# Well Connected

NEWSLETTER OF THE UTILITY CONSUMERS' ADVOCACY PROGRAM (UCAP); A PROJECT OF THE PUBLIC INTEREST ADVOCACY CENTRE (PIAC)

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## Call to reduce disconnections

PIAC has called on the NSW Government to introduce new measures to reduce the number of households having their essential services restricted or disconnected.

Our research report *Cut Off: the impact of utility disconnections* published last February makes it clear that financial hardship is the main reason for households not paying their utility bills. As a result, disconnections most often are suffered by those with low incomes, larger families and young families. Ongoing health problems are another major factor.

After studying the results of the *Cut Off* report PIAC has identified some key measures which would reduce the incidence of residential consumers being disconnected or restricted in circumstances of financial hardship. We have written to the Minister for Energy and Utilities, the Hon. Frank Sartor, asking that the Government:

- Review hardship programs and payment plans provided to determine their effectiveness in reducing the rate of disconnection of customers in hardship;
- Require that no residential customer face disconnection or restriction unless they have failed to accept an offer to enter a hardship program or failed to stick to the terms of that plan; and
- Ensure that, notwithstanding compliance with a hardship program, no residential customer experiences repeat disconnections by the same retailer in any twelve-month period.

We also have written to each of the major energy and water retailers calling on them to support these proposed new measures.

Only 21% of the households studied in this research had been enrolled in a retailer's payment plan as a means to get their supply restored. Yet 70% of those disconnected reported they had had difficulty meeting household bill payments during the period when they were cut off. We were surprised that over 60% of those cut off had made prior contact with their retailer - and still were disconnected or restricted.

These findings suggest disconnections are being used in a punitive manner despite energy and water being essential services. The report details the range of impacts on households of being disconnected and the general compounding of difficulties caused by disconnection.

There have been changes to some retailer hardship programs since the period studied in the research. Nonetheless, PIAC believes that a number of the businesses still need to make major improvements in the way they deal with customer debt.

Energy retailers in the United Kingdom have responded to the social costs of disconnection with a commitment to protect vulnerable customers from disconnection. According to the industry body which represents those retailers, a customer is vulnerable if 'for reasons of age, health, disability or severe financial insecurity they are unable to safeguard their personal welfare or the personal welfare of other members of the household'.

In recent months NSW energy and water retailers have initiated a series of discussions on how to deal with customer hardship. PIAC would like to see the industry adopt a best practice approach. This goal will be a lot closer if these proposed new measures can be considered jointly by the Government, industry and community representatives.

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## Better data needed on energy competition

How many customers are switching between energy suppliers and how important is this number? Price protection for residential energy users could be weakened from 2007. The energy retailers and the NSW Government believe that a competitive market is a better safeguard against high prices than an independent regulator. A decision to weaken price controls for households will rely on claims about the strength of competition. More accurate data on customers changing energy supplier is needed before the community can accept such claims.

'Competition' remains the buzzword in energy industries in Australia. Far-reaching and expensive reforms have been implemented over the past decade to introduce competitive pressures to electricity and gas companies and to drive more efficiency.

Some industry players and policy makers argue that competition in its current form is not working. Others argue that still more benefits can be found. Either way, the reform process is far from over and the next round could bring weaker controls on prices paid by households.

The question remains as to whether competition is 'effective' and whether it benefits consumers. In the case of households and other 'small' customers, competition reform was focussed on retail supply. Measuring the success of the reforms has come to mean counting the number of customers who switch between energy suppliers.

In fact, economic theory suggests competition is determined not by the level of customer switching or 'churn' but the number of firms in a market and the ease with which new players can enter. By either measure, however, it is clear that the retail market is a long way from being competitive and certainly not able to 'protect' customers against being exploited through high prices.

In electricity 'small' customers are those consuming less than 160MWh per year. An average household in NSW uses around 8MWh per annum. Retailers are likely to be more interested in competing for 'small' customers with an annual consumption of, say, 100MWh to 160MWh because their higher consumption makes them more profitable.

Yet data on small customer 'switches' doesn't distinguish between these different types of end-users. 'Small' captures everyone below 160MWh per year. Retailers don't publish data on household customers because they claim churn rates are commercially sensitive. It is not even clear whether churn data includes customers who stay with their original retailer but with a new 'competitive' supply contract.

Both industry and governments continue to claim success for competition reforms on the basis of assertions about household churn. In NSW the common figure appears to be 30%.

Are these claims about churn enough to justify a reliance on the market to 'protect' vulnerable consumers?

Data published by the Independent Pricing and Regulatory Tribunal (IPART) suggests that 12% is a better figure for the level of switching by 'small' electricity customers. This is based on confidential retailer information prior to May 2004. The extent of switching was lowest among customers with the lowest consumption – at or below the level of the average household. Gas was reported to have a higher rate of churn (18% overall), although other research suggests that among households those with higher incomes are more likely to use gas.

Households numerically are the largest group among the below-160MWh customers. So the churn rate for this group cannot be greatly in excess of the 12% achieved for 'small' customers in total. It appears that households with below average use are switching at less than half this rate.

Later IPART research reveals that only some 30% of households (mostly with higher incomes) have been receiving offers to switch retailers. This is the same number as the retailers claim are actually switching supplier. Yet, of those who are approached by a retailer only some 20% accept the competitive offer.

Some customers approach the retailers seeking a competitive offer. However, many are finding that there are no competitive retail contracts available to them. People likely to be refused a competitive contract include

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tenants and people in rural areas. Energy retailers find these customers to not be commercially attractive. It is only under conditions of 'standard' supply (mandated or 'first tier' supply under a regulated price) that these groups have an assurance of access to electricity and gas.

This could change if more retailers were active in the NSW market. Again, theory suggests this is the better measure of the extent of competition. However, this is unlikely to happen unless prices rise first – surely counter-productive from the community's point of view.

PIAC does not accept the claims for a 30% rate of switching by residential customers in the competitive retail energy market. It would be difficult to accept that a churn rate of 30% would be grounds for removing price protection for the remaining 70% of the community. As the Government and industry contemplate weaker price protections from mid-2007 it is crucial that they produce meaningful and accurate figures on the true impact of retail competition on residential users.

## Energy and Water Fund announced

The NSW Government recently introduced a Bill into Parliament to establish an Energy Savings Fund and a Water Savings Fund, which enable parties to compete for funds to implement water- and energy-efficient initiatives. PIAC consistently has supported the establishment of such funds, on the proviso that households were able to participate directly in the activities they support. As the most numerous consumers of water and energy, the residential household sector now stands to benefit from efficiency and conservation efforts generated by the funds activities.

We are particularly pleased to see that energy and water conservation efforts will be combined under the two funds for some users. This will be especially valuable for the residential sector. Households have the potential to save substantial amounts of energy in the process of becoming more water-efficient and the combined funds should be able to seize upon this proven method of dual conservation.

In our joint submission to the *Energy Directions Green Paper,* PIAC and NCOSS identified two objectives for Energy and Water Savings Funds. Firstly, household demand management should seek a reduction in household energy consumption and hence lower greenhouse gas emissions. Secondly, we identified the benefits of targeting conservation activities towards low-income households, noting that this reduces fuel poverty and produces a corresponding reduction in utility disconnections. Targetting low-income households for retro-fits has been a priority of many utility businesses to date and we envisage that the new Savings Funds will continue to engage low-income, public and private rental and large households in a similar manner.

The Government has highlighted that reducing peak demand for energy will be a primary goal of the Energy Savings Fund. PIAC has in the past observed that reducing peak demand will benefit the community through better utilisation of existing infrastructure and deferring the costs of future investment in network and generation capacity. Residential air-conditioning use has regularly been blamed for the escalating use of energy in peak periods during hot summer days and we look forward to the implementation of some innovative approaches to this situation.

PIAC welcomes the implementation of the Energy and Water Savings Funds and we look forward to contributing to the scheme.

## Paying more for using less?

NSW households have responded to the drought in exactly the way they were asked – by dramatically reducing the amount of water they consume. According to Sydney Water, restrictions have reduced water consumption by around 10% overall, predominantly through reduced outdoor water use. And yet prices are set to increase because of this reduction.

Economic theory would tell you that when demand for a good (in this case water) falls, all things being equal, the price would fall. Indeed the expectation among consumers is that they will be rewarded for their conservation efforts through lower bills. However, Australian governments have decreed that the regulatory arrangements for energy and water businesses will guarantee these utilities make a profit. This means lower consumption is paid for through higher prices.

Because water businesses operate as a natural monopoly supplier, an independent economic regulator determines prices in lieu of a market. Put crudely, the regulator is required to guarantee that utility companies will be treated as 'successful' businesses and receive a minimum level of revenue. The amount of revenue is based on things like the value of its assets, the costs of maintaining these assets and the operational cost of supplying water and running the business. Generally, this income is delivered through a combination of fixed and variable charges, paid for by all customers.

We end up being charged higher prices because even when we consume less water, charges need to be adjusted upwards to fund the regulated revenue stream.

Using less water shouldn't mean people are penalised but that's how the pricing rules work. Some households are in a position to offset the price rises through further reductions in consumption, but not all households are able to easily reduce the amount of water they use. For example, low-income households lack the financial capacity to purchase more costly water-efficient appliances; larger families use greater amounts of water for non-discretionary purposes; and rental tenants may be unable to improve the efficiency of water-using infrastructure. So water price increases impose a bigger burden on these households.

The NSW Government's Metropolitan Water Plan exacerbates the situation by pushing prices even higher, adding an estimated 1% price increase. Yet the Plan is skewed towards supply initiatives and business consumption while doing little to directly assist households to manage their consumption and avoid higher bills. On top of all this, it is proposed that the price structure changes to an Inclining Block Tariff designed to penalises high-usage households such as large families.

## Pre-payment on the way for NSW

Pre-payment meters could soon be offered to NSW electricity customers with the Government having moved to amend the *Electricity Supply Act*. The proposed change would give to the Minister for Energy and Utilities the power to make a regulation permitting these meters and imposing conditions for their use on the electricity retailers. The Minister had released a set of guidelines for pre-payment meters at the end of 2003 following consultations by the then Ministry for Energy and Utilities.

It is expected the new regulation will bring these guidelines into force. Key provisions relate to customers being able to revert to 'accumulation' meters and using pre-payment to recover outstanding debt. The Minister had decided that these meters could be offered only to customers on 'negotiated' supply contracts.

Tasmania was the first Australian jurisdiction to introduce pre-payment. The independent regulator in that State has criticised a number of aspects of pre-payment, including the higher fixed costs which come with the pre-payment tariff. South Australia and Western Australia also have moved to permit pre-payment meters. Both Tasmania and South Australia propose to require retailers to report on 'self-disconnection'.

## National energy advocacy

The move to create a national system of regulation for the electricity and gas industries has expanded to include proposals for a new body which would represent the views of customers to the new regulators. The Ministerial Council on Energy recently released a major report and a consultation paper which describe four options for such a new body. This followed a major research and lobbying exercise by community and consumer groups in 2004. The Consumer Advocacy Consultation Paper is available on the MCE website - www.mce.gov.au. Submissions in reponse to the consultation paper are to be made by 29 April.

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