10 October 2016

Ms Sarah Proudfoot
General Manager, Retail Markets
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

By email: AERInquiry@aer.gov.au

Dear Ms Proudfoot

AER review of minimum amount owing for disconnection, r. 116 of the National Energy Retail Rules

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to provide further feedback to the Australian Energy Regulator (AER) regarding the minimum amount owing for disconnection.

In PIAC's initial submission to the AER, we recommended that the minimum disconnection amount be increased from $300 to $520. We agreed with the AER that, in principle, customers should not be disconnected from an essential service for owing a relatively small amount, or for being one quarterly bill behind, nor should they be disconnected solely due to an inability to pay.[1] PIAC argued that $300 no longer provides an adequate level of protection on the basis that the average quarterly bill for low income households is already in excess of $300, with NSW households in Essential Energy's distribution zone paying an average of $513.50 per quarter[2].

PIAC is pleased that the AER sees merit in reconsidering an increase to the minimum disconnection amount in the broader context of energy disconnections.[3] We strongly support this view and we reiterate our position in this submission.

PIAC notes that the AER has provided additional information regarding average quarterly bills across NEM jurisdictions, using low-income benchmark data for standing and market offers.[4] This data shows that, as at July 2016, the average quarterly bill for low income households in all NEM jurisdictions is in excess of $300 for both standing and market offers. This confirms that a $300 minimum disconnection amount is no longer sufficient to protect the most vulnerable consumers across the NEM, including those on a low income who may be at greater risk of not being able to pay their bills on time.

1 AER letter, dated 23 May 2016, p.2.
2 Ibid, p. 44-45.
3 AER letter, dated 23 May 2016, p.2.
4 See Attachment B, AER letter dated 24 August 2016.

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PIAC encourages the AER to consider the wider context in making its decision. There are continuing high electricity disconnection rates, a steep 54% rise in gas disconnections from 2014/15 to 2015/16, and ongoing affordability concerns among low-income households.

PIAC supports a greater emphasis on retailer customer engagement strategies and supportive hardship policies, in particular encouraging retailers to engage more effectively with customers through early identification and intervention, so as to avoid disconnection.

At an AER forum held on 22 September 2016, stakeholders raised a number of concerns about increasing the minimum disconnection amount. PIAC notes the key issues below and responds to each concern, based on our experience and knowledge of the experience of low income households.

1. **A higher minimum disconnection amount decreases the incentive for consumers with payment difficulty to engage with their retailer, leading to higher risk of debt accumulation and unmanageable arrears**

Retailers have expressed the view that some customers seek assistance from their retailer only after they have been disconnected. If the minimum disconnection amount is increased to $520, they are concerned that customers may be less likely to engage with their retailer until threatened with disconnection in the next quarterly billing cycle, when they may owe close to $1000. Retailers are concerned that a higher threshold will delay the disconnection process, therefore delaying customer engagement.

In PIAC's view, a higher minimum disconnection amount is unlikely to discourage customers from contacting their retailer and seeking the assistance they require. Rule 116(1)(g) does not operate in isolation from the provisions outlining retailer obligations to provide disconnection notices. It merely stops the disconnection from occurring where the customer has agreed to pay; retailers can still issue reminder and disconnection warning notices to prompt customer engagement when the customer owes less than the minimum disconnection amount. We understand this is already common practice in the industry.

PIAC shares concerns about customers accumulating unmanageable debt before seeking assistance from their retailer. However, as we argued in our initial submission, PIAC feels customers with payment difficulty need practical assistance, not action that further disadvantages them when they are vulnerable.[5]

PIAC believes that disconnection, when used to encourage engagement between a customer and retailer, can often result in negative outcomes. Disconnection will create hardship and further stress and financial difficulty particularly if customers incur disconnection and reconnection fees, which are often in addition to other fees (such as late payment fees) incurred as a result of inability to pay. Research by St Vincent de Paul recently found that one in four South Australian consumers are unable to pay their bills on time, and are therefore paying an average $350 extra in late payment fees and foregone pay-on-time discounts.[6]

[5] See PIAC submission at: https://www.aer.gov.au/system/files/Submission%20-%20Public%20Interest%20Advocacy%20Centre.pdf

[6] See The Advertiser at: http://www.adelaidenow.com.au/news/south-australia/electricity-customers-who-cant-pay-bills-on-time-now-paying-up-to-586-a-year-more-than-those-who-do/news-story/5f36681c08084dac8e1809ca4ecb01df

Disconnection and reconnection fees in NSW are also a significant cost for customers who are struggling to pay, and can further entrench them in debt. The NSW networks currently charge between $125 and $176 for disconnection and reconnection (plus GST).[7]

PIAC would like to see retailers strengthen their efforts to ensure all consumers in hardship are assisted early on. PIAC supports the engagement strategies outlined in South Australian Council of Social Services' report, '*Better practice guidelines for energy retailers: a collaborative approach to preventing hardship amongst energy consumers',* which highlights a multipronged engagement approach to assisting customers in hardship prior to disconnection.[8]

2. A higher minimum disconnection amount 'rewards bad behaviour' by consumers

Some retailers commented that a higher disconnection threshold 'rewards bad behaviour' and provides a perverse incentive for consumers to delay payment or engagement with their retailer. We are alarmed that some retailers would express this view.

While PIAC acknowledges that there may be a small number of customers who may not engage or pay, this consultation centres on the issue of affordability. A customer who cannot afford to pay a bill needs support, not stigma suggesting their inability to pay is insincere. Energy affordability is often compounded with other hardship, and customers in payment difficulty often have little scope to adjust limited household budgets.

PIAC reiterates that a higher minimum disconnection amount will likely assist in reducing the stress that is already felt by struggling households, enabling them to more effectively seek assistance. We also submit that improvement to industry practices, as guided by the Sustainable Payment Plans Framework, should encourage retailers to proactively address payment difficulties earlier in the process, rather than at the point when customers are threatened with disconnection. We encourage all retailers to adopt the AER's framework as demonstration of their commitment to providing proactive assistance as required.

3. The minimum disconnection amount is the last consumer protection in a suite of consumer protections under the NECF, and therefore cannot be weakened by setting a higher threshold for disconnection

Some retailers argued that, as the last consumer protection in the suite of protections available under the NECF, a lower minimum disconnection amount is preferable as it may prompt customers to engage earlier, before additional debt accumulates. They argue that higher minimum disconnection amount would lead to delays in customer engagement and possibly higher arrears.

This argument was responded to under issue 1 above.

PIAC considers that the minimum disconnection amount must continue to offer protection in the context of continuing price rises. Retail competition and price deregulation are ineffective in promoting the long-term interest of consumers if prices increases continue to fuel consumer debt. PIAC considers that a higher minimum disconnection amount, that covers at least the average quarterly bill for a low income household, is required to maintain an adequate level of protection.

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7 AER, *AER finalises network charges in the ACT and NSW from 1 July 2016*, available at: https://www.aer.gov.au/news-release/aer-finalises-network-charges-in-the-act-and-nsw-from-1-july-2016, accessed on 5 October 2016.

8 South Australian Council of Social Services, *Better practice guidelines for energy retailers: a collaborative approach to preventing hardship amongst energy consumers,* 2014.

PIAC thanks the AER for the opportunity to provide further comment in its review of the minimum disconnection amount. If you would like to discuss PIAC's submission further, please contact Policy Officer, Jessica Mutton.

Yours sincerely

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