Supporting Customers, Avoiding Labels

VCOSS submission to the Energy Hardship Inquiry draft report

October 2015

VCOSS
Victorian Council of Social Service

About VCOSS

The Victorian Council of Social Service (VCOSS) is the peak body of the community sector in Victoria. VCOSS works to ensure all Victorians have access to and a fair share of the community's resources and services, through advocating for the development of a sustainable, fair and equitable society. VCOSS' membership reflects the diversity of the community sector, with members ranging from large charities, peak organisations, small community services, advocacy groups, and individuals involved in social policy debates. VCOSS respects the land we live in, recognises its original custodians, and is committed to reconciling all injustices with Aboriginal and Torres Strait Islander people.

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Executive Summary

Everyone needs to access essential services. A reliable energy supply is a basic household need: lighting, refrigeration, communications equipment, cooking facilities, hot water systems, heating and cooling all rely on a continuous energy supply. But disadvantaged Victorians can find themselves unable to pay their energy bills for a range of reasons that are unrelated to their willingness to pay for the energy they need, but aspects of their lives outside of their control. An appropriate hardship framework should reflect this by accommodating households who simply cannot afford to pay, and by focusing on helping people reduce their energy use without compromising their health, safety, and comfort.

VCOSS commends the Essential Services Commission for its comprehensive analysis of the operation and effectiveness of energy retailers' hardship programs and policies, and its preparedness to reassess the entire hardship framework and propose major regulatory change to improve it. VCOSS agrees that early intervention to avert high levels of debt is an important strategy for people in hardship, and that high energy use is a significant cause of payment difficulty.

The Essential Services Commission's proposed new hardship framework provides a solid conceptual foundation for a new approach to hardship by the energy industry that reflects these principles. However VCOSS is concerned that the framework inappropriately prioritises managing and avoiding debt over facilitating continuity of supply to people in financial hardship, which the Electricity and Gas Industry Acts clearly state is the objective of the hardship framework. VCOSS thus proposes an revised new framework that re-sequences the core elements of the Commission's proposed framework to resolve some shortcomings. Our framework reflects the principle that no one should be disconnected if they engage with their retailer about their debt. By requiring a respectful and responsive engagement between retailer and customer as the primary intervention, it provides for innovation and value relationship-building, which ultimately will better meet the diverse needs of people facing disadvantage and vulnerability. In acknowledging the role of high consumption in bill payment difficulties, it emphasises the importance of retailers helping their customers to better manage their energy use without losing amenity.

Our process has three streams differentiated by the degree of customer engagement:

- A high engagement stream, where people and their retailers work collaboratively to resolve payment and energy use problems
- A low engagement stream, comprising prescriptive default payment plans as a secondary option if the relationship between a person and their retailer fails
- A no engagement stream, to regulate the process for engaging with people who do not respond to their retailer

With this process, only people who refuse to engage with their retailer can be disconnected, and only after they have been given ample opportunity to engage.

VCOSS is deeply concerned by the Commission's proposal to allow prepayment metering[1] and supply capacity control to be used to control the energy use of people in severe hardship. Prepayment metering and supply capacity control prioritise debt avoidance over continuity of supply, and are likely to harm the well-being of already disadvantaged households. These approaches also discourage retailers from providing innovative assistance to educate people about energy use and address their barriers to energy efficiency. VCOSS unreservedly opposes any use of prepayment metering or supply capacity control to reduce household energy consumption.

[1] Prepayment metering is any prepayment system where supply is automatically disconnected when energy has not been prepaid for. This is distinct from approaches that encourage early payment of energy bills but default to payment in arrears when the account is not in credit.

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Energy, hardship and people facing disadvantage

Everyone, especially people who face disadvantage, needs to access essential services such as electricity, water and gas. For many years VCOSS has advocated strongly that the energy policy framework and the operation of the energy market should not adversely affect Victorians facing disadvantage. We also promote a whole-of-government approach to reducing energy-related financial hardship for Victorians.

The Inquiry into the Financial Hardship Programs of Energy Retailers is concerned with the framework that primarily responds to people facing disadvantage. Disadvantage may take many forms, and the term is used to cover a range of possibilities. People may have low incomes or assets, meaning they have limited financial means from which to pay for energy consumption, or for modifications or appliances that reduce their electricity use. People may face other disadvantages, such as having low literacy, poor English skills, lack of technology, internet connections or the skills to use them. People may also have physical, mental or social vulnerabilities, such as having a disability or being frail, having a mental health condition or intellectual disability, or being socially isolated. All of these factors can affect people's ability to understand, consume, pay for and engage with the energy market and manage their energy consumption.

A reliable energy supply is a basic household need. Lighting, refrigeration, communications equipment, cooking facilities, hot water systems, heating and cooling all rely on a continuous energy supply. For some houses without mains water, electricity is also needed to pump stored water for household use. A loss of energy supply, or severe rationing of use, can cause adverse health and wellbeing effects, due to food spoilage, inability to cook, inability to maintain personal hygiene or healthy room temperatures, and social isolation due to lack of communication capacities.

The cost of energy can push households into financial hardship when it is too high to leave sufficient money for other household necessities. This also adversely affects people's wellbeing, and is most likely to happen among low-income households, who spend twice as much on electricity and gas as a proportion of their total income than middle-income households.[2] One in five low-income households cannot pay one or more bills on time in any given year, and almost one in seven have their energy disconnected.[3]

[2] Australian Bureau of Statistics, (2013) *4670.0 - Household Energy Consumption Survey, Australia: Summary of Results, 2012*
[3] Australian Bureau of Statistics, (2013) *4670.0 - Household Energy Consumption Survey, Australia: Summary of Results, 2012*

Having few resources can also increase energy use and costs, as people cannot afford the energy saving modifications and appliances that would reduce their electricity use. Victorian households in payment difficulty use more than twice as much energy as their neighbours.[4] Much of this may be due to poor quality housing. Almost a third of low-income Victorians are renters,[5] and the majority of private rental properties have inadequate insulation and insufficient draft-proofing,[6] which leads to high heating costs. Tenants have very little ability to improve the ability of their homes to retain heat as they have insecure tenure and it is difficult to modify their homes. Low-income owner-occupiers are not so restrained; but many are unable to make the changes they need due to lack of financial capacity.[7] Low-income households are also more likely to purchase cheaper or second-hand appliances, such as heaters and fridges, which are likely to be energy inefficient.

Disadvantaged Victorians therefore can find themselves unable to pay their energy bills for a range of reasons that have nothing to do with their willingness to pay for the energy they need, and everything to do with elements of their situation that are outside of their control. An appropriate hardship framework would reflect this by accommodating households who simply cannot afford to pay, and by focusing on helping people reduce their energy use without compromising their health, safety, and comfort as much as possible. VCOSS commends the Essential Services Commission for its comprehensive analysis of the operation and effectiveness of energy retailers' hardship programs and policies. VCOSS members anecdotally confirm many of these issues, including use of the "hardship" label to control access to hardship assistance, intrusive personal questions to determine eligibility, debt increasing despite hardship assistance, and inappropriate capacity-to-pay assessments.

VCOSS also commends the Commission's preparedness to reassess the entire hardship framework, and propose major regulatory change to improve it. Incremental adjustments to the framework over a decade have produced an unwieldy and complex process where retailers' obligations and people's entitlements are not clear, despite the best of intentions.

VCOSS agrees early intervention to avert high levels of debt is an important strategy for people in hardship. We also agree high use is a significant cause of payment difficulty, and this should be targeted and reduced to achieve sustainable energy affordability for vulnerable people.

VCOSS is concerned that the Draft Report inappropriately prioritises managing and avoiding debt. While debt problems should be addressed, doing so is not the primary purpose of the hardship framework. The Electricity and Gas Industry Acts clearly state the objective of the hardship framework is to:

[4] Essential Services Commission (2015) *Supporting Customers, Avoiding Labels: Energy Hardship Inquiry Draft Report*, ESC, Melbourne (p. 32).
[5] Australian Bureau of Statistics (2014) *Survey of Income and Housing 2011–12* custom dataset.
[6] Energy Consult P/L *Housing condition/energy performance of rental properties in Victoria*, Department of Sustainability and the Environment, 2009.
[7] Australian Bureau of Statistics (2013) *4670.0 - Household Energy Consumption Survey, Australia: Summary of Results, 2012*.

> *"facilitate continuity of supply to domestic customers experiencing financial hardship."*[8]

This contrasts with the Commission's conclusion that:

> *"the purpose of the regulatory framework for customers facing payment difficulty can therefore be defined as to: assist consumers to avoid long-term energy debt, and repay debt that does accrue, while wherever possible maintaining access to energy as an essential service."*[9]

The current legislation does not include debt management or recovery as an objective of hardship programs. The Commission's new interpretation appears to elevate debt management and recovery above the current legislated objectives. VCOSS believes the regulatory objects for hardship programs should not prioritise revenue protection for commercial entities above maintaining a continuous, unconstrained energy supply. Their primary function is social protection. The social consequences of disconnection or constrained supply can be extremely deleterious, affecting people's ability to heat, cool and light their homes, maintain good health, hygiene and nutrition, and operate beneficial technologies. Any proposal to change the objectives of hardship programs to prioritise debt management and recovery above maintaining a continuous, unconstrained energy supply for human health and wellbeing should be rejected.

VCOSS acknowledges that early intervention and assistance to prevent and reduce debts are useful strategies to maintain energy supply. Additional regulatory intervention to require energy retailers to engage earlier and assist people who have accrued debt is a welcome initiative.

A small number of people will accrue debts that cannot be avoided or repaid. These should be addressed through other means, not by restricting people's energy supply. The Commission is the appropriate body to strongly recommend to government that broader social policy initiatives should address accrued debt and unaffordable ongoing usage when it exceeds the capacity of the energy industry and the regulatory framework to do so.

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[8] Section 42 of the Electricity Industry Act 2000 (Vic.) and section 48F of the Gas Industry Act 2001(Vic.).

[9] Essential Services Commission 2015, *Supporting Customers, Avoiding Labels: Energy Hardship Inquiry Draft Report*, September 2015 (p. 18).

The Commission's proposed framework

The Commission's proposed new framework provides a solid conceptual foundation for a new approach to hardship by the energy industry. By codifying two payment plans with predetermined repayment schedules, the new framework provides some certainty and consistency to people experiencing hardship. As VCOSS stated in its submission to the Approach Paper, the energy retail industry as a whole performs poorly at timely and effective responses to people in payment difficulty, despite some examples of good practice. This warrants a more prescriptive approach to delivering core elements of the Retail Code.

However, some retailers have used the flexibility of the existing framework to innovate in identifying and supporting people in hardship, providing solid examples of best practice. If the new framework discourages this innovation and good practice, vulnerable people would be poorly served. VCOSS advocates some adjustments to the proposed framework so innovative assistance is prioritised. This is supported by more prescriptive processes when poor retailer performance or people's non-engagement precludes a negotiated outcome.

The Commission's proposed framework includes the retail code requirement that people cannot be disconnected before they have failed two payment plans. It also makes a number of principles, assumptions, and implied protections more explicit:

- if the first payment plan fails, the second should be more affordable
- people should not be disconnected if they are engaging with the retailer
- early intervention is essential to avoid debt
- people need help to reduce their energy use when high bills cause payment difficulty

However, the new framework also has shortcomings:

- unclear alignment with the billing and collection cycle
- lacks detail of appropriate retailer assistance to reduce energy use and improve energy efficiency
- unclear mechanisms for compliance monitoring of retailers' responses
- implies reliance on technology-enabled supply interruption for reducing people's energy use
- no clear path for people whose financial hardship is entrenched or who are unable to ever pay for their ongoing use
- no requirement to subject hardship policies to scrutiny or a minimum standard, when certain aspects of the framework (the *Active Assistance* and *Reconnection Plan* stages) rely on retailer's policies and procedures to succeed.

VCOSS is concerned many aspects of best practice from other sectors are not reflected in the proposed framework, yet prepayment is repeatedly identified as a mechanism despite the significant harms caused by prepayment metering.

A proposed new framework

VCOSS proposes an alternate new framework, developed collaboratively by a coalition of consumer advocates. It re-sequences the core elements of the Commission's proposed framework to resolve some shortcomings. By requiring a respectful and responsive engagement between retailer and customer as the primary intervention, it provides for innovation and value relationship-building, which ultimately will better meet the diverse needs of people facing disadvantage and vulnerability. The proposal retains a more prescriptive process as a secondary option so people remain protected by the retail code if their relationship with their retailer fails.

This approach has a number of defining characteristics based on principles that reflect best practice in the energy and other industries, key points identified in the Commission's *Approach Paper* and *Draft Report*, hardship provisions in the *Electricity* and *Gas Industry Acts*, the Victorian *Energy Retail Code* and other legislative instruments, and the experience of community service organisations that work with people in financial hardship.

Like the Commission's proposed framework, our proposal is explicitly based on the Energy Retail Code. It aligns directly with the stages of the collection cycle, codifies people's entitlement to a minimum of two payment plans before they can be disconnected, prioritises maintaining supply over debt repayment, and maintains the prohibition on prepayment metering and supply capacity control for credit management.

Our framework reflects the principle that no one should be disconnected if they engage with their retailer about their debt. Even if payments are missed, so long as people contact their retailer and are renegotiating they cannot be disconnected. People engaging minimally are still protected from disconnection while maintaining payments under a codified payment plan. If someone misses a payment they can re-engage and continue receiving support and renegotiate a payment plan. People not engaging can be disconnected, but a better disconnection process provides more opportunities to engage.

As the *Draft Report* documents, high consumption is strongly correlated with bill payment difficulty. Our framework follows the Commission's example by matching retailers' required assistance intensity with people's needs. It focuses more narrowly on making consumption sustainable for those with greatest need.

Retailers report some customers are difficult to engage. Consumer advocates similarly report sometimes retailers do not engage customers well. Our proposed framework acknowledges this with the low engagement stream, which preserves people's entitlement to two codified payment plans if they cannot reach agreement with their retailer. It also allows a retailer to unilaterally place a people on a payment plan if they do not respond to notices.

This accommodates people who may be embarrassed or lack the confidence to contact the retailer, but can afford to pay in instalments.

Our process has three streams differentiated by the degree of customer engagement:

- A high engagement stream, where people and their retailers work collaboratively to resolve payment and energy use problems
- A low engagement stream, comprising a prescriptive process as a secondary option if the relationship between a person and their retailer fails
- A no engagement stream, to regulate the process for engaging with people who do not respond to their retailer.

Throughout the entire process, retailers are required to give pay-on-time discounts for all instalment payments paid on time, and are encouraged to offer fully variable tariffs, calculated by applying their best available tariff to the last twelve months of people's consumption to derive the per-kWh rate, where helpful. They are encouraged to offer incentive payments to people with high debts on longer payment plans to help incentivise payments.

A more detailed explanation of our proposed framework is provided in Appendix 1.

1. High engagement stream

The *high engagement* stream is the first response to energy hardship. It allows people and their energy retailer to work together to resolve payment and energy use problems by negotiation and assistance. The high engagement stream has three components:

- Early action
- Active assistance
- Intensive assistance

A. Early action

This stream commences with the *early action* component proposed by the Commission, providing the opportunity for people with a payment difficulty to proactively approach a retailer before a bill's due date. For instance, this could be accomplished by re-scheduling bill payments through a 'self-service' process on a retailer's website. This minimises retailer's costs and reduces embarrassment for people who may simply have a temporary cash flow problem, by allowing them a payment extension or payment plan without prejudice or intrusive questioning. It also allows retailers to offer information on managing energy consumption, or refer to more tailored assistance for people facing more serious difficulties.

B. Active assistance

The *active assistance* component provides more tailored assistance when requested through early action, or as a result of engaging with a retailer after a missed bill or other notification. It resembles the *Active Assistance Plan* proposed by the Commission but is available earlier to give people tailored help as soon as needed.

This option provides retailers capacity to innovate, and allows best practice hardship programs currently offered by some retailers to continue. It encourages the development of a productive and respectful relationship between people and their retailer, with the goals of helping people pay off debt and better manage their energy use so future consumption is affordable. This could be achieved by advice, making sure people are on the best-value energy plan, and, if warranted, practical assistance with energy literacy and efficiency. People are still entitled to payment plans similar to the Commission's proposed codified *Payment Plan One* and *Payment Plan Two* without prejudice or intrusive questioning. If necessary, however, more individualised payment arrangements and other assistance should be offered depending on people's specific circumstances, including referral to community service organisations where people require broader forms of support.

C. Intensive assistance

The *intensive assistance* adopts components of the *Reconnection Plan* proposed by the Commission, without supply capacity control or prepayment metering, and is available earlier in the process. This is the most comprehensive assistance option for people facing high levels of disadvantage or vulnerability.

People receiving *intensive assistance* should be identified by retailers from *active assistance* participants, when they are in severe financial hardship, in crisis, or have a serious energy use problem. Debt repayment may be postponed while people are given more intensive, tailored, and practical in-home assistance to improve their energy use patterns, or while crises are being addressed by community service agencies. When people are in a financial position to pay for regular energy use with additional capacity to begin repaying debt, they may be moved back to *active assistance*.

2. Low engagement stream

The *low engagement* stream is a secondary stream when *active assistance* fails to produce agreement to repay debt. For instance, a person may fail to honour an agreement, refuse to enter an agreement, or the relationship has degraded. It retains people's entitlement to the two payment plans required by the Retail Code before disconnection. It has two components:

- Payment Plan One
- Payment Plan Two

D. Payment plan one

Payment plan one reflects the proposal of the Commission, but is reserved as a secondary response when the high engagement stream fails to produce a negotiated agreement. Debt repayment is initiated as periodic payments over two billing cycles, aligned with the customer's pay cycle, usually fortnightly. The time period would be adjusted depending on the regularity of the person's billing cycle. For instance, repayment would be scheduled to be paid over six months in 13 fortnightly instalments for an unpaid quarterly bill, or over two months in 5 fortnightly instalments for an unpaid monthly bill.

Retailers are encouraged to extend the repayment period and give other assistance if warranted, or simply move people directly to *Payment Plan Two* if it is clear *Payment Plan One* will not be affordable. People who do not meet the payment plan and do not further engage with the retailer are moved to *Payment Plan Two*. However, if a person re-engages and is able to agree to an alternative, they may re-enter the *active assistance* or *intensive assistance* components.

E. Payment plan two

Similarly, *payment plan two* reflects the Commission's proposal. Debt repayment is initiated as periodic payments over five billing cycles, instead of two. Again, retailers are encouraged to extend the repayment period and give other assistance if warranted.

People who fail this payment plan and do not further engage with the retailer slip into the *no engagement* stream and can be given a disconnection warning. If a person was placed directly on *payment plan two,* they must be offered a second payment plan. In this situation, retailers are strongly encouraged to extend the second plan's repayment schedule.

3. No engagement stream

The *no engagement* stream is the existing collection cycle comprising a reminder notice, disconnection warning, disconnection notice, and disconnection process. Each stage involves communication from the retailer to the person, and each is an opportunity to invite people to engage. If they do, they will move to *Active Assistance* in the *high engagement* stream.

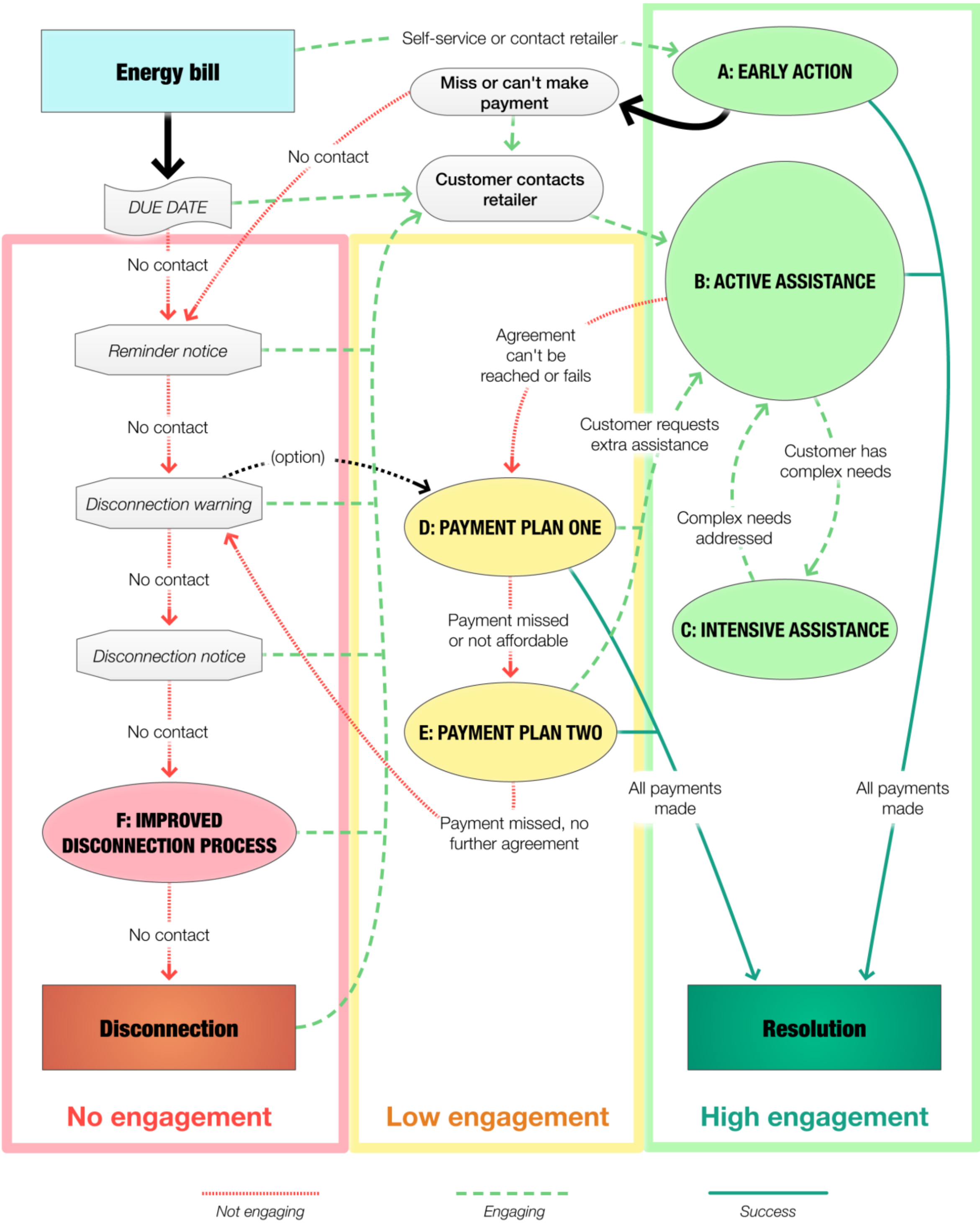
We recommend retailers should have an option to unilaterally place people who don't engage with the disconnection warning onto *Payment Plan One* by sending them a new bill for the first fortnightly instalment and explaining that they have been placed on a payment plan. In this situation, the retailer cannot issue a disconnection notice unless the first instalment payment is missed. VCOSS believes some people reluctant to engage may nevertheless pay by instalments if simply given the opportunity.

F. Improved disconnection process

The penultimate stage before disconnection is an *improved disconnection process* designed so disconnection is a true last resort, and offers a final opportunity for engagement. The retailer should visit the person's home in an attempt to make face-to-face contact before issuing a disconnection order. This provides a clear indication the retailer has undertaken their best endeavour to contact the person before disconnection.

This requirement also addresses an underlying cause of the recent increase in disconnections. Automated disconnections using smart meters remove the retailer's opportunity to discover people are experiencing a crisis, meaning they can neither engage nor pay their bill, and respond accordingly. We support the Consumer Action Law Centre's recommendation to remove the final disconnection decision from retailers, and instead place it with an independent arbiter, who can provide the necessary oversight for this significant action.[10]

Figure 1: Proposed new hardship framework



[10] Consumer Action Law Centre (Aug 2015), *Heat or Heat: Households should not be Forced to decide whether they heat or eat*, p47.

Prepayment and supply capacity control

VCOSS is deeply concerned by the Commission's proposal to allow prepayment metering[11] and supply capacity control to be used to control the energy use of people in severe hardship. Prepayment metering and supply capacity control prioritise debt avoidance over continuity of supply, contrary to the *Electricity* and *Gas Industry Acts*, which identify continuity of supply as the primary objective of the hardship framework.[12]

Prepayment metering has been proposed by the energy industry to solve energy affordability for low-income households. Prepayment metering harms vulnerable people because it:

- operates by preventing people from using energy for essential and useful purposes
- requires people with very limited incomes to pay up front for their energy usage – those with the least capacity to do so
- gives people a poorer, lower quality service
- requires people to restrict energy use at the expense of their health and well-being
- reduces people's quality of life, increases their vulnerability and imposes an additional stressor in already difficult lives
- potentially affects people who are not responsible for payment difficulties, such as children
- does not solve problems of inefficient energy use or poor financial literacy
- undermines the principle that no one should be disconnected from supply because they cannot pay.
- cannot provide all the elements of the customer protection framework, including, for example, warning periods before disconnection

Supply capacity control has similar impacts, in addition to the safety concerns and the risk of damage to major appliances from repeated unexpected reduction or loss of energy supply.

Prepayment metering limits people's access to the full range of energy products and prices by constraining their choices. Everyone in Victoria has paid for smart meters to gain these choices, including people experiencing disadvantage, and are entitled to receive a benefit for their investment. Prepayment metering excludes people from the mainstream energy market, creating a category of people excluded from the energy market. This is in conflict with government objectives for all households to participate in the energy market, and be able to choose products, tariffs, and service levels appropriate to their needs.

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[11] Prepayment metering is any prepayment system where supply is automatically disconnected when energy has not been prepaid for. This is distinct from approaches that encourage early payment of energy bills but default to payment in arrears when the account is not in credit.

[12] Section 42 of the Electricity Industry Act 2000 (Vic.) and section 48F of the Gas Industry Act 2001(Vic.).

VCOSS appreciates that the Commission proposes these technologies as a final option after other steps have been taken. However, we are concerned that the proposed framework appears to resort to these technologies before all energy efficiency and behavioural changes have been exhausted. If people experiencing disadvantage are living in poor quality housing with energy inefficient appliances, it is their impoverished living environment that is causing high bills and accrual of debt – not wasteful energy use or financial irresponsibility. By limiting their energy supply through prepayment metering or supply capacity control, people would be punished for simply being poor.

Allowing prepayment metering and supply capacity control also risks allowing retailers to avoid their responsibility to engage with the more difficult process of helping vulnerable people improve their energy productivity.

Energy literacy training and practical assistance with energy efficiency problems are our preferred option, including home audits, dwelling retrofits, appliance replacement and monitoring tools such as in-home display units. These help people reduce their energy use without adverse impacts on health, safety, and quality of life, without compromising their continuity of supply.

Prepayment options are already available without automated disconnection, and people can be encouraged to regularly prepay for energy use using a discount incentive. This is a more beneficial option that actively rewards people for paying their energy bills, and saves them money in the process which can be put to other uses in their lives.

Supply capacity control has been proposed as a tool to help households use less energy by sending a real-time signal when use has been excessive. This signalling is useful, but it does not require a link to a reduction or loss of energy supply. Real-time feedback in the form of in-home display units is very effective at reducing household energy use when people have basic energy literacy training and are trying to better manage their use.[13] Supplying in-home display units would be a better, less harmful strategy than supply capacity control.

Instead of allowing the punitive and dangerous technologies of prepayment metering and supply capacity control, the consumer framework must put clear obligations on retailers to give practical assistance to people who need help to reduce their energy use. In a small proportion of cases where addressing hardship is beyond the capability of energy companies, the Commission should advise government of the requirement for social policy initiatives to which these cases can be referred.

More detail about prepayment metering, its impacts on households, and the explanation for popular support for prepayment metering in other jurisdictions can be found in the joint consumer submission to the Energy and Water Ombudsman New South Wales, in Appendix 2.

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[13] The American Council for an Energy Efficient Economy (ACEEE), *Advanced Feedback Initiatives and Residential Feedback Programs: A Meta-Review for Household Electricity-Saving Opportunities*, June 2010

Responses to discussion questions

Objectives

The proposed regulatory framework is premised on the objectives of avoiding debt, repaying debt, adopting leading practice in energy management and aligning energy consumption with affordability.

1. Are these objectives appropriate? Should any other objectives be considered?

The objective should remain to facilitate continuity of supply to people experiencing financial hardship. This is in the current Electricity and Gas Industry Acts[14] as the primary rationale for hardship policies, as is referenced in the draft report:

a) to recognise that financial hardship may be suffered by domestic customers; and

b) to promote best practice in electricity service delivery to facilitate continuity of supply to domestic customers experiencing financial hardship

But the draft report then proposes that the objective be changed to prioritise debt management and recovery:

> *The purpose of the regulatory framework for customers facing payment difficulty can therefore be defined as to:*
>
> > *assist consumers to avoid long-term energy debt, and repay debt that does accrue, while wherever possible maintaining access to energy as an essential service.*[15]

The current legislation does not include debt management or recovery as an objective of hardship programs. The Commission's new interpretation appears to elevate debt management and recovery above the current legislated objectives. VCOSS believes the regulatory objects for hardship programs should not prioritise revenue protection for commercial entities above maintaining a continuous, unconstrained energy supply. Their primary function is social protection. The social consequences of disconnection or constrained supply can be extremely deleterious, affecting people's ability to heat, cool and light their homes, maintain good health, hygiene and nutrition, and operate beneficial technologies. Any proposal to change the objectives of hardship programs to prioritise debt

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[14] Section 42 of the Electricity Industry Act 2000 (Vic.) and section 48F of the Gas Industry Act 2001(Vic.).
[15] Essential Services Commission 2015, *Supporting Customers, Avoiding Labels: Energy Hardship Inquiry Draft Report*, September 2015 (p. 18).

management and recovery above maintaining a continuous, unconstrained energy supply for human health and wellbeing should be rejected.

Incentives

The current regulatory framework provides the wrong incentives and opportunities. Outcomes for customers and retailers are uncertain.

2. **Does the proposed framework adequately address incentives and opportunities to avoid and reduce customer debt and limit disconnections? What other measures could be considered to provide the right incentives and opportunities?**

There are a number of perverse incentives in the current framework:

- retailers are encouraged to expend minimal effort on connecting with disengaged people, as they can simply use disconnection to force engagement
- retailers are encouraged to limit access to hardship programs to manage limited resources and reduce the number of indebted customers who are protected from disconnection.

The Commission's proposed framework provides some good incentives for customers, if they are communicated well:

- people can proactively manage their payment flexibility, and don't have to reveal personal issues to their retailer
- people can engage when needed, which entitles them to significant payment flexibility.

For retailers the proposed framework offers mixed incentives:

- retailers are encouraged to improve call centre staff training, because people's entitlements are more clearly codified
- retailers may be discouraged from investing and innovating in hardship assistance, as approval requirements for hardship policies have been removed, and the proposed framework suggests people can be easily disconnected after three missed payments, and be forced onto prepayment metering or supply capacity control

VCOSS is concerned that the type of innovative work that retailers such as AGL, Origin and Energy Australia have done recently in reviewing and improving their hardship programs will be discouraged by proposed framework, which does not prioritise personalised assistance and instead relies primarily on a standardised payment plan. Our proposed alternate structure positions *Active Assistance* as the hub of the hardship framework to reduce this risk.

Staging of assistance

The proposed framework is based on shared responsibility between retailer and customer to address payment difficulties at each stage.

4. **Are the retailer obligations and customer responsibilities clear at each stage? If not, what further clarification is required?**

Shared responsibility is a welcome approach, but needs to understand that a person does not have equal power in the relationship with their retailer. Responsibility must be proportionate to a person's capabilities. Retailers have more resources, have detailed knowledge of the law and understand their options for action. People experiencing disadvantage frequently do not have these resources or information, and are vulnerable when they are unaware of their obligations, the services and support available, or their avenues for recourse. We agree that the best result is achieved when consumers engage and work with their retailer. This approach should be the foundation of the hardship framework. However, in an unequal relationship, responsibility cannot be apportioned equally.

While the proposed framework is clear about people's obligations to engage, some of the retailers' obligations lack clarity.

Retailers' obligations to help people improve their energy efficiency and modify their energy use are unclear, expressed as expectations rather than requirements. Greater clarity would be achieved with an explicit requirement for retailers' to assess whether high energy use is causing payment problems, document how that assessment was made, and what rectification steps were taken.

Retailers' obligations to contact non-engaged people are also unclear. VCOSS is uncertain whether retailers make appropriate efforts to contact people. The Commission should consider explicitly requiring retailers take all reasonable steps to contact their customers to resolve difficulties, and how this process should be documented.

Retailers' obligations to consider (as opposed to assess) capacity to pay in the *Active Assistance* and *Reconnection Plan* phases are unclear. VCOSS supports removing the requirement that retailers themselves assess capacity to pay, but they must *consider* it when negotiating payment arrangements.

Disadvantaged customers

One aim of the proposed framework is to ensure that no customer with payment difficulties is disconnected if they engage with their retailer and cooperate with the active assistance provided by the retailer.

5. **Are there any other groups of disadvantaged people in the community whose situation is not dealt with adequately by the proposed framework?**

The framework does not appear to find a solution for the small group of highly vulnerable people who cannot afford to pay for reasonable energy use. The framework appears to culminate in prepayment metering or supply capacity control for this group, which VCOSS opposed.

VCOSS proposes the framework guarantees people will not be disconnected if they engage to rectify problems. A broader social policy response for this group is required so sustainable, affordable consumption can be achieved for everyone.

Much of the framework relies on people being capable of reading information, often from websites. VCOSS is concerned that this approach will exclude people with low English literacy, including people with English as a second language, and people with little access to information technology or without the skills to use it.

Conclusion

The Draft Report contains a robust and informative analysis of the shortcomings of the current system, key factors in hardship, and areas to be addressed for a better framework. The proposed framework is a solid first draft but has some shortcomings. The alternative framework developed by a coalition of consumer advocates and described in this submission attempts to rectify some of those shortcomings. We seek the ‘best of both worlds’ by placing retailer innovation at the centre of hardship responses, with a more prescriptive secondary process if this fails to resolve any problems. VCOSS urges the Commission to consider our alternative proposal.

VCOSS is aware there is considerable additional design required for a detailed framework, and the mechanisms for transition. We look forward to continuing involvement in this work.

Appendix 1:

A 'Revised' New Approach to Assisting Consumers Experiencing Payment Difficulties

A Consumer View

Principle

Consumers can expect to be treated with respect, in light of the obligation that, where possible, they will meet the costs of their energy usage.

Overview

The framework we have presented below provides opportunities for consumers to remain *empowered*, *engaged* and *connected* throughout the payment cycle and for energy retailers to continue to innovate and proactively develop enhanced processes to assist consumers in financial difficulty.

While retaining much of the intent of the Commission's framework, we have proposed changes to the order and importance of aspects of consumer engagement and retailer response to achieve optimal consumer outcomes, via flexible treatment of customers dependent on their needs, and retailer autonomy to drive best practice.

We consider that the most significant point of impact to divert consumers from a likely outcome of debt and disconnection, is to focus the retailers to engage and assist their customers at the earliest possible opportunity. When a consumer has not been able to meet their payment obligations in the first instance, then assistance around consumption, education and structured financial support, need to be provided – rather than when that consumer is facing disconnection, or has been disconnected. For the biggest cohort of consumers, those experiencing temporary and short term financial difficulty, this should be relatively straightforward and can likely be assisted through early and voluntary action. For many consumers, the issue of low income and high consumption as a result of circumstances such as poor quality housing, mental illness or lack of understanding regarding their energy use, will mean that they simply won't be able to meet the cost of consumption, and their circumstances are unlikely to change.

On this basis, we have suggested that Active Assistance be the first point of contact following the voluntary engagement mechanisms under Early Action Option. We consider that comprehensive and effective assistance for the majority of consumers experiencing longer term or more permanent financial difficulty, or issues of functional illiteracy should happen here. We also consider that those consumers who present with extreme vulnerability such as victims of natural disasters, family violence, as asylum seekers, or with major health issues, need intensive assistance tailored on an individualised basis, at the earliest point in time.

We consider that Payment Plan One and Two are important mechanisms for when the options provided under Active Assistance fail, this could be due to poor retailer processes or difficult customers. These prescribed payment plans (without assessment of capacity to pay) can provide for easier debt repayment, but won't assist all consumers whose hardship is more entrenched. We maintain that retailers should consider a consumer's capacity to pay at the Active Assistance stage. The benefit of Payment Plan One and Two is extra structured assistance where the Active Assistance stage fails. However, for many with chronic hardship or a total incapacity to pay, these payment plans will not be successful. As such, even at these stages, where a consumer re-engages or asks for extra assistance, they should be directed back to 'Active Assistance'.

Recognising that many of those that haven't engaged through the above processes will be extremely vulnerable (i.e. mental health, family violence etc.), we recommend an improved disconnection process, designed to produce engagement before the drastic step of disconnection. Key to this is a face-to-face contact between a consumer and retailer/distribution business before disconnection. Alternatively, Consumer Action Law Centre recommended in their report *Heat or Eat* that the decision to disconnect someone be taken out of the hands of retailers, and made instead, by an independent arbiter who can provide the necessary oversight for such a significant action.

While we agree with the intent of the Commission's proposed Reconnection process, to encourage small/pre payments and to assist consumers with consumption, we disagree with the method proposed, specifically supply capacity control and prepayment, and the timing of such interventions. Our proposal for tailored and intensive assistance for customers with the most severe hardship removes the focus on an automated disconnection process that results from supply capacity control or pre-payment, as we believe that the issue of consumption should be addressed earlier in the process, and that a strong and effective regulatory framework removes the need for these punitive and dangerous practices.

The inclusion of *C: Intensive Assistance*, provides an opportunity for those consumers in extremely vulnerable situations to receive the tailored support they need, recognising that connection to energy is an essential factor in those consumers overcoming or managing those vulnerabilities.

We do not consider the framework we developed to represent a linear flow, and that any consumer identified as facing extenuating circumstances, at any time, must have the opportunity to access increased assistance.

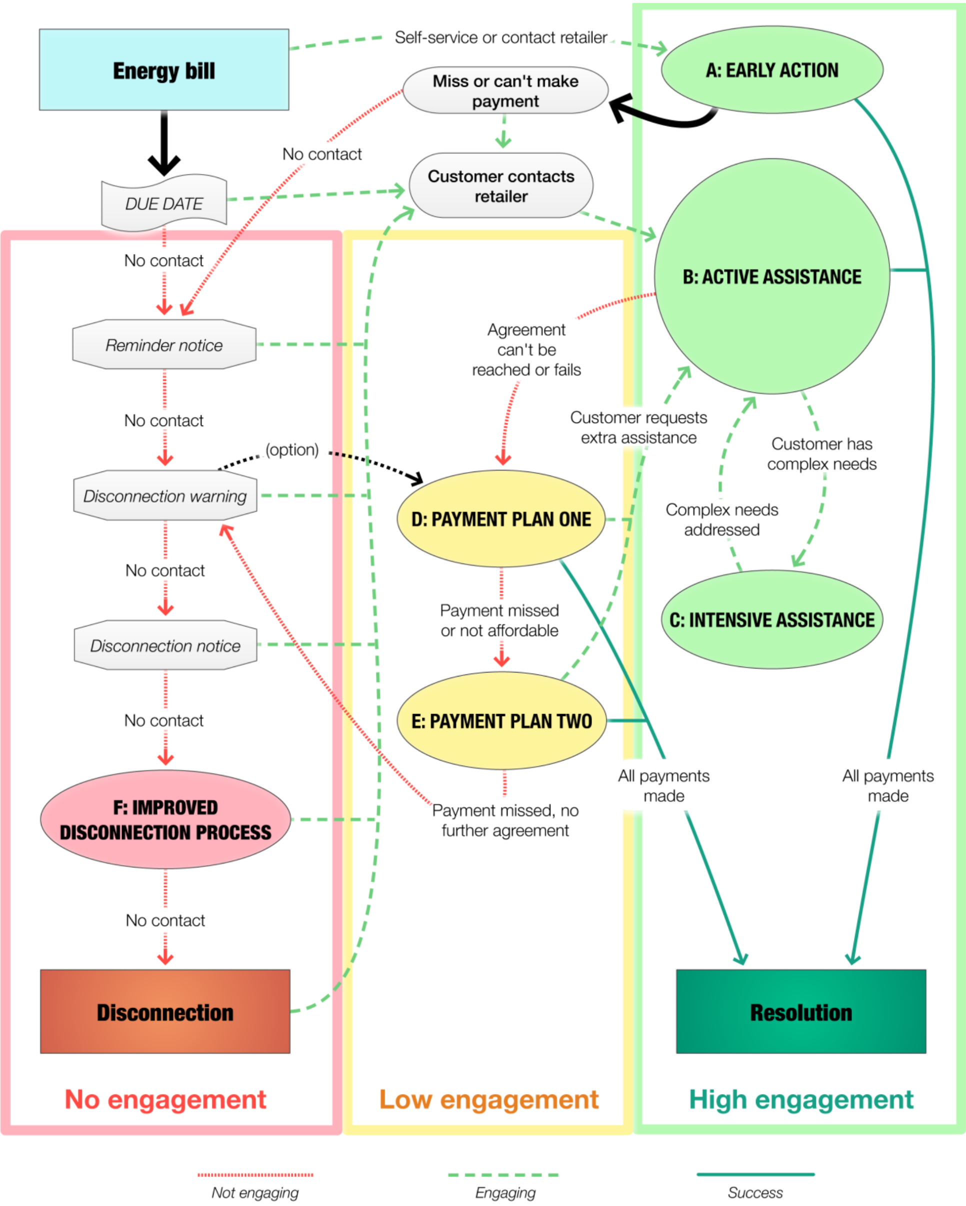
The intent of the revised process is further summarised by the objectives in the table below.

A: Early Action Option	To provide all customers, on receipt of their bill, the opportunity to contact their retailer (via phone or website) to set up, without prejudice, a payment plan that suits the individual; and to provide an avenue for early intervention with more tailored support.
B: Active assistance	To develop a relationship between the retailer and customer, with the goals of helping the customer to pay off debt, of ensuring ongoing consumption is affordable; and to provide an opportunity for retailers to innovate in supporting customers in hardship.
C: Intensive Assistance	To maintain connection for the most vulnerable Victorians and work toward sustainable energy usage.

D: Payment Plan One	To help customers with whom agreement could not be reached to maintain engagement with retailers and begin paying off their debt.
E: Payment Plan Two	To help customers with whom agreement could not be reached to maintain engagement with retailers and continue paying off their debt.
F: Improved Disconnection Process	To ensure disconnection is truly a last resort, and that the disconnection process offers a further opportunity for engagement.

The revised framework is illustrated in the following diagram, and more fully described below. Included in the description are consumer benefits that will be realised by the retailer obligations we have identified, as well as potential indicators to ensure visibility of consumers in the framework and mechanisms for compliance.

Framework diagram



Detail of framework components

A: Early Action Option

Objective: To provide all customers, on receipt of their bill, the opportunity to contact their retailer (via phone or website) to set up, without prejudice, a payment plan that suits the individual; and to provide an avenue for early intervention with more tailored support.

Retailer obligation	**Consumer benefit of obligation**	**Compliance measure/KPI**
To provide an option of automatic access to early and self-initiated payment plans: allow self-service payment extension (up to two weeks) or payment rescheduled over a period of up to two billing cycles. Any offer of deferred payment needs to be accompanied by a conversation / warning about financial implications.	Retailers must explain the implications of deferred payment, to ensure that those consumers, on fixed or low incomes, understand that deferred payment is unlikely to benefit them.	No. of customers who miss payment No. of customers who contact retailer No. of customers who initiate payment plan No. of consumers who present with financial or other concerns. No. of deferred payment arrangements entered into. Success of deferred payment arrangements (No. of consumers who re-enter billing cycle)
Part payments at the next available opportunity, eg pay cycle could be introduced as alternative arrangement to deferred payments, to ensure ongoing engagement with the consumer, and that payment patterns are maintained	Ongoing payment means that consumers remain engaged with retailers, rather than losing visibility with the retailer and incentive to remain engaged.	No. of consumers on part payment arrangements.
The retailer must (regardless of type of interaction with customer) ask the customer if the payment plan arrangement will be affordable and achievable and offer the option of more active assistance (B: *Active Assistance Plan* with the option of C: *Intensive Assistance* if appropriate).	Payment plans will not assist those consumers with more complex issues or a mismatch between income and cost of usage. Immediate referral to more targeted assistance ensures issues of affordability or consumption can be assessed and addressed *prior* to debt being incurred.	No. of consumers provided access to B: Active Assistance or C: Intensive Assistance
Options to be communicated via direct discussions between a customer and their retailer, or through an interactive interface on the website	Clear provision of consumer options means increases the likelihood of consumer engagement at the earliest opportunity.	No. of consumers who access interactive interface on website.

Where possible questions[16] should be asked by the retailer that would indicate if more tailored assistance is necessary. An indication of complex issues[17], requires strong

[16] Example questions: Are you in receipt of Centrelink? Do you live in public housing? Do you rent? Are there pressing health or financial issues? Has your living situation changed? Is someone assisting you?
[17] Such as:
- a drop in income due to an illness or injury
- unemployment
- relationship breakdown or bereavement
- financial literacy challenges
- cultural or linguistic difficulties

consideration of immediate referral to B*: Active Assistance Program or to C: Intensive Assistance*; if no referral is made the rationale must be documented.

B: Active assistance

Objective: To be the primary response to payment difficulty and the hub of support and assistance. To develop a relationship between the retailer and customer, with the goal of ensuring ongoing consumption is affordable; and to provide an opportunity for retailers to innovate in supporting customers in hardship. Customers cannot be disconnected while in Active Assistance.

Retailer obligation	**Consumer benefit of obligation**	**Compliance measure/KPI**
That the retailer is obliged to negotiate with the customer for a suitable payment arrangement that meets their needs, whether temporary, fluctuating or persistent, long term or severe. This could include: • a bespoke payment plan • a short instalment plan; or, • more intensive assistance.	Optimises the opportunity for consumer engagement where the consumer remains empowered and the retailer is able to use its discretion to achieve ongoing affordable consumption for that customer.	Type of assistance provided to consumers following first missed payment.
Retailers must consider the customer's reported capacity to pay when negotiating payment plans, noting that if the cost of usage is more than 4% [18]of income, the customers is very vulnerable to hardship.	The codified payment plans (*D: Payment Plan One* and *E: Payment Plan Two*) are a useful guide but it needs to be tailored based on the amount of debt and the customer's disposable income.	What percentage of income does the combined fortnightly amount for usage plus debt repayment represent? If more than 10% what additional assistance was provided?
Retailers should consider whether offering a fully variable tariff, based on the best available, offer will assist.	Early opportunities to place consumers on more optimal tariffs given their circumstances will contribute to a reduced likelihood of debt.	How many customers were offered a fully variable tariff, based on the best available offer?
Retailers must give pay on time discounts for payment instalments made on time.	Pay on time discounts incentivise consumers and provide retailers a further opportunity to engage consumers.	How many customers paying by instalment received pay on time discounts?

- living on government pension or welfare
- natural disaster
- mental illness
- family violence
- a history of late or missed payments

[18] This threshold was identified in Deloitte Australia, *Advanced metering infrastructure customer impacts study: Final report – Volume 2 (Appendices)*, Department of Primary Industries, Melbourne, 2011.

Customers cannot transfer while they have debt	Consumers are more likely to benefit from the relationship they have developed with their retailer when they have accumulated a debt, provided that the retailer is providing all possible opportunities to reduce that debt.	How many customers have attempted to switch retailers while having a debt with the retailer?
Where possible, questions[19] should be asked by the retailer that would indicate if more tailored assistance is necessary. An indication of complex issues[20], requires strong consideration of immediate referral to *C: Intensive Assistance*.**If no referral is made the rationale must be documented.	Retailers can gain a more realistic understanding of why a customer may be presenting with payment difficulties, and allocate them to the most appropriate support available.	How many customers present with factors that may impact on their ability to pay their bill.
Retailers to be mindful of the factors contributing to inability to pay, including consumption, and initiate any support measures to assist consumers with this where possible.	Retailers can gain a more realistic understanding of why a customer may be presenting with payment difficulties, and allocate them to the most appropriate support available.	How many customers present with factors that may impact on their ability to pay their bill
General information and assistance should be provided including: • Referrals to support agencies such as financial counsellors, support services for other issues if identified (e.g. family violence, counselling, etc.)	The referral to support agencies provides customers with the necessary assistance to address other issues they are facing, that may be impacting on their ability to pay their bills.	How many customers were referred to support services? What support services did these include?

[19] Example questions: Are you in receipt of Centrelink? Do you live in public housing? Do you rent? Are there are pressing financial issues? Is someone assisting them?

[20]

- a drop in income due to an illness or injury
- unemployment
- relationship breakdown or bereavement
- financial literacy challenges
- cultural or linguistic difficulties
- living on government pension or welfare
- natural disaster
- mental illness
- family violence
- a history of late or missed payments

• Advice and assistance with managing energy usage, including the availability of energy audits and energy literacy training (by phone and in-house)	An increased understanding of energy use within the home empowers consumers to address their energy consumption, reducing it where possible.	How many customers were provided with energy audits over the phone? How many customers were provided with energy audits in home? How many customers received energy literacy training over the phone? How many customers received energy literacy training in home)?
• Access to smart meter data on energy consumption, and options for real-time feedback (such as IHDs ie energy orbs)	Where energy literacy training and information is also provided, real-time feedback on energy consumption can help people make more informed decisions about their energy use.	How many customers access smart meter data? How many customers are provided with an IHD or energy orb? How many customers given access to usage data and real-time feedback also received energy audits or energy literacy training?
• Utility Relief Grants (URGs)	URGs provide consumers with a valuable opportunity to substantially reduce their debt and enable them to focus on the remaining amount owing, through other mechanisms. Retailers are obliged to make these available to customers.	How many customers accessed URGs?
• Concessions	Concessions increase recipients' ability to pay for energy bills and should be provided to all eligible Victorians Retailers are obliged to provide these to customers.	How many customers are accessing concessions? How many eligible customers who weren't accessing concessions had concessions applied when engaging in Active Assistance programs?
• Other referral pathways	Additional assistance provided to customers may vary, all options should be explored.	What other referrals were made for customers?

**Intensive assistance to be provided to the most vulnerable cohorts of consumers, to enable them to retain connection to the grid. Consumers may be those experiencing complex circumstances such as; victims of natural disasters, family violence, asylum seekers, poor quality housing, and major health issues, etc. Support in this program must be tailored on an individualised basis, with the goal of moving them back into B*: Active Assistance Program* when possible.

C: Intensive Assistance

Objective: To maintain connection for the most vulnerable Victorians and work toward sustainable energy usage.

The 'pointy end' of customer assistance with the goal of making consumption is affordable, and maintaining connection to supply. Applicable where bespoke repayment arrangements made under *B: Active Assistance* have not succeeded, or issues impacting the customer's ability to pay are overwhelming. Debt repayment should be postponed until payment for ongoing usage is sustainable.

The package of assistance should include those existing aspects of 'better' practice, by those retailers who have invested in hardship practices in recent years.

C: Intensive Assistance Plan, **must** include:

Retailer obligation	**Consumer benefit of obligation**	**Compliance measure/KPI**
Fully variable tariffs, based upon the *best available offer*.	Early opportunities to place consumers on more optimal tariffs given their circumstances will contribute to a reduced likelihood of debt.	How many customers are offered a fully variable tariff, based on the best available offer?
Pay on time discounts for payment instalments made on time, and staged incentives to maintain on-time payments and prompt communication of payment difficulties. Debt waivers must be considered	Pay on time discounts incentivise consumers and provide retailers a further opportunity to engage consumers.	How many customers receive pay on time discounts and incentive payments? How many debts are waived, and how much.
Assistance needs to be more intensive, flexible and responsive	Programs need to be able to adapt as that customer's needs change. A retailer's intensive assistance plan needs to ensure that all opportunities have been provided to the consumer with the overall objective of keeping them on supply.	What additional measures have been delivered to assist vulnerable customers?
Additional efforts to reduce consumption must be delivered in this program where they have not first been provided under *B:Active Assistance Program:* • Education and energy efficiency audits and appliance replacement. • Energy literacy education programs tailored to meet the needs of the household. • Energy audit provided in the customer's home. • Where energy usage of a major appliance is excessive, appliance replacement must be considered by the retailer. • Appliance management options such as direct load control need to be explored with the consumer. • Real-time energy	Customers requiring a more targeted level when they are facing the difficulties that have led them to C: Intensive Assistance.	

information feedback, such as an orb or an in home display, must be provided to consumers.		
Where consumption is affected by housing quality, then advice must be provided to the customer along with advice on how to remedy and referral to any appropriate assistance programs. If the customer is a tenant, the issues should be raised (with the customer's consent), with their landlord or social housing provider.	The consumer has done all in their power to manage consumption and pay their energy bills. External factors such as housing quality are outside of the customer's control and should be raised with relevant parties, with the retailer advocating on their behalf.	
Referral to support agencies and legal services to be actively facilitated in severe cases of vulnerability.	Essential support is made available to these vulnerable consumers	
Intergovernmental response – triggers in place to initiate a social policy response for those consumers who need assistance outside of energy regulations.	Social policy response to broader affordability concerns.	

D: Payment Plan One

Objective: To help customers with whom agreement could not be reached to maintain engagement with retailers and begin paying off their debt.

Where *B: Active Assistance* has not commenced or succeeded due to agreement not being reached, retailers are required to offer the prescribed Payment Plan One where the unpaid bill is repaid in periodic payments (e.g. fortnightly, aligned to the customer's pay days) over two billing periods. **Customers cannot be disconnected until two codified payment plans have been offered to the customer and not completed.**

Retailer obligation	**Consumer benefit of obligation**	**Compliance measure/KPI**
The retailer is obliged to automatically place consumers onto a prescriptive payment plan (such as *Payment Plan One*) as provided in the Commission's framework.	Facilitation of consumer debt repayment commences.	How many customers are placed on PP1?
Periodic payments beginning at the next available opportunity, eg pay cycle should be used in preference to deferred payments, to ensure ongoing engagement with the consumer, and that payment patterns are maintained	Ongoing payment means that consumers remain engaged with retailers, rather than losing visibility with the retailer and incentive to remain engaged.	How many customers are making part payments?

Any offer of deferred payment needs to be accompanied by a conversation / warning about financial implications.	Customers, especially those, on fixed or low incomes, need to understand that deferred payment is unlikely to benefit them.	How many customers are on deferred payment arrangements?
Retailers must ask customers if meeting the regular payments is achievable and offer Payment Plan Two instead if appropriate. There's no point putting a customer on Payment Plan One if it is likely they will fail to make payments.	Failure to consider the customer's reported ability to pay increases the likelihood the customer will fail the payment arrangements determined by the retailer.	What measures are used to consider the customer's reported ability to pay?
Retailers should consider whether offering a fully variable tariff based on the best available offer will assist.	Early opportunities to place consumers on more optimal tariffs given their circumstances will contribute to a reduced likelihood of debt.	How many customers are offered a fully variable tariff, based on the best available offer?
Retailers must give pay on time discounts for payment instalments made on time.	Pay on time discounts incentivise consumers and provide retailers a further opportunity to engage consumers.	How many customers receive pay on time discounts?
Customers cannot transfer when they have a debt.	Consumers are more likely to benefit from the relationship they have developed with their retailer when they have accumulated a debt, provided that the retailer is providing all possible opportunities to reduce that debt.	How many customers have attempted to switch retailers while having a debt with the retailer?
Advice and assistance with managing energy usage should be given, including the availability of energy audits and energy literacy training (by phone and in-house) and an offer of giving real-time feedback on energy use via a device such as an IHD or energy orb.	An increased understanding of energy use within the home empowers consumers to address their energy consumption, reducing it where possible.	How many customers were provided with energy audits over the phone? How many customers were provided with energy audits in home? How many customers received energy literacy training over the phone? How many customers received energy literacy training in home?

Where possible questions[21] should be asked by the retailer that would indicate if more tailored assistance is necessary, and *B: Active Assistance* should be offered. An indication of complex issues[22], requires immediate referral to *C: Intensive Assistance.*

Failure to meet the obligations of *Payment Plan Two*, would result in immediate referral to *B: Active Assistance*. If the customer will not engage, the retailer should put the customer on *Payment Plan Two*.

[21] ibid
[22] ibid

E: Payment Plan Two

Objective: To help customers with whom agreement could not be reached to maintain engagement with retailers and continue paying off their debt.

Where *D: Payment Plan One* has not succeeded or is not appropriate, retailers must offer the prescribed Payment Plan Two where the unpaid bill is repaid in periodic payments (e.g. fortnightly, aligned to the customer's pay days) over five billing periods. **Customers cannot be disconnected until two codified payment plans have been offered to the customer and not completed.** If Payment Plan One has not been attempted due to capacity to pay, a second payment Plan two should be offered if the first one fails, with smaller periodic payments over a longer period.

Retailer obligation	Consumer benefit of obligation	Compliance measure/KPI
The retailer is obliged to automatically place consumers onto a prescriptive payment plan (such as *Payment Plan Two)* as provided in the Commission's framework.	Facilitation of consumer debt repayment commences.	How many customers are on PP2?
Periodic payments beginning at the next available opportunity, eg pay cycle should be used in preference to deferred payments, to ensure ongoing engagement with the consumer, and that payment patterns are maintained	Ongoing payment means that consumers remain engaged with retailers, rather than losing visibility with the retailer and incentive to remain engaged.	How many customers are making part payments?
Any offer of deferred payment needs to be accompanied by a conversation / warning about financial implications.	Customers, especially those, on fixed or low incomes, need to understand that deferred payment is unlikely to benefit them.	How many customers are on deferred payment arrangements?
Retailers must ask customers if meeting the regular payments is achievable and offer *Active* or *Intensive Assistance* if more appropriate. There's no point putting a customer on Payment Plan Two if it is likely they will fail to make payments.	Failure to consider the customer's reported ability to pay increases the likelihood the customer will fail the payment arrangements determined by the retailer.	What measures are used to consider the customer's reported ability to pay?
Retailers should consider whether offering a fully variable tariff, based on the best available offer, will assist.	Early opportunities to place consumers on more optimal tariffs given their circumstances will contribute to a reduced likelihood of debt.	How many customers are offered a fully variable tariff, based on the best available offer?
Retailers must give pay on time discounts for payment instalments made on time.	Pay on time discounts incentivise consumers and provide retailers a further opportunity to engage consumers.	How many customers receive pay on time discounts?

Customers cannot transfer when they have a debt.	Consumers are more likely to benefit from the relationship they have developed with their retailer when they have accumulated a debt, provided that the retailer is providing all possible opportunities to reduce that debt.	How many customers have attempted to switch retailers while having a debt with the retailer?
Advice and assistance with managing energy usage should be given, including the availability of energy audits and energy literacy training (by phone and in-house) and an offer of giving real-time feedback on energy use via a device such as an IHD or an energy orb.	An increased understanding of energy use within the home empowers consumers to address their energy consumption, reducing it where possible.	How many customers were provided with energy audits over the phone? How many customers were provided with energy audits in home? How many customers received energy literacy training over the phone? How many customers received energy literacy training in home?

Where possible questions[23] should be asked by the retailer that would indicate if more tailored assistance is necessary. An indication of complex issues[24], requires immediate referral to C: *Intensive Assistance.*

Failure to meet the obligations of *Payment Plan Two* would result in immediate referral to *C: Intensive Assistance* Plan. If the customer will not engage and this is the second failed codified payment plan, a disconnection warning may be issued.

F: Improved disconnection process

Disconnection should only be pursued where consumers have genuinely not engaged. As long as a customer is engaging with the retailer, disconnection should not occur. In addition to the changes we have proposed to the framework above, it is critical that the Commission revise the framework in relation to disconnections.

The impact of disconnections on consumers is significant and cannot be understated and the protections for consumers are crucial. CUAC's regulatory report[25] published earlier this year highlighted the reduction in consumer protections (including the disconnection provisions) that arose with the replacement of the previous Energy Retail Code (v.10a) with the current Energy Retail Code (v.11). On the basis of CUAC's research findings,[26] we recommend that the ESC:

[23] ibid
[24] ibid
[25] Consumer Utilities Advocacy Centre (May 2015), *CUAC Regulatory Review: A Critical Review of Key Consumer Protections in Victoria (vol.1)*; *A Comparative Analysis of Key Consumer Protections in Victoria (vol. 2)*
[26] Ibid 16-17 (vol.1); 15-28 (vol.2)

1. Review the disconnection provisions in the Energy Retail Code (v.11) to ensure that they are relevant to current market conditions.

2. Review and tighten the diminished disconnection provisions under the Energy Retail Code (v. 11). In particular to:
   a. Ensure that all the disconnection provisions in the Energy Retail Code (v.11), which are key consumer protections, apply to market retail contracts (currently this is unclear because of inconsistent drafting); and
   b. Amend the timeframes and notification requirements between the issue of a bill and actual disconnection for all the disconnection scenarios outlined in the Energy Retail Code (v.11), so that they are not lower than the previous Energy Retail Code (v.10a).

3. For dual fuels, to include in the Energy Retail Code (v.11), the previous Energy Retail Code (v.10a) requirements on dual fuel, including:
   a. A statement with the disconnection warning notice advising customers when their gas and electricity supply will be disconnected; and
   b. A further disconnection warning notice before the customer's electricity supply is disconnected.

4. For shortened collection cycles, to include in the Energy Retail Code (v.11), the previous Energy Retail Code (v.10a) provisions on shortened collection cycles, with a view to maintaining the same:
   a. Notification requirements before a customer can be placed on a shortened collection cycle; and
   b. Timeframes between the issue of a bill and actual disconnection (this should apply to both standard retail contracts and market retail contracts

5. Amend the Harmonised Code (v.11) to ensure that the connection and reconnection timeframes apply to both standard retail contracts and market retail contracts.

We recommend strengthening the disconnection process and the 'Operating Procedure Compensation on Wrongful Disconnection' to include a requirement for face-to-face contact between a consumer and retailer/distribution business before disconnection. The failure of the full context of a consumer's circumstances being considered prior to disconnection is impacting upon the most vulnerable members of our community, where the inability to access energy can have dire consequences. Further, the introduction of the remote disconnection function of smart meters speeds up the disconnection process as the distribution business no longer needs to physically visit the property.

In addition, we support Consumer Action Law Centre's recommendation in their report Heat or Eat: Households should not be forced to decide whether they heat or eat, to have the decision to disconnect someone taken out of the hands of retailers, and made instead by an independent arbiter who can provide the necessary oversight for such a significant action.27 Our recommendations will complement the amendments made in the Consumer Protection Bill to increase the wrongful disconnection payment to $500 and the introduction of a $5,000 penalty, and hopefully significantly reduce the disconnection rate.

According to the draft report (p110), reconnections are through 'EWOV or another registered third party.' It is unclear if consumers or financial counsellors/other support services acting

[27] Consumer Action Law Centre (Aug 2015), *Heat or Heat: Households should not be forced to decide whether they heat or eat*, p47.

on their behalf are able to facilitate their own reconnection. We ask the Commission to clarify this in their final report. In addition, it is important that consumers understand what the various pathways to reconnection are. Energy retailers should communicate this information to consumers especially at the time of disconnection to facilitate a smoother and quicker reconnection.

Appendix 2:

Joint consumer submission to EWON prepayment meter discussion paper

August 2014

We support joint work by consumer groups, ombudsmen, government, the energy industry and others in the community to reduce disconnections, minimise customer debt, and improve affordability. This submission critiques the use of prepayment metering in pursuing these goals and proposes alternatives.

Prepayment meters (PPMs) are often proposed as a solution to energy affordability for low-income households. We oppose PPMs because they harm vulnerable customers. PPMs:

- do not solve the problem they are supposed to
- offer nothing to vulnerable consumers that cannot be delivered by other means
- cannot provide all the elements of the customer protection framework

PPMs, by constraining consumers' choices, can limit their access to the full range of energy products and prices. In Victoria, all consumers, including low-income households, have paid for smart meters to give them these choices; and they should get the benefit of their investment. PPMs exclude people from the mainstream market, creating a second class of consumers. This runs counter to government objectives for energy market policy, which is predicated on all households being able to participate in the energy market equally, by choosing products, tariffs, and service levels appropriate to their needs.

PPMs give people a poorer service, and often encourage them to restrict energy use at the expense of their health and well-being.

PPMs undermine the fundamental principle that no one should be disconnected from supply because of an inability to pay. Indeed, the euphemistic term 'self-disconnection,' implies that a free choice to go off supply has been exercised by the householder.

This submission expands on these points by defining 'prepayment metering', identifying the problems purported to be solved and actually solved by prepayment metering, and analysing the ostensible advantages and disadvantages of prepayment metering as outlined in the discussion paper.

Some consumer advocates and community service workers support PPMs because of the way they prevent vulnerable households from accumulating energy debts – however there is little recognition of their impact on levels of other types of household debt. Some households with PPMs like them for a similar reason – however when asked about it, their answers (see below) reveal lowered expectations that point to a fundamental level of disadvantage that runs counter to community expectations for a basic standard of living[28].

Defining prepayment metering

Our concerns are not with prepayment *per se*, a useful tool in a suite of measures to help low-income consumers manage energy bill payment. Neither are we referring to a specific type of meter, as prepayment metering can be implemented using different types of metering and communications technology. Our specific concerns relate to:

- involuntary prepayment, whereby households are required at all time to pre-pay for energy in order to have it supplied
- automatic disconnection, in which the energy supply is disconnected when credit runs out
- lack of access to support services, such as payment plans and so on, for customers experiencing hardship or payment difficulty

The problem(s) solved by prepayment metering

Proponents of prepayment metering often say that it helps households manage their expenditure, avoid bill shock, and avoid running up debt. This is all true. What it *doesn't* solve is the problem of households not having a reliable, sufficient supply of energy to meet their needs.

Yes, unaffordable payments and energy bill related debt are problems. But these are just factors or symptoms of the fundamental problem of low-income households not having reliable access to sufficient energy – the social problem advocates for vulnerable consumers are ultimately concerned with. Prepayment metering solves the debt problem but not the energy problem. Thus it ultimately solves problems for energy retailers, not their customers. We therefore disagree with any notion that prepayment meters are one of the options available to address energy affordability.

[28] Note also that some research (Bushlight Centre for Appropriate Technology, *Prepayment Meters and Energy Efficiency in Indigenous Households*, 2013) shows that support for prepayment metering by households in remote Aboriginal communities (and documented harm from a switch to post-payment billing) is almost exclusively among those who have had no prior experience of post-payment.

Put another way: if a customer solves their energy affordability problem by under-consuming, they still have a problem.

Advantages and disadvantages

The EWON discussion paper lists advantages and disadvantages of prepayment metering. But all the advantages can be delivered without prepayment metering, thus avoiding all of the disadvantages – some of which cause considerable harm.

Advantages

A 1. Facilitating effective budgeting

> *1.1. It can be a useful way for customers to budget, including those customers on a low income. Customers can pay smaller amounts as they go, rather than having to pay a much larger amount for the previous 3 months usage within 10 days of receiving the bill.*
>
> *1.2. Many customers on low incomes are already familiar with budgeting in advance of receiving their quarterly bill, by the use of regular Centrepay deductions.*

There are already sufficient ways for customers to better budget for energy bills without resorting to PPMs and self-disconnection:

- Bill smoothing with more regular payments (including Centrepay deductions)
- Monthly or fortnightly billing (possible with remotely-read smart meters – no less feasible to install than remote-switchable prepayment-capable meters)
- Allowing customers to prepay at will, for credit against their account
- Offering prepayment discounts to encourage customers to keep their accounts in credit

Requiring retailers to offer these payment options yields the same benefit without the potential harm of prepayment metering.

Recent UK research found that PPMs are not actually an effective budgeting tool:

> *The constant necessity to top up their card or key can have a profound effect on the ability of low income PPM users to cover other household expenditure and service outstanding loan and debt repayments.*
>
> *Continually having to find the money to put in the meter, sometimes two or three times a week, clearly has a detrimental effect on the ability of PPM users to survive on a day-to-day basis let alone plan for the future. With increases in fuel costs in the pipeline, the stark reality facing the majority of our householders is whether they pay for food or fuel, live in a cold home and eat, or put the heating on and face eviction.* [29]

A 2. Delivering timely consumption feedback

> *2.1. Customers receive feedback as to their energy usage, in close to real time, and can try to adjust their consumption accordingly. Customers generally come to understand their household usage within a short time through using a PPM.*

[29] Stratford-upon-Avon and District Citizens Advice Bureau, *Left Out in the Cold: Why Prepayment Meter Users Need a Better Deal*, Legal Advice Warwickshire Social Policy Group and Consumer Empowerment Partnership, 2013, pp. 13–14

Both direct (e.g. ‘real-time’ data provided by in-home energy displays or periodic SMSes or emails showing daily or weekly expenditure) or indirect (e.g. informational billing) feedback give the same or better consumption feedback, and help consumers achieve household energy reductions, without the punitive disconnections of PPMs. In-home displays can be hooked up to most meter types, including non-remotely read and accumulation digital meters and even analogue accumulation meters. SMSes or emails require remotely-read meters, which are no less feasible to install than remote-switchable prepayment-capable meters. Home energy usage can also be understood via an in-home energy audit.

The problem confronting households with high usage is that often there is much that cannot be done due to inefficient appliances or poor quality housing. This is especially the case with low income consumers in public or private rental. Solving this problem requires more than encouraging the occupants to ‘self disconnect’.

A 3. Sharing the energy cost burden more fairly

3.1. For shared households it provides a fairer and easier way for all to contribute, rather than having a quarterly account in just one person's name.

3.2. For households where there are short term visitors, it can provide an easier way for all to contribute rather than the increased energy costs being borne by the account holder at the end of the billing period.

Prepayment metering does not make it any fairer or easier for shared households to all contribute than traditional metering. It *does* remove the problem of one person being legally liable for debt incurred by others, but this could equally be addressed by returning to the practice of being able to have utility bills in multiple names with shared liability.

The problem of visitors not contributing is a cultural or psychological issue in certain vulnerable communities that needs to be recognised, but can also be addressed in a number of ways (for example, through community development programs, education, and direct case management). It is not a significant enough statewide or nationwide issue to justify a mass rollout of prepayment metering to vulnerable households.

A 4. Preventing arrears, credit action and high reconnection costs

4.1. Customers cannot build up high arrears, which then prove difficult to pay, and can result in debt collection action and a credit default listing.

More regular billing, early identification of people experiencing payment difficulties, and a proactive hardship response by energy retailers could also prevent the build-up of high arrears, especially with remotely-read meters. A better approach to working with hardship customers with debts – especially one in conjunction with other community services and, ideally, government-funded assistance programs designed to help low-income households with utility debts – can limit or eliminate debt collection action and associated problems. Increasing arrears for customers in hardship points to the failures in identifying and engaging with customers early on in the process, and a lack of financial support and energy efficiency assistance for households who need it.

Significantly, while PPM customers may not face the same financial hardship that large unpaid bills and arrears cause, they generally face higher energy prices and more frequent disconnections than to conventional account customers.[30]

> *4.2. In the case of disconnection, customers can be back on supply for a small amount of money. This contrasts to the much higher requirements for customers who have accumulated high arrears on a post-pay account.*

Better hardship programs aimed at keeping customers on supply and working to address debt and payment issues would not put impossible barriers in front of low-income people struggling with energy affordability. This can be done through retailer policies or, if required, government regulation.

> *4.3. Customers can repay debt, by agreeing to a certain percentage of each top up being applied to a debt*

This appears to contradict Rule 133 of the NERR which prohibits a retailer from recovering 'any repayments of the debt under a prepayment market retail contract or under any other contract or agreement that adjusts the charges in the prepayment meter system to recover the amount of the debt' unless the debt arises from rule 137s (undercharging) or 138 (illegal use). This is presumably because debt repayments would reduce the amount of money available for current usage, meaning that more money must be found for the PPM to avoid 'self-disconnection'.

But even if this rule was changed to further reduce prepayment customers' energy affordability by allowing debt recovery through PPMs, there is no advantage over conventional billing: customers can already repay debt via payment arrangements.

> *4.4. Customers avoid additional fees associated with late payment, disconnection and reconnection. However, some jurisdictions have a range of other fees associated with PPMs e.g. billing enquiry fee, card recharge fee, card replacement fee.*

Retailers could refrain from subjecting customers experiencing hardship to punitive fees; or governments could regulate to prohibit them (as in Victoria).

However the cost of reconnection may in fact not be negligible for PPM customers. Research in the UK found that:

> *The constant drain on limited financial resources incurred by moving on to Emergency Credit, combined with the repayment of missed deductions and current Standing charges, results in a high price being paid for reconnection. For low income and vulnerable households the reduced amount available for fuel costs is likely to result in a move back on to Emergency Credit within days and the repetition of meter debt accruing.*[31]

While an Australian implementation will differ in some ways from the UK system, the cost of reconnection for PPM users may still be high if the they have used emergency credit that must be repaid, if standing charges have accumulated while the customer was off supply, or if part of the

[30] Bushlight Centre for Appropriate Technology, *Prepayment Meters and Energy Efficiency in Indigenous Households*, 2013, p 14.

[31] Stratford-upon-Avon and District Citizens Advice Bureau, *Left Out in the Cold: Why Prepayment Meter Users Need a Better Deal*, Legal Advice Warwickshire Social Policy Group and Consumer Empowerment Partnership, 2013, p. 9

top-up is applied to existing arrears (we have questioned whether this is allowed in our response to paragraph 4.3).

> *4.5. No credit check is required for PPMs, so customers with a poor credit history are not prevented from opening an energy account.*

Customers with a poor credit history could be placed on a shorter billing cycle, as is currently the case in Victoria, or bill-smoothing with frequent payments.

Disadvantages

D 1. Causing disadvantage from disconnection

> *1.1. Customers who lose supply when they cannot afford to buy credit may experience personal/household disadvantage from not having their electricity supply (e.g., food spoilage; no heating/cooling, lights, hot water etc.) until they are able to afford reconnection.*

Households losing supply is the fundamental problem we are trying to solve with the customer framework. Any change that increases the risk or incidence of loss of supply is untenable if it does not offer significant offsetting advantages. We have already established that prepayment metering offers no advantages unattainable by other means.

Additionally, the threat of having their credit run out may encourage people to under-consume at the expense of their health and welfare. [32] In the UK, the close relationship between fuel poor households, cold housing and cardiovascular and respiratory diseases is widely acknowledged and has also been attributed to the exacerbation of existing conditions such as arthritis and rheumatism.[33] In Victoria, research by the Consumer Utilities Advocacy Centre (CUAC) highlighted many health, wellbeing, and safety impacts in Aboriginal households due to under-consumption of energy. For example:

- people with diabetes and asthma are more sensitive to extreme temperatures and are thus more reliant on effective cooling and heating
- some mental illnesses are exacerbated by hot temperatures
- some chronic health conditions require treatment with energy-intensive machinery or refrigerated medications (e.g. insulin)
- lack of sufficient energy for cooking and washing leads to poor nutrition and hygiene
- use of fire, propane, kerosene, or candles as alternative sources of heating, cooking and lighting leads to safety risks from fire or carbon monoxide poisoning
- stress, anxiety and depression can also result from having no energy.[34]

D 2. Reducing disconnection visibility

> *2.1. Customers who lose supply when they cannot afford to buy credit may not be visible to agencies, such as community welfare services, that may otherwise provide assistance.*

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[32] See numerous examples in Stratford-upon-Avon and District Citizens Advice Bureau, *Left Out in the Cold: Why Prepayment Meter Users Need a Better Deal*, Legal Advice Warwickshire Social Policy Group and Consumer Empowerment Partnership, 2013, and Bushlight Centre for Appropriate Technology, *Prepayment Meters and Energy Efficiency in Indigenous Households*, 2013

[33] Stratford-upon-Avon and District Citizens Advice Bureau, *Left Out in the Cold: Why Prepayment Meter Users Need a Better Deal*, Legal Advice Warwickshire Social Policy Group and Consumer Empowerment Partnership, 2013, p. 13

[34] Consumer Utilities Advocacy Centre, *Wein, Paen, Ya Ang Gim: Victorian Aboriginal Experiences of Energy and Water*, 2011, pp. 4–5.

2.2. Customers must keep checking the balance left on the meter, or risk running out of energy.

'Self-disconnecting' customers will often still be visible to agencies they seek support from. They are also likely to be visible to retailers if (as anticipated) prepayment meters remotely communicated with them. However by normalising 'self-disconnection', the value of disconnection visibility to retailers is severely diminished (notwithstanding the relevant provisions in Part 8 of the NERR, discussed below). It is also unclear whether 'self-disconnections' will be included along with conventional disconnection statistics reported by regulators such as the AER and ESCV.

The onus on customers to continually check the balance of the meter is also a significant disadvantage, likely to contribute to household stress.

D 3. Payment challenges

3.1. For some customers on low incomes, there may be some resistance to paying in advance for electricity, seeing this as a benefit for the retailer rather than for themselves.

Absolutely, and they would be right: especially if prepayment tariffs are more expensive than postpayment tariffs (as has been the case in the UK and Tasmania).

This paragraph also contains the worrying implication that customers may be forced unwillingly onto prepayment metering. This runs counter to the principle of customer choice that is fundamental to national energy market reform.

3.2. Customers without access to the internet or a mobile phone may only have limited options for making top up payments.

3.3. Where payment is by way of a charge card, access to a recharge point may not be convenient – they may not be open at all hours, and for remote and rural customers there may be costs involved in getting there.

These disadvantages are well documented in research on prepayment metering, such as the *Bushlight* and UK reports cited throughout this document. The low penetration of home Internet access, unstable or erratic credit status of mobile phones, and less access to credit cards in low-income households underscore this particular disadvantage. Emergency relief and homelessness workers report that many of their clients only have prepaid mobile phones that rarely have credit on them and can only be used for incoming calls. Remote Indigenous households are 76 per cent less likely to have internet access than non-Indigenous metropolitan households.[35] In 2012–13, 43 per cent of households earning less than $40,000 p.a. – the expected target group for PPMs – still had no internet access at home, compared to just 2 per cent of households earning over $120,000 p.a.[36] New research by CUAC also found that older persons are less likely to use the internet than typical consumers.[37]

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35 Anglicare & Australian Communications and Consumer Action Network, *Trying to Connect: Telecommunications Access and Affordability Among People experiencing Financial Hardship*, 2013.

36 Australian Bureau of Statistics, *8146.0 - Household Use of Information Technology, Australia*, 2012-13

37 Consumer Utilities Advocacy Centre, *Tariff Switching Among Older Energy Consumers*, 2014, pp. 13-14.

Where payment is by way of a charge card, the problem is compounded for older persons, people with disabilities or for rural and remote consumers, who may not be able to get to the recharge points easily and some of these recharge points may be located at a distance away.[38]

D 4. Compromising benefits of competition

> *4.1. Competitive tariffs may not be available, so customers on pre-payment meters may end up paying more for their energy.*

This is clear when looking at current examples of prepayment systems, characterised by higher fixed and volumetric charges as well as, in many cases, additional fees; and compounded by the concomitant lack of access to competitive market offices, which in Victoria can be over $900 per year cheaper than default tariffs for households with average consumption.[39]

As prepayment metering in Australia is likely to use smart meters that can also be used for conventional metering, the risk of lock-in to the extent seen in the UK and Tasmania is probably low. However since the NERR allows a number of charges to be levied for shifting from a prepayment contract to a more conventional billing arrangement (termination cost, removal/conversion cost, etc.), *de facto* lock-in to more expensive PPM contracts is still a prospect for many vulnerable households for whom these charges represent a financial barrier.

> *4.2. Customers cannot access discounts for paying on time, or by direct debit, which are available to other customers, even though the retailer has the benefit of their paying in advance for the energy.*

This exacerbates the disadvantages discussed immediately above. The fact that in addition to higher tariffs the retailer gains cashflow benefits and increased interest revenue from a prepayment system that ostensibly benefits low-income customers is a perverse outcome at odds with both policies promoting support for vulnerable energy consumers, and the growing emphasis on cost-reflectivity in energy markets.

D 5. Ensuring access to rebates, relief schemes and hardship programs

> *5.1. Government and retailers would need to adapt systems and information to ensure eligible customers have access to government assistance such as rebates, concessions or relief schemes (NERR Part 8, Rule 129 (8)).*

Systems providing for the integration of concessions into prepayment tariffs and giving appropriate access to rebates and other assistance programs are conceivable. However this would require governments' commitment to ensuring concessions flow to all who need them – and the poor performance of many governments in this area[40] does not inspire confidence.

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[38] See numerous examples in Stratford-upon-Avon and District Citizens Advice Bureau, *Left Out in the Cold: Why Prepayment Meter Users Need a Better Deal*, Legal Advice Warwickshire Social Policy Group and Consumer Empowerment Partnership, 2013, and Bushlight Centre for Appropriate Technology, *Prepayment Meters and Energy Efficiency in Indigenous Households*, 2013

[39] May Mauseth Johnston, *Victorian Energy Prices July 2014: An Update Report on the Victorian Tariff-Tracking Project*, St Vincent de Paul Society.

[40] See, for example, May Mauseth Johnston, *The Relative Value of Energy Concessions: Part 1 of the Vinnies' Concessions Project*, St Vincent de Paul Society, 2013; and May Mauseth Johnston, *The Relative Value of Energy Concessions 2009–2012: Part 2 of the Vinnies' Concessions Project*, St Vincent de Paul Society, 2013.

5.2. *Retailers would need to adapt their hardship policies and programs to be able to offer assistance to customers with PPMs experiencing financial hardship (NERR Part 8, Rule 141).*

While in theory there is nothing stopping retailers from providing hardship assistance to prepayment customers, the push for prepayment appears to position it as an alternative to hardship programs and assistance. This is particularly evident in the way that many of the so-called advantages of prepayment largely mirror features of hardship programs. If PPMs *replace* hardship programs for households, a serious diminution of the consumer protection framework will have occurred.

Significantly, however, the Bushlight report found that while there is an array of electricity hardship programs and rebates available in the Northern Territory, there is limited awareness and uptake of these programs among PPM customers. The onus is usually on the household to seek out and apply for the concession. Some of the support agencies administering the 'Stay Connected' program do not offer relief payments to PPM customers at all, and others do so at their own discretion but offer only minimal support when compared with what is offered to conventional customers with unpaid bills. Standard application processes and forms can also pose a barrier for PPM customers as they do not receive paper bills or have official account numbers.[41]

The provision in NERR Part 8 that, 'if a customer has self-disconnected for longer than 6 hours more than 3 times in a 3-month period, the retailer must contact the customer to offer replacement of the meter with a standard meter, and a referral to their hardship program'[42] is several orders of magnitude weaker than the disconnection provisions for customers with post-payment arrangements. For post-payment customers, disconnection cannot even take place once without considerable efforts by the retailer to engage with the customer (including serving reminder notices and disconnection warnings according to prescribed timeframes), offer payment arrangements and hardship assistance, and so on.

Analysing consumer support for prepayment metering

Looking closely at responses[43] to '*Does a PPM have a good or bad effect on your finances?*' by UK consumers who said it had a *good* effect paints a stark picture of a world of lowered expectations and a quality of life far below the generally accepted community standard – sacrifices made by vulnerable households in the name of affordability. The NERR and the Victorian Energy Retail Code aim to keep households with affordability problems on supply wherever possible. This ideal has clearly been abandoned for these UK customers.

> *'Don't end up with big bill to pay. Does seem very expensive, always topping up in the winter. Never really get warm.'*

> *'We can't wind up with a big bill but we are afraid to use the heating too often because of the cost. Prefer to use a duvet to keep warm'*

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[41] Bushlight Centre for Appropriate Technology, *Prepayment Meters and Energy Efficiency in Indigenous Households*, 2013, pp. 14, 32.

[42] EWON, *Prepayment Meters Discussion Paper*, 2014

[43] Stratford-upon-Avon and District Citizens Advice Bureau, *Left Out in the Cold: Why Prepayment Meter Users Need a Better Deal*, Legal Advice Warwickshire Social Policy Group and Consumer Empowerment Partnership, 2013, p. 20

Being unable to warm the home seems a high price to pay for avoiding debt. (Of course, in the UK heating is the main driver of energy usage; in Australia, it's heating in some regions, cooling in others, and both in still others.) Note that these respondents have not actually solved their affordability problem at all.

> *'I don't get a bill, I can put a little amount or more if I have the cash and I can spread it across the gas and electric which one is needed the most'*

> *'I can't get into trouble. If I haven't got enough electric to do washing or tumble drying I don't as I can see the amount I have'*

These households are forced to make a choice whether to use gas or electricity, and whether or not to wash their clothes and manchester. This is not an outcome sought by the NERR and is considerably below community expectations of a basic standard of living.

> *'It prevents me having a big bill I would be unable to pay'*

> *'I can work out where my money is going every week. Better than having it taken from my bank account'*

> *'Do not get a bill to pay after 3 months'*

> *'No big bill'*

These respondents have not disclosed the cost of their avoidance of debt and bill shock. However we know that their tariff is higher than post-pay tariffs[44], so the least we can say is that their debt problem has been solved at the expense of their affordability problem. We don't know how much their more expensive energy has led to decreased standard of living, and how much has led to increased debt for other household necessities.

Conclusion

We support joint work by governments, energy businesses, regulators, ombudsmen, and consumer organisations to address the difficult problem of maintaining access to a sufficient supply of energy to sustain vulnerable households at an appropriate standard of living. Understanding the complexity of affordability problems, and rethinking approaches to billing, payment, and debt are absolutely critical. However disconnection of supply is an extreme sanction that should be avoided wherever possible; so instituting special arrangements for vulnerable customers whereby disconnection is the first rather than last response to payment difficulty is unacceptable.

For more information or to discuss any aspects of this submission further, please contact Dean Lombard, Senior Policy Advisor, Victorian Council of Social Service at dean.lombard@vcoss.org.au, or on (03) 9235 1031.

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[44] Stratford-upon-Avon and District Citizens Advice Bureau, *Left Out in the Cold: Why Prepayment Meter Users Need a Better Deal*, Legal Advice Warwickshire Social Policy Group and Consumer Empowerment Partnership, 2013, p. 3

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