

26 February 2008

Utility Hardship  
Office of Energy  
Level 9  
197 St Georges Terrace  
PERTH WA  
Email: [utilityhardship@energy.wa.gov.au](mailto:utilityhardship@energy.wa.gov.au)

Dear Sir/Madam

**UTILITIES ESSENTIAL SERVICES HARDSHIP PUBLIC ISSUES DISCUSSION PAPER.**

The Energy Retailer's Association of Australia (ERAA) welcomes this opportunity to provide comment on the *Utilities Essential Services Hardship Public Issues Discussion Paper*.

Our comments on the paper are as follows:

***Hardship is a shared responsibility***

The ERAA believes that the implementation of hardship customer frameworks is a mutual social obligation, shared between customers, energy industry, Governments and the broader community.

It is not the role of energy retailers, who provide a commercial service, to fund nor deliver Government social policy.

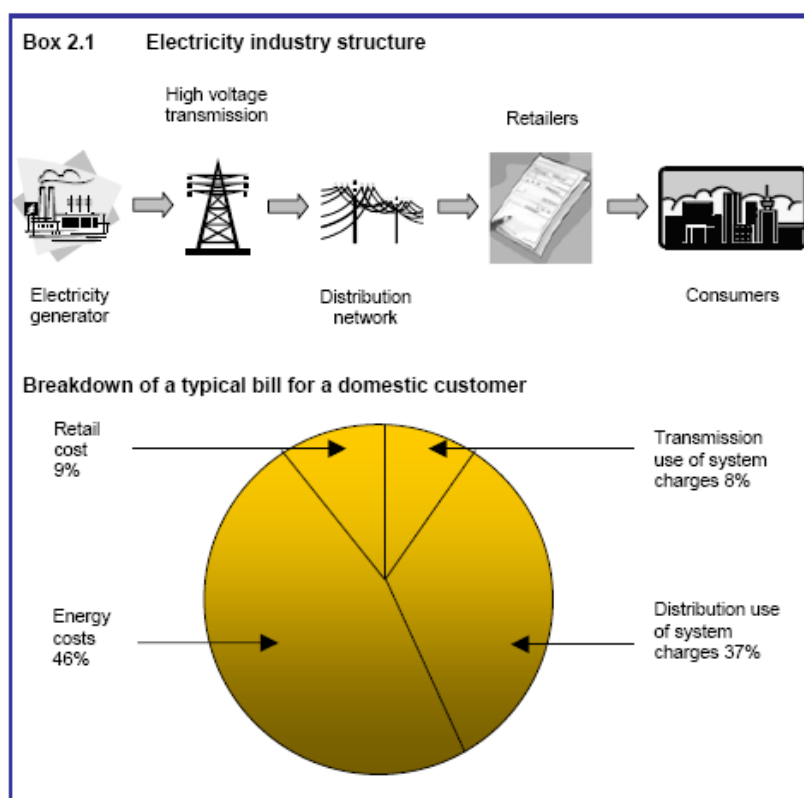
There must be rights and obligations on all parties that are equitable, transparent, administratively simple, economically efficient, competitively neutral and that provide regulatory certainty.

The respective roles of customers, the energy industry, Government and the broader community are as follows:

- Customer – Receives energy and is obliged to pay their bill. Customers are also responsible for self-identifying payment/hardship difficulties and early referral to retailers for advice or assistance.
- Energy retailers – provide support to customers in genuine temporary financial hardship by providing reasonable payment plans, referral of customers to other available sources of help, and advice on energy efficiency (via hardship policies and programs). This support may also include administration and promotion of Government support programs.

- State and Federal Government – Determine social policy and establish agencies and arrangements to fund and implement these policies. Governments are responsible for the administration and funding of support programs for customers in permanent hardship, and also provide financial support to low-income earners through pensions and allowances.
- Community – Shares the responsibility for seeking to ensure a fair and equitable society. Community organisations play an important role in identifying customer groups and individuals who are susceptible to genuine financial hardship, referring customers to available sources for help, and participating in social policy forums to assist Governments to develop appropriate policy.

## Funding hardship programs



Breakdown of a typical bill for a domestic customer<sup>1</sup>

The above diagram shows the vast majority of a domestic customer's bill comprises of costs largely outside the control of a retailer. Therefore, the ability of a retailer to fund hardship programs is limited.

Retailers should not be obliged to fund hardship programs as this is counter to the operation of effective markets characterised by cost reflectivity and removal of cross subsidies. Assistance programs should be directly funded by Government and be available to eligible customers irrespective of retailer. Retailers play an important role in supporting and promoting, and in some cases administering, Government programs.

<sup>1</sup> Independent Competition and Regulatory Commission, Issues paper: Investigation into prices for electricity services in the ACT, (Canberra 2003),p.14.

Customers in permanent hardship, who are assisted under community service obligations, need direct and transparent payments that do not distort the operation of a competitive market or result in excluding this class of customers from potential benefits of competition. Government should fund community service obligations through income support, rebates and concessions.

Government funded utility relief grants in Eastern States have been successful in reducing the number of customer disconnections. The ERAA strongly recommends the Western Australian Government establishes a Government funded utility relief scheme, so that Western Australian electricity customers can receive similar levels of assistance to those offered to customers in other Australian States.

## Hardship Regulation

Regulation should be imposed when demonstrable evidence exists that industry measures are clearly not working to assist hardship customers and that the benefits of regulation outweigh the costs.

Hardship regulation should be focussed on outcomes in order for retailers to develop innovative and flexible solutions to meet their customer needs. Failure to do so will result in unnecessary regulatory costs, which will be borne by all customers and ultimately perceived as a barrier to retail competition. The ERAA supports the approach taken by the NSW Minister for Energy whereby retailers were requested to develop, implement and publish a voluntary charter for residential customers facing hardship. The Code of Conduct establishes the minimum service standard for the sale of electricity by retailers to small customers. Many of these provisions already support hardship customers such as the billing collection cycle, disconnection process, and the provision of payment plans. A retailer's hardship policy is an extension of services to these minimum standards and retailers and customers will benefit from allowing a flexible approach to the development of these hardship services.

On this matter, the Productivity Commission in its Review of Australia's Consumer Framework recently recommended:

"CoAG should instigate and oversee a review and reform program for industry specific consumer regulation that would:

- identify and repeal unnecessary regulation, with a particular focus on requirements that only apply in one or two jurisdictions;
- drawing on previous reviews and consultations with consumers and businesses, identify other areas of specific consumer regulation that apply in all or most jurisdictions, but where unnecessary divergences in requirements or lack of policy responsiveness impose significant costs on consumers and/or businesses; and
- determine how these costs would be best reduced, with explicit consideration of the case for transferring policy and regulatory enforcement responsibilities to the Australian Government and how this transfer might be best pursued."<sup>2</sup>

Regulatory certainty requires Governments to take a national, long-term approach to hardship customer policies. This includes the establishment of a regulatory framework that has well thought out objectives, which can be applied consistently across all jurisdictions.

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<sup>2</sup> Australian Government Productivity Commission "Review of Australia's Consumer Policy Framework" November 2007

## **Disconnection**

Retailers, in the provision of a commercial service, must have the ability to disconnect customers as a last resort when all other avenues of debt recovery have failed.

Retailers have strong business incentive to keep customers connected however, it is commercial reality that some customers will inevitably be unable to pay their energy bill, despite a range of retail programs and assistance measures designed to keep them connected. In situations where all assistance from retailers has been exhausted, Government funded programs must exist to protect those suffering extreme hardship.

The ERAA notes the Western Australian proposal that no hardship customer should be disconnected without prior referral to an independent financial counsellor. The ERAA questions the workability of such an arrangement.

In order to perform the role, financial counsellors will need to be adequately resourced by the Government. Further, a regulatory framework is necessary to support the requirement including a time limit in which disconnection can still occur in the absence of financial counsellor consultation in order to protect a retailer's financial exposure from undue delays in customers receiving financial counsellor advice.

## **Pre-payment meters**

The ERAA understands the use of pre-payment meters in Western Australia is severely limited. Both hardship and non-hardship customers alike are currently denied the choice.

While the ERAA recognises that some hardship customers may find pre-payment meters helpful in managing their finances, the ERAA does not support them being mandatorily imposed to address issues of hardship.

One form of prepayment metering has been successfully implemented in the Tasmanian, and South Australian markets, where the meters are a product of choice.

Prepayment solutions are a very real and potentially popular payment option for a number of consumers and prepayment solutions change the current concept of purchasing energy. Consumers pay for energy as they use it, which provides a greater level of control, as they can see at any time how much energy they are using and what it is costing.

In Tasmania the product continues to receive high levels of satisfaction from the local retailer, customers, and local consumer groups, and this clearly demonstrates that if prepayment meters are implemented in an orderly fashion with sufficient safeguards it has the potential to deliver very real innovation into the energy market.

Much of the concern expressed to date has surrounded the issue of the impact of prepaid metering on vulnerable customers, and the ERAA has developed a set of key principles which we believe support the introduction of prepayment in any jurisdiction, these are;

- Prepayment solutions must not be imposed onto any customer, and must be a product of choice - it is simply another payment option,
- Prepayment solutions should not be limited to any particular type or class of

- customer, or demographic groups, and
- Customers should be able to easily revert to standard metering & billing arrangements (allowing for reasonable recovery of costs).

The ERAA urges the Western Australian Government to provide policy clarification as to the future ability of retailers to offer pre-payment meters to any customer, including hardship customers, who elect to use one, and would encourage the Government to examine the Prepayment Codes that already exist in Tasmania, South Australia, and the ACT as models that would provide guidance.

Should you require any further information in relation to this matter please feel free to contact me on (02) 9437 6180.

Yours sincerely

*[Transmitted Electronically]*

Cameron O'Reilly  
Executive Director  
**Energy Retailers Association of Australia**