access, equity and affordability of electricity services⁵*

Disconnection is a poor proxy for access, equity or affordability, although as Sharam points out, it is a good indicator of household financial stress:

Disconnection and reconnection in the same name is an important indicator of household financial stress. In 2002 over 5,000 customers were reconnected after disconnection for non-payment (ESC 2003a). This is a low figure, which we would expect as disconnection involves substantial formal penalties, such as reconnection fees. There is also the loss of refrigerated and frozen foodstuffs, as well as basic household amenity. Financial counsellors report that households place a high priority on payment of electricity and gas. Where income fails to cover essential expenditure, gas supply is sacrificed in order to maintain electricity. Disconnections for electricity are usually of a very short duration, whereas gas can be for extensive periods (Sharam 2004). Disconnection consequently represents a household in extreme circumstances, especially if there are children involved.⁶

⁵ Utility Regulators Forum, National Regulatory Reporting for Electricity Distribution and Retailing Businesses. Australian Government, 2002. Page 14.

⁶ Op cit, Page 17.

As was pointed out by Duggan and Sharam as well as the WREG, most low income households prioritise utilities and rent ahead of other essentials, even adequate food. It is therefore important that the national regulators do not confuse extreme financial stress with basic affordability. Regulators need to look at the cost of utilities in relation to known income data – eg, income support payments, number of households dependent on such income, and the type of poverty data analysed by NATSEM⁷ by postcode. These data could be augmented by reporting on the take up of payment plans, uptake of concessions and the level of debt for all consumers, taking particular note of debt among concession holders. The relationship of these income measures to charges and tariffs would be a more objective benchmark for discussion and analysis of affordability.

There is another complicating factor in reporting on disconnections as an affordability measure. Such data will be distorted by the entrance of prepayment meters (PPMs) into the “market”. As outlined in ACT and SA proposed prepayment meter regulations, PPMs should not be used by retailers to control debt and bad debtors. That being said, households who have a PPM and who experience problems with affordability resulting in disconnection will not come to the attention of retailers, unless they ask for a reconnection to a post-pay contract.

ACTCOSS therefore believes that a range of data on PPM usage should be collected, including disconnections/reconnections, the duration of disconnection, and the level and incidence of debt repayment via PPM.

In addition, current PPMs provide energy at a premium price, despite the lower level of retailer interaction and the self-disconnection/reconnection savings. Any measure of affordability should take this higher tariff into account.

ACTCOSS has a specific concern about disconnection/reconnection as an indicator of affordability in the ACT, given the powers of the Essential Services Consumer Council to order a utility not to disconnect a service while the case is considered by the Council (ESCC). The impact of the ESCC rulings *could* mean that disconnections and reconnections occur at a much lower rate in the ACT, providing a false indicator of affordability. The ACT has some of the highest energy costs for consumers due to the climate and the efficiency of the housing stock. ACTCOSS would be dismayed if a count of disconnections reinforced external views that Canberrans do not suffer financial hardship or fuel poverty. These matters should not be forgotten when analysis of affordability for residential consumers is undertaken.

Performance Indicators – Gas Sector

ACTCOSS points to the evidence in Duggan and Sharam that households prioritise electricity over gas in terms of disconnections⁸. It is therefore important that information on gas retailers be provided to give some basis for analysis on energy affordability.

⁷ The type of data available is discussed at: <http://www.natsem.canberra.edu.au/research/incomeWealthPoverty.jsp>

⁸ Op cit, page 17.

Categorisation by Fuel Type

ACTCOSS finds this issue problematical, as one of the examples talks of a consumer who has their gas disconnected but not their electricity. As discussed in the previous section, this is one way that households living with fuel poverty manage their energy bills: allowing gas to be disconnected while maintaining their electricity account.

Such complications will need better than simple reporting, as the disconnection of gas and not electricity may be an indicator of financial stress. To simply report that one utility was disconnected could distort final data.

Conclusion

ACTCOSS is pleased to have this opportunity to comment on the important issue of data collection to support access, equity and affordability. ACTCOSS advocates in many public policy debates for increased data collection and research on energy issues to ensure that the regulatory framework is evidence-based and that responses to consumers are appropriate, timely and recognise that energy provision is an essential service.

The state-based monopolies in electricity and gas were developed because of the infrastructure costs at that time in Australia's development, but also for public health and safety reasons. In translating this former structure into a disaggregated, fully contestable retail market, it must not be forgotten that reliance on these fuels is now almost universal, particularly in cities and large urban settlements. Retailers and regulators have an obligation to ensure that utilities remain affordable and equitable.

The issues of utility pricing and the cost to consumers are complex, but it is important that financial distress is not used as a proxy for basic affordability. As an essential service the question for many households is not "is this an *affordable* service?" It is "what am I prepared to go without so that I can continue to receive this *essential* service?"

ACTCOSS believes that too many Australian families are already making such decisions on a regular basis and that measures of affordability should pick up financial stress long before disconnection.