

5 September 2014

Clare Petre
Ombudsman
Energy & Water Ombudsman NSW

By email: discussionpaper@ewon.com.au



Dear Ms Petre

Prepayment for electricity

The Public Interest Advocacy Centre (PIAC) thanks the Energy and Water Ombudsman of NSW (EWON) for the opportunity to provide comment on EWON's Prepayment Meters Discussion Paper.

Electricity prices have more than doubled in NSW since 2009. These increases have resulted in growing numbers of consumers struggling to afford their electricity bills or being disconnected due to an inability to pay. Like EWON, PIAC is extremely concerned about this trend and is keen that government, consumer advocates and other energy market participants examine a wide variety of measures to assist low-income and vulnerable consumers retain access to essential energy services.

PIAC would like to see significant improvements in retailer practice in regard to debt accumulation and hardship. Retailers, generally, need to greatly improve their practices in regard to early identification of customers who should be receiving concessions and who are eligible to be on hardship plans. Retailers vary significantly with regard to the average level of debt accumulated before a customer is placed on a hardship plan. As such, PIAC is highly supportive of the AER's project to develop hardship program guidelines. In addition, PIAC would prefer to see retailers taking a pro-active approach to identifying low-income and other vulnerable customers at sign-up, rather than waiting for debt to accumulate.

The current unsustainable level of energy debt held and being accumulated daily by low-income and vulnerable Australians is not a simple issue to address and does require regulators, retailers, governments and consumer advocates to work together.

In PIAC's view, the advantages of prepayment meters could be addressed by other means and they should not be regarded as the only option for addressing unsustainable energy debt accumulation.

PIAC considers that the option to prepay for electricity may be beneficial for some consumers. Indeed, currently retailers allow consumers to make payments in advance of their bills through Centrepay, or through an individual direct debit arrangement.

If contracted pre-payment with possible automatic 'self disconnection' were to be implemented, it must be accompanied by the appropriate terms and conditions to protect consumers from potentially negative outcomes, such as frequent disconnection. Also, processes would need to be put in place to ensure that data is collected about how often consumers who are prepaying for electricity are being disconnected. Prepayment customers must also be able to access energy concessions and emergency assistance and should not be paying more for a prepayment service.

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Frequent disconnection

PIAC's greatest concern is that customers on prepayment arrangements would be frequently disconnected and suffer the negative consequences of that experience, including physical and mental health consequences. PIAC notes, in particular, the finding in EWON's discussion paper that of the customers in New Zealand on prepayment meters who were disconnected (about half of the total), 17% were disconnected six or more times in the previous 12 months.

It is therefore important that disconnection of prepayment customers remain visible to regulators and governments. Disconnections are a key indicator of the accessibility of essential services. The disconnection of prepayment customers should be tracked along with the disconnection of customers who post-pay. Further, if prepayment services were introduced, the financial and health outcomes for those customers should be comprehensively evaluated.

Prepayment and control of electricity expenditure

The option to prepay for consumption could offer a valuable income management tool to consumers that chose to take it up. The current way that electricity is paid for (in general, three monthly billing in arrears) provides almost no meaningful feedback to consumers about the cost of their energy use and how much it costs, for example, when their leave the heater or air conditioner on all day.

Accordingly, PIAC believes that the option to prepay could be valuable for consumers who are able to recharge their credit as necessary and are of low risk of running out and being potentially disconnected. PIAC considers that as long as consumers have genuine choice about entering about prepayment arrangements, it is more likely to be taken up by those in a position to benefit from such an arrangement through having greater control of their expenditure.

Prepayment also presents an option for groups such as share house tenants. The cost of consumption can be shared in advance, eliminating situations where an account holder is unable to recover a debt from former housemates who have moved out.

PIAC is supportive of monthly billing for post-pay accounts and encourages retailers to assess customers' ability to pay when they sign up to a contract. PIAC would like to see Centrepay processes put in place immediately on contract signing for customers at risk of hardship, rather than waiting for customers to accrue damaging debt they will only have limited capacity to repay.

PIAC also supports smart meters with display capabilities if they are available at reasonable cost as another means of informing customers about their energy use.

Recharging and reserve credit

In most cases, prepayment will require more frequent purchasing of credit than the current three monthly billing cycle. This raises the issue of consumers being unable, for whatever reason, to recharge and hence running out of credit. This is a particular danger for low-income consumers without credit cards, who may have low computer literacy or lack confidence (or phone credit) to conduct such transactions over the phone.

To guard against disconnection in these circumstances, reserve credit should be available under the prepayment arrangements. Under the National Energy Customer Framework, prepayment meters must have two days emergency credit. PIAC thinks that this may be insufficient, and a longer period of emergency credit, in the order of 5 days, may be more appropriate.

When the emergency credit is used, PIAC believes that there should be an option available to repay the arrears over a series of recharges, rather than being required in one transaction. Furthermore, the process of paying for the service must have low transaction costs, no more complex than, say, recharging a mobile phone. It should not require a customer to travel to make a payment. There should not be a charge for reconnection under a prepayment plan.

Access to rebates and other assistance

It is important that customers who are prepaying for electricity are not excluded from accessing energy concessions and emergency assistance. PIAC does not anticipate that the necessary arrangements would be difficult to make, for example it might be possible to use an EAPA voucher for a recharge.

Access to competitive tariffs

In addition, prices for pre-payment customers should not be any higher than products with a 'pay on time' discount. Given that retailers are receiving revenue prior to providing the contracted service, it should be offered at a low price to consumers.

Vulnerable consumers

For obvious reasons, customers with medical conditions that require continuous energy supply should not be able to sign on to a prepayment with automatic disconnection contract.

Exit fees

Prepayment prevents the accumulation of large debts. This means that if a household switches to prepayment and then wishes to return to billing in arrears, this should be possible without the complication of a large debt.

However, such a choice would be complicated if consumers had to pay exit fees to return to billing in arrears. Such fees could be imposed in order to recover the cost of the metering infrastructure required to facilitate prepayment and real-time monitoring of balances. PIAC believes that such a fee would severely limit the uptake of prepayment arrangements. PIAC also notes that the cost of the meter upgrade would be offset to some extent by the fact retailers will no longer risk having bad debts from prepayment customers.

If you require any further information from PIAC in relation to this matter, please do not hesitate to contact me or Oliver Derum, Energy and Water Consumers' Advocacy Program Senior Policy Officer, on 02 8898 6518 or gkuiper@piac.asn.au.

Yours sincerely



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