# Electricity Reform in Victoria: Outcomes for Consumers

**Consumer Law Consumer Law Centre Victoria**

**Centre for the Study of Privatisation & Public Accountability**

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First, we wish to thank the organisations that participated in the stakeholder interviews, including the Energy and Water Ombudsman Victoria, the Essential Services Commission of Victoria, the Productivity Commission, financial counsellors, consumer advocacy and social welfare organisations and members of the electricity industry. The interviews provided a qualitative perspective to the analysis undertaken in this report and significant insight into the outcomes of a contestable market from the consumer perspective.

Second, we thank the Victorian households who participated in the consumer interviews and the Wallis Consulting Group for assisting with the interviews and collecting and collating qualitative data of the consumer experience of electricity reform.

Finally, the authors wish to thank their colleagues at the CLCV and the PPAC for their support, guidance and assistance in undertaking this report.

February 2006

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# Executive Summary

In June 2003, the Consumer Law Centre Victoria together with the Centre for the Study of Privatisation and Public Accountability, Monash University obtained funding from the Consumer Utilities Advocacy Centre to undertake a joint research project examining consumer outcomes from electricity market reform.

The objective of this joint research project was to test the rhetoric and assumptions underpinning electricity market reform; namely, that reform has delivered improved services, lower prices, greater access and improved public accountability for all Victorian electricity consumers. In short, the project aimed to assess the extent to which beneficial outcomes for Victorian consumers have resulted from reform.

As part of the overall analysis, the project also sought to assess the extent to which any beneficial outcomes have been distributed amongst consumers, including low-income and disadvantaged consumers and rural and regional consumers.

The results and findings of the research are presented in this report. Where distributional issues are identified, in the sense that there are clear winners and clear losers from reform, or it is found that consumer benefits have not been maximised, the project discusses how those findings impact on future regulatory activities. Overall, the project makes broad recommendations for ensuring that consumers do accrue the benefits of reform, including low-income and disadvantaged consumers and rural and regional consumers.

In the paragraphs below a summary of the central findings of the project is set out.

**Price**

The price benefits associated with the reforms to the Victorian electricity industry, including the introduction of full retail competition, have not been equitably distributed across all consumer groups, with domestic consumers experiencing only a slight decrease in real electricity prices as compared to industrial consumers. In addition, data from each of the Productivity Commission, the Energy Supply Association of Australia and the Essential Services Commission of Victoria (**ESC**) indicates that where price savings to domestic consumers have been realised, the benefits have generally gone to higher volume business consumers and metropolitan consumers, in preference to low-volume and rural and regional consumers.

In addition, where market contracts are concerned, the project found that despite the appearance of much price data on consumption, there is little reliable consumer price data under new competitive market contract arrangements. Overall, it is recommended that more work is necessary to determine the degree to which competition is currently resulting in lower prices to market participants, particularly for low-income consumers.

**Access**

In terms of the physical access to electricity networks across Victoria, the project found that not much has changed. In particular, the perceived potential for a negative outcome which may have resulted from a privatised and deregulated market – that network expansion would not continue, in the absence of commercial viability – has not

been realised. Primarily, this is the result of a robust regulatory framework that has ensured the continued expansion of networks throughout Victoria.

Victoria's disconnection figures over the past two decades are a contentious issue. Recent disconnection figures appear to be at a level which existed around 1995-1998. From the perspective of low-income and vulnerable consumers, however, a disappointing aspect of reform (aside from the privatisation induced spike through the 1990s) has been the inability to curb rising disconnection levels over the last five years. Pleasingly, in recent months, there does appear to have been a fall in disconnection numbers, no doubt largely due to the Victorian Government's introduction of the wrongful disconnection payment in December 2004.

As part of the analysis of access outcomes, the project also looked at the broader issue of access to market offers in a competitive energy market. In particular, significant distributional issues in terms of which consumers are able to access the benefits of electricity market contracts were identified. The project found that low-user and rural and regional consumers are at a relative disadvantage in their ability to access market offers and to exercise choice between competing energy suppliers.

**Quality**

The analysis of quality outcomes found that on most quality of electricity supply measures, reform has resulted in improvements for consumers. However, this was not the case with all quality measures, for example, in the area of momentary interruptions, quality has declined. It was also found that benefits were not uniform across all consumer groups, and some consumer groups, particularly those consumers in rural and regional areas, had not received the same degree of quality improvements as their metropolitan counterparts.

As part of the analysis, the quality of customer service was also assessed. On this measure it was found that overall, reform has resulted in benefits for consumers. Notwithstanding, it was found that the competitive market has also created some new problems for consumers in the customer service area, particularly with regard to misleading and deceptive conduct in the marketing of energy contracts to consumers.

**Accountability**

The analysis of public accountability following reform indicated that the establishment of a cross-industry independent economic regulator, the ESC, as well as an industry-funded dispute resolution scheme, the Energy and Water Ombudsman (Victoria), had underpinned the consumer accountability gains throughout the reformed Victorian marketplace. Overall, Victorian consumers have benefited from enhanced public accountability mechanisms, as a consequence of market reform.

Notwithstanding these improvements, the report recommends that further work is necessary to enhance the role of stakeholder consultation within regulatory decision-making. In addition, the accountability arrangements of the ESC is an issue which needs to be examined in greater detail to ensure that reform continues to bring positive benefits for consumers.

# Abbreviations

| | |
|---|---|
| **ABS** | Australian Bureau of Statistics |
| **ACCC** | Australian Competition and Consumer Commission |
| **CFA** | Consumers' Federation of Australia |
| **CLCV** | Consumer Law Centre Victoria |
| **CSO** | Community Service Obligation |
| **COAG** | Council of Australian Governments |
| **CUAC** | Consumer Utilities Advocacy Centre |
| **ESC** | Essential Services Commission (Victoria) |
| **EWOV** | Energy and Water Ombudsman (Victoria) |
| **FCRC** | Financial and Consumer Rights Council Inc |
| **FRC** | Full Retail Competition |
| **GST** | Goods and Services Tax |
| **GW** | Gigawatt |
| **GWh** | Gigawatt-hour |
| **KW** | Kilowatt |
| **KWh** | Kilowatt-hour |
| **IPA** | Institute of Public Affairs |
| **MW** | Megawatt |
| **MWh** | Megawatt-hour |
| **NECA** | National Electricity Code Administrator |
| **NEM** | National Electricity Market (Australia) |
| **NEMMCO** | National Electricity Market Management Company Limited |
| **OFGEM** | Office of Gas and Electricity Markets (UK) |
| **ORG** | Victorian Office of the Regulator-General |
| **PC** | Productivity Commission |
| **PPAC** | Centre for the Study of Privatisation and Public Accountability |
| **SECA** | Sustainable Energy Authority |
| **SECV** | State Electricity Commission of Victoria |
| **UK** | United Kingdom |
| **US(A)** | United States of America |
| **VCOSS** | Victorian Council of Social Services |

# Chapter 1: Project Aims

One of the central purposes of the reforms to the Victorian electricity market, which resulted in a privatised and competitive system for the sale of electricity, was to benefit consumers through lower prices and improved quality of service. It was assumed that with the move away from public ownership to a competitive market, all consumers would be better off.

***A research project analysing consumer outcomes***

The aim of this joint research project undertaken by the Consumer Law Centre Victoria (**CLCV**) and the Centre for the Study of Privatisation and Public Accountability, Monash University (**PPAC**), was to test the rhetoric that consumers are better off as a result of electricity market reform. The findings of the research are presented in this report.

The report asks simply, to what extent has privatisation, regulatory reform and the introduction of full retail contestability in the Victorian electricity industry resulted in improved services, lower prices, greater access for consumers and improved public accountability? In addition, the report asks, where beneficial outcomes have resulted from reform, how have those outcomes been distributed amongst consumers? Have the benefits been distributed evenly or have some consumers, such as low-income and disadvantaged consumers and rural and regional consumers missed out?

By way of background, the report first provides a review of recent reforms to the Victorian electricity industry. In Chapter Two, the stages of reform and the economic and political factors leading to change are outlined, including an examination of market segmentation in the creation of the National Electricity Market (the **NEM**).

Chapters Three to Six then discuss the findings of the various aspects or outcomes of reform - price, access, quality and accountability. Presenting findings from the existing literature, as well as qualitative data from stakeholder and consumer interviews, Chapters Three to Six aim to answer the following questions:

- To what extent has the price of electricity changed as a result of reforms to the Victorian electricity industry, and what have been the primary causes of these changes? In addition, what have been the likely economic impacts of these price changes?

- To what extent have there been improvements in terms of access to electricity services as a result of reforms to the Victorian electricity industry, and what have been the primary causes of these improvements?

- To what extent have there been improvements in the quality of electricity services as a result of reforms to the Victorian electricity industry, and what have been the primary causes of these?

- To what extent have there been improvements in terms of public accountability of the electricity market/industry as a result of reforms to the Victorian electricity industry and what have been the primary causes of these?

- How have the outcomes of market reform been distributed between consumers, in particular, low-income and disadvantaged consumers?

- What are the implications of these findings for future regulatory and policy reform and how can low-income and disadvantaged consumers operate within the current market paradigms?

Our overall conclusions and recommendations are set out in Chapter Seven. On the basis of our findings, this report argues that whilst electricity reforms in Victoria have produced some significant benefits over the past decade, many of these benefits have accrued to industry, commercial users and metropolitan consumers. Disappointingly, low-income and disadvantaged consumers have seen mixed impacts from reforms.

By providing an independent, informed and comprehensive analysis of consumer outcomes, it is intended that this report will contribute to the debate regarding the continued regulation of the Victorian electricity market. It is intended that the report will also provide a sound basis for more extensive empirical investigation on the issue of consumer benefits arising from the NEM, particularly where low-income and vulnerable and rural and regional consumers are concerned.

It is also intended that this report will strengthen the capacity of consumer advocates to participate in the setting of future energy policy agendas.

## About the authors

The report is a partnership project between the CLCV and PPAC, Monash University.

The CLCV is one of Australia's leading consumer advocacy organisations, undertaking research, policy development, advocacy and education to advance the consumer interest. The CLCV also operates a large consumer legal practice assisting thousands of low-income and vulnerable consumers each year with free legal advice and representation. The CLCV is currently working on a range of issues that affect the consumer interest, including the regulation of restructured utilities markets at both State and federal level. In particular, the CLCV is concerned to ensure that consumers, including vulnerable and low-income consumers, do not lose when it comes to the cost, provision, quality and accountability of essential utilities, including electricity.

The PPAC was established in 2001, in response to a lack of understanding of the legal and social implications of privatisation. A multi-disciplinary approach is being taken by researchers at the PPAC in examining the legal and policy aspects of privatisation, regulation and public accountability. In this way, solutions for crucial questions concerning the relationships between government and community in a privatised state are being advanced. The PPAC is self-resourcing and undertakes a range of training and research activities. Current project areas include an audit of Australia's privatised electricity arrangements, the role of independent accountability bodies such as Auditors-General in the contractualised state and the challenges posed in public-private partnerships.

Anoushka Bondar, formerly a Senior Solicitor at CLCV, together with Diana Bowman, Researcher, Monash University, are the primary authors of the report. Anoushka and Diana were supported in their research and report writing by former CLCV staff Chris Field, Anna Stewart, Nicole Rich and Natasha Leigh and Professor Graeme Hodge and David Coghill from Monash University.

## Method

In preparing this report, the CLCV and the PPAC initially conducted an examination of a range of published reports and publications that analyse market outcomes or contained data in relation to price, access, quality of service and accountability outcomes. The reports and publications included those of EWOV, the ESC, the PC and consumer advocacy and social welfare organisations.

The authors then gathered qualitative data through consultation with Victorian stakeholders, including the ESC, EWOV, the PC, consumer advocates and academics. The consultative process enabled lessons to be learned from empirical experience and case studies to be integrated into earlier findings. Qualitative data was also reviewed following the collection of direct consumer interviews conducted as part of other research projects.

Finally, the CLCV and the PPAC reviewed the economic implications of reform and determined the extent of benefits in terms of price, access, quality of service and accountability since market reform, and the distribution of those benefits amongst consumer groups.

The research design and method applied in undertaking the project was agreed through discussions between the CLCV, PPAC and CUAC, prior to its commencement. In addition, ethics approval was obtained from Monash University to enable the research project to be undertaken.

# Chapter 2: Review of Recent Reforms in Electricity

## 2.1 Introduction

The history of the electricity industry in Australia since federation is characterised by two distinct stages (Evans, 2004). The first stage, representing the period from the early years of federation until the 1970s was characterised by the evolution and rapid growth of vertically integrated, state-owned, monopoly electricity commissions. In Victoria, the State Electricity Commission of Victoria (**SECV**) was the monopoly responsible for the generation, transmission and delivery of electricity to all Victorian consumers, domestic and commercial.

The second stage, from the 1980s until today, has been characterised by rapid and extensive change. Across Australia, during the 1980s, all state-based electricity commissions were corporatised and/or commercialised to varying extents. This was followed in the 1990s by governments undertaking far-reaching microeconomic reform across the electricity sector, towards the goal of a national market for electricity under which the generation capacity of the eastern seaboard states (Victoria, Queensland and New South Wales) the Australian Capital Territory and South Australia would be interconnected. The aim of the national market was to enable future national electricity demands to be met in a more efficient and competitive manner.

## 2.2 The Victorian Reform Process

The road to the current Victorian electricity market can be traced back to the political, cultural and economic environment of the 1980s. A brief examination of the developments and reform processes within the Victorian electricity industry over the past 25 years serves as a useful backdrop for the questions posed by this report concerning recent outcomes for consumers.

***Victorian Electricity Provision in the 1980s***

From the beginning of the 20$^{th}$ century, the vertically integrated SECV was responsible for the generation, transmission and delivery of electricity to all Victorians. The success of this traditional approach, however, was challenged through the 1980s as the SECV encountered a range of problems.

The SECV's problems in the 1980s have been attributed primarily to overly optimistic assessments of future electricity demand made in the 1960s and 1970s. This problem was exaggerated by an engineering management culture that refused to acknowledge the dynamics of flat-lining electricity demand with drastic over-supply (Evans, 2004). The supremacy of the supply driven engineering approach to electricity planning began to be questioned.

Further, the SECV had large problems with debt-funded construction and difficulties with labour disputes leading to productivity inefficiencies (Kellow, 1996). In 1982, the SECV's debt stood at approximately $3.4 billion.

Seeking to remedy the problems of the SECV, including its inefficiencies, the Labor Government under John Cain introduced some limited reforms. In particular, legislative amendments under the *State Electricity Commission (Amendment) Act*

*1982* (Vic), mandated that the SECV adhere to objectives of efficiency, economy, safety and reliability as determined by the Minister.

Subsequently, in 1983, the appointment of Jim Smith as the Chief Executive Officer of the SECV resulted in a marked cultural shift from an engineering-dominated ethos towards a more commercially oriented approach (Evans, 2004). In particular, the SECV's *Corporate Strategy* (1987) emphasised the commercial principles of efficiency and customer service. Smith also paid particular attention to labour issues within the SECV and in 1989, he announced the controversial plan to cut 4500 jobs (approximately 20% of the workforce) over three years (Evans, 2004).

Nevertheless, significant debt remained an ongoing problem for the SECV. As a result, in 1990, the SECV pushed publicly for a private sale of its fourth major brown-coal power station, Loy Yang B in the La Trobe Valley - a proposal initially met with considerable resistance by the Government. However, continued lobbying by the SECV and mounting fiscal pressures on the State resulted in a partial privatisation of Loy Yang B.

***New Government, Economic Reform and Electricity***

In 1992, the Liberal Government under Jeff Kennett came to power with a mandate to reform Victoria at both the micro and macroeconomic levels. Central to the new economic agenda was the goal of liberalising utility markets.

The electricity industry was singled out as one of the first targets of reform. The primary goal was to create an openly competitive electricity market for the sale of electricity to consumers. The anticipated result was lower prices and improved services.

In August 1993, the Government appointed a team of consultants to determine the structural changes to be made to the electricity industry. The resulting Department of Treasury & Finance report recommended the disaggregation of the industry, effectively splitting the SECV into the separate functions of generation, transmission, distribution and retail functions.

***Figure 2.1 The Disaggregation of the SECV***

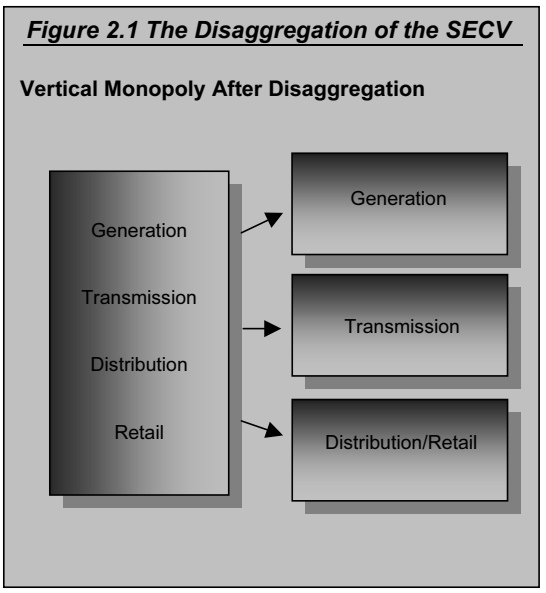


***Figure 2.1 illustrates the concept of disaggregation.***

The disaggregation of the industry laid the foundations for the introduction of competition. It also would enable the eventual sale of Victoria's electricity assets to private enterprise.

Under the *Electricity Industry Act 1993* (Vic), three new government companies were created to carry out the functions of generation, transmission and distribution/retail:

- Generation Victoria (generation);
- National Electricity (transmission); and
- Electricity Services Victoria (distribution/retail).

Then, in 1994, the generation and distribution/retail companies were divided. The power assets of Generation Victoria were divided into five generating companies and Electricity Services Victoria was divided into five distribution/retail companies, each responsible for a specific geographic region of the state. For example, one distributor/retailer would be responsible for one geographic region of Victoria, with different distributors/retailers responsible for different sections. The horizontal division would enable the eventual creation of a contestable market, where generators operated in competition to sell to retailers and retailers would then compete for a greater market share of customers.

The transmission function was split into two:

- PowerNet Victoria, a poles and wire company which would maintain and manage the high voltage grid; and
- VicPower Exchange, which would administer and monitor the wholesale electricity market and ensure the safety and security of electricity supply.

Each one of the newly created entities was then corporatised in the anticipation of private sale and, ultimately, the introduction of a contestable market.

The Office of the Regulator General (**ORG**) was also established to oversee the electricity sector as an independent statutory authority and primary economic regulator of the industry. The role of the ORG was to regulate prices, oversee service efficiency and facilitate market-based competition.

By 1995, following these extensive reforms to the electricity industry, the electricity market now operated in the manner illustrated by Figure 2.2 below.

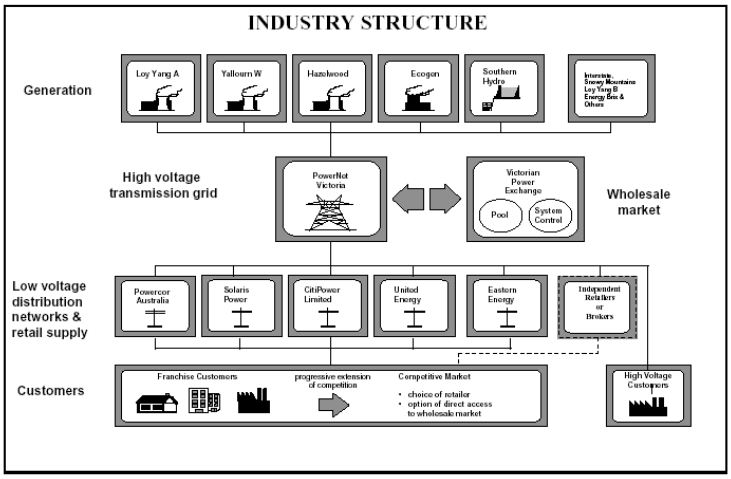


***Figure 2.2 Victoria's Electricity Industry in 1995***

**Source**: Office of the Regulator-General (1995:3)

Between 1995 and 1999, the former SECV's assets were individually sold off to private owners[1]. The sale of Victoria's electricity assets also coincided with the broader economic agenda of privatising Victoria's assets in order to combat the State's significant level of debt and the perceived inefficiencies of state-owned industries.

The Coalition government and its departments put forward multiple arguments for privatisation. In 1995, the Department of Treasury and Finance explained,

> The objective of privatisation is not to maximise sale value per se, but to ensure maximum public benefit – which is a combination of a return on public assets, a contestable market structure and lowest possible prices to consumers.

One commentator on reform, has described the privatisation rationale as an integral part of economic rationalism,

> The rationale for privatisation flows directly from … economic rationalism … based on the belief that capitalist free markets are … more efficient and effective … due to competitive pressures … The achievement of social goals is seen to be best achieved through consumer choice and economic efficiency.
> (Romeril 1998:9)

In 1995 the five distributor/retailers were sold to predominantly international purchasers, for approximately $8.3 billion (Moran, 2002). Pursuant to their distribution/retail licenses, issued by the ORG, the new private owners would retain

[1] There was considerable concern at the time as to the likely effectiveness of the privatisation reforms by church groups, community organisations, business councils and even within the political parties in power.
[2] Pursuant to s 153U of the *Electricity Industry Act 2000 (VIC).*

the same obligations as the former government-owned entities, including the obligation to provide electricity to those consumers in their specific geographic region.

Between May 1996 and June 1999, the five generation companies - Loy Yang Power, Yallourn Energy, Hazelwood Power, EcoGen Energy and Southern Hydro - were also sold to private interests. The total amount raised by the asset sales of the former SECV was approximately $23 billion (Ward and Hodge, 2004).

### *Victoria's Role in the National Electricity Market*

Victoria's electricity industry reforms during the 1980s and 1990s were also accompanied by discussions at a national level for analogous reforms.

In 1992, the Council of Australian Governments (**COAG**) inquired into the efficiency gains that might be achieved through reform of monopoly service providers, including each jurisdiction's electricity industries, as part of what was to become National Competition Policy. Ultimately, it was decided that through the creation of a national competitive market for electricity, Australia could achieve both economic efficacy and global competitiveness.

In 1998, this aim was realised through the establishment of the NEM — an interconnected wholesale generation grid linking Victoria, Queensland, New South Wales, the Australian Capital and South Australia. Specific commitments to electricity reform were also made by NEM jurisdictions in agreements under which the Commonwealth, State and Territory Governments agreed to implement National Competition Policy and other agreements on related reforms for the electricity industry.[3]

When the NEM was created in 1998, Victoria was the most advanced State in terms of competition-based reform in electricity. The market-based mechanisms were subsequently adopted as a template for NEM systems.

### *Full Retail Competition*

The final stage of electricity industry reform in Victoria was the introduction of competition to consumers, where retailers would compete to sell electricity services to consumers outside their designated geographic region.

Full retail competition (**FRC**) was introduced in stages, commencing with the largest consumers of electricity, large-scale industry users, and progressively to the smaller users, as illustrated by Table 2.1 below. In 1994, competition was introduced to large industrial consumers and to medium-use consumers in 1996. In January 2002, the final stage of full retail competition was introduced to small business and household consumers, accounting for approximately 2 million Victorian consumers. It is these consumers with whom this research report is primarily concerned.

[3] National Competition Policy was specifically aimed at encouraging competition to improve the wellbeing of all Australians and arose out of the recommendations of the Hilmer Report, National Competition Policy (1993), commissioned by COAG in 1992. Principally, it is embodied in three inter-governmental agreements signed in April 1995 by the Commonwealth, State and Territory Governments: The Competition Principles Agreement; The Conduct Code Agreement; and The Agreement to Implement the National Competition Policy and Related Reforms.

***Table 2.1: Victoria's Transition to Full Competition***

| Consumer Class | Eligibility Threshold (consumption p.a.) | Date for Introduction of Competition | Approximate number of Consumers |
|---|---|---|---|
| Large Industrial | > 5 MW | December 1994 | 47 |
| Industrial / large commercial | 1 MW – 5 MW | July 1995 | 330 |
| Medium Industrial / commercial | 750 MWh – 1 MW | July 1996 | 2 000 |
| Small Industrial / commercial | 160 MWh – 750 MWh | July 1998 | > 8 000 |
| Domestic and small business consumers | Under 40 MWh | January 2002 | 2 000 000 |

**Source:** Gallagher (2004)

Of all the NEM states, Victoria, New South Wales and South Australia have so far introduced FRC to domestic consumers.[4] By contrast, Queensland has only very recently signalled the introduction of competition for small consumers, having previously been opposed to doing so.[5] From 1 July 2007, households and small businesses in Queensland, will be free to choose where they buy their electricity, whereas large industrial and commercial electricity customers can already choose who their retailer is. Only Victoria and South Australia have privatised their electricity assets, the other NEM jurisdictions operate as commercial government-owned entities.

## 2.3 An Effective Market?

As of January 2002 all Victorian electricity consumers have been able to choose, at least in theory, their electricity retailer within a marketplace of competing suppliers. Nevertheless, while the introduction of FRC to all Victorian consumers has achieved one of the primary targets of reform, the market remains in a formative stage of development.

The ESC, which replaced the ORG in 2002 under the *Essential Services Commission Act 2001* (Vic), has said that the success of the market should be determined by reference to market participation rates (ESC, 2002a). However, the figures for market participation by small consumers (domestic and small business users) vary according to source, with predictions ranging from a modest 15% (Minister for Energy, 2003) to as low as 2% (Bowman, Coghill and Hodge, 2004).

In 2004, the ESC undertook a review of the effectiveness and performance of energy (electricity and gas) retail competition for small customers, a large part of which involved ascertaining the exact degree to which the competitive energy market is operating to the benefit of consumers. The ESC found that the market is currently effective in those sub-markets 'where sufficient margin exists or has emerged to make market contracts attractive to those customers and the customers profitable to serve for retailers' (2004a:3). The ESC (2004a) estimates that those sub-markets account for about 40% of small customers.

[4] In New South Wales, FRC was introduced in 2002, and in South Australia in 2003.
[5] See generally the NCC (2002) NCP Assessment for the Queensland Government's rationale against full retail competition.

Further, the ESC found that whilst the electricity market appeared to be 'open and accessible to customers' (ESC, 2004a:15), only 17% of Victorian electricity customers had entered into market contracts as at the end of 2003 (ESC, 2004a). In addition, of these, only 13% of electricity consumers had switched retailer. Interestingly, despite what would appear to be a low level of market participation, the ESC noted that 'the relatively low (although steadily increasing) rate of contracting and switching is not necessarily an indication of remaining weakness in energy market competition' (ESC, 2004a:17).

## 2.4 Consumer Outcomes from Reform to the Electricity Market

The remainder of this report is concerned with establishing what these reforms have meant for consumers. In particular, have consumers received benefits in terms of price, access, service quality and accountability? And if they have, how have these outcomes been distributed amongst different consumer groups, including low-income and vulnerable and rural and regional consumers? Moreover, in light of these findings, what needs to occur to ensure that consumers are protected within current market paradigms?

# Chapter 3: Price

## 3.1 Introduction

In this chapter, we look at the effectiveness of retail competition reforms in terms of pricing outcomes for consumers, including low-income and disadvantaged consumers. The essential nature of electricity and the significance of utility bills for households has ensured that price is arguably the most important indicator of the competitive electricity market for many consumers.

This review is undertaken within the broader context of microeconomic reform policy goals, and acknowledges the real price reductions sought for consumers through the competitive electricity market reforms.

Some consumers, including metropolitan residential consumers around Australia, have no doubt benefited on average from real electricity price decreases during the period of electricity market reform. The Productivity Commission's recent *Review of National Competition Policy Reforms* (2005:xix) noted that,

> In the electricity sector, notwithstanding variation across and within jurisdictions, average real prices Australia-wide have fallen by 19 per cent since the early 1990s.

However, whilst acknowledging these gains, this chapter argues that not all consumers have benefited equally from the introduction of full retail competition, and that indeed, some consumers have not benefited at all. The focus of this chapter will be on the following questions:

1. To what extent has the price of electricity changed since the reforms to the Victorian electricity industry?
2. What have been the primary causes of these changes? That is, have price changes resulted from the reforms?

This chapter will therefore examine the sub-categories of Victorian customers who have benefited from retail competition, the extent and cause of these benefits, and importantly, discuss those consumers who have not benefited.

## 3.2 The Importance of Price

Electricity is a non-discretionary expense for households. It is an essential service for household functioning and health. Along with other utility bills, electricity may form a substantial component of the family budget. This is particularly so for low-income families who are generally required to spend a larger percentage of their income on utility bills (Kliger, 1998).

For all consumers, and especially low-income and vulnerable consumers, the impact of an upward price movement may negatively impact on their capacity to pay. Indeed, the Wallis Consulting Group (2004a) reported that a weekly increase in utility bills by $1.00, would have a major impact on 26% of Victorian domestic consumers and a minor impact on 45% of consumers in terms of their ability to pay. The Wallis Consulting Group (2004a:46) also found that:

> …the impact of a rise of $1 a week in energy costs would be greatest on those who earn the least and particularly those people who already receive a concession rate for their electricity and/or gas.

Significantly, a $5.00 a week increase in utility bills would have a substantial impact on the capacity of domestic consumers to pay (Wallis 2004a). Of the 822 domestic consumers surveyed, 63% stated that an increase of this magnitude would have a major impact on their ability to pay, whilst a further 25% stated that a $5.00 weekly increase would have a minor impact on their capacity to pay. The impact of a $5.00 weekly increase differed slightly according to location, with 63% of Melbourne domestic consumers compared to 57% of outer regional consumers saying the increase would have a major impact on their capacity to pay (Wallis, 2004a).

The energy rate charged and household income appeared to be the principle determinants of capacity to pay if faced with a $5.00 a week rise in energy costs. Some 79% of all respondents who were in receipt of a concession rate for their electricity and/or gas stated that a rise of this magnitude would have a major impact on their capacity to pay, whilst a further 14% believed it would have a minor impact on their ability to pay. In contrast, the corresponding figures were 57% and 31% for domestic consumers paying the full rate (Wallis, 2004a).

Household income similarly illustrated the impact of energy increases on different sub-groups within the domestic market. Where household income is less than $25,000 per year, a $5.00 per a week rise in utility bills would have a major impact on 83% of respondents; a further 11% stated that it would have a minor impact, with only 6% of respondents within this group stating that it would have no impact (Wallis, 2004a). For households with an income between $25,000 and $50,000, 65% stated that a rise of this magnitude would have a major impact, with a further 28% stating the rise would have a minor effect. This can be contrasted to those with a household income of $75,000 or more, in which 41% believed that the rise would have a major impact on their ability to pay, with a further 34% stating it would have a minor effect (Wallis, 2004a).

Overall then, the findings of Wallis (2004a) indicate that irrespective of the charge rate applied, location or household income, an overwhelming majority of consumers expected a sizeable price rise to have a major impact on their ability to pay. As the magnitude of any price increase goes up, the impact will be greatest on those who can least afford it – those who already require a concession rate for one reason or another and those who fall within the lower-income socio-economic brackets. Whilst the survey indicates that price increases are likely to stimulate market activity by encouraging domestic consumers to 'shop around for a lower cost alternative' (Wallis, 2004a:46), the reality may also be different. Firstly, this assumes that a lower cost alternative is available in the market place, and secondly, that that domestic consumer has access to the alternative rate. Thirdly, this also assumes that all domestic consumers have a high level of knowledge about the Victorian electricity market and that the time spent examining and comparing the different options within the market is low.

The importance of electricity price has been further supported by a second survey of Victorian consumers conducted by Wallis (2004b). In a survey of 138 low-income Victorian households[6], the importance of affordability and 'value for money' were highlighted. For instance, when asked to consider the affordability of electricity in the

[6] In the survey, low income households were defined as 'Victorian households earning less than $30 000' (Wallis, 2004b:2) per annum.

current market, compared to three years ago, 58% of all respondents viewed electricity as being less affordable now compared to three years ago (Wallis, 2004b). In contrast, only 4% of the respondents stated that they believed electricity was more affordable now compared to three years ago. Similarly, when asked to consider if electricity is worse value for money now than three years ago, 46% of all respondents stated that they believed that it was; only 8% of respondents believed that electricity was better value now than three years ago (Wallis, 2004b:4). These findings suggest that low-income and disadvantaged Victorian consumers perceive that they have only received limited ongoing benefits from the reforms.

In light of these findings, the position of Bowman, Coghill and Hodge (2004:4) that 'all groups of consumers [are] … vulnerable' in the face of unwarranted price increases, is tenable. Indeed, where domestic consumers do not have the ability to access lower cost energy alternatives, the essential nature of household electricity compels consumers to utilise a service that they cannot afford. In these conditions, continued access to an essential household service will be achieved through sacrificing other essential items such as food, whilst reducing energy usage where possible (Kliger, 1998).

Price is therefore a fundamental indicator of consumer outcomes within the Victorian electricity market. In this context, it will be important to assess not only how actual prices have changed during the reform period, but also whether customers have received the full benefits from efficiency gains within the new arrangements.

### 3.3 Electricity Costs

In assessing how price has impacted on Victorian domestic customers, it is important to first consider changes in electricity costs during this period. Retail electricity prices for domestic customers will be influenced by a core component of costs, as well as a range of factors including network charges, market fees and network losses. The most significant core components of electricity cost are the wholesale electricity costs (generation) and distribution costs (distribution and transmission). As shown by Figure 3.1, generation costs - the cost of electricity production - and the distribution and transmission costs account for approximately 91% of the retail electricity cost.

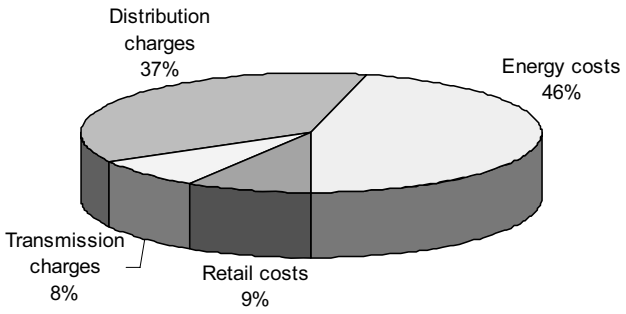


***Figure 3.1 Breakdown of End-User Electricity Costs (Post-privatisation)***

**Source**: Independent Competition and Regulatory Commission (2003)

In contrast to the generation, distribution and transmission costs, which together comprise the bulk of end-user electricity costs, the retail margin represents approximately 9%. The retail cost is defined as (ORG, 2001:18),

> … the component of tariffs which allow the host retailer to recover the costs of providing retail services and to earn an appropriate profit. Retailing costs typically include billing and customer administration systems, advertising, and regulatory compliance costs.

An assessment of whether electricity reforms have resulted in optimal price outcomes for Victorian domestic consumers would require knowledge of what efficiency gains have been made for each of the relevant cost components. It would also require a balance to be struck between assessment of industry viability and the public policy goal of price minimisation. Such analyses are beyond the scope of this report.

## 3.4 The Victorian Electricity Experience: Outcomes for Consumers

So, how have Victorian domestic consumers fared? Since January 2002, full retail competition has ensured that all Victorian consumers have the ability to choose their electricity supplier. For consumers not entering the market, the Victorian government has provided a legislative framework in which it has,

> … reserve power to regulate the standard offer tariffs…the Government may amend the [host retailers'] published tariffs if it considers that competition is inadequate or that tariffs are unreasonable (ESC, 2003a:4).

For consumers wishing to enter the competitive market, market contracts may be offered at the retailer's discretion. Unlike standard and deemed contracts, market

contracts are unregulated contracts, in the sense that price is negotiated between retailer and consumer. Competition within the market is presumed to force retailers to offer market contracts at a tariff lower than the standing and deemed contracts (Bowman, Coghill and Hodge, 2004). In assessing how Victorian customers have benefited from retail competition, consideration will need to be given to the ability of consumers to access market contracts and the degree to which competition has lowered market contract prices.

***Early Concerns and Commentary***

During the Victorian reform process a number of stakeholders questioned whether electricity reforms could actually achieve real electricity price decreases. In a report to the ORG, the CLCV and the Consumers' Federation of Australia (**CFA**) specifically questioned the ability to achieve price reductions for domestic and small business consumers (CLCV et al, 2002:36):

> In light of the overseas experience, it is unclear that the introduction of retail contestability for the below 160MWh tranche will deliver competition that will drive sustainable lower prices (or service improvements). The margins for suppliers at the small business and residential end of the market may be so small that meaningful reductions cannot be achieved. The smaller the savings, the less incentive for consumers to educate themselves about a complex and technical market.

Sharam (2004) was similarly sceptical about the longer term outcomes of market reforms. She specifically warned of the possibility of rising electricity prices, arguing that the price caps imposed by the Victorian Government included excessive profit margins and allowed for an excessive tariff increase. Other commentators such as Romeril (1997) were also cynical about the consumer benefits of privatisation reforms, arguing that any price reductions gained would simply reverse the 10% price increase introduced by the Government in 1992, and that by the 1990s public entities had already vastly improved efficiencies.

Notably, even reform advocates such as Porter (2002) questioned whether all Victorian consumers would benefit equally from reforms. Specifically, Porter (2002:15) suggested that there may be some losers in relation to price outcomes, noting that,

> All consumer groups have benefited from a lower real price charged for electricity, although some individuals consumers may not be better off – for example, some dairy farmers with expensive long-distance wires.

On the other hand, the real electricity price decreases since reform have been cited by advocates as evidence of the success of privatisation and general energy sector reform. Ward and Hodge (2004:49) argue that 'an overall drop of 40% in real terms since competition started' has occurred for contestable business customers. They also observed that for non-contestable customers, retail prices fell by 14% in real terms by 2000. Moran (2002) commented that the electricity sector reforms had produced a win-win outcome based on the sales of Victoria's electricity assets having produced financially significant proceeds and secondly, the reforms having achieved competitive final prices for the consumer. Moran (2002) specifically concluded that,

> The taxpayer is better off by hundreds of millions of dollars a year. The electricity consumer is also better off as a result of the increased efficiency and consequent lower prices that have been brought about.

Similarly, Moran (2001) argued that across the board, reforms to Australia's electricity and gas industries had by this time seen 'prices down by a quarter and productivity more than doubling.' However, these statements do not take into account the figures published by the PC (2002), the Australian Bureau of Statistics (2002) or the ESC, which show modest falls in real residential prices and more dramatic business price falls.

## 3.5 More Recent Analyses of Price Benefits

A review of the literature indicates that there is little consensus as to the effectiveness of market reforms in terms of pricing. This chapter will therefore seek to examine the veracity of the ESC's findings (2004a:3) that,

> … competition in the Victorian energy market to be generally effective in constraining prices and delivering non-price benefits in those sub-markets where sufficient margin exists or has emerged to make market contracts attractive to those customers and the customer profitable to serve for retailers.

Importantly, it must be remembered that this examination of price outcomes for Victorian consumers has been undertaken within an imperfect environment, in which a number of hurdles were encountered. These included, in particular, commercial-in-confidence, a lack of veracity regarding projected pricing and most importantly, a lack of data regarding market contracts. These difficulties were similarly noted by the ESC (2004b:77),

> Obtaining and analysing relevant information regarding the cost, pricing and marketing arrangements of individual retailers, the dynamics of changing supply and demand conditions and retailers' competitive strategies in the marketplace is very difficult.

While the 'Commission is currently developing a framework to measure developments arising from competition in the retail sector' (ESC, 2005a:20), to date, there is a lack of price data in relation to market contracts.[7] This is a significant limitation of the current competitive market, and as such, this analysis can only examine price trends in relation to the regulated standing and deemed offer prices. In this analysis therefore, price benefits are the actual dollar discount or savings offered by retailers, and are measured against the regulated tariffs applicable to the customer (ESC, 2004b). In this manner, price benefits simply operate as an incentive to encourage consumers into the competitive market. In a recent review of full competition policy in Victoria, the ESC noted (2004b:95-96),

> The Commission's analysis of available price discounts indicates that market contracts offer discounts for most residential and small business

[7] To assist in overcoming this information asymmetry, in mid-2005 the ESC undertook a review of price and information disclosure guidelines in the Victorian electricity market. In the *Final Decision: Energy Product Disclosure – Internet-based Disclosure* (ESC, 2005d:4) the ESC implemented a 'legislative obligation on 'specified retailers' to publish details of tariffs and terms and conditions of sale on the internet' (as provided for under s.36A of the *Electricity Industry Act 2000 (Vic)*). This obligation took effect on 1 October 2005. The primary objective of the obligation is to assist consumers in comparing market offers (ESC, 2005e)

> customers that vary between 0-10% for electricity…However, discounts appear higher for metropolitan Melbourne customers than regional customers and for high volume customers.

The findings of the ESC (2004a, 2004b) indicate that there have been disproportionate price benefits delivered to different customer groups. Specifically, the ESC (2004a, 2004b) suggests that regional and rural consumers have not fared as well as their metropolitan counterparts. Similarly, it would appear that high volume customers, especially large business consumers, have benefited from reforms within the Victorian electricity industry, while low-volume consumers – who are often low-income consumers – may have received only limited price benefits from the reform process.

This finding was unequivocally supported by stakeholders, with a financial counsellor (interview, 2005) noting that,

> The competitive market promised lower prices, but while large industrial consumers have benefited, individual consumers haven't … If you are low income, you just don't have market power.

In acknowledging that not all consumers have benefited equally from the market reform process, the ESC (2004a:3) stated that,

> The Commission considers that energy retail competition is now likely to become effective for a much larger proportion of small energy customers in the next few years…

Looking now at the PC's (2002:16) evidence on price changes, Figure 3.2 below suggests that,

> In most capital cities, average real electricity prices paid were lower in 2000-01 than they were in 1990-91.

This was true for Melbourne, with the PC (2002) noting that during this ten-year period, real electricity prices in metropolitan Melbourne decreased by 1% as a whole, when compared to the 1990-91 price.

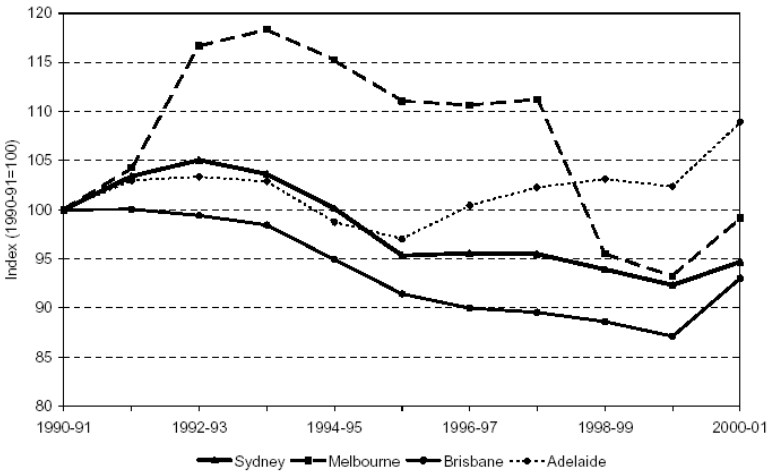


***Figure 3.2 Real Electricity price trends – metropolitan households 1990/1 to 2000/1***

**Source:** PC (2002:17)

The PC (2002) noted that the government's restructuring of tariffs and retail price controls was the catalyst for the real electricity price increase observed in 1992, and that restructuring of price controls in 1992-93 resulted in a further increase in real electricity prices, until the domestic prices were frozen between July 1993 and June 1996. The freezing of prices over this three-year period resulted in a real price decrease of 9% when compared to 1992-93 real electricity price levels (PC, 2002). In contrast, the sharp decrease in real prices observed in 1998 was attributable to the introduction of the Winter Power Bonus, a state government initiative that applied in the years 1998-99 to 2000-01. The PC (2002) noted that the introduction of the Bonus equated to an annual real price electricity decrease of $60; a real price increase of $60 was anticipated for the June-September 2001 quarter upon its removal. Interestingly, however, real electricity prices in Melbourne were already noticeably increasing by 2000-01, without taking into account the removal of the Winter Bonus.

The findings of the PC's report indicate that during 1990-91 to 2000-01, Melbourne metropolitan households experienced a real electricity price decrease of 1%. This is an important finding, and indicates that during this ten-year period, Melbourne metropolitan households benefited from an average, albeit slight, real price decrease in electricity. However, the degree to which this electricity price decrease may also have occurred across non-metropolitan households is not known.

In order to determine how real electricity price varied across different socio-economic Melbourne metropolitan households, the PC (2002) looked at different income quintiles. Table 3.1 below, shows real price changes over the decade in dollar terms, with a negative sign indicating that, on average, 'households incurred a real decrease in electricity expenditure' (PC, 2002:19).

***Table 3.1 Real $ changes to household electricity expenditure in Melbourne Households arising from price changes between 1990-91 and 2000-01***

| | Income quintile | | | | | |
|---|---|---|---|---|---|---|
| | **Lowest 20%** | **Second** | **Third** | **Fourth** | **Highest 20%** | **All households** |
| | | | | | | **$** |
| Melbourne | -4.42 | -5.27 | -5.71 | -6.61 | -6.76 | -5.78 |

**Source:** PC (2002:19)

As illustrated by the above table 3.1, all socio-economic sub-categories of Melbourne households were found to have benefited, in terms of dollar savings, from real price decreases between 1990-91 and 2000-01. In their report, the PC attributed the overall decrease to electricity prices 'generally decline[ing] faster than the CPI (All groups) in most capital cities' (PC, 2002:18).

Importantly, the above figures indicate that households comprising the lowest 20% of household income had the lowest dollar savings, at $4.42. Households in the highest quintile enjoyed a real price decrease of $6.76. This is most likely to have been due to households in the highest 20% using a greater amount of electricity than poorer households.

The advent of FRC is likely to have had only a limited impact on overcoming this disparity. Even given the ESC's (2004b) assessment of 0-10% price discounts for residential consumers on market contracts, low-income households would no doubt still have faced a number of barriers in achieving price discounts. As 'retailers were clear that the availability of a high retail margin was the most important customer characteristic to retailers' targeting strategies' (ESC, 2004b:61), low-income households who are similarly low volume consumers, are likely to have remained unattractive to retailers. Supporting this, the ESC (2004a:13) noted that some consumers may even have been disadvantaged by doing so,

> Although general market offers are being made to all small energy customers, the offers made to these low margin customers are not yet attractive relative to the standing offer price.

This is not to say that all low-income or low consumption consumers have failed to access the competitive market. Indeed, this report noted that retailers such as TRUenergy (formerly TXU) had specifically designed a market contract for concession card holders (ESC, 2004b). The ESC found (2004a:64),

> … that universal market offers are available to all customer classes, but that limited offers are available to specific customer groups – such as low volume users and regional customers – due to the costs of customer acquisition and particularly low margins available for customers with significant off-peak loads.

The cost of acquiring low margin consumers through targeted marketing appears to have been the primary factor preventing retailers from aggressively targeting these sub-categories of residential consumers. The submission of EnergyAustralia (EnergyAustralia 2004:8) to the ESC stated that,

> EnergyAustralia's market offers have predominantly been made via door-to-door sales process, the price and service improvements afforded by those offers have been restricted to customers with a high energy consumption in more affluent metropolitan areas.

When traditionally 'unattractive' consumers, including low-income and low-volume consumers, were proactive in seeking a market contract, however, retailers were generally found to offer market contracts (ESC, 2004b). In this light, it would appear that market contracts may offer significant price savings for high-volume consumers, but not low-income and low-volume consumers.

At this stage we should note that the PC's report did not provide an assessment of how Victorian consumers have fared since the introduction of full retail competition and the advent of market contracts. Nor did the report provide an evaluation of how regional and rural consumers fared as a result of the electricity reforms.

Some information on these matters was nonetheless provided by the Energy Supply Association of Australia (**ESAA**)'s electricity price findings for the period of 1994-95 to 2003-04 (ESAA, 2003). The report provides an overview of regulated residential price trends in Australia for a ten-year period, in conjunction with small business, low-volume and high voltage demand tariffs.

In examining the price findings of ESAA, it is important to note the limitations associated with the data. Firstly, the report has been compiled through the collection and analysis of publicly available data, in which (2003:b),

> Prices presented in tables and charts are indicative prices which are strictly constrained by certain assumptions about consumption and load profiles…

Similarly, while actual prices are presented from 1994-95 to 1999-2000, the Victorian residential prices presented in the report from 2000-01 onwards were 'estimated prices based on available information and projections' (ESAA, 2003:11). It is unclear whether these projected prices have been subsequently verified for their accuracy. Further, the prices presented are regulated tariffs and do not include market based contract types. This analysis is limited to the average regulated electricity price in Victoria, and does not evaluate the outcome for consumers on market-based contracts.

Figure 3.3 below illustrates the average real electricity price for residential and non-residential consumers between 1994-95 and 2003-04 as presented by the ESAA (2003).

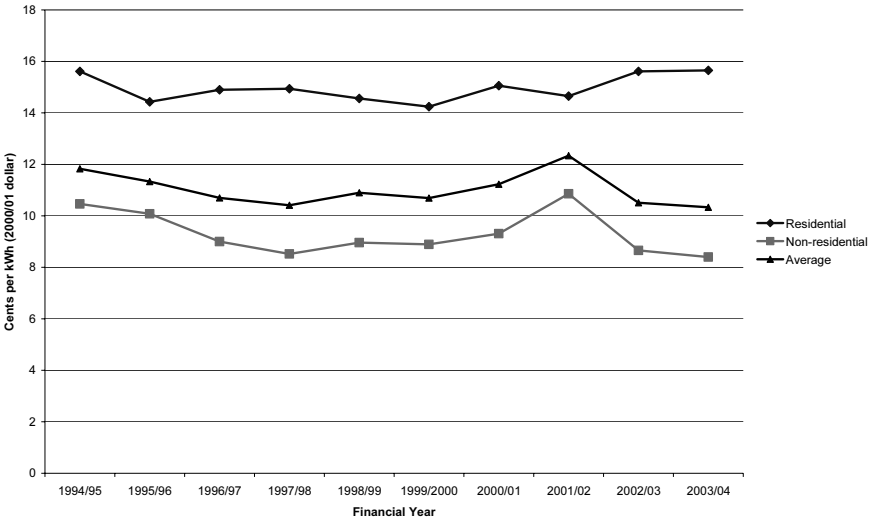


***Figure 3.3 Average Real Electricity Price for Victorian Consumers***

**Source**: ESAA (2003)

Figure 3.3 indicates that Victorian residential consumers pay significantly more than their non-residential counterparts on average. Further, it can be seen that despite the slight overall price decrease over the decade, residential Victorian consumers saw average real electricity prices increase over the last five years along with the introduction of full retail competition. By contrast, for non-residential consumers, who are generally high volume consumers, they have significantly benefited from decreasing electricity prices since 2001-02.

These findings can be similarly compared to the latest industry average figures released by the ESC (2005a) on electricity affordability for Victoria. Figure 3.4 below illustrates the annual average electricity industry bills for households, small businesses and dairy farmers on deemed and standing offer contracts between 1994-2004.

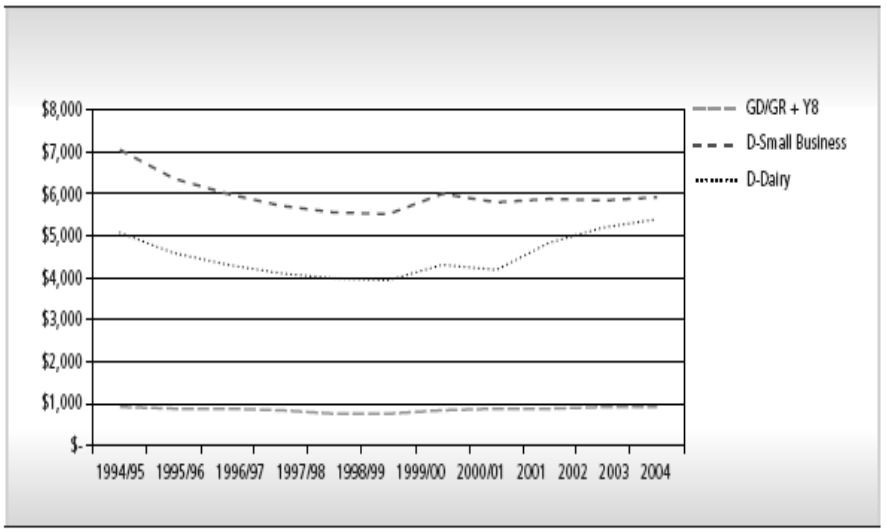


***Figure 3.4 Average Annual Real Electricity Bills for Victorian Consumers (1994-2004)***

**Source**: ESC (2005a:16)

The findings of the ESC (2005a) indicate that overall Victorian residential consumers (GD/GR and Y8 tariff) experienced, on average, a real electricity price decrease between 1994 and 2004, as did small businesses (D-Small Business). In contrast, dairy farmers – who may be defined as typically rural consumers – have experienced a 5.9% increase in their average annual electricity bills during 1994-2004.

The experiences of the average Victorian residential consumer on deemed and standing tariffs since the introduction of full retail competition are instructive. The ESC (2005a) calculated that this saving equated to an annual saving of $17 for Victorian residential consumers in 2004 compared to the previous year – a 1.9% decrease. Contrasting this, this group had paid on average 2.6% more (or $23) in 2003 from the previous year in 2002. Interestingly, therefore, the advent of FRC saw real prices increase for the first year then decrease for the second, with a small residual increase overall. As well, real price competition between major market players appears to have been minimal under the standing and deemed tariffs (ESC, 2005a). These players appear to have set their prices towards the higher end of the acceptable regulated tariff (ESC, 2005a).

Turning now to the position of metropolitan residential consumers, it is argued that these residential consumers are likely to have experienced greater price benefits than their regional and rural counterparts. Figure 3.5 below provides a comparison of the real electricity price trends for all Victorian residential consumers, on average, compared to only metropolitan Melbourne consumers.

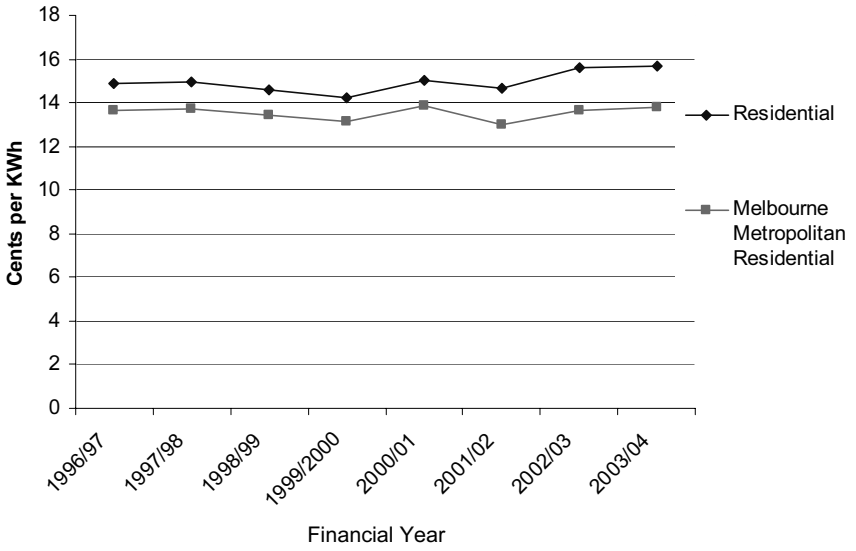


***Figure 3.5 Real electricity price trends for all Victorian residential consumers and Melbourne Metropolitan residential consumers***

**Source:** ESAA (2003)

As shown by Figure 3.5, the ESAA (2003) suggests that residential consumers living within the metropolitan Melbourne region have, on average, paid less for electricity than the average Victorian residential consumer. This trend is reflective of the 'traditionally higher cost of distributing electricity long distances' (Department of Infrastructure, 2005) to consumers living in outer metropolitan, regional and rural areas[8].

The introduction of the Network Tariff Rebate (**NTR**) by the Victorian Government in 2003 was designed to offset the higher costs faced by rural and regional consumers, thereby eliminating the economic disadvantages associated with their geographical location (ESC, 2004b:82). Despite this, the ESC (2004a:4) has noted that,

> Rural and regional customers are currently at a relative (but not necessarily permanent) disadvantage in relation to their ability to benefit from energy market competition.

It would therefore appear that despite the introduction of the NTR, rural and regional residential consumers have not generally received the same price benefits as metropolitan consumers. Furthermore, the ESC (2004a:17) has advised that,

> Very low volume, off-peak, more remotely located and small business customers have tended to remain on the standing offer prices and contract terms during this period of transition to more effective retail competition. In many cases, the standing offer price is close to or below

[8] However, a more detailed examination of how metropolitan residential consumers compare with the residential consumers elsewhere, including rural and regional counterparts would be desirable given the unknown veracity of much of this data.

> the cost of their retail supply and clearly represents their most attractive market alternative.

It is possible to conclude that Melbourne residential households have clearly been the winners over their non-metro residential counterparts, with the ESC (2004a:46) stating,

> … that regional customers (including small business customers) in small towns and remote locations are less attractive to retailers and more costly to market to than those in large towns and metropolitan Melbourne. These customers are, therefore, less able to participate in, and benefit from, energy retail competition.

We now turn our attention to other classes of consumers, particularly small business consumers. In considering the outcomes for Victorian small businesses between 2002-2004, the ESC (2005a:18) note that the 'average annual bill in 2004 ($5983) for small businesses consuming 40,000 kWh/year on retail tariff D has decreased by 16% from the average annual bill in 1994/95 ($7052)'; a real dollar saving of $1069. More recently, this category of small business consumer has in 2004 'experienced a slight increase in average annual bills across all retailers (1.2%)' (ESC, 2005a:18).

In contrast, the findings of the ESC (2004a, 200b) indicate that large volume consumers, such as large businesses, have benefited from the electricity reforms, despite geographical location. Specifically, the ESC (2004a:13) notes that,

> … competitive sub-markets typically include customers who consume higher volumes of energy…and/or are located in metropolitan Melbourne or larger regional centres.

Overall then, the findings of the ESAA (2003) and the ESC (2005a) indicate that despite price fluctuations over time, large volume Victorian consumers, especially large businesses, have been 'the big winners' in terms of real price as a consequence of electricity reforms. These consumers have consistently achieved better value prices for their electricity than residential consumers even when their tariffs incorporated subsidies for residential users. While the veracity of the ESAA data is unknown, it is apparent that since the advent of full retail competition, price decreases for non-residential consumers, including small business consumers, have occurred and prices have increased for residential consumers. These findings are supported by the PC, (2005:51) which has noted that,

> Businesses have generally benefited more than households, with many enjoying substantial price reductions. This partly reflects intended 'rebalancing' of prices between businesses and households to more closely reflect the costs of providing services to each. As a result, many households have experienced real price increases for services such as electricity.

These findings are consistent with that of the IPA (2001), which argued that industrial and large commercial consumers had benefited the most from deregulation and privatisation, with residential consumers continuing to pay the highest prices. This contention has been further supported by a number of additional reports, with commentators such as the Australian Industry Group (2001) arguing that business consumers have reaped the greatest (immediate) benefits of reform. Similarly, one stakeholder (interview, 2005), noted that 'if you are a small volume user, or a rural user, or an off-peak user, you have got no [price] benefits out of it; it has all been to your disadvantage'.



Recapping the findings regarding electricity prices, it is clear that the price benefits associated with reforms to the Victorian electricity industry, including the introduction of full retail competition, have not been uniformly or equitably distributed across all consumers. Data from the PC, the ESAA and the ESC has indicated that where price savings have been realised under standing and deemed contracts, greater benefits have gone to higher volume consumers and Melbourne metropolitan consumers, in preference to low volume, rural or regional consumers.

### 3.6 Non-Price Product Benefits

In evaluating the effectiveness of full retail competition within the Victorian electricity market, the ESC's 2004 review examined effectiveness not simply in relation to price, but under a broader framework. Significantly, the ESC considered the role of 'value added services', or non-price products, as one indicator of Victorian market performance. With information asymmetries existing within the market, especially in relation to price, non-price products are believed to provide consumers with the ability to distinguish between market participants (ESC, 2004a).

The ESC identified an extensive array of non-price initiatives offered by retailers (ESC, 2004a), including:

- Brand alliance with non-energy products;
- Dual Fuel Billing;
- Fixed Pricing;
- Green Energy;
- Competitions; and
- Product and Service Vouchers.

In light of the innovative nature of these offers and the extensive amount of competition that was found to exist within the area of non-price offers, the ESC (2004a:17) concluded,

> … universal market offers include contracts offering period-based dollar rebates and other non-price incentives for lower consumption users. This reflects a greater use of non-price elements in market contract[s] offered by retailers. These non-price elements rank highly in the reasons residential and small business customers cite for having entered a market contract.

For domestic consumers, the development of non-price products has resulted in an abundance of choice, 'with price only being one element' (ESC, 2004b:93). Importantly, unlike price discounts which have been targeted to specific high consumption consumers, the development of non-price offers has been more broadly marketed to include all customer categories. Described as a 'sweetener' by one industry stakeholder, the interviewee (2005) went on to state that,

> The retailer[s] put a lot of store in … their non-price benefits because they do recognise that… the price differential isn't going to be all that great for them as they can't offer tremendous ongoing price discounts… So what they offer is a month's free energy, $50 off [their] next bill, $100 off [their] next bill. For some customers [this] is quite significant because the price is at least the standing offer price, which is quite well regulated.

Intense competition within this facet of the market has therefore enabled traditionally unattractive consumer groups, including low consumption consumers and rural or regional consumers, to be targeted by retailers for market contracts. As indicated by the ESC (2004a, 2004b), this less expensive method of making market offers has been beneficial for retailers wishing to increase their consumer base, and consumers who may not otherwise have been targeted.

Despite the benefits that may accrue to domestic consumers through non-price offers, this form of innovative competition may not guarantee all low-income and disadvantaged Victorian consumers get what they require most – cheaper electricity. Indeed, for many low-income and disadvantaged consumers, 'the only outcome that they are interested in is dollars off their bill' (interview, 2005). For them, price discounts are likely to have a more positive effect on their standard of living than, for example, AFL membership rewards, accommodation discounts and related Internet connection deals (ESC, 2004a).

Of equal concern is the emotive nature or appeal of many of these market contracts, with people 'switching for something that's unrelated to their electricity and that's concerning if they are not informed' (interview, 2004). Where consumers enter into market contracts on the basis of the non-price product/s through aggressive marketing campaigns, there is the potential for consumers not to read the fine print, nor understand what they are, in effect, contracting themselves into. In this context, some categories of consumers who accept market contracts on the basis of the coupling with non-price products, may ultimately end up paying more for their electricity than under their previous contract. Indeed, only when the vouchers or loyalty rebates are offset against the total annual electricity bill, and a calculation as to whether a benefit has accrued, may a consumer determine if they have benefited from the market contract. This concern is compounded by the potential for a lack of clear or complete knowledge regarding the contract options available to consumers. In many cases it is possible that consumers do not know exactly what they are signing up to.

Overall, the development of non-price offers has therefore enabled low consumption consumers, in conjunction with other customer categories, to be engaged by retailers for market contract offers. Whilst these traditionally 'unattractive' consumers have received market contract offers, the degree to which these have led to lower electricity prices could not be established. On the face of it, consumers most able to afford electricity services rather than those least able are likely to have received the biggest gains from market contracts.

## 3.7 Price Benefits and Aggregation Arrangements

Not all Victorian consumers have benefited equally through the introduction of competition within the Victorian electricity retail market. Groups such as high volume electricity consumers, 'dual fuel' consumers and those living in metropolitan Melbourne or large regional centres have reaped larger benefits than others.

The lack of market power experienced by residential consumers and small consumers in negotiating price benefits has been identified by the ESC as a significant barrier for individual consumers. In contemplating FRC, the ESC (2004b:21) noted that,

> … most of the customers within the electricity and gas markets act individually in terms of their relationship with energy retailers. However, the Commission is aware of groups, such as 'Community Power' and 'Our Energy' which have aggregated customers with the purpose of achieving more favourable outcomes for their members.

Simply put, an aggregator is an intermediary 'who seeks to aggregate customer load in order to obtain a 'better' deal from retailers' (ESC,2004b:43). The ESC (2004a:4-5) have noted that,

> The greater propensity for rural communities to cooperate and unite through various customer aggregation models offers the potential for them to reduce the disadvantages of remoteness and smaller margins in the future. Aggregation arrangements hold significant promise for customers who may not individually be able to access and benefit from the competitive retail energy market, and they need not necessarily be confined to energy services in the future.

Similarly, Victorian consumer representatives see the value of aggregation arrangements in empowering many electricity consumers. One stakeholder for instance noted that as,

> Competition itself isn't going to bring [down] prices for consumers, so those sort of aggregate buying schemes offer a real opportunity to give particularly small consumers, or consumers who are more expensive to serve, or more difficult to serve such as in rural or regional Victoria, the ability [to] bring some power, some negotiating power to the table.

In reviewing the international evidence on co-operative aggregation arrangements, Griffith (2000) has argued that this type of arrangement can provide small consumers with three basic benefits including: lower transaction costs; increased bargaining power; and enhanced competition. The combination of these factors enables individual consumers, both residential and business, to access the benefits of a truly competitive market. Under these arrangements, 'individual consumers [can] combine their numbers and load to maximise their price and/or service benefits' (Griffith, 2000:3). Griffith goes further than suggesting that aggregation has the potential to provide benefits to consumers, and sees it almost as a pre-requisite for consumers to benefit from electricity markets. Moreover, he perceives the additional benefits of aggregation as follows (2000:2),

> It is only through aggregation that individual small consumers can secure meaningful protection and benefit in the risky energy market. Group buying extends consumer protection provided by legislation and regulation. It reduces dependence on legislation and regulation, and it protects consumers from changing governments and policies.

Overall then, how have aggregation arrangements translated and developed in the Victorian electricity market and what benefits have consumers received as a result of aggregation arrangements?

It appears that at the present time, 'Community Power', a joint initiative of the Darebin, Melbourne, Banyule and Yarra City Councils and the Moreland Energy Foundation Limited (**MEFL**), is Victoria's only notable electricity purchasing group. The project was initiated,

> … at a time when it was very clear that the government was going down a particular track that wasn't going to benefit customers. Small customers weren't going to be very powerful in the new electricity market, so using a buying group as a means of bandying small customers together to actually be able to advance themselves in terms of issues such as price, but also very significantly, environment and social obligations (stakeholder interview, 2004).

At the time of the inception of Community Power, MEFL (2005) noted that,

> It is fair to say that the State Government, while they were really keen to see a buyer's group up and running, it was because it was really the only thing they could say was going to benefit small customers was the potential to have buyer's groups.

Established as a local alternative, Community Power currently acts 'as an aggregator/broker on behalf of [their] communities' (Darebin City Council and MEFL, 2002:3). Under this structure, Community Power (2004),

> … has used the buying power of [their] communities to negotiate an electricity offer that meets our 'triple bottom line' objectives of competitive prices; reduced greenhouse gas emissions and fair and reasonable contract conditions.

With prices benchmarked against the standing offer tariff and a quantifiable reduction in greenhouse gas emissions, Community Power offers residential consumers a practical 'green' alternative. And despite Community Power having 'had more time with no contracts available than with contracts available' (interview, 2005), the success of this buying group appears indisputable with over 1000 households having signed up to Community Power contracts by 2005 (Community Power, 2005). While price and green power appear to be the impetus for some of the consumers who have signed up to Community Power, the strength of Community Power can also be attributed to the visual involvement of local Councils, as (interview, 2005),

> [Customers] trust the Councils. They see it as being a local community initiative as opposed to the other side of the whole electricity market for small customers, which is basically about door knocking and getting people to sign onto something on the spot.

On a practical level, the involvement of Darebin, Melbourne, Banyule and Yarra City Councils, in partnership with the MEFL, appears to have been fundamental to its success, providing the financial and physical backing necessary to establish and administer the electricity buying group:

> There have also been other community organizations that have wanted to do something a bit similar, but none of them have managed to get it

> off the ground so far…For most community organizations it is just not really a possibility (MEFL, 2005).

It is apparent that whilst the legislative structure of the electricity industry does not have any '…specific regulatory barrier to the operation of cooperatives, brokers or agents in the Victorian energy markets …' (ESC, 2004b:43), the significant financial costs associated with establishing electricity buying groups appears to remain one of the largest barriers to their establishment.

A number of unintended legislative obstacles were also noted in the FRC Review. Principally, these included the inability of consumers to negotiate market contracts that did not comply with the customer protection obligations within the safety net arrangements (ESC, 2004a). Importantly, the FRC Review recommended amendments to the *Electricity Industry Act 2000* (Vic) to provide greater flexibility and remove the obstacles to efficient customer aggregation.

Overall, we might reflect that while 'co-operative buying groups are essential to the effectiveness of the market – if small consumers are to benefit from competition' (Griffith, 2000:7), these arrangements, on the whole, have been less than successful in Victoria's privatised electricity market. Despite the success of Community Power, it is disappointing that other Councils and community organisations have not had the resources or skills to implement their own electricity buying group. The ESC (2004b:43) noted that aggregators,

> … may provide a structure to attract retailer market contracts for customer classes that may otherwise not participate in the competitive electricity and gas retail markets – including some vulnerable customer groups.

It is clear that aggregation arrangements have the potential to offer residential consumers the ability to benefit from the competitive market and overcome many of the power and information asymmetries present in Victoria. The Victorian Government and the ESC should actively assist local councils and community organisations to establish electricity buying groups within metropolitan, regional and rural areas as a priority. Such initiatives would enable many sub-markets of electricity consumers to benefit from competitive electricity pricing, including low-income, rural and regional and disadvantaged consumers.

## 3.8 Inter-market Comparison

Finally, in considering the extent of electricity price changes in Victoria over the last decade, it is essential to consider electricity price movements within other Australian states. Indeed, only through an intermarket assessment of Victoria with comparable states is it possible to determine how Victorian residential electricity consumers have fared in terms of price benefits, when compared to their interstate domestic consumer counterparts.

This section of the report will therefore compare Victorian electricity price changes to price changes in three Australian states – New South Wales (NSW), Queensland (Qld) and South Australia (SA). Each of these states has joined the National Electricity Market (NEM), (NECA, 2005). Similarly, each has restructured its electricity industry, introducing competition to varying extents, and with varying degrees of success. As noted by Bowman, Coghill and Hodge (2004), NSW and Qld have retained the corporatised entities in government ownership while creating markets and introducing competition. While NSW implemented FRC in 2002 for all consumers, Qld has to date only enabled large consumers to access the competitive market. In contrast, SA has followed the Victorian model of privatisation, and implemented FRC in 2003.

Figure 3.5 below illustrates real (or inflation adjusted) electricity retail prices for Victoria, NSW, Qld and SA.

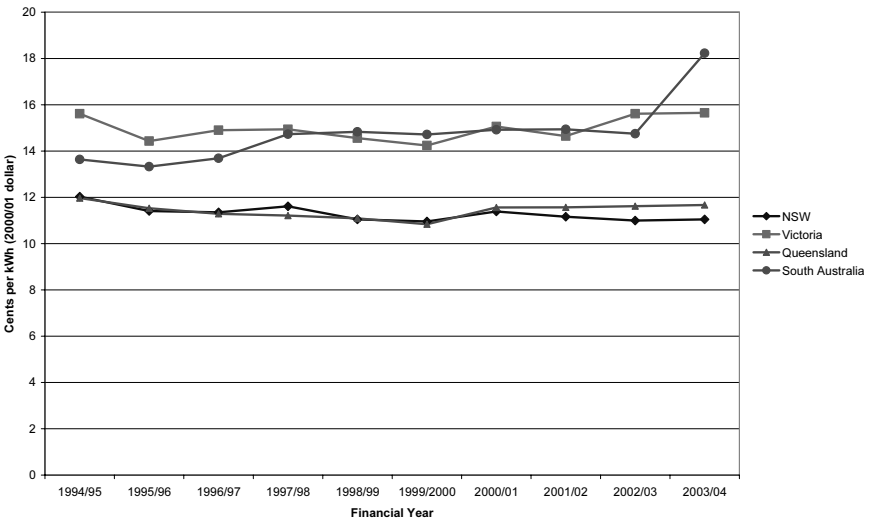


***Figure 3.5 Real electricity price trends by State for all Residential Consumers (real prices at 2002/2003)***

**Source:** ESAA (2003:9-10)

In examining Figure 3.5, it is important to again be reminded of the limitations of the data. The figures presented from 2000/2001 onwards 'are estimated prices based on available information and projections' (ESAA, 2003:9) and the degree to which these represent the real world experience is unclear. Further, the data presented represents,

> … the average price…[to]…reflect the different electricity usage patterns and customer mixes within each state. As these vary widely between different supply regions, comparisons between the states on the basis of average prices can be misleading (ESAA, 2003:9).

A thorough evaluation of how Victorian consumers have fared in terms of price benefits when compared to interstate domestic consumers may thus be problematic. Nonetheless, several broad comments may be made. Firstly, it would appear from this data that Victorian residential consumers have consistently paid a higher price for electricity than their NSW and Qld counterparts over the past decade. Secondly, while there have been a number of technological and productivity improvements within the electricity industry (PC, 2005), it would appear that residential households in these four states have not, on average, received any large direct benefit of NEM reforms. Figure 3.5 suggests slight decreases in NSW, Qld and Victoria, with a significant increase in SA.

An alternative data set on which to base an inter-market comparison has previously been outlined by the PC (2002). Figure 3.2, above, (see Section 3.5) illustrates real electricity price trends for metropolitan households in Victoria, NSW, Qld and SA between 1990-91 and 2000-01. On the basis of this decade of alternative data, the PC concluded that (2002:16),

> In most capital cities, average real electricity prices paid were lower in 2000-01 than they were in 1990-91. Real prices fell by 5% in Sydney, 1% in Melbourne, 7% in Brisbane…Between 1999-2000 and 2000-01, real prices trended upwards in all capital cities largely because of the introduction of GST.

While the PC concluded that real electricity prices decreased in metropolitan Sydney, Melbourne and Brisbane, it also noted that in contrast, real prices in Adelaide increased by 9% across the same period. Contributing factors for the real price increased observed in Adelaide during 1995-96 to 1998-99 included 'a rebalancing of tariff structures between access and usage, and changes in the price escalating methodologies resulting in overestimates of the consumer price index upon which household prices were based (PC, 2002:18).

So, how does Melbourne compare with other metropolitan cities over this ten-year period? Fluctuations in Victoria's real electricity price for metropolitan households can be attributed to tariff and charge restructuring and the implementation of a short-term state subsidy as well as any efficiency gains from reforms. With the removal of the Winter Bonus in the September quarter of 2001, it is unclear to the extent to which real electricity prices rose.

What can we learn from this intermarket comparison of electricity prices? Firstly, it appears that price fluctuations have occurred across a number of metropolitan households between 1990-91 to 2000-01, with the restructuring of domestic tariff rates and user charges having an impact on retail electricity prices. Secondly, the introduction of temporary subsidies, such as the Victorian Winter Bonus, has resulted in real electricity prices artificially decreasing for a period of time. Only through the removal of such subsidies can real longer term market price trends be seen. Thirdly, while we can conclude that real electricity prices probably decreased for metropolitan households in Sydney, Brisbane and Melbourne across 1990-91 to 2000-01, such price trends are only representative of metropolitan households within these states, and we are unable to comment on how regional or rural areas have fared during this time with any degree of accuracy. Similarly, it is important to note that these price

trends are 'average' real electricity price trends, and we cannot distinguish the experiences of the different sub-categories of households within the metropolitan cities. Finally, as FRC was not introduced in Victoria until January 2002, a lack of transparency regarding market contracts means that we are no closer to knowing what real electricity price trends have occurred within the competitive market since the introduction of competition to domestic consumers. Rather, the only indicator of price trends for Victorian consumers is a comparison of the regulated standing and deemed tariffs which are subject to the Victorian Government's price path; this analysis indicates that while Victorian residential consumers have experienced a real price decrease in their average annual electricity bill in 2004 when compared to 1994, this decrease equates to a real price decrease of $19.00 (ESC, 2005a).

In light of these limitations, this report is unable to determine how *all* Victorian residential electricity consumers have fared in terms of price benefits when compared to their interstate domestic consumer counterparts. Only through a comprehensive review of electricity prices in the post 2000-01 era of all Victorian sub-categories of consumers and comparable states, incorporating real electricity prices for market contracts in conjunction with the regulated tariffs can such a comparison be made. Given the discrete nature of market contracts, this report concludes that a comprehensive inter-market comparison of real electricity price trends since the introduction of full retail competition in Australian states would be a major research task if it were to be contemplated. Given the huge investment in electricity reforms, however, it should nonetheless be a priority for the future.

## 3.9 Economic Impacts of Electricity Market Reforms

The logical question following observations of changes to business and domestic power prices is that of economics. What have been the economic impacts for consumers gained through these reforms? This was clearly a key original reform goal for the electricity sector. So, what can be learned by drawing together major lessons to date?

Most discussion in the economics arena has been broad. At the societal level, a range of assessments has been undertaken as to the efficacy of privatising and reforming Victoria's electricity system. Whilst massive productivity gains have no doubt been made at the electricity generation stage, economic assessments have been more varied in their conclusions. One recent academic assessment of Australia's electricity reforms concluded that,

> The judgments of economic analysts in this book have varied between neutrality in fiscal terms on the one hand, through to undoubted immense gains in productivity and taxpayer advantages from reduced government debt and premature infrastructure investments on the other. In other words, the range of conclusions as to whether citizens in Victoria have won in economic terms has been between a 'doubtful' and 'unarguable' success (Hodge 2004:236).

Notwithstanding, most commentators now regard the reform exercise in Victoria as having been largely successful from an economic perspective. Even critics such as Quiggin (2004:111) acknowledge,

> The privatisation of the Victorian electricity industry is commonly regarded as a highly successful fiscal initiative, which rescued the Victorian Government from a crippling level of debt, with an associated

> burden of interest payments. This view is supported by favourable assessments from, among others, the Auditor-General's Office.

However, the impact of Victoria's electricity reforms, in Quiggin's words, has not all been one way. At the level of the consumer, for instance, he warns that (2004:120-121),

> In general, the effect of privatisation and regulatory change has been to replace uniform prices, based on a rather vague notion of equity, with highly differentiated prices, driven by market incentives. Consumers seen as 'desirable customers', such as businesses and high-income households, have benefited from greater choice and, in many cases, lower average prices. By contrast, suppliers have sought to dump less desirable customers or to force them into residualist arrangements designed to minimise the costs of serving them.

In the longer term, too, the issue of disaggregation being followed later by re-aggregation has attracted some discussion. Parker (2004:227) for instance noted that,

> Privatisation with competition has the potential to improve economic efficiency in electricity production and supply leading to improved services and lower prices, as evident from the international experience. However, reforming electricity markets well so as to introduce true, *sustainable* competition is far from easy. It would be surprising if over time Australia did not experience at least some of the problems that have inflicted 'liberalised' wholesale and retail electricity markets in other parts of the world. In particular, Victoria's competitive electricity sector may not prove resilient in the face of the economic incentives to reintegrate the industry.

But what of the economics of electricity reforms for consumers? On this note, we are not aware of any economic analysis having been completed to date for Victoria. The PC (2005:xix), however, has examined electricity reforms at the national level. Looking at all users of the Australian electricity market, it noted that 'notwithstanding variation across and within jurisdictions, average real prices Australia–wide have fallen by 19% since the early 1990s'. In addition (PC, 2005),

> there has been significant price rebalancing to address, in particular, previous arrangements whereby business users had borne a disproportionate share of the costs of service delivery.

Important to our present discussions, the PC (2005:56) also noted that whilst average electricity prices across the country declined 19% between 1990-91 to 2003-04, 'electricity charges for households increased by 4 per cent … while business users experienced price reductions of 27 per cent …'. The direct price changes noted here do not however take into consideration any indirect benefits of price changes experienced by households due to lower prices paid for goods and services which may have become cheaper through reduced electricity prices to products.

As well, the PC (2005:56) acknowledged that,

> although electricity prices for households increased on average across Australia, jurisdictional outcomes varied from a real price reduction of 13 percent in Perth to an increase of 35 percent in Adelaide.



The PC (2005) also noted economic modelling suggesting that electricity reforms across the nation had resulted in a 0.7% increase to the Gross Domestic Product.

Overall, the PC had little doubt that the benefits of electricity reforms had outweighed the costs of restructuring and reform.

### 3.10 Conclusion

The general consensus is that there has been a downward trend in real electricity prices for all Victorian consumers in aggregate terms, with a slight decrease for domestic consumers. However, the price benefits associated with reforms to the Victorian electricity industry, including the introduction of full retail competition, appear not to have been uniformly or equitably distributed across all consumers. Indeed, data from the PC, the ESAA and the ESC has all indicated that, where price savings have been realised, greater benefits have gone to higher volume business consumers and Melbourne metropolitan consumers, in preference to low volume, rural or regional consumers.

A full assessment of distributional outcomes across customer classes is also unfortunately problematic because of the limited comprehensive and independent evaluation data.

One interviewee (2005) noted that 'the major issues for consumers going forward is what is going to happen to prices in th[e] competitive market', and concluded that more work is needed to determine the degree to which market contracts are now resulting in lower prices to market participants, particularly with lower income consumers.

There also appears to be significant potential to support market aggregation initiatives in order to strengthen market competition.

It is therefore recommended that a major monitoring exercise be mounted by the ESC to track both the performance of market contracts over time and their performance against the previous standing/deemed arrangements.

It is also recommended that initiatives in market aggregation be seriously investigated in terms of organisational viability to date, potential for public benefit and economic support desirable to achieve future optimum aggregate small consumer benefits.



# Chapter 4: Access to Electricity Services

## 4.1 Introduction

> Our priority is water, electricity and gas over everything else. You have to run your fridge, you don't want cold showers, you need to cook food, heat your children. When you don't earn much money you tend to spend more time at home because you can't afford to go anywhere, so you need the home to be warm and comfortable (Wallis, 2004b:36).

As this comment from a low-income family in regional Victoria illustrates, electricity, gas and water are essential to a basic standard of living. There are, however, several potential barriers for consumers in accessing these essential services.

For example, approximately 250,000 Victorian households do not have physical access to reticulated gas (ESC, 2004b) – predominantly in rural and regional areas. Instead, those households rely on electricity as their sole energy source or use alternative gas supplies which usually means that their energy costs are much more significant.[9]

For many Victorian households, the affordability of the electricity supply is an additional and significant barrier to their access. From time to time, many low-income households will struggle to pay their bills and for some, electricity bills are an unrelenting cause of stress. Where bills remain unpaid, the risk is that the household will be disconnected from supply.[10]

A recent report by the CLCV and CUAC looked at disconnection from utilities and documented the severe impacts that disconnection has on a household already struggling to pay their bills (Rich and Mauseth, 2004). In particular, the report noted the level of stress involved where families sacrifice other expenditure to pay their bills, often jeopardising the health and welfare of family members, particularly children or the elderly.

The introduction of a competitive market for electricity, as part of the Victorian reforms, created the potential for additional barriers for consumers in accessing essential services. Critically, there is the risk that electricity suppliers might perceive low-income consumers as financially unattractive and choose not to supply to them. This outcome has occurred in several deregulated markets, primarily the financial services markets where low-income and disadvantaged consumers often have limited access to financial products. For example, low-income consumers are often relegated to a fringe credit market for their credit needs, such as payday loans, which come at an exploitative cost.[11]

More generally, competitive markets can also give rise to barriers that affect the consumer's ability to exercise their market power. An example is the information asymmetry between suppliers and consumers which inhibits a consumer's ability to

[9] In June 2003, the Victorian Government launched the Natural Gas Extension Program through which access to reticulated gas will be extended to those parts of Victoria that do not currently have access to reticulated gas.

[10] Generally speaking, while electricity and gas retailers are permitted to disconnect a customer for failure to pay a bill under the *Energy Retail Code*, water companies can only restrict supply to a minimum flow amount.

[11] See Wilson, *Payday Lending in Victoria* (CLCV, July 2002).

navigate the market and make sense of competing offers, consequently inhibiting the consumer's ability to exercise their market 'choice' between products or services.

In this chapter, an assessment of consumer outcomes resulting from the Victorian electricity reforms in terms of access is made. The chapter asks:

- Has access to the electricity network improved with reform or has private investment in electricity infrastructure inhibited the extension of the network to more remote areas of Victoria?
- Has reform brought beneficial outcomes for low-income and disadvantaged consumers by making energy more affordable, increasing their ability to pay their bills on time and avoid disconnection?
- Has the competitive market for electricity created any new barriers for consumers?

In line with the assessment made throughout this report, the focus of this chapter is on the extent to which reform has brought beneficial outcomes for consumers. Where we find that consumer benefits have not been realised, the chapter discusses ways in which benefits might be maximised.

In addition, where it is found that some consumer groups have disproportionately received the benefits of reform, such that there are clear winners and clear losers from reform, we make recommendations for how benefits might be more equitably distributed.

## 4.2 Physical Access to The Electricity Network

In the years prior to reform, the SECV significantly expanded its service infrastructure, increasing the numbers of customers it serviced (Cornwall, 1994). Gas and water service infrastructure were similarly extended during this period (Cornwall, 1994).

In 1994, organisations such as the CLCV commented on the State's network expansions and in particular voiced the concern that in a deregulated market, supply networks would only continue to expand if it was commercially viable for competing companies. Otherwise, the CLCV suggested, the Victorian Government would have to provide ongoing investment in infrastructure (Cornwall, 1994).

Looking at the outcomes of reform, the fear that supply network expansion would cease in a deregulated market has not been realised - today, although access to electricity networks is not universal across Victoria, most households do have access.

This outcome is likely to be the result of a regulatory requirement imposed on distributors to ensure new connections to the electricity grid. Those communities and households who do not have access have a right to seek connection through their local distributor.[12] Pursuant to their licenses, distributors must provide physical

[12] Because distribution is a natural monopoly activity, most areas of Victoria are covered by only one licensed distributor. There are five distributors that distribute electricity at high and low voltages over distribution networks in their region. The metropolitan distributors are AGL Electricity, CitiPower and United Energy; the rural distributors are TruEnergy (formerly Eastern Energy) and Powercor.

connection, including any poles, wires and meters, to properties that previously did not have a supply of electricity (ESC, 2004b).[13]

There are, however, some communities in remote areas for whom the cost of connection to the network would be too significant. Those communities must rely on stand-alone (off-grid) systems.[14]

Stakeholders representing rural and regional communities all agreed that physical access to electricity infrastructure was not an issue for their constituents (interviews, 2005). However, the lack of connection to reticulated gas and resulting predominant reliance on electricity as an energy source was considered a critical problem.

This was particularly the case for those households in areas that experience the extremes of weather year round. For example, most households in the Murray Mallee region receive comparatively high electricity bills without a means of reducing their consumption of this power source. In the following section 4.3 – Maintaining Access, the issue of how a predominant reliance on electricity, coupled with an inability to control consumption, impacts on a household's ability to pay their bills and avoid disconnection. This issue is one that significantly affects those in outer areas of the state who in many cases are finding it harder than their metropolitan counterparts to maintain their access to supply.

## 4.3 Maintaining Access

The most significant barrier for many consumers in accessing electricity is affordability. If a household has difficulties paying for the energy it uses, it risks being disconnected from supply, which can have far-reaching consequences on health and wellbeing.

In this part of our analysis of access outcomes, we ask: are consumers today finding it easier to pay their bills on time than in the years prior to reform? We undertake this analysis in two parts. First, we look at disconnection levels as an indicator of the level of difficulty experienced by households in maintaining access to supply - we track these levels across the reforms to measure consumer outcomes. Ultimately, we find that while levels have been relatively low since the mid-1990s, there is still room for improvement.

Second, we look at the issue of disconnection from a distributional perspective. It is clearly low-income and disadvantaged consumers for whom the experience of

[13] This contrasts the expansion of gas supply, where there were recently still some 250,000 Victorian households (who mostly live in smaller towns and rural areas) without access to the distribution network (ESC, 2004b). Here, in recognition that commercial considerations operate as a barrier to greater customer access, the regulatory framework imposes an obligation on gas distribution companies to reticulate consumers within one kilometre of the network. In 2003, the Victorian Government committed $70 million in funds to its Natural Gas Extension Program under which the network will be extended to currently unserviced areas in rural and regional Victoria.

[14] Households with stand-alone solar energy systems are entitled to subsidies through the Commonwealth Photovoltaic Rebate Program, administered in Victoria by the Sustainable Energy Authority of Victoria (the SEAV). Some households also rely on burner fuels, such as kerosene and heating oils, which are expensive (SEAV, 2003). See *Energy for Victoria, A Statement by the Minister for Energy and Resources* (The State of Victoria: Department of Natural Resources and Environment, 2002), Appendix A at 55. This additional cost for households has recently been recognised by the Federal Government - in a media release dated 15 June 2004, the Honourable John Anderson MP, Deputy Prime Minister, Minister for Transport and Regional Services, announced energy reforms targeted at rural communities and businesses as part of the Government's Energy Statement. In particular, these reforms included the abolition of excise on burner fuels used by rural households (Commonwealth Government, 2004).

disconnection is often an impending or actual reality. Many of those consumers are also rural and regional consumers.

***Trends in disconnection***

The primary indicator of the degree of difficulty faced by consumers in paying their bills and maintaining access to supply is the rate of disconnection for non-payment of a bill. The traditional assumption is that an increased number of households being disconnected for non-payment is an indicator of a greater level of difficulty generally being experienced by those households.

Figure 4.1 below, shows disconnection rates for small customers (both domestic and non-domestic) for non-payment across a 20-year period, from January 1984 to December 2003.

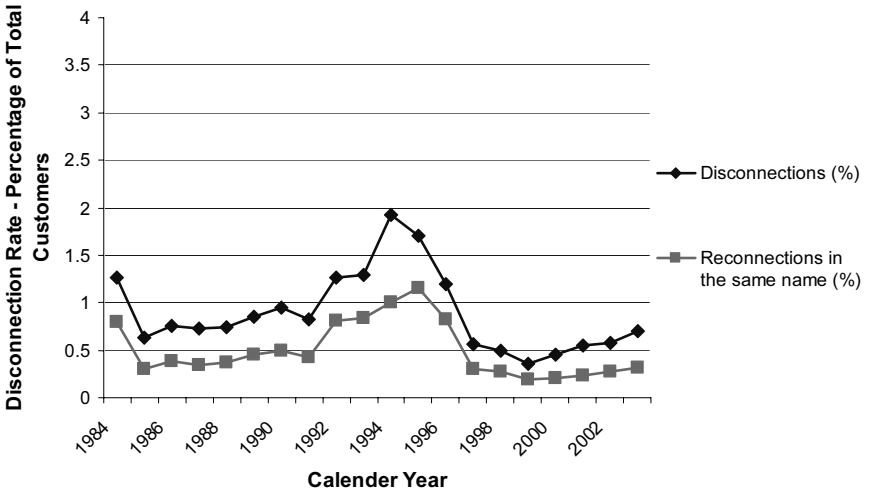


***Figure 4.1 Victorian Electricity Disconnections (Domestic and non-domestic) 1984-2003***

**Source:** ESC (2004e)

Looking at the pattern over the last 20 years, it is clear that the number of disconnections dropped in 1985 and remained low until a dramatic increase from 1992 to 1994. From 1994, the number of disconnections for non-payment steadily decreased, reaching the lowest levels in fifteen years in 1999. From 1999 to 2003, however, there has been a moderate but steady increase in disconnection rates.[15]

The significant decrease in disconnections from 1995 directly correlates with the period during which Victoria's electricity assets were sold to private enterprise. At first blush, this correlation might lead to the conclusion that privatisation brought the benefit of reduced disconnection numbers. Indeed, this view was recently espoused

[15] If we were to divide this two decades into three equal periods, we might remark that the last period had fewer disconnections than the first period, with a highly disruptive 'reform peak' in which disconnection numbers both spectacularly rose and fell.

by one of the three major Victorian retailers, Origin Energy (Origin, 2004), in a submission to the ESC:

> [P]rivate-sector retailers have…cut the number of electricity disconnections by over 300%. Consequently, the Comparative Performance Reports now tend to highlight marginal changes around baseline results which are in fact equal to historical lows.

However, in 1997 Romeril had already made an important observation in this context. Specifically, she criticised the claim that disconnection numbers decreased in real terms following privatisation. She argued that the purported 'decrease' was actually preceded by a massive surge in disconnection numbers from 1992 to 1994 when Victoria's electricity assets were disaggregated into a number of businesses in anticipation of their sale to private interests. From 1992-1994, disconnection numbers increased by 250% and were at a record high.

Romeril (1997) suggested that debt collection practices were increased to place Victoria's assets at their best for sale. Overall, Romeril argued that the purported decline following privatisation simply brought levels back to the levels they were at under the SECV in the years prior to the reforms. In this sense, reform, if anything, lead to a significant increase in disconnection numbers from 1992- 1994.

Looking at the more recent period of reform from 1999 and with the advent of FRC for small customers in 2001, it is clear that disconnection numbers have been steadily increasing. This increase has been noted by the ESC in each of its annual comparative performance reports from 2001-2004 (ESC, 2001a, 2002b, 2003e, 2004e).

For instance, 2001 saw an overall increase of 30% in the rate of disconnections from the previous year and in 2002, there was a 12% increase in the number of customers disconnected in the same name (ESC, 2002b). In its 2002 comparative reporting report, the ESC (2002b:6) remarks,

> The overall rise in disconnection and reconnection in the same name continues the upward trend, evident since 1999.

In 2004, 52% of customers' disconnected were reconnected in the same name compared with 47% in 2003 (ESC 2005a:28).

The increase in disconnections reported by the ESC is consistent with the complaints statistics reported by EWOV. Indeed, EWOV (2002a, 2003b) has reported an increased number of electricity disconnection cases in every six-month reporting period across the years 2001, 2002, 2003 and 2004 as set out in Figure 4.2 below. It is pleasing to note, however, that in the most recent EWOV report, for the period 1 January 2005 – 30 June 2005, there was a fall in disconnection cases. Electricity disconnection cases fell 55% from 850 to 382 (the lowest since the second half of 2001) and gas disconnection cases fell 57% from 437 to 187 (the lowest since the second half of 2003) (EWOV 2005:1). As the Ombudsman, Fiona McLeod noted,

> The trigger for this fall in disconnection cases appears to have been the State Government's introduction of the wrongful disconnection payment (WDP) legislation from 8 December 2004. The WDP applies to disconnections on or after this date, where the electricity or gas retailer failed to comply with the terms and conditions of its contract with the customer.
> (EWOV 2005;1)

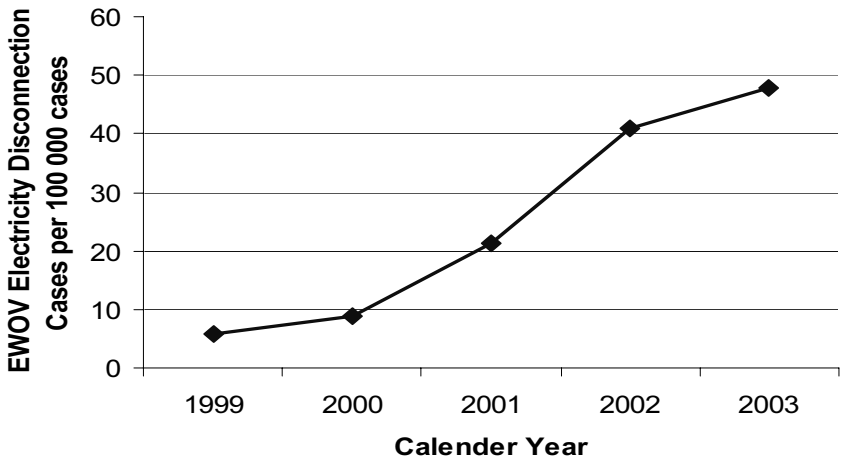


***Figure 4.2 EWOV Electricity Disconnection Cases (1999-2003)***

**Source:** ESC (2004e)

However, whether the reported increase in disconnections since 1999 is an 'upward trend' is a point of debate. In a report commissioned by the ESC, as part of the ESC's development of its new performance indicators, the Allen Consulting Group (2003:6) noted:

> There has been some increase in electricity disconnections since 1999, and there are different views as to whether this reflects data gathering 'noise' or a changing trend.

On this issue, EWOV (2004b) have noted,

> Quite simply, billing disconnection/restriction cases are going up. As to why, I have to wonder whether the problem lies with the various arrangements already in place, or whether there are some vital elements missing from those arrangements.

EWOV suggests that the increase in energy disconnection cases indicates that 'the practice of disconnecting customers in arrears is continuing at a significant rate' (EWOV,2002a:10). EWOV has also said that increasing disconnections gives rise to concerns 'about how well a customer's capacity to pay is being assessed' (EWOV, 2003c:2).

Similarly, the Consumer Coalition (2002) reported that since the introduction of FRC, there has been a higher incidence of disconnection reported by financial counsellors. The increase has been attributed to rigid credit mechanisms used by companies to pursue consumer debts (2002:109),

> It was reported that more rigid credit mechanisms have led to an increased difficulty of consumers to negotiate repayment plans and debt arrangements which in turn has led to an increased incidence of disconnection due to financial hardship. The emphasis placed on credit

> mechanisms by retailers has managed to bring the financial vulnerability of low-income and vulnerable consumers to the fore.

There is also the hidden face of disconnection - those households who do not feature in disconnection numbers as they manage to pay their bills by either sacrificing fuel or other essentials needs (such as food and clothing) to pay the bill. As one stakeholder noted (interview, 2005), 'disconnections are only the tip of the iceberg' and the actual numbers of households experiencing problems paying their bills and maintaining their access is much more significant.

By way of example, Gasden (1999) of the Smith Family discussed the results of a client survey which reported that 75% experienced an ever-present inability to pay utility bills. Gasden comments,

> Often compounded by low standard housing and higher operational costs of poor quality appliances, utility bills are an unrelenting cause of episodic crisis for people in poverty.

In its report into the effectiveness of FRC, the ESC (2004a:32) noted that at any one time between one-sixth and one-fifth of Victorian consumers may experience energy affordability problems.

***Disconnection numbers – an indicator of consumer outcomes***

The data on disconnection numbers collected by the ESC as part of company performance reporting does not distinguish between households who are disconnected as a result of an inability to pay and those who simply elect not to pay the bill. Therefore, the ESC (2004f) says, the data on disconnections cannot be used as an unambiguous measure of energy hardship.[16]

However, in 2002, EWOV prepared a report to the ESC on the disconnection cases it received from January 2002 until September 2002. Specifically, the EWOV (2002b) noted that the majority of disconnection cases concerned those who were having difficulties paying, as distinct from a failure to pay. It is suspected that the same result would arise should EWOV choose to track another period of its disconnection cases.

On the basis of the findings in the EWOV report (2002b), arguably while disconnection numbers across the period of reform are not an unambiguous measure of the levels of difficulty experienced by households maintaining access to their supply, they are nevertheless indicative. Comparing disconnection levels since reform to those existing pre-reform gives rise to a variety of interpretations. Figure 4.1 suggests that Victoria's recent disconnection figures are now back to a level which existed around 1985-1988. From the perspective of low-income and vulnerable consumers, a disappointing aspect of reform has been an inability to curb rising disconnection levels over the last five years. From the perspective of this group, it is arguable that consumers have not received the benefit of improved access – it is not getting any easier to maintain supply and if anything, it is now appears to be getting harder.

[16] The ESC recently reviewed the performance indicators it requires companies to report against to ensure that they operate as sufficient indicators of energy affordability issues and the manner in which retailers deal with customers. The ESC (2004e) has now approved revised indicators which will include cross-referencing of disconnection and instalment plan data, highlighting households subject to multiple disconnections over a period, and separating disconnection figures by concession card status. These revised indicators came into operation on 1 January 2005.

The primary reason that households will have difficulty paying their bills and maintaining their access is the overall affordability of the energy they use. The central factors that impact on affordability are:

a. the price of electricity;
b. consumption levels; and
c. inadequate income.

***a) The price of electricity***

The Chief Executive Officer of the United Kingdom's electricity and gas markets regulator, Ofgem, has stated that the lowering of energy prices is the single most important factor in reducing fuel poverty (Office of the South Australian Independent Industry Regulator, 2002).

Little surprise, then, that Rich and Mauseth (2004) found a direct correlation between annual disconnection numbers and trends in the average annual bill for electricity. For example, as electricity bills fell after 1994, so too did the number of electricity disconnections for non-payment. When average annual electricity bills were at their lowest in 1999-2000, the number of electricity disconnections for non-payment also reached their lowest level (Rich and Mauseth, 2004). Further, with average annual electricity bills for Victorian households rising since 2000, so too has the number of disconnections for non-payment risen. In comparison, not only have business-end users enjoyed lower prices, so too have the number of disconnections of businesses declined (ESC, 2003c).

The preceding chapter found that the price benefits associated with reforms to the Victorian electricity industry, including the introduction of FRC, have not been equitably distributed across all consumer groups, with domestic consumers experiencing only a slight decrease in real electricity prices as compared to high volume business consumers. In addition, data from each of the PC, the ESAA and the ESC indicates that where price savings to domestic consumers have been realised, the benefits have generally gone to higher volume business consumers and metropolitan consumers, in preference to low-volume and rural/regional consumers.

Overall, therefore, whilst reform may well have delivered some average benefits in terms of improved access, there has also been a failure to fully reap the potential for better access for those experiencing fuel poverty. In addition, as one stakeholder (interview, 2005) commented,

> You would probably say that the reforms in a direct sense are probably more regressive …. poor people tend to pay more for utilities as a proportion of their household expenditure…. Have they seen big falls? They haven't seen them. The prices remain, in real terms, rather static.

***b) Consumption levels***

In addition to the unit price of energy, the ability of a household to afford or pay their bills can be equally influenced by how much electricity the household consumes. Difficulties in controlling consumption, for example, by requiring more energy due to life-cycle stages or using inefficient appliances will usually result in higher bills and increased payment difficulties.

Households likely to have difficulty controlling the amount of electricity they consume include households with occupants predominantly at home, as a result of life-cycle stages, illness or unemployment. Similarly, households with thermal inefficiencies - poor quality housing construction, inadequate insulation, inefficient appliances and reliance on electricity as the primary power source – will equally have trouble controlling their consumption (see generally VCOSS, 2003). Such households will typically include tenants in public housing as well as low-income private rental, where housing stock is often poor in quality and occupants have little ability to improve housing stock (VCOSS, 2003).

Difficulties controlling consumption also tends to affect consumers in rural and regional areas who do not have access to reticulated gas. These consumers are forced to rely on electricity, a more expensive type of energy, as their predominant power source or LPG gas, which is even more expensive. Stakeholders representing rural and regional communities noted that the lack of substitution of electricity as an energy source was a critical problem for their constituents (interviews, 2005). This was particularly the case for those households in areas that experience the extremes of weather year round. For example, most households in the Murray Mallee region receive comparatively high electricity bills without a means of reducing their consumption of this power source.

The primary way in which a household can reduce its consumption levels is through energy efficient stock and appliances. This includes insulation, energy efficient appliances, housing and the use of alternative energy sources such as reticulated gas. In a Media release from the Minister for Energy Industries and Resources (2004), Mr Theophanous explained, 'retrofitted homes can save up to $170 on energy bills per year'.

A number of financial counsellors, representing both low-income and disadvantaged clients from metropolitan Melbourne and rural and regional Victoria stated that with respect to energy efficiency, reform has failed low-income consumers (interviews, 2005). Specifically, it was reported that during the period under the SECV, much more was done in relation to energy efficiency initiatives for low-income consumers. A comparison was drawn between the extensive nature of the SECV's home energy advisory service and the limited nature of the advice provided by energy retailers today (interviews, 2005).

As part of the SECV's advisory service, energy audits were undertaken and where necessary, insulation and efficient appliances were supplied to assist consumers to control their consumption levels. By contrast, energy retailers today have an obligation under the regulatory framework of information provision only. It was argued that the provision of information about energy efficiency alone is insufficient. Particularly, in the absence of proper home audits and funds to assist to retrofit, bare advice is meaningless.

In addition, several financial counsellors (interviews, 2005) noted that on occasions energy companies have failed to meet their current obligations under the Retail Code by either failing to provide energy efficiency advice to customers experiencing payment difficulties or providing insufficient or inappropriate advice. In a similar vein, the FCRC (2004) in a submission to the ESC discussed the regular failure by energy retailers to provide energy efficiency advice. The following case study was provided by way of example (FCRC, 2004:31),



> Mr A is a young person on Austudy and works part-time. He rents an all electric flat. His first electricity bill was excessive at $327. He immediately contacted the retailer. He was asked to agree to an instalment plan of $85 per fortnight in order to pay the arrears. The next bill was $410 although he had consciously restricted his consumption. The retailer then suggested he move dwelling.

A stakeholder (interview, 2005) commented in a similar vein, as follows,

> [Retailers] are required under the Code to provide energy efficiency advice but people are directed to a couple of pages on the website … We have heard stories about people being told on the phone that their fridge is the problem … which is often the case, but maybe you would want to know for sure before you chuck it away and buy a new one. And I think there is a tension there from the retailers that reducing consumption isn't necessarily something that they feel great about encouraging.

Financial counsellors (interviews, 2005) also raised concerns about the energy efficiency information available on retailers' websites, arguing it is virtually meaningless to low-income consumers who are unlikely to have access to the Internet. Indeed, recent studies indicate that low-income families are less likely than wealthier families to have Internet access. A research report by the National Centre for Social and Economic Modelling (**NATSEM**) noted that the take-up of household Internet services by the year 2000 varied significantly according to household income - higher-income households were much more likely to have access to the Internet than low-income households (Sharam, 2003). The Smith Family (McLaren and Zappalà, 2002) have also produced research indicating that low-income families are less likely to have Internet access and to a lesser degree, a computer. Similar findings were made in research undertaken by the Australian Bureau of Statistics (ABS, 2003).

The Victorian Government and the ESC (2004b) have clearly recognised the impact of thermal inefficiencies on the size of a household's energy bills. Importantly, energy efficiency initiatives are currently being pursued in Victoria through the Energy Task Force project, a joint initiative of the SEAV and the Department of Human Service's Neighbourhood Renewal (SEAV, 2003). Piloted in 2003, the Energy Task Force has received considerable funding from the Victorian Government to target 16 low-income areas over the next three years.

However, we consider that there is a much greater need for energy efficiency initiatives than can be sustained by the Energy Task Force. In addition, a rural financial counsellor (interview, 2005) raised a concern about the areas that are being targeted by the Government under energy efficiency initiatives. In particular, the areas most in need, namely those without access to reticulated gas supply, are not being targeted, thereby creating distributional issues.

Electricity retailers currently have little incentive to undertake broad energy efficiency programs comparable to the energy efficiency advisory service of the former SECV. One financial counsellor noted that the SECV had a key interest in reducing consumption to avoid the need for and costs associated with a new power station. In today's marketplace, retailers seeking to make a profit and encourage higher levels of consumption to make the margin worthwhile presumably have the opposite incentive.

Overall, therefore, reforms have seen a reduction in energy efficiency programs, which is a detriment to those low-income households, including rural and regional households, experiencing affordability problems. In this sense, those consumers have not received meaningful benefits from reform. They are also disproportionately disadvantaged as the current levels of difficulty they experience with paying bills and maintaining access is, arguably, being exacerbated.

In our view, wide-ranging energy efficiency and retrofitting initiatives are critical in order to address a major contributor to affordability issues for low-income households and the consequent distributional problems that affordability problems give rise to. Such initiatives could be modelled on the United Kingdom's fuel poverty strategy by involving the ESC, industry and government in a range of programs. The UK's strategy, introduced in November 2001, encompasses a range of programs to alleviate fuel poverty which are implemented and carried out by the UK Government, the energy regulators, private energy companies and local councils (UK Department of Trade and Industry, 2003). For example, under the UK model, energy companies are required to meet energy saving targets through active promotion of energy saving measures to residential households, at least 50% of which must relate to low-income groups (UK Department of Trade and Industry, 2003).

Tenants are a major group of consumers who are affected by affordability problems as a result of energy inefficiencies. As a minimum, to protect this vulnerable consumer group, the Victorian Government should seek to upgrade the energy efficiency of public housing as well as mandate minimum energy efficiency standards for private rental premises. In addition, retrofitting initiatives need to be specifically targeted to those low-income households in rural and regional Victoria whose affordability problems are exacerbated by a reliance on electricity as a power source. This is particularly so given stakeholder concerns about which geographical areas are currently being targeted by the Energy Task Force and those which are not, particularly the Murray Mallee region and Gippsland.

***c) Inadequate income***

The final factor impacting on the affordability of energy is the income of a household – if a household has inadequate income, it will be forced to juggle competing needs. Central to a household's ability to afford the energy it uses is the availability of government-funded energy concessions and grants. Generally available to concession-card holders,[17] concessions include the Winter Energy Concession (providing a discount on gas and electricity bills during winter) and the Utility Relief Grant (a once-off concession for situations of unexpected hardship caused by unemployment, sickness or funeral expenses).

While concessions and grants do clearly assist to make immediate bills more affordable, there are criticisms about how effective the current concessions and grant framework actually is in assisting consumers with long-term affordability problems. The FCRC (2004:29) specifically noted that financial counsellors were 'uniformly dissatisfied' with the operation and scope of Utility Relief Grants. Issues and concerns include the narrowness of the scope for a Utility Relief Grant, the complexity of the application forms and inconsistency amongst retailers in the level of assistance provided to consumers who may be eligible for a grant (FCRC, 2004:29-

[17] Including Pensioners Concession Card, Health Care Card, Health Benefits Card or a Department of Veterans' Affairs Gold Card.

30). At times, it was noted, retailers fail to provide customers with adequate details on the availability of concessions and grants (FCRC, 2004).

The inability of the current concessions scheme to render essential services more affordable for many low-income households was also highlighted by Rich and Mauseth (2004) in their report. We therefore consider that in light of current trends in disconnections and the ESC's finding that affordability problems are affecting an extensive number of Victorians, a comprehensive assessment of the concessions and grants framework needs to be undertaken to determine how effective it is in aiding affordability.

***The Energy Retail Code***

The Retail Code encompasses obligatory minimum standards in relation to disconnection for non-payment and payment difficulties. In particular, the Retail Code prescribes certain procedural steps that a retailer must undertake, including several notifications of the failure to pay a bill, before it can disconnect a customer for non-payment.[18] The Retail Code also imposes obligations on the retailer to undertake an assessment of the customer's capacity to pay and to offer an appropriate instalment plan, undertake to monitor the customer's consumption while on an instalment plan as well as provide information about concessions, grants and energy efficiency.[19]

However, many community advocates remain concerned that retailers often fail to carry out their obligations under the Retail Code or fail to carry them out in a meaningful way,

> In cases of hardship, many instalment plans made between the customer and the retailer – when the customer has not had advice from an advocate – fail as the retailer bases the plan on recovery of debt within a 12 month period or less ….. However, in a majority of cases such instalment plans involved the continuing accumulation of arrears because the rate of repayment does not cover future consumption (FCRC 2004:26)

This appears to be evident across the period of reform. For example, Kliger (1998), who documented 215 case studies collected from financial counsellors between 1 January 1988 and 1 October 1998, reported that in 32% of cases where customers were in financial hardship, energy retailers proposed unrealistic payments plans.

An example of the consequences of an unrealistic payment plan is clear from the following response to the CLCV Survey (Wallis, 2004b:34-35),

> I couldn't afford to pay a particularly high electricity bill. … I went onto a payment plan to pay $60 a month seeing that the reduced bill was still around double my usual bills. I had a lot of trouble paying it off. I reduced the amount I spent on petrol, entertainment for the kids (for example, videos etc) and bought cheaper brands in the supermarket.

In addition, while all electricity retailers have now implemented or agreed to implement hardship policies, the almost universal perception amongst consumer advocates, including financial counsellors, is that the current state of hardship policies is far from ideal. In a similar vein, EWOV (2004b:4) has noted,

[18] Retail Code, Clause 13.1.
[19] Retail Code, Clauses 11 and 12.

> … the hardship programmes implemented (or being implemented) by a number of electricity and gas retailers were not yet sufficiently accessible to customers, or comprehensive enough, to proactively address capacity to pay issues.

Given the aim of minimising disconnections for inability to pay, it would now seem appropriate for the ESC to impose an obligation on retailers to develop hardship policies based on minimum standards. This could be imposed as a guideline set out in the Retail Code, or similar to the hardship policy obligation in the water Customer Service Code covering metropolitan and regional-urban water businesses that mandates a standardised set of minimum obligations in dealing with customers in hardship. A minimum standards framework for hardship policies would reduce the scope for arbitrary and ad hoc policies that fail to adequately address the needs of low-income consumers.

The content of a minimum standards framework for hardship policies could be modelled on the guidelines developed for energy companies when dealing with debt and disconnection in the United Kingdom.[20] The guidelines were developed by Ofgem, together with EnergyWatch, the electricity and gas watchdog, in consultation with energy retailers and consumer representatives. The guidelines are based on the following minimum standards:

1. Methods of identification of customers in financial hardship;
2. Minimisation of billing errors;
3. Links to retro-fitting/efficiency programs;
4. Flexible payment options;
5. Sustainable solutions to extreme hardship; and
6. Targeted assistance to vulnerable customers.

These standards are outlined in Table 4.1, below.

It is also pleasing to note that there have been significant developments over the past year in order to try to address the issue of financial hardship of energy consumers in Victoria. These include the Utility Debt Spiral Project initiated by the Committee for Melbourne and the Victorian Government's Committee of Inquiry into Financial Hardship of Energy Consumers.

***Committee of Inquiry into Financial Hardship of Energy Consumers***

On 13 March 2005, the Victorian Minister for Energy and Resources, the Hon. Theo Theophanous, announced the establishment of a Committee of Inquiry into Financial Hardship of Energy Consumers. In response to reports by consumer advocacy groups, EWOV and the ESC, which highlighted significant concerns around the management of energy consumer hardship, particularly disconnections for non-payment of energy bills, the Committee of Inquiry aims to develop an effective hardship policy framework and further address the issue of supply disconnection. The inquiry aims to:[21]

- examine situations where consumers are disconnected on account of being genuinely unable to afford their energy bills;

[20] The development of the guidelines is part of Ofgem's broader Social Action Plan. For further information about the guidelines see www.ofgem.gov.uk.
[21] The full terms of reference for the Inquiry can be found at http://www.doi.vic.gov.au/doi/internet/energy.nsf.

- assess the impact on consumer hardship of the policies and practices of energy retailers, government departments and agencies, and financial counsellors and welfare agencies; and
- recommend a broad allocation of responsibility for mitigating against energy hardship between retailers, government and consumers.

The Government made a commitment to halt the use of pre-payment meters until it receives and considers the Committee's advice around the relevant issues.

Three Committee members were appointed by the Minister to undertake the Inquiry, namely, Professor John Nieuwenhuysen AM (Monash University), Ms Cath Scarth (Brotherhood of St Laurence) and Mr John Huitfeldt (Customer Service Benchmarking Australia). A Reference Group comprised of representatives from welfare and consumer organisations, the energy industry and two State MPs, were also appointed to assist the Committee.

The Committee has stated that it will provide a final report to the Minister for Energy Industries and Resources in late 2005.

***Utility Debt Spiral Project***

The Utility Debt Spiral project harnessed the expertise and involvement of business, government, regulators and civil society to test the premise that water, electricity and gas bills can be a significant factor in personal debt spirals and the poverty trap. Participants in the project proceeded on the basis that:

- no person should be disconnected from an essential service solely due to an inability to pay; and
- essential services should be available to all on fair and reasonable terms, and without compromising health and other welfare needs.

The project then examined and identified Victorian experiences in relation to:

- the characteristics of people at risk;
- the characteristics of effective social and economic regulatory frameworks and policies to assist people at risk; and
- a range of 'best practice' solutions to address payment problems for disadvantaged utility consumers.

These experiences were consolidated into a comprehensive report in 2004. In particular, the report noted that metropolitan Melbourne water retailers have taken a leading role in developing hardship policies and this has contributed to the development of customer hardship programs by energy retailers, including AGL, Origin Energy and TRU Energy.

***Table 4.1 Hardship Policy Standards***

| | Hardship Policy Standard | Policy Comments |
|---|---|---|
| 1 | Methods of identification of customers who are in financial hardship | EWOV (2002c) noted a failure by energy retailers to appropriately identify customers in hardship (as distinct form those who can pay but won't pay) with higher disconnection levels as a result. Looking at 532 disconnection cases received by EWOV between January 2002 and September 2002, it noted that in most of the cases, 'capacity to pay' issues were clearly evident, yet disconnection was still threatened or actual. Clearly, customer capacity to pay was not being accurately assessed (EWOV 2002c; 2003c).[22] Similar findings were also made in the Disconnections Report. Better processes of identification are needed including training of call centre staff, interpersonal training on empathy and non-judgmental treatment, the 'flagging' of customers in hardship (given customers may speak to different call centre staff on every occasion). Customer accounts may also be monitored for indicators such as high consumption levels and frequent late payments, as suggested in the UK Debt and Disconnection Guideline. |
| 2 | Minimisation of billing errors | Billing errors, including delayed and inaccurate bills, can exacerbate payment problems. The UK guidelines provide examples of good practice including obtaining an actual meter reading at least once a year and providing regular and accurate bills to customers most at risk of debt. |
| 3 | Retro-fitting/efficiency programs | Processes need to be put in place to help call centre staff identify consumers in need of energy efficiency advice, including using customer identification records and should form part of a broader program as outlined above. |
| 4 | Flexible payment options | In response to concerns about the incidence of unrealistic or unsuitable instalment plans (which further exacerbate hardship), the guideline or benchmark contract for hardship policies should incorporate a requirement that retailers provide a sustainable and achievable hardship plan taking into account the household's financial capacity including current and ongoing needs. A broad definition of need would include all needs associated with a minimum standard of living and health and well-being as well as some allowance for unexpected crises (such as unemployment) or periodic periods of income difficulties. |
| 5 | Sustainable solutions to extreme hardship | Best practice hardship policies should incorporate sustainable solutions to extreme hardship, for example, a discretionary power to apply a partial waiver for extremely high debts (in circumstances where it is clear that the customer will never be able to meet the full debt). As well, improved links to community agencies providing support and assistance for wider financial problems and ongoing hardship should be considered in a minimum standards framework.<br><br>Overall, to ensure that any guideline or benchmark contract operates effectively as a best practice standard, the ESC will need to assume a critical monitoring role. Reporting requirements for retailers should include their performance against their hardship policy and the ESC's comparative performance reports should record this performance to allow public scrutiny of ongoing effectiveness. |
| 6 | Targeted assistance to vulnerable customers | Some low-income consumers are particularly vulnerable for reason of a disability (intellectual or physical), mental health or low-English proficiency. As a minimum, retailers should have in place processes to identify such customers and to deal with them appropriately. |

[22] See also EWOV (2003c) in which the results of EWOV's Disconnections Report are summarised. Similarly, Stewart (2005) noted that all of the low-income households who had been disconnected from supply, who were interviewed as part of the study, were facing significant hardship at the time they were disconnected. Nevertheless, in the majority of cases, the retailer did not accept that they were in hardship. This may be attributable in part to cultural issues within call centres including time limits for incoming telephone calls.

## 4.4 Access And The Competitive Market

**Barriers to access in the competitive market:**

***Getting connected – the obligation to offer supply***

It is conceivable that in a competitive energy market, retailers may wish to avoid supplying to consumers that they perceive as at risk of not paying the bill or who do not use enough energy to make supply profitable. This type of market outcome, sometimes termed 'redlining', presently exists in varying degrees in the deregulated financial services market. This form of market failure leads to distributional issues and creates clear winners and losers.

For example, many low-income and disadvantaged consumers are frequently unable to access affordable mainstream financial products, particularly credit products. Those consumers are instead relegated to a fringe market where products come at a much higher cost and are often exploitative in nature (see generally, Stewart, 2005).

The possibility that some consumers may be refused electricity supply in a contestable market is an issue of significant concern. If a household was refused supply, the consequences to health and well being are obvious. However, at present, all energy retailers have a legal obligation to supply to households within their host area. That supply must be provided on standard prices, terms and conditions, as published in the Victorian Government Gazette.[23]

The obligation to supply households under either the Deemed Offer Contract (where a household has not moved since the introduction of FRC) or the Standing Offer Contract (for new households) was originally due to sunset in 2002. However, it was subsequently extended to 2004 and following a recent review by the ESC into the effectiveness of FRC and the consumer safety net provisions in the regulatory framework for energy, it has again been extended until 31 December 2007.[24] In its report to the Minister for Energy and Industries, the ESC (2002a:34) explained,

> The Commission's assessment of the future need for energy safety net protections has been based on the proposition that access to electricity and gas services remain essential for both residential and small business customers…. For residential customers, energy is essential to the maintenance of health, safety, comfort and survival at accepted minimum standards of living in today's society.

In the current market, low-income and other disadvantaged consumers will therefore be protected by the guarantee of access to electricity supply on standard prices, terms and conditions until December 2007. Nevertheless, we consider that some form of obligation to offer supply on standard prices, terms and conditions will always be necessary to protect low-income and other disadvantaged consumers from market failure.

[23] Section 35(1) of the *Electricity Industry Act 2000* (Vic) provides that a license to sell electricity is subject to a condition requiring the licensee to offer to supply and sell electricity to domestic or small business consumers at standard prices, terms and conditions as published in the Victorian Government Gazette. The Standing Offer Contract applies where a household requests connection and does not negotiate a Market Contract for supply with the host retailer. Where a household has not sought connection since competition was introduced, they are supplied under the Deemed Offer Contract.

[24] The *Energy Legislation (Amendment) Act 2004* made a number of important changes to the *Electricity Industry Act 2000* (Vic). In particular, the new legislation extended the obligation to supply for another three years, until 31 December 2007.

***Additional barriers – refundable advances and access to credit databases***

Despite the current protection afforded by the obligation to supply, we consider that the competitive market has given rise to two new barriers to consumer access. The first is the ability of retailers, in certain circumstances, to require a refundable advance before connecting a consumer to supply. The second is the ability of retailers to access credit reference databases and list defaults arising from a failure to pay an energy bill on those databases.

Under the Retail Code, retailers have a right to require, in certain circumstances, a refundable advance as a condition of supply.[25] A refundable advance essentially operates as a security deposit in the event that a consumer defaults on a bill. The circumstances in which a retailer can require a refundable advance include if a consumer has failed to pay an electricity bill at a previous supply address or the consumer has an 'unsatisfactory credit rating'. Pursuant to *Electricity Industry Guideline No. 4 – Credit Assessment* (Credit Assessment Guideline), an 'unsatisfactory credit rating' will only arise where a consumer has a default listing on their credit report arising from the failure to pay a utility bill in the last five years.[26]

Since 1997, data collected by the ESC reveals that the numbers of requests for refundable advances from residential consumers are small, with numbers 'steadily decreasing since 2000' (2004c:8). For example, in 2002, only 397 refundable advances were imposed on residential customers (amounting to approximately 0.02% of all Victorian customers) (ESC, 2004c:8).

While this is a relatively small number of refundable advances, the ESC (2004c:8) has nevertheless noted that the majority of customers who were assessed as having an 'unsatisfactory credit rating' for the purposes of a refundable advance were customers who have experienced difficulty in previous bill payment 'because of a lack of capacity to meet their financial obligations'. Clearly, refundable advances are therefore being applied to consumers in financial hardship, not simply those who have chosen to skip paying the bill.

In our view, a refundable advance should not be applied in circumstances where a failure to pay a bill and consequent default listing was the direct result of a consumer's financial hardship. In these circumstances, the application of a refundable advance can only serve to exacerbate the consumer's financial difficulty. For example, where a consumer cannot afford the advance (which is not unforeseeable), the consumer might be forced to go without other essential needs, including food, in order to pay the refundable advance and guarantee the household's initial connection. The consumer might also borrow on an unsustainable basis, for example, he or she might use a payday loan to cover the cost of the refundable advance.

***Access to credit reference databases***

The ability of retailers to access credit reference databases for the purpose of determining if a consumer has an 'unsatisfactory credit rating', carries a reciprocal obligation to add default listings to those databases in circumstances where a consumer fails to pay an electricity bill.

Credit reporting and access arrangements are regulated under Part IIIA of the *Privacy Act 1988* (Cth). Pursuant to that legislation, credit reporting agencies may allow 'credit providers' to access the personal credit information of consumers. The definition of credit provider in

[25] Retail Code, Part 3 – Credit Management.
[26] Credit Assessment Guideline, clause 3.1. The Credit Assessment Guideline was issued pursuant to section 13 of the *Essential Services Act 2001* (Vic). Credit Assessment Guideline, clause 2.1.

the *Privacy Act* is broad and will encompass all contracts under which a person is permitted to defer payment of a debt, or to incur a debt and defer its payment. According to a credit reporting advice summary issued by the Office of the Federal Privacy Commissioner on 4 April 2002, utility companies are deemed 'credit providers' for the purposes of the credit provisions under the *Privacy Act.* The supply of energy to be paid for at a later date is considered to be the supply of credit for the purposes of Part IIIA.

As discussed above, default listings with respect to an energy bill can result in a retailer requiring a refundable advance from a consumer. In addition, a utility default listing on a consumer's credit report can also result in the consumer being denied access to other essential goods and services. In particular, consumers with utility default listings might be denied certain mainstream credit products (see generally Stewart, 2005). Charlie's story is illustrative of this outcome.[27]

> ***CHARLIE'S STORY:***
>
> Charlie lived in shared rental accommodation and opened an account with a water utility in his name. Upon leaving the house Charlie neglected to change the name on the account. He later discovered that bills incurred after his departure had not been paid and as a consequence, a default listing had been placed on his credit report regarding the arrears.
>
> Now, despite earning an income in excess of $60,000, Charlie is unable to obtain a home loan.

Pursuant to the Credit Assessment Guideline, electricity retailers can only report a 'relevant default' against a customer. A relevant default is a failure to pay a utility bill in the last five years of more than a specified amount – that amount is deemed confidential on the basis that the ESC considers that it could expose retailers to competitive disadvantage.

However, there are some circumstances in which a retailer cannot report a 'relevant default' against a customer. For example, an electricity company cannot report a default arising from a bill about which the customer has made a complaint to EWOV 'in good faith' and the complaint has not yet been resolved. In our view, those circumstances should be extended to where the failure to pay a utility bill has arisen as a direct result of financial hardship. Otherwise, the reporting of a default will only serve to exacerbate the consumer's relative disadvantage.

### *Access to the competitive market and market contracts*

With the introduction of FRC in 2002, all Victorian households are entitled to negotiate to obtain their energy supply from an alternative retailer, or their current retailer, under a market contract. To date a relatively small, but growing, proportion of consumers have taken up this option. In 2004 659,020 Victorian energy customers switched retailers, compared with

[27] Charlie, whose name has been changed for privacy, was included in the Consumer Credit Legal Service's, *Submission to the Privacy Commission on the Review of Credit Reporting Determination No.1 of 2002* (November 2002) at 18-19.

363,993 in 2003 – at the end of December 2004, the annualised switching rates were 20% for electricity and 18% for gas (ESC 2005a: 22).[28]

So, who has entered market contracts? Are all consumers able to access market offers or is it more difficult for some? In addition, can all consumers take real advantage from switching supplier such that the competitive market offers equal benefits to all? Or are some consumers better placed to receive the benefits, while others will miss out? In short, are there winners and losers in the competitive market?

According to the ESC (2004a, 2004b) the energy market remains in a formative stage of development. Generally, a lack of information and understanding is inhibiting customer access to energy market contracts.

However, the ESC (2004a, 2004b) found that competition is 'fully effective' in delivering price and non-price benefits for approximately 40% of small business and residential consumers, being those consumers for whom a sufficient margin exists on supply. Typically, those consumers for whom competition can deliver real benefits are higher volume energy users with dual fuel capability, that is, consumers who are capable of being supplied both electricity and gas by the same retailer. In addition, those consumers tend to be located in metropolitan areas or larger regional centres.

It is also clear that there are significant distributional issues in terms of the consumers who are in a position to both access and receive the benefits of a competitive market. In particular, the ESC (2004a:4) notes that there are groups of consumers who are at a relative disadvantage in their ability to access market contracts,

> Many customers currently offer small or even negative margins to retailers compared to the standing offer prices. Other customers are more difficult and costly to access with their marketing program … Many of these customers are not yet able to take advantage of the developing retail energy market and others, due to their low consumption or high off-peak usage, may still be paying standing offer tariffs which are below the cost of supply.

Typically, those consumers at a relative disadvantage are those who offer only small or negative margins relative to the margins available under the standing or deemed offer contract, the result of the significantly higher costs of supply in a cost-reflective pricing context. Specifically, energy retailers acknowledge that customer attractiveness is largely driven by consumption and several retailers report that they would not consider making market offers to customers with consumption below a particular threshold level (ESC, 2004b). In addition, 'customers on off-peak tariffs are targeted for exclusion by retailers' (ESC, 2004b:117).

Consumers living in rural areas and smaller regional centres are also at a relative disadvantage in their ability to access market offers because they are less likely to be targeted by retailer marketing strategies (ESC, 2004b:89). In the survey conducted by Wallis (2004a) for the ESC it was found that rural and regional consumers were generally not being targeted for market offers,

> Domestic consumers living in Melbourne were much more likely to have been contacted that those living outside the metropolitan area. (Wallis, 2004a:28)

A similar pattern was also evident in the survey of 138 low-income Victorians undertaken for the CLCV, in which Wallis (2004b) found that more than half (52%) of respondents

[28] At the time of writing, the ESC could only report on the number of customers who switched retailers, not those who entered into a market contract with their existing retailer.

interviewed claimed not to have been approached by a supplier of electricity or gas for a market offer. Of those who had not been approached, 60% were living in rural areas.

As door-to-door sales (which account for around 54% of retailer sales strategies) are generally considered the most effective marketing strategy, it is not surprising that retailer marketing of contracts was generally limited to metropolitan Melbourne and larger regional centres. In these areas, the costs of door-to-door marketing can be matched with the potential for a higher take-up rate. As a result, consumers in rural Victoria and remote areas had not received the level of market offers that were received by consumers in metropolitan Melbourne (ESC, 2004b). Previous reports reveal that this pattern was also evident in the earlier stages of FRC (CLCV et al, 2002).

This obviously creates a real distributional issue for more remotely located consumers in terms of their ability to access market contracts. On this issue, the ESC (2004b:89) concluded that,

> … as a result of possible higher costs to acquire regional customers, regional customers have needed to be more proactive in seeking market offers to obtain similar benefits and price discounts to those available to metro customers.

Moreover, Wallis (2004a:29) also revealed that at present consumers are 'less likely to initiate contact with an electricity or gas retailer in order to purchase supply' with 'less than one in ten (8%) domestic customers reported having done this'. It is arguable therefore, on the basis of this survey response, that there is currently a high degree of customer inertia in the contestable market, with the result that relatively few consumers are actively 'shopping around' for competitive offers.

In light of the present degree of customer inertia in the market place, we suggest that marketing strategies of retailers which specifically exclude more remotely located consumer groups are even more likely to give rise to distributional issues in terms of access to competitive offers. In short, consumers are not being proactive in accessing the market and it is therefore not sufficient to state that regional customers 'have needed to be more proactive in seeking market offers'. For those consumers to overcome the competitive disadvantage associated with their remote location, more work needs to be done surrounding the issue of customer inertia, the reasons for why its exists and whether it affects all consumer groups equally.

In addition, the ESC (2004a, 2004b) noted that some consumer groups are at a relative disadvantage in the competitive market as market contracts do not presently offer any real benefits to them. Specifically, the ESC (2004a) found that market offers are predominantly long-term contracts (usually for three years or more) and, coupled with early termination fees, they do not correlate with the shorter term living arrangements of the majority of tenants.

We suspect that the incidence of long-term market contracts is likely to stem from the fact that generally, domestic consumers offer only low margins to retailers as compared with business or industrial users. As a result, a market contract for a domestic consumer will need to be of an extended duration for supply to be worthwhile. In addition, given that the majority of consumers who have switched retailer did so after being contacted by retailer, that initial marketing cost will have to be matched by a longer term contract if it is to equate to any real benefit to the retailer.

As part of its review of FRC, the ESC invited public submissions. In its submission, the Tenants Union (Nelthorpe, 2004) noted that tenants generally have no real choice to switch to a market contract because such contracts typically contain early termination fees of



between $50 and $75. As a result, tenants are forced to choose the standing offer contract although it offers no real price or service benefit to them. Wallis (2004a) also noted the argument that tenants were a group of consumers, in addition to rural and regional consumers, who were less likely to be targeted by retailers for market contracts.

The ESC (2004b) also recognised that there are general barriers to accessing market offers which affect all consumers groups. Primarily, the ESC identified that information asymmetry between retailers and consumers as well as low levels of confidence in relation to switching amongst consumers operate as barriers to exercising choice even in a strongly competitive electricity market.

For choice between competing retailers to be effective in real terms, several factors need to exist. In particular, consumers need to have knowledge of their right to choose and the choices available to them, be in a position to compare offers, have equal bargaining power and to have low switching costs (Bowman, Coghill and Hodge, 2004).

In the current Victorian market it is clear that not all of these factors are present. In particular, Wallis (2004a) found that while consumers generally were aware of their right to choose between energy suppliers, 50% of consumers were not able to name an alternative to their current electricity supplier (Wallis, 2004a). The proportion of those unable to name an alternative supplier rises amongst those who do not have a market contract, accounting for 55% of respondents (Wallis, 2004a).

Wallis (2004a) found that consumers also reported low levels of confidence in relation to choosing to switch retailer. Further, the findings of a similar survey conducted in 2002 at the outset of FRC were also compared. This led to the conclusion that current rates of consumer confidence are actually lower than they were in 2002. Wallis concluded that, 'there has been a general erosion in confidence' (Wallis, 2004a:15).

As a result of the Wallis (2004a) findings, the ESC (2004b) proposed that consumers would be better positioned to access the market with a greater availability of user-friendly information. Following on from this proposal, the ESC has now developed an on-line facility to enable consumers to compare market offers. The ESC's on-line 'Energy Comparator' (ESC, 2005b) was launched in September 2004 and has been described by the Minister for Energy Industries and Resources (2004) as follows,

> The 'Energy Comparator' is a great tool to help customers to better understand and take advantage of competitive energy retail offers. It provides all the information consumers need to reject or accept a new offer made by an energy retailer. … It demystifies many of the complexities around understanding a gas or electricity offer made by an energy retailer.

The ESC (2004a:22) also proposed that targeted consumer education would 'raise awareness of the process, improve confidence and motivate market participation'.

As noted previously, to assist in overcoming the difficulties faced by consumers when endeavouring to compare offers, in mid-2005 the ESC undertook a review of price and information disclosure guidelines in the Victorian electricity market. In the *Final Decision: Energy Product Disclosure – Internet-based Disclosure* (ESC, 2005d:4) the ESC implemented a 'legislative obligation on 'specified retailers' to publish details of tariffs and terms and conditions of sale on the internet' (as provided for under s.36A of the *Electricity Industry Act 2000 (Vic)*). This obligation took effect on 1 October 2005.

Wallis (2004a) identified that low levels of consumer confidence disproportionately affect certain consumer groups compared to others. In particular, the Wallis Survey reported that

domestic consumers displaying the lowest levels of confidence were those without dual fuel capability or low level usage, unaware of FRC in the electricity and gas markets, blue collar workers and/or consumers aged over 55 years of age (Wallis, 2004a:15). Not surprisingly, Wallis (2004a) also found that the small proportion of those consumers who have actively initiated contact with a retailer to negotiate a market contract were more likely to have dual fuel capability, be low gas and electricity users and be aged between 25 and 40 years. (Wallis, 2004a:30)

Many of the consumers reported by Wallis (2004a) as having the lowest levels of confidence are already likely to be at a relative disadvantage in the market place. The reason for this is that they are either likely to be considered 'unattractive' to retailers or the cost of marketing to them is too significant because of their remote geographical location.

In addition, the general barrier to access in the form of information asymmetry between consumers and suppliers affects different consumer groups to varying degrees. Wallis (2004a) specifically reported that,

> Over a quarter (27%) of domestic respondents did not know where to go to source information that would help them choose a gas or electricity supplier.
>
> Those least likely to know where to look were:
>
> - Living in outer regional areas of Victoria;
> - Unaware of their ability to choose electricity or gas suppliers;
> - Older Victorians (over 55 years of age);
> - Customers who pay the concession rate for energy; and
> - People living in low income households (especially <$25,000) (Wallis, 2004a:38).

Obviously, there are distributional issues apparent in this finding and again, it is generally those consumers already at a disadvantage who are disproportionately affected by information asymmetry. Clearly, targeted demand-side solutions such as educational campaigns and tools to assist consumers to navigate the market will need to be further improved and monitored.

In addition, while the ESC's on-line 'Energy Comparator' will provide a useful tool for consumers in navigating the market and should go some way to addressing the information asymmetry, different mediums for communicating information will need to be considered. In particular, the Internet may not be easily accessed by those consumers who are, presently, at the greatest disadvantage in the market in terms of their ability to access competition.

As previously noted, both the NATSEM and the Smith Family (McLaren and Zappalà, 2002) have produced research indicating that low-income families are less likely to have Internet access. Further, Wallis (2004a:37) reported that while one in five consumers would use the Internet to source information about retailers and changing retailers, 'this is the provenance of the young with a clear relationship existing between increasing age and declining usage of this source'. In addition, less than one in ten customers who are paying the energy concession rate reported using the Internet as a source of information (Wallis, 2004a).

The ESC (2004b) has also recognised that non-market vulnerabilities, such as low literacy levels, intellectual or physical disability, geographic remoteness and limited English language proficiency, are also adversely impacting on the ability of some consumers to participate in the electricity market. Again, these consumers are likely to be at a relative disadvantage in terms of their ability to access market contracts. The ESC (2004a, 2004b) also noted that some groups such as Indigenous consumers, may experience these vulnerabilities in combination, which increases further their disadvantage in the market.



There are other issues which can operate as barriers to consumers in accessing the competitive market which were not specifically addressed by the ESC (2004a, 2004b). The primary barrier is customer inertia which can typically result from a perception that transaction and search costs are high.

Waterson (2001), who investigated consumer behaviour in the United Kingdom energy market, found that while 92% of consumers were aware of their ability to switch supplier and most consumers were positioned to make significant savings if they switched, only 18% had actually switched. Therefore, while the market was potentially competitive, it remained in a formative stage of development.

Exploring the reasons for the low rate of switching in the energy market, Waterson (2001) compared consumer behaviour in other markets, for instance, the car insurance market. Overall, Waterson (2001) argues that a general perception clearly existed amongst consumers that switching costs in energy markets were high in terms of the time taken to navigate the market and make a choice versus the opportunity for savings. Of the 863 consumers surveyed during the research, 32% considered that it would take a full day or more to change retailer (where in fact, according to Waterson, it should take less than one hour).

Waterson (2001) also found that this perception about high switching costs exists despite a website tool for consumers hosted on Ofgem's website which displays tariffs, as well as two intermediary companies which offer on-line switching services.

Recent studies in the Victorian market indicate that a similar degree of consumer reticence to switching exists. For instance, Wallis (2004a:34) found that only 18% of residential customers reporting that they were 'somewhat' (10%) or 'very likely' (8%) to switch suppliers in the future. By contrast, 58% reported that they were 'very unlikely' to switch.

When consumers were asked about their reluctance to switch, the main reasons given were: happy with their current retailer; it was 'too much hassle'; or there was a lack of adequate information (Wallis, 2004a:35). These were the same reasons as given in the survey in 2002.

Similarly, a consumer survey undertaken by Sharam highlights that the majority of potential switchers - those who had considered changing supplier but had not done so - were deterred because of the perceived 'hassle' of switching, along with insufficient information and an inability to compare offers (Sharam, 2003). Sharam concluded that on the basis of her survey that a significant degree of customer inertia exists in Victoria's energy market.

Recently Sharam (interview, 2005) further commented that,

> … there are very few people out there actively shopping around. A lot of people are switching only because they are moving house, and most of them aren't even conscious of the fact that they are switching. I don't think that there is really any great interest in the market from households.
>
> My research has shown that people don't even compare their tariffs. The most significant factor for them to switch is price, but they aren't even comparing their tariffs.

Another stakeholder (interview 2005) also commented in a similar vein, noting that,

> … there are very few people who are actively interested in switching. This is one of the reasons why the retailers do door-to-door because it's only when you can get somebody to focus on their bills that they get some interest. According to the retailers, the big advertising campaigns don't really make that much of a difference …. there is a level of inertia there.

In summary it would seem that competition is presently being inhibited by both consumer and market behaviour, in the form of a perception about high search and switching costs. In our view, consumer perceptions about search and switching costs – a general perception that the time taken to switch outweighs the potential benefits of a market contract - also deserve consideration by the ESC and demand-side solutions must be developed further.

# Chapter 5: Quality Outcomes

## 5.1 Introduction

The quality of goods and services in a market is of central importance to consumers. If quality is poor, a consumer may not be getting their money's worth.

In the context of electricity supply, poor quality might mean that a consumer experiences frequent blackouts or interruptions to their supply. It may also mean that voltage levels are too high, leading to damaged equipment or household appliances.

The quality of customer service is also increasingly important to consumers. In this context, measures of quality include whether call centres answer calls promptly and how quickly companies respond to fault reports. For many low-income and disadvantaged consumers, the critical measure of customer service is how a company responds to them when they are struggling to meet their bills and the level of assistance provided in terms of payment options, energy efficiency advice and advice on concessions.

The introduction of competition was expected to deliver a better quality of service.

- To what extent have there been improvements in quality as a result of electricity market reform, in terms of both the quality of electricity supply and the quality of customer service?

- How have any beneficial quality outcomes been distributed amongst different consumer groups, and in particular, are there any distributional problems in terms of which consumers have received the benefits of reform?

- And in consideration of future reforms, are consumers adequately protected from negative outcomes with respect to quality?

## 5.2 Standards of Service in The Electricity Industry

One of the principal outcomes presumed to flow from competition is improved quality of products and services for consumers. It is reasonable to expect that consumers exercising 'choice' in a market place will reject poor quality options in favour of those of better quality. The corollary of this is that companies will compete on quality, as well as price, to improve market share.

However, if competition is not operating effectively, it is likely that quality outcomes may be compromised. Demand-side activity will not ensure that quality outcomes are maintained.

It is clear that the competitive energy market in Victoria remains in a formative stage of development (ESC, 2004a, 2004b). As a result, there is a central need for the regulatory framework to operate to ensure that quality outcomes are delivered to consumers. Otherwise, a reduction in service quality is, in essence, 'a price rise by another name' (Consumers' Association; 1997).

In Victoria, the setting of industry standards and the monitoring of retailer compliance with those standards is a crucial part of the consumer protection framework. As we discuss further in part 5.3 below, however, industry standards will only operate to protect consumers

if first, those standards are meaningful to all consumers and second, those standards are effectively enforced as part of a robust consumer protection framework.

**Setting industry standards**

Under section 34 of the *Essential Services Commission Act 2001* (Vic), the ESC has the power to make determinations 'with respect to standards and conditions of service and supply'. The standards of service set by the ESC for the electricity industry include:

1. Supply standards for distributors relating to the reliability (or continuity) of supply and supply at specified voltage levels.
2. Customer service standards for distributors (including response times for supply faults and time for supply restoration) and retailers (billing, credit management and customer transfers).

***Supply standards***

The primary measure of the quality of electricity is the reliability (or continuity) of supply. Planned interruptions to a consumer's supply usually occur when a distributor needs to connect new customers or carry out infrastructure maintenance works. Unplanned interruptions (commonly termed blackouts) occur without warning as a result of external factors on the electricity network, including weather, trees, birds, possums and other unforeseen events such as accidents and vandalism.

For the most part, the causes of unplanned interruptions are largely outside the control of distribution companies, however, their impact is also influenced by the design of the distribution network and the practices and procedures used by companies to maintain their infrastructure (ESC, 2003e).

Quite separate from the reliability of supply, the quality of electricity supply is also measured in terms of supply at specified voltage levels (ESAA, 2002). Where a customer experiences what is commonly termed a 'brownout' (supply is on but voltage drops to 50%), electrical equipment, including household appliances, air conditioning and computers, may not operate at optimal effectiveness (ESAA, 2002). On the other hand, if voltage levels are too high, equipment, including computers, can be damaged (ESAA, 2002).

***Reliability targets***

The ESC imposes individual reliability targets on distributors pursuant to distribution price reviews held every four years.[29] Where those targets are met or exceeded, the distributor is rewarded financially through an adjustment to the annual price cap on distribution network charges.[30]

Reliability targets vary depending on the distributor's geographic location,

> The reliability of supply will vary in different parts of the distribution network because of the relative lengths of overhead and underground power lines, their exposure to the surrounding environment, and the operation of customers'

[29] At the time of printing, the ESC had just completed the 2006 Electricity Distribution Price Review, for the period 1 January 2006-31 December 2010.

[30] Originally the payments were set according to the approximate cost necessary for the retailer to improve their standards, which would effectively cancel out and not provide an incentive. Of the current financial incentives to improve performance, the ESC says they have been calculated in such a way that they are not outweighed by an alternative incentive to reduce expenditure at the expense of quality and reliability standards.



equipment. Individual customers may experience more or fewer than the average number and duration of interruptions (ESAA, 2002).

Generally, central business districts will have the highest level of reliability because the greater use of underground cables reduces the impact of external factors on network infrastructure. In addition, central business districts, 'can usually be supplied from a number of different substations and remotely controlled or automatic switchgear can virtually assure continuous supply or greatly reduce restoration times in the event of a failure' (ESAA, 2002:7).

By comparison, residential areas will experience greater numbers of interruptions to supply because they are usually supplied power by a combination of overhead lines and underground cables. However, as residential areas are usually supplied from an interconnected network with at least one alternative source of supply, unplanned interruptions can usually be restored within an hour or two (ESAA, 2002).

In rural and regional areas, the predominance of overhead power lines, combined with a lack of interconnections to alternative sources of supply, means that consumers who reside in these areas will experience the greatest proportion of interruptions (ESAA, 2002). As a result, those distributors who supply to predominantly rural areas (Powercor and SPAusNet ) are generally expected to have lower levels of reliability than distributors with urban distribution networks (AGL and United Energy) and central business districts (CitiPower). As a result, they will also generally have lower individual reliability targets (ESC, 2003e).

Reliability targets include targets relating to the total minutes off supply for each customer annually, customer interruption frequency (how often a customer's supply is interrupted) and customer interruption duration (for how long a customer is interrupted). Targets are set for both planned and unplanned interruptions, in accordance with the technical indices set out at Schedule A to this report.

***Guaranteed service level payments***

Under the Electricity Distribution Code (the **Distribution Code**)[31], there are five guaranteed service levels (**GSLs**) or service thresholds, which attract a payment to affected customers.[32] Two of the GSLs specifically provide for payment where a customer experiences excessive unreliability:[33]

- Supply restoration – Where the customer experiences an interruption of greater than 12 hours, the distributor must pay the customer $80. [34]
- Low reliability – Where an urban customer experiences more than 9 annual interruptions or a rural customer more than 15 annual interruptions (not including momentary interruptions) the distributor must pay the customer $80.[35]

***Supply at specified voltage levels***

Distributors have obligations under the Distribution Code to supply electricity within a specified voltage range.[36] Distributors also have obligations to minimise the frequency of voltage variations - short increases (power surges) or decreases (dips or brownouts).[37]

[31] ESC, *Electricity Distribution Code* (1 January 2002).
[32] Distribution Code, Clause 6. GSL payments are only payable to small customers (small business and residential). Distributors may make a formal application to the ESC to exclude the impact of certain events from the requirement to make certain GSL payments (supply interruptions or low reliability payments).
[33] The other GSL standards are discussed in more detail in Part 3 - Customer service standards (below).
[34] Distribution Code, Clause 6.3.1.
[35] Distribution Code, Clause 6.3.2.

Another important indicator of supply quality is the frequency of harmonic distortions, often caused by large scale industrial equipment injecting disturbances into electricity supply creating small persistent distortions of the voltage waveform that can be likened to water impurity (ESC, 2003e). The Distribution Code sets out voltage harmonic distortion limits and requires distributors to comply with an international standard on recommended practices for harmonic control in electrical power systems.[38] The Distribution Code also requires compliance with inductive interference limits specified in Australian Standard 2344-1997.[39]

Where a customer's equipment or appliances are damaged as a result of voltage variations, the *Electricity Guideline No.11: Voltage Variation Compensation* (the Voltage Guideline) provides for compensation where direct loss results from voltage variation (ESC, 2001b). However, the Voltage Guideline does not codify liability for damage – it establishes a principle that compensation in accordance with the guideline 'is good customer practice and achieves an efficient allocation of risk' (ESC, 2004e:58).

**Customer service standards**

***Retail companies***

Pursuant to the licenses to supply electricity issued by the ESC, retailers are required to comply with the *Energy Retail Code* (Retail Code)[40], the *Electricity Customer Transfer Code* (Transfer Code)[41] and the *Code of Conduct for Marketing Retail Electricity in Victoria* (Marketing Code).[42]

The Retail Code establishes minimum retail standards for customers consuming less than 160MWh/year, including the rights and obligations of retailers and their customers with respect to billing and payment, customer information, complaints handling, disconnection for non-payment, and other matters. The standards under the Retail Code are set out in detail in Schedule C of this report.

The Transfer Code specifies the rules associated with the transfer of customers between retailers, including when the transfer may occur in association with a meter reading and whether there can be any objections to the transfer from other market participants. Many of the rules relating to transfer are implemented through the central computer system operated by NEMMCO.

There are also guidelines with which retailers must comply, most relevantly:

- *Electricity Industry Guideline No.4 - Credit Assessment;* and
- *Electricity Industry Guideline No.10 - Confidentiality and Explicit Informed Consent*.

In addition, with the new *Energy Legislation (Amendment) Act 2004*, retailers are now obliged to make 'wrongful disconnection payments'.[43] This new obligation, which came into force on 8 December 2004, requires retailers to make a payment if the retailer 'wrongly'

[36] Distribution Code, Clause 4.2.
[37] Distribution Code, Clause 4.2.4.
[38] Distribution Code, Clause 4.4.1.
[39] Distribution Code, Clause 4.6.
[40] ESC, *Energy Retail Code* (August 2004). On 1 January 2005, the *Electricity Retail Code* and *Gas Retail Code* were replaced by a single code.
[41] The Transfer Code, effective from 27 July 2004, also applies to distribution companies.
[42] The Marketing Code (October 2004) was reviewed by the ESC in 2003/4.
[43] A new section 40B into the *Electricity Industry Act* and section 48A into the *Gas Industry Act*.

disconnects the supply of electricity.[44] The amount of the 'wrongful disconnection payment' is $250 for each day that supply is disconnected (with a pro rata amount payable for any part of a day disconnected).[45]

***Distribution companies***

In addition to prescribing standards relating to the supply of electricity, the Distribution Code also prescribes standards of customer service. Those standards, as set out in Schedule D of this report, include the provision of information, notification of planned interruptions to a customer's supply and complaints handling.[46]

The guaranteed service level scheme set out in the Distribution Code (discussed above) also imposes guaranteed levels of customer service. For example, if a distributor is more than 15 minutes late for an appointment with a customer, they must make a payment of $20.[47] Similarly, if a distributor does not connect a new customer to electricity supply on the day agreed, they are required to pay the customer $50 per day for each day the customer is without supply (to a maximum of $250). [48]

## 5.3 Consumer Outcomes

In the next section, we look at consumer outcomes from reform. In particular, we ask:

- Have consumers seen improvements in reliability?
- Have there been improvements in supply quality?
- Is the customer service comparably better than that provided by the SECV?

It is clear that the new regulatory framework is vastly different to the days of the SECV. In the new system, industry codes and standards are set by an independent regulator with which private companies are required to comply. With this in mind, in the next section we compare how quality outcomes have tracked across the period of reform. The operation of the new system is also explored in Chapter Six of this report, which analyses accountability outcomes.

In addition, we also make an overall assessment in the next section of how sufficient the current regulatory mechanisms are in protecting consumers from negative quality outcomes now and in the future. In our view, the mechanisms will only be sufficient if industry codes and standards are meaningful to all consumers in that they both address consumer priorities and further, are effectively enforced as part of a robust consumer protection framework.

**Measuring outcomes**

As part of the standards framework for electricity companies, the ESC monitors company compliance by requiring companies to report regularly on key performance indicators (**KPIs**) set out in:

[44] Electricity will be 'wrongly' disconnected in circumstances where the retailer failed to comply with the terms and conditions of the contract specifying the circumstances in which the supply of electricity to those premises may be disconnected.
[45] The new provisions also make it clear that the payment does not affect any other rights that customers may have, for example to seek compensation for loss suffered as a result of being wrongfully disconnected. This suggests that the payments are intended not only to compensate consumers who have been wrongfully disconnected but to encourage retailer compliance with their obligations.
[46] The standards in the Distribution Code are set out in Schedule D.
[47] Distribution Code, Clause 6.1.
[48] Distribution Code, Clause 6.2.

- *Information Specification (Service Performance) for Victorian Electricity Retailers* (June 2005); and
- *Information Specification (Service Performance) for Victorian Electricity Distributors* (January 2005).[49]

Retailers and distributors must also provide data to the ESC against KPIs on a monthly, six-monthly and annual basis, as set out in Schedule E and F of this report.[50] Distributors are also required to report against targets set in the price reviews which also forms part of the ESC's performance reporting.

The data collected by the ESC regarding company performance is published in comparative performance reports to 'stimulate competition by comparison' and ensure that end-users receive the gains of competition (Tamblyn, 2003). The most recent of these: *Electricity Distribution Businesses – Comparative Performance Report, 2004* was released in July 2005 (ESC, 2005f).

**Reliability – consumer outcomes**

On the basis of performance data collected by the ESC, it is clear that since 1995, Victorian consumers have received several beneficial outcomes in terms of the reliability of their electricity supply. As shown by Table 5.1 and Figure 5.1 overall state-wide reliability in Victoria has shown continuous improvement across the period of reform (ESC, 2005f).

***Table 5.1: Average total minutes-off-supply per customer[51]***

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Planned** | 46.4 | 43.1 | 29.7 | 23.3 | 22 | 25.2 | 16.9 | 17.3 | 18 | 26 |
| **Unplanned** | 160.2 | 174.7 | 168.9 | 175.9 | 133.6 | 131.4 | 134.9 | 133.9 | 140 | 106 |
| **Total** | **206.6** | **217.8** | **198.6** | **199.3** | **155.6** | **156.6** | **151.8** | **151.2** | **161** | **132** |

[49] The *Information Specification (Service Performance) for Victorian Electricity Distributors* (Janauary 2005 ) was last amended in 2005. The ESC requires information in four broad categories from distributors: background; reliability and quality of supply; enquiries and complaints; and guaranteed service levels. The ESC also requires routine reports as follows: a monthly report of performance against specified reliability of supply indicators for the entire area supplied as a whole; a six-monthly report that details reliability of supply by distribution feeder and summarises performance against other indicators at a company level; and a calendar year annual report (in some cases providing monthly figures) that details reliability of supply by distribution feeder, quality of supply for the entire area supplied as a whole, and summarises performance against other indicators at a company level.

[50] The broad categories of KPIs that retailers and distributors must report against are set out respectively in Schedule E and Schedule F of this report.

[51] SAIDI (System Average Interruption Duration Index) - the total minutes, on average, that a customer could expect to be without electricity per customer year. Total SAIDI includes both planned and unplanned minutes-off-supply (ESC, 2005f).

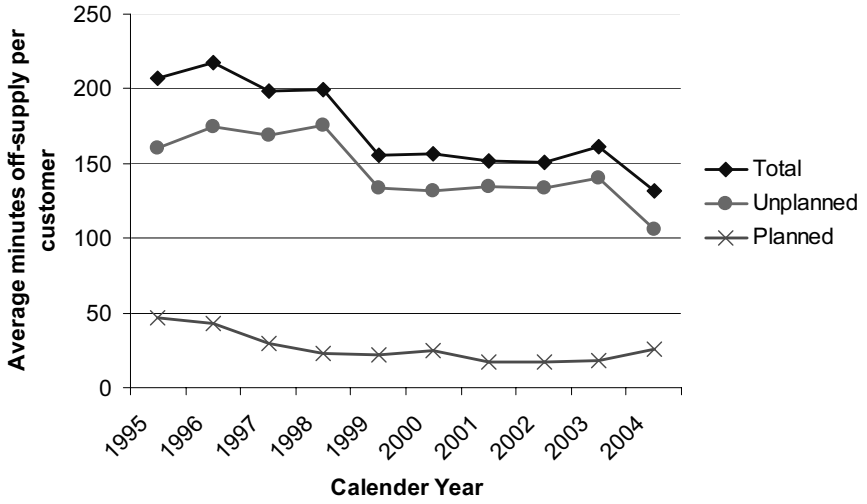


***Figure 5.1 Average total minutes-off-supply per customer***

**Source: ESC (2005f)**

Table 5.1 and Figure 5.1 above show that the total average minutes-off-supply per customer has dropped from around 200 minutes in the years 1995–1998 to 132 minutes in 2004. The ESC (2005f:2) note that,

> The overall average minutes-off-supply per customer decreased to 132 minutes (down 18 per cent) from the 2003 figure of 161 minutes, due mainly to unplanned supply interruptions decreasing by 38 minutes to 106 minutes.

Interestingly improvements in the levels of unplanned minutes-off-supply have fluctuated. An increase observed between 1995-1998 was followed by a decrease down to around 132 minutes in 2004. According to the ESC (2003e), the increase in interruptions in 2003 was mainly due to a series of unexpected external events including a severe drought (causing a high number of pole-fires), storm events impacting on TXU's network and a bushfire in the Bendigo area (ESC, 2003e).

Similarly, performance data collected by the ESC reveals an improvement in quality measured by supply interruptions. On this criteria, an overall decrease in the state-wide average for the number of times that a customer might experience an interruption to supply was experienced, as shown in Table 5.2 and Table 5.3.

***Table 5.2 Average number of interruptions per customer[52]***

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|
| **Planned** | 0.00 | 0.10 | 0.10 | 0.17 | 0.09 | 0.08 | 0.08 | 0.13 |
| **Unplanned** | 2.48 | 2.49 | 2.01 | 1.89 | 1.90 | 1.94 | 2.10 | 1.75 |
| **Total** | **2.48** | **2.59** | **2.11** | **2.06** | **1.99** | **2.02** | **2.18** | **1.88** |

**Source**: ESC (2004f); ESC (2005f)

As shown by Table 5.2, while fluctuations in the average number of interruptions per customer can be observed between 1997-2004, an overall reduction has been achieved from 1997 (2.48) to 2004 (1.88). Specifically, the frequency of unplanned interruptions has reduced from 2.48 in 1997 to 1.75 in 2004. Looking at recent trends, between 2003 and 2004, the ESC (2004f) noted a 54% increase in the frequency of planned interruptions. This trend deserves close attention in future.

In terms of the state-wide average duration of an interruption, Table 5.3 shows that numbers have decreased slightly from 1997-2004, again indicating a general overall trend toward improvement and beneficial consumer outcomes.

***Table 5.3 Average duration (in minutes) of an interruption to supply per customer[53]***

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|
| **Planned** | 12.0 | 233.0 | 216.9 | 150.1 | 190.1 | 219.5 | 211.1 | 203.1 |
| **Unplanned** | 68.0 | 64.0 | 66.6 | 69.6 | 70.9 | 68.9 | 68.9 | 60.6 |
| **Total (excluding load shedding)** | **80.0** | **73.0** | **73.8** | **76.2** | **76.2** | **74.7** | **74** | **70.5** |

**Source**: ESC (2004f); ESC (2005f)

There is no accurate history of supply quality in terms of voltage level reliability and harmonic distortions since the introduction of FRC in 2001-2003. In this regard, the ESC notes that the accuracy of distributors reporting on measures has been variable, particularly as distributors are yet to complete the installation of all voltage monitoring equipment required by the ESC (2003e). Nevertheless, the ESC notes that the number of customers receiving poor voltage appears to be consistent with previous years, suggesting that not much has changed in this respect.

The complaint statistics of EWOV also reveal that complaints about voltage variation and other supply quality issues are significantly less common than reliability issues.

Whilst overall, outcomes for consumers for quality have been positive, the single area of supply reliability which has not seen improvement for consumers, is momentary interruptions. Momentary interruptions are caused mainly by auto-recluse devices, which are installed on the network to restore supply following a transient fault.

[52] SAIFI (System Average Interruption Frequency Index) - the average number of occasions per year when a customer could expect to experience a supply interruption. . Average number of interruptions per customer.
[53] CAIDI (Customer Average Interruption Duration Index) - the average time taken for supply to be restored to a customer when an unplanned interruption occurs; and MAIFI (Momentary Average Interruption Frequency Index) – the total number of momentary interruptions (less than one minute duration) per customer per year.

Table 5.4 below illustrates a general upward trend in the numbers of momentary interruptions throughout the reform process, affecting both whole feeders and part feeders. In particular, the rise in interruptions in part feeders has been significant, with interruptions in the recent few years appearing to be one, two or even three orders of magnitude greater than the first few years following privatisation and disaggregation.

***Table 5.4 Average number of momentary interruptions per customer[54]***

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|
| Whole feeder | 1.56 | 1.69 | 2.31 | 1.84 | 2.19 | 2.18 | 1.90 | 1.84 |
| Part feeder | 0.01 | 0.11 | 0.49 | 0.52 | 0.62 | 1.14 | 1.24 | 1.42 |

**Source**: ESC (2004f); ESC (2005f)

The ESC (2003c:28) has noted its concerns about this trend, stating for instance that,

> Momentary interruptions to customers' supply have increased, so improved monitoring of momentary interruptions has been initiated. Complaints to the distribution businesses remained at a low level of 0.83 complaints per 1000 customers, rising by 7 per cent from the previous year's level.

However, the ESC (2005f:28) also note that, in 2004 momentary interruptions affecting whole feeders decreased while those affecting part feeders increased, stating that,

> The movement of this performance indicator has not been consistent since reporting began in 1998, because it is influenced by the weather conditions and because of less reliable data in the earlier years due to the limitations on the monitoring equipment.

## 5.4 Distributional Issues - Winners and Losers

***Reliability of supply***

While it is clear that there have been beneficial outcomes on average for most consumers in terms of overall reliability, some consumers have experienced worse reliability,

> In the period since the distributors were privatised, they have been required to achieve a level of service not less than provided by the SECV in 1994. In practice, the distributors have generally achieved higher levels of service performance, across a wide range of indicators. However, at the same time, there has been increasing concern about the decline in the reliability of the network in a number of mainly provincial and rural areas (ORG, 2000:11)

Specifically, the ESC (2004h) notes that there are 'continued instances of lower levels of service to individual customers and specific locations'.

These groups of consumers may have been the losers in terms of reliability outcomes. A financial counsellor (interview, 2005) from South-East Victoria considered that the losers on quality outcomes are those consumers living in rural areas,

[54] MAIFI (Momentary Average Interruption Frequency Index) – the total number of momentary interruptions (less than one minute duration) per customer per year.

> They've retracted a lot of their service areas so they have closed every second or third service centre down now. So you've got the depot but our depot is 40km away now, whereas it used to be 5 or 10kms away. Obviously there is always a longer delay when the power goes out. So I think that out of the privatisation, when we talk about reliability there is on one level probably some winners and those are the ones who happen to have everything upgraded in getting it ready to be sold and there are some real losers - the people that would need work done now.

In this regard, the ESC (2004h:33) notes that,

> The incentives provided to the distributors under the existing arrangements, to improve reliability for this group of customers, may not be sufficient for reliability to be improved on an economically efficient basis.

According to one stakeholder (interview, 2005),

> … where the greater profit margin is in the dense metropolitan areas, there is a tendency amongst companies to want to service those customers first.

Nevertheless, the stakeholder also noted that it is questionable whether this outcome is any different from the period prior to reform. However, in the SECV days, a failure to protect the interests of the worst affected customers may have resulted in the loss of political seats. In this sense, the Victorian Government is likely to have had an additional incentive to look at upgrading networks in remoter areas of the State than competitive companies with an interest in profit margins.

The ESC (2003e:30) has noted that 'some customers may be experiencing an excessive number of momentary interruptions'. Again, it is rural consumers who appear to be the worst affected.

> You get sick of resetting your clocks all the time and it is an absolute pain if you are using a computer and those sorts of things (stakeholder interview, 2005).

***Consumer perceptions of quality outcomes***

In the context of these measured improvements in service quality, it is important to acknowledge that consumers may have widely different perceptions as to the effectiveness of electricity reforms with respect to performance. Furthermore, these perceptions themselves may not be uniform. For instance, Hayward (2002) reported the results of a telephone survey based on a similar survey conducted by the British *Guardian* newspaper. The Victorian survey canvassed attitudes to privatisation of government businesses and the contracting-out policies of government. Hayward (2002) highlighted that in the area of essential services, privatisation was unpopular. In particular, Hayward (2002) said that almost 40% of those surveyed felt that public services had declined since privatisation.

The CLCV also sought to understand consumers' perceptions about quality in the reformed market. In the survey of 138 low-income Victorians (Wallis, 2004b), more than half (56%) of respondents considered that the quality of service and supply provided by their electricity supplier was the same as it was three years ago, despite perceived increases in costs and decreases in affordability. 22% thought it was worse, 16% better and 6% were not sure. Of the respondents who considered that quality was worse, 34% were those with a combined income source (from the government and through work or investments), 32% were aged 70 years or more and 32% were single parents.

## 5.5 Outcomes for Consumers – Quality of Customer Service

Throughout electricity reforms, the quality of customer service provided by companies has assumed greater significance. In this section, we look at this measure of quality, and ask how reform has affected the quality of customer service received by consumers.

The generally held perception is that performance has improved, as one stakeholder (interview, 2005) stated,

> My view is that customer service is much better … privatisation of the companies has actually been a driver for them having to come to grips with what customer service means.

There has been a far greater amount of useful information on customer service, along with Customer Charters outlining customer rights and obligations provide post-privatisation (Hodge, 2004). This information has included the timeliness in making repairs, appointments being met, level of complaints and disputes as well as call centre performance. The provision of this information does, in one sense, reflect the community's heightened expectation of good service levels for essential services, as well as reflecting the improvement of regulatory monitoring compared to the simpler engineering-dominated culture before the privatisation reforms. Early ESC reports provided information on an annual basis, which made long-term trend observation difficult. In contrast the 'Post 2001 Retail Performance Reports' have provided 5 year trends across a range of measures (see for example, ESC, 2005a).

From the perspective of low-income and disadvantaged consumers, a different picture has emerged though. The introduction of FRC into the residential market for example has seen new problems emerging for consumers, including marketing practices and transfer issues.

Since the introduction of FRC, EWOV has created new categories for its complaints statistics for complaints about transfer of consumers to new electricity suppliers on a market contract and market conduct. In many instances, consumers have been double billed after a transfer to a new retailer or simply not transferred. EWOV (2004d) noted,

> EWOV's experience of transfer delay and erroneous transfer issues indicates that further improvements should be made to the electricity transfer process. EWOV suggests that there is a need to continually improve and audit the accuracy and flow of information from distributors to retailers. EWOV has previously also suggested that retailers should be subject to timeframes for the correction of erroneous transfers.

One stakeholder (interview, 2005) noted that EWOV continues to receive significant numbers of complaints relating to transfer – including delays, erroneous transfers, double billing (from the old retailer and new retailer), or failure to bill (due to transfer not being properly effected). While some leeway was given to retailers in the initial days of FRC as transfer systems were created, the Ombudsman considers that the numbers of complaints that it continues to receive reveals that transfer systems are still not good enough.[55]

Financial counsellors (interviews, 2005) identified distributional implications of transfer problems for low-income and disadvantaged consumers, in that problems can have a far greater detrimental impact on this group of consumers. One problem of great significance is where transfer problems result in the consumer not being billed for an extensive period and

[55] '…when retail competition first started, the transfer systems were actually manual. They were literally people writing things out on bits of paper and putting it on your desk, and you wrote on another bit of paper, and eventually someone would key it into a system' (stakeholder interview, 2005).

later receiving a considerably higher bill. The difficulties that low-income households generally find in managing such bills and budgeting their daily expenses is well documented by Stewart (2005). In this circumstance, the possibility of being able to pay the higher delayed bill without falling further into debt is small, even with an instalment plan (McMillan and Nelthorpe,2004).

The ESC is attempting to identify and rectify problems associated with customer switching activity through its 'end-to-end' (E2E) transactions project. In its E2E Issues Paper, the ESC chose to focus on one transfer scenario and found 'a number of representative problematic elements that potentially affect the customer transfer process more generally.'[56]

Concerns have similarly been raised about problems involving the marketing practices of retailers, in particular, problems around advertising, door-to-door sales, telemarketing and written communication (interview, 2005). For example, one stakeholder (interview, 2005) noted that between December 2002 and June 2003, there was a significant rise in market conduct complaints, which have since stabilised at approximately 25 complaints per month (ESC, 2004d). There was also one retailer whose conduct was reported by EWOV to Consumer Affairs Victoria, which resulted in an enforceable undertaking being given by the retailer.

Furthermore, financial counsellors are also concerned about misleading market conduct (interviews, 2005). Instances were given where clients entered market contracts on the basis of statements made by retailers which could be construed as misleading. One example given was a consumer who signed up to a market contract after being sold the contract on the basis of an energy savings statement showing how much she could save. In the particular case, the statement was based on being supplied both electricity and mains gas but the consumer did not have mains gas.

Despite this, the Ombudsman (interview, 2005) noted that the accountability framework has always been quick to respond to instances of misconduct, and that a robust consumer protection framework exists. In addition, comparing the Victorian experience to the experience of other energy markets, such as the United Kingdom energy market, the Ombudsman considered that Victorian consumers had experienced significantly fewer problems on this front.

There are also concerns about the way in which companies respond to customers in financial hardship.

Commentators have suggested that the issue here is the fact that standards are not appropriate to protect low-income and disadvantaged consumers. In a submission to the ESC, Jindara Community Programs (Jindara) (McMillan and Nelthorpe, 2003), noted concerns about the inadequacy of standards imposed on retail companies for dealing with low-income consumers in financial hardship. In particular, McMillan and Nelthorpe (2003) noted that in the case of high bills (in excess of $1000), industry standards need to embody more than a basic obligation to offer an instalment plan.[57] The submission included case studies where paying off such a high bill by instalments simply left the household in further debt. In particular, McMillan and Nelthorpe (2003) argued that the obligation to offer an instalment plan is inadequate for situations where a low-income household faces an extremely high bill (in excess of $1000). It is unrealistic to expect that a low-income household could ever manage to pay such a high amount off, even under an instalment plan (McMillan and Nelthorpe, 2003). By contrast, McMillan and Nelthorpe (2003) explained,

[57] The Retail Code clause 11 specifies that a retailer must offer an instalment plan (unless the customer has failed to comply with 2 instalment plans in the previous 12 months).

EWOV often applies more meaningful standards to cases of low-income consumers with high bills, mostly through a partial waiver to ensure that the amount remaining is a realistic amount that the household can pay under an instalment plan.

A respondent to the CLCV Survey (Wallis, 2004b:34), explained how a high bill forced him into a situation of personal bankruptcy:

> I currently owe $1000 for electricity, it has been overdue for 18 months from a previous house. When I moved out I forgot to get the electricity disconnected, then I was hit with this huge bill. I recently filed for bankruptcy. I'm on a pension with part time work, so there is no way I can pay it.

Obviously, these issues raise concerns about how well the standards embodied in the Retail Code are protecting those most vulnerable. It is recommended that the ESC review all industry standards as they relate to low-income consumers to ensure that the standards are meaningful for those most disadvantaged consumer groups.

In the view of the ESC, industry standards serve a dual purpose (Tamblyn, 2003). First, they stimulate competition by encouraging companies to improve their performance by means of '*yardstick competition'*. Second, they operate to ensure that consumers receive the benefits or gains of competition.[58]

Whilst the ESC clearly attaches significant importance to industry standards, for consumers to benefit from those standards requires that the standards are meaningful to consumers. In addition, where companies fail to meet standards, they should be subject to robust enforcement mechanisms.

It is critical that consumers receive accessible and timely information regarding company performance if industry standards are to operate to stimulate competition. Specifically, one stakeholder (interview, 2005) noted,

> It is imperative that [consumers] have access to full and transparent information about the performance of electricity and gas retailers and distributors …. Retail performance reports have become an important part of customers' capacity to make informed decisions when choosing their electricity or gas retailer (EWOV, 2004c).

The consultative process is paramount in ensuring that industry standards accord with consumer priorities and are therefore meaningful to consumers. It formed a central part of the *Electricity Distribution Price Determination 2001-2005*, in ascertaining customer priorities in terms of reliability and quality of supply, for instance (ORG, 2000:xvi-xvii),

> Customer surveys and comments … have highlighted the importance to customers of improving reliability, particularly in those regional areas where service has been relatively poor. Customers also indicated that they were generally prepared to sacrifice some of the potential price reductions arising from the review, in exchange for tangible improvements in reliability.

Similarly, the *Information Specification (Service Performance) for Victorian Electricity Distributors* was recently reviewed to ensure it is consistent with the national regulatory reporting framework (Utility Regulators Forum, 2002). As part of that review the ESC (2004h) suggested the inclusion of key performance indicators for customer service (call centre performance) on the basis that studies indicate that customers highly value this aspect of customer service.

[58] *Information Specification (Service Performance) Victorian Electricity Retailers* (June 2005).

Enforcement mechanisms also play an important part in the application of meaningful standards. Unless industry standards are effectively enforced, they will not be sufficient to protect consumers in developing competitive markets.

Several stakeholders (interviews, 2005) raised concerns about the lack of appropriate enforcement mechanisms where a retailer breached the Retail Code. This was particularly critical to low-income consumers where breaches of the Retail Code meant exacerbated their financial hardship. Clause 11.2 of the Retail Code, for example, requires a retailer to provide the customer with details about concessions (including the Utility Relief Grant Scheme), telephone information about energy efficiency and advice on the availability of an independent financial counsellor. Financial counsellors (interviews, 2005) reported that these requirements are often not complied with or not complied with in a meaningful way.

The following case illustrates this.

***SUE'S STORY***[59]

Sue, a sole parent with three children whose source of income is the sole parenting pension, was disconnected towards the middle of 2003.

Sue was disconnected because she could not afford her electricity bills. The financial hardship Sue was experiencing was directly the result of the breakdown of her relationship and subsequent reduced income. However, Sue also recognised that inefficient appliances and poor insulation were contributing to her inability to afford her electricity bills.

In the months prior to being disconnected from electricity supply, Sue approached her electricity company on several occasions and explained the financial hardship that she was experiencing and sought to negotiate a payment arrangement. Critically, Sue never received any energy efficiency information from her electricity supplier. On the face of it, this company was clearly in breach of its obligations under the Retail Code.

In Sue's case, it was revealed that inefficient appliances and poor insulation were contributing significantly to the size of her electricity bills and compounding her financial hardship. Had Sue received appropriate advice (including an energy audit), her situation may have been alleviated.

As set out above, there are financial incentives for distribution companies to comply with industry standards. Both the price review system and the GSL payments effectively operate as incentives for companies to improve performance. Similarly, they also provide consumer redress, recognising the value of the failure to meet a service standard to the consumer. However, there is no similar financial incentive scheme for retailers in the Victorian framework, aside from the *Energy Legislation (Amendment) Act 2004*, which requires retailers to make 'wrongful disconnection payments' to customers in circumstances noted previously.[60]

It would seem appropriate to review the regulatory framework in terms of how compliance with industry standards is being enforced, particularly in relation to low-income and disadvantaged consumers.

[59] Sue's story is an abridged version of a case study in CLCV and CUAC, *Access to Energy and Water in Victoria – A research report* (November 2004). The name was changed to protect privacy.
[60] A new section 40B into the *Electricity Industry Act* and section 48A into the *Gas Industry Act*.

Customer service has in many ways now become a more critical issue for consumers in the context of a new market arrangements compared to the days of the SECV. Consistent reporting shows that the main area of complaints received by EWOV continues to be billing. As well, retailer performance in terms of time taken to answer calls and standard of approach to customers has also been an ongoing consumer concern.

***Performance reports – a tool for better outcomes?***

The ESC publishes performance reports on the service provided, and affordability of retail energy supply, to customers to promote competition by comparison. These comparative reports provide incentives for the energy businesses to improve their performance relative to one another, while at the same time providing comprehensive information to customers about the services they are receiving.

Good information promotes competition and informed choices. But whilst these sentiments are supported, translating them into practice is more challenging. Indeed, unless industry performance data is both accessible and timely for consumers, consumers cannot use performance reports to assess the degree to which their interests are being met and to use that data when they exercise 'choice' between competing suppliers.

The ESC's annual comparative performance reports are considered to be evolving but nevertheless, at this stage, imperfect. By way of example, the 2004 Retail Comparative Performance Report sets out the data relating to '*Customer Service and Complaints'*. That data primarily relates to the time taken to answer calls, the number of calls to account line and customer complaints. The information presented on customer complaints is very limited, in part due to data limitations (primarily the result of different classification of complaints by retailers). Generally, the data is presented as percentages of customers; it is difficult to ascertain who these customers are. It also is not clear if the complaint related to a failure on the part of the retailer

In addition, performance reports, while delivered in hard copy to stakeholders, are otherwise published on the ESC's website. Again, the lack of access by low-income and disadvantaged consumers to the Internet means that there are likely to be distributional problems in terms of which consumer groups are accessing company performance reports.

## 5.6 Conclusions

On most quality of electricity supply measures, reform has resulted in improvements for consumers. However, this was not the case with all quality measures. For example, in the area of momentary interruptions, quality appears to have declined. It was also found that benefits were not uniform across all consumer groups, and some consumer groups, particularly those consumers in regional areas, had not received the same degree of quality improvements as their metropolitan counterparts.

As part of the analysis, the quality of customer service was also assessed. On this measure it was found that overall, reform has resulted in benefits for consumers. Notwithstanding, it was found that the competitive market has also created some new problems for consumers in the customer service area, particularly issues surrounding misleading and deceptive conduct in the marketing of energy contracts to consumers.

# Chapter 6: Accountability

## 6.1 Introduction

So far this report has examined the effect of Victoria's electricity reforms through the lenses of price, quality and access. This chapter examines accountability, a notion that has traditionally been important with respect to the provision of essential services to consumers. The idea of accountability in public sector services has been important from two perspectives. Consumers have always regarded it as crucial for governments to be held accountable for their policy decisions related to the provision of electricity in terms of price and availability. More recently, consumers have also put a high priority on service providers to be accountable to individual customers.

There is no doubt that there have been serious accountability concerns around privatisation activities in Australia, including the restructuring of electricity. In this chapter, we seek to determine whether these concerns are justified within the context of the Victorian electricity market reforms. In doing so, the chapter will focus on the fundamental question of how all Victorian consumers, including low-income and disadvantaged consumers have fared. In other words, has accountability improved or worsened following the privatisation and reform of our electricity industry?

In answering this question, the report will first consider the accountability mechanisms that existed under traditional state ownership. These conventional accountability mechanisms will be compared to the restructured arrangements established for Victoria's privatised electricity industry in order for changes to accountability to be analysed. The degree to which accountability has improved or worsened through privatisation will then be assessed within the context of relevant comments from stakeholder interviews. In doing so, the chapter will consider the roles of the EWOV and consumer advocacy organisations, which have emerged in the post-privatisation era.

More specifically, the questions investigated in this chapter are:

1. To what extent have there been improvements in terms of public accountability of the electricity market / industry as a result of reforms to the Victorian electricity industry?
2. What have been the primary causes of these accountability changes?

***Accountability prior to Victoria's privatisation transactions***

Under the traditional operation of the SECV, accountability was a relatively simple phenomenon, following the traditional model of ministerial accountability. Under this model, the Minister was ultimately deemed responsible for all activities within their portfolio of responsibility. This notion of accountability was simple. But it was also weak and indirect for service recipients. The concept is one of a straight line of accountability from the bottom (the end consumer) to the top (the Minister) via agencies and departments, such as the SECV itself, as illustrated by Figure 6.1.

Here, the State's publicly owned SECV was responsible for service to consumers, and the Minister in turn was responsible for the functioning of the SECV. The election of the State Government, and by extension the Minister, by democratic means, kept the Minister and the SECV ultimately responsible to the public. This accountability chain, although simple in concept and democratic was, however, somewhat indirect

and was an inherently slow accountability process for consumers. For example, consumer complaints were usually dealt with slowly through Ministries or government departments or else through bureaucratic SECV procedures. There was also little separation of citizen accountability in terms of policy directions from consumer accountability. Both were treated indirectly. As the SECV progressively became more commercial in its focus, so did the operational accountabilities rest more with customer service centres rather than political channels.

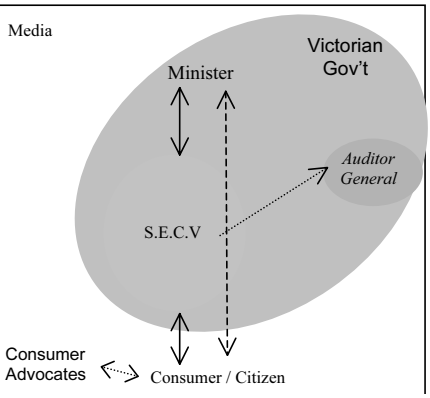


***Figure 6.1***

As a State-owned enterprise, the SECV was also accountable to the Victorian Office of the Auditor-General for its financial record keeping and integrity. And in a more general sense of public accountability, it was also kept accountable in the best traditions of western liberal democratic systems, through an open media. To add to these accountability mechanisms, a range of non-government organisational (**NGO**) consumer advocacy groups also featured prominently in upholding accountability for all consumers, especially vulnerable sectors of the community. An early prominent example here was the Energy Action Group (formally the SEC Action Group), originally established by a VCOSS grant in 1977. Between 1982 and 1993, the EAG received state government funding.

***Accountability during Victoria's privatisation transactions***

Although not a significant concern of this report, the place of accountability during Victoria's privatisation transactions and market reforms deserves comment. A range of commentators argue that public accountability during Victoria's electricity reforms was not a high priority. Indeed, in the midst of the sell-offs, the commonly held view was that the culture and behaviour of the Government of the day towards its citizens and its opponents was its fundamental weakness. The accusation, with some justification, was that the State suffered from an erosion of its traditional stewardship ethos for public resources and saw an impotent Parliament left almost irrelevant, heavily dominated by Government in both houses with little effective political opposition (Hayward 2000).[61]

In many instances, where traditional accountability mechanisms would have kept institutions and Ministers accountable, defences such as 'commercial in confidence' were raised to circumvent public accountability. This was nothing short of an accountability vacuum.[62] In the

[61] Hodge (2004) argued that political and ministerial accountability during these transactions were at historic lows. At this time, Victoria witnessed clashes between government and independent watchdogs. The Victorian Administrative Appeals Tribunal, the Office of the Auditor-General and other independent offices were all attacked, and weakened through legislation, by the privatising government (Russell 2000).

[62] Hodge (2002b:15), for instance, noted that 'The privatisation era in Victoria witnessed a gung-ho culture of business deals, obsessive secrecy, the removal of rights, silencing of the auditor-general and watered-down freedom of information laws. A hollowed out government centralised power, didn't question its managerialist mantras and monopolised policy debate, seeing privatisation as the only way…'

midst of these major policy reforms, it appears that our public accountability ideals were weakened. The 1999 State election became the ultimate accountability mechanism and a new minority government was formed on a platform that included accountability at its core (see Hodge, 2004). The overall verdict of Victorian voters and elected ministers through this political process left no doubt that the public accountability mechanisms of the former Victorian Government needed strengthening.

Looking more specifically at electricity reforms, it is ironic that the secrecy in which the Victorian Parliament was shrouded at the time did not include the sale of Victoria's electricity assets. Instead, these transactions were open and transparent (Russell et al 2000).

It is difficult to reconcile these two elements of accountability except to observe that public accountability was not emphasized - indeed, it was widely seen as being reduced, whilst managerial accountabilities for delivering reforms was increased. In terms of accountability changes in the electricity sector, the Ministerial and Parliamentary dimensions of accountability had reduced (as might logically be expected with the privatisation of a sector), whilst managerial accountabilities and accountabilities to market mechanisms had strengthened. In short, the accountability guardians had changed.

***Accountability After Victoria's Electricity Divestitures: Restructured Arrangements***

The most striking feature of the electricity overhaul in terms of accountability arrangements was the establishment of an independent industry regulator, the Office of the Regulator General. On 1 January 2002, the ORG evolved to become the ESC, a multi-jurisdictional 'light touch' regulator (Naylor, 2002a). This is illustrated in Figure 6.2.

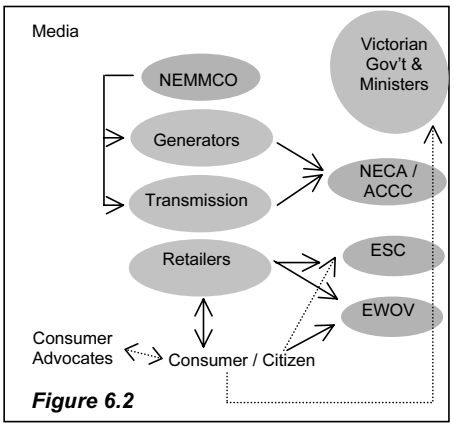


***Figure 6.2***

Interestingly, unlike jurisdictions such as the UK, the ESC is not sectoral specific, with the regulatory framework establishing the ESC as an 'independent economic regulator of prescribed essential utility services supplied by the electricity, gas, ports, grain handling and rail freight industries' (ESC, 2004i). This framework provides the ESC with a wealth of technical expertise across numerous markets, thereby enabling greater co-operation between what is becoming an increasingly more careful approach to regulating essential service market arrangements.

The role of the ORG / ESC is outlined by Naylor (2002b:109) as follows,

> The electricity industry is regulated by the electricity industry legislation and by licence conditions, codes and guidelines, the implementation of which is monitored by the ESC.

Like its predecessor, the ORG, the ESC is not subject to the direction of the relevant minister. It has the power to determine electricity prices, standards and conditions of service and supply, market conduct, the regulation of licences and 'other economic regulator matters' in line with statutory objectives (*Essential Services Commission Act* 2001 (Vic) (ESC Act) ss 32-34). Some power to determine broad industry policy, primarily through

regulatory structures, remains with the Government: otherwise, 'policy' is a matter for the market.

The ESC has been charged broadly with protecting the interests of consumers in terms of price, quality and reliability (s 8(1) ESC Act) whilst at the same time ensuring that the energy sector as a whole remains financially viable (Naylor, 2002b).

However, the regulator is simply required to 'ha[ve] regard to' (s 8(2)(e) ESC Act) broader social interests including environmental and social considerations, rather than meeting specific goals (Naylor, 2002b). Whilst a hierarchy of interests to be served might be implied in the Act, the statutory provisions provide the ESC with little guidance on how to weigh any competing environmental and social concerns against economic matters.

Victoria's current regulatory framework may be contrasted to that of Ofgem, the United Kingdom's electricity regulator, which is under a primary statutory obligation to protect the interests of consumers (Bowman, Coghill and Hodge, 2004). As noted by Waddams Price and Young (2001:13), the rationale behind the introduction of the *Utility Act 2000* (UK) was 'to redress the balance in favour of the consumer'.

With regard to the generation and transmission aspects of the electricity market, until 1 July 2005 NEMMCO and NECA shared responsibility for regulation and oversaw the entire national market. More broadly, the ACCC acted as an economic industry regulator within the NEM. Under this regulatory framework provided by the *Trade Practices Act* 1*974* (Cth) and the National Electricity Code, the ACCC oversaw the implementation of regulatory guidelines for electricity transmission, in conjunction with the implementation of national competition policy principles within the market. Much of the regulatory fabric for accountability during this period has already been discussed in this report in terms of legislated and codified price limitations, electricity quality and service requirements, access requirements and reporting of financial and non-financial performance information.

Importantly, however, on 1 July 2005, the regulatory framework evolved again, with NECA being replaced with two new national bodies – the Australian Energy Market Commission (**AEMC**) and the Australian Energy Regulator (**AER**). Under this new regulatory structure, the AEMC (2005) will undertake Rule making and market development in the NEM. The AER will act as the economic regulator for the wholesale electricity market of the NEM and its electricity transmission networks (CAER, 2005). By the end of 2006, the AER's responsibilities will include distribution and retail functions except for retail pricing which can be retained by the NEM jurisdictions (CAER, 2005).

Overall then, the corporatisation and privatisation of the Victorian electricity industry has resulted in the creation and implementation of a range of new accountability and regulatory actors. The operation of the regulatory framework has operated to greatly reduce the sphere of influence exercised by the Victorian Government and its ministers during the transition and post-privatisation era, as evidenced by the independence[63] that currently exists between the regulators and government. Under the current regulatory framework, it is suggested that a broad discretion exists within the industry, thereby enabling industry members to act as market forces allow. However, this discretion does not remain unfettered, as members are accountable to the various industry specific and broad accountability bodies. In light of these considerations, it would appear that the implementation of independent regulators and a network of mechanisms within the market have resulted in high levels of public accountability in the post-privatisation era.

[63] The independence of the ESC, whilst widely seen as a strength, also has another side. Under legislation, its (autonomous) decisions are subject to only limited judicial review (*Essential Services Commission Act 2001* (ESC Act) s 52) (Naylor, 2002b).

## 6.2 Accountability and the Victorian Consumer Redress Mechanism: EWOV

As with the extensive restructuring and rebalancing of the accountability framework for the Victorian electricity market as a whole, the regulatory framework for consumer redress has similarly been restructured and streamlined with reforms. Importantly, the establishment of the Electricity Industry Ombudsman (Victoria) (EIOV) in 1996 created a complaint-resolution body 'vested with the authority under the Constitution to receive, investigate and facilitative the resolution of complaints' (EIOV, 1998:4).

Under its initial structure the scheme was implemented to exclusively function as an electricity industry-based consumer dispute resolution scheme (EWOV, 2003a). The corporatisation of water and the corporatisation and privatisation of other Victorian essential services including gas and the subsequent need for dispute resolution schemes within these sectors has resulted in the transformation of this body into the current Energy and Water Ombudsman (EWOV, 2002a; 2003a; 2004a). Today, EWOV has jurisdiction over all electricity, gas and water customers, including domestic and retail consumers, thereby reflecting the increasing convergence of the Victorian energy sector.

As noted by EWOV (2003a), the services it offers are free to Victorian residential and business customers, in which the Ombudsman's primary functions are to resolve consumer complaints, whilst simultaneously identifying systemic, or industry wide, issues (EWOV, 2002a). Funding of the scheme is derived solely from its 67 current industry members[64], with membership of the dispute resolution scheme a prerequisite to potential industry participants being granted an operating license by the ESC. As noted by EWOV (2004a:15),

> Funding comes from the scheme's industry members, on a 'user pays' basis. This method of funding provides a financial incentive for members to reduce the number of cases coming to EWOV, by resolving customer issues within their own internal dispute resolution process … An *annual levy* is applied to members each year to fund the scheme's operations. The *annual levy* is made up of a fixed fee to cover membership costs, and a variable fee based on each member's share of cases handled.

Under a privatised electricity market, consumer access to a free, industry-based consumer dispute resolution scheme is arguably a fundamental accountability mechanism. However, the actual existence of such an arrangement is no guarantee of effectiveness. As noted by Naylor (2002b:105),

> [T]he credibility of a private dispute resolution scheme depends on its clear independence from the industry which funds it, and which it monitors.

In light of such a concern, it is refreshing to note the degree of disclosure and transparency in the decision making process and operation of EWOV. The expansion of the scheme since its inception has been mirrored by its detailed reporting of its governance structure, case handling processes, industry reporting figures and importantly, the 'naming power' which enables EWOV to report individual company results within the different market sectors (Naylor, 2002b). These activities, combined with a comprehensive exposure of systemic issues and continual consultation processes between the ESC and stakeholders, would appear to remove any concern associated with the scheme's lack of independence. Similarly, with 96% of all industry complaints resulting in a conciliated outcome and 80% of all cases closed within a two week period (EWOV, 2004a), it is possible to conclude that

[64] As of November 2005. This figure includes 27 electricity members, 17 gas members and 20 water members. For a complete list of EWOV members, see: http://www.ewov.com.au/html/members.html

EWOV is not only open and accountable, but also proficiently represents the interests of customers within the privatised electricity market.

The success of EWOV as an accountability mechanism within the Victorian electricity industry may be highlighted by the results of an independent survey of customers who had accessed the EWOV dispute resolution scheme from 2001-2003 (EWOV, 2004a). The survey of 326 electricity and gas consumers found that 91% of residential consumers and 80% of business consumers rated their service satisfaction levels with EWOV as either 'excellent' or 'good'. As noted by EWOV (2004a:8),

> … satisfaction with service results place EWOV service in the top 20% of service providers.

Overall then, it would appear that the EWOV 'is a major way of holding [industry] accountable'. Further, as noted by the EWOV itself (interview, 2005),

> … it is a mechanism that is a million times more effective than the previous State Ombudsman taking complaints against the SECV and Gas and Fuel … There is a very high level of accountability through a range of mechanisms…some more effective than others.

***EWOV and Consumer Complaints***

Of particular relevance to this report is the consumer complaint handing process administered by EWOV. As noted by Naylor (2002b:105),

> … complaints are an important management tool; they are also valuable indicators of possible strategic problems.

Consumer complaints received by EWOV thereby provide a quantitative perspective of consumer outcomes within the Victorian privatised industry. However, in acknowledging the success of this accountability mechanism in resolving consumer disputes, it is important to bear in mind that the accomplishments are dependent on consumers' knowledge of the scheme itself. Further, with Victorian consumers encouraged by the EWOV to resolve their complaint or concern directly with the company itself in the first instance, the potential for complaints and systemic problems within the industry to remain 'hidden' is real.

Figure 6.3 illustrates how the total number of enquiries and cases received by EWOV have increased since the inception of the scheme. The steady upward trend in workload highlights increasing consumer reliance on the scheme, particularly in relation to the less serious category of consumer enquires. The separation of Enquires from cases received by EWOV is therefore an important aspect of examining market conduct of industry members.

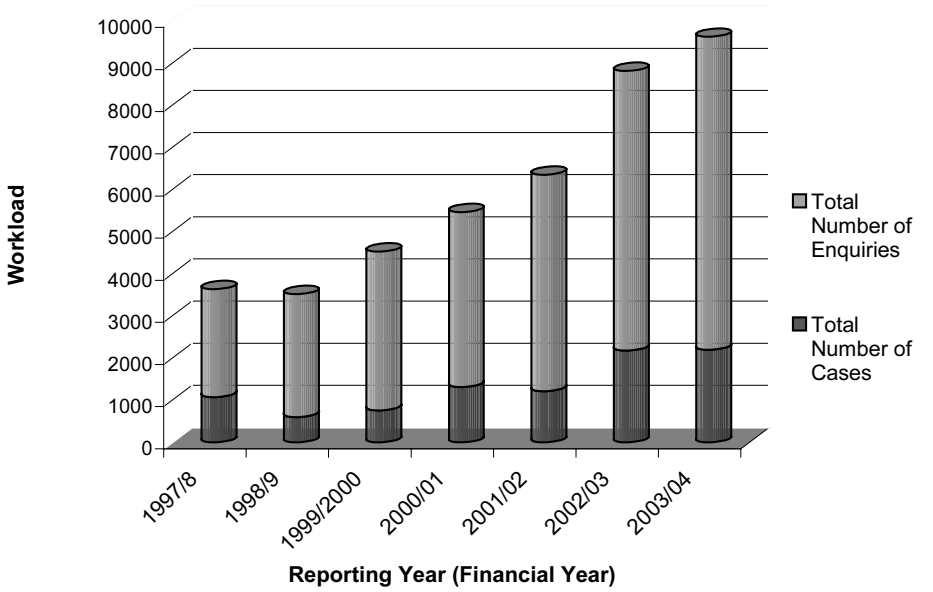


***Figure 6.3 EWOV's Electricity Report Figures: Total Number of Electricity Enquiries & Cases***

**Source:** EIOV (1998; 1999; 2000); EWOV (2001; 2002a; 2003a; 2004a)

While EWOV has been dealing with electricity enquiries and cases since 1996 (EIOV, 1998), Figure 6.3 indicates that the introduction of FRC for all Victorian residential and small business consumers in January 2002 most likely did have an impact on EWOV's overall workload. The 2001-02 year saw the total number of electricity enquiries reaching a record number of 6353, whilst the first full reporting year under FRC (2002-03) saw EWOV record 8815 cases and enquiries within retail and distribution - an overall 38.8 % increase. As shown above, this trend has continued, with 9624 cases and enquires for retail and distribution recorded in 2003-04; a further 9% increase from the previous year.

Since EWOV's inception, the most prevalent electricity issue identified was consistently that of billing. This finding is not exclusive to the electricity sector, with EWOV (2003a:1) noting that 'billing was the most prevalent issues across all three industries'. Encompassing issues associated with disconnections, supply restrictions, back billing for account arrears and billing errors (EWOV, 2003a), this umbrella term represented 64% of EWOV's electricity workload in 2002-03 and 68% in 2003-04 (EWOV, 2004g). Importantly, billing concerns have not been limited to the FRC period, with approximately 36.4%[65] of all electricity enquiries in 1997-98 and 50% of electricity enquiries in 1998-99 pertaining to these issues. In light of these findings, the systemic problem of billing issues for consumers is indisputable.

While the introduction of FRC appears to have had a significant impact on EWOV's workload, it is important to recognise other factors that may have impacted on these figures. These may include greater awareness of the scheme through avenues such as industry members bills, community outreach activities to outer metropolitan consumers, rural

[65] In 1997-98 and 1998-99 the number of electricity Cases relating to billing issues was not reported by EWOV. As such, in these earlier years, the number and percentage of billing issues is related only to Enquiries. In contrast, from 1999-2000 onwards, these figures relate to the total number of electricity Enquiries and Cases.

consumers and Indigenous consumers, EWOV's broad complaint handling function, and public reporting activities. These activities have been designed to increase the profile of EWOV, as well as to provide consumers with basic information (in a number of different languages) about consumer rights in the privatised market and contact information for EWOV. Through these active measures, EWOV has attempted to ensure that it is a highly visible consumer protection mechanism. In doing so, EWOV has continued to be at the front line of consumer protection within Victoria.

### 6.3 The Regulatory Framework: A Broader Assessment of Accountabilities

At a broader level, what information has been available as the basis of the new public accountability arrangements compared to those of the past, and how have new regulatory bodies performed in guarding consumer interests?

On the first of these two questions, Hodge (2004) contrasts the performance information now available for electricity supply and compares this to the information previously available through the former SECV. He notes that the previous system of reporting had been an award winning and comprehensive report card which checked off organisational achievements against corporate objectives. Comparing this to the reporting information now available through the ESC's regulatory framework, Hodge (2004:207) observes that the current reporting,

> … is undertaken to a high standard and compares well with much of this previous reporting … not all aspects that were previously reported are covered, but against this, several new aspects are now provided. These include service quality parameters down to the level of the local area, the availability of customer service measures and more sophisticated system wide network reliability indicators and redress mechanisms …

Overall, this historical perspective suggests that performance information nowadays compares well to that traditionally made available by the SECV. Nevertheless some shortfalls appear to exist compared to what is possible.

Information now not readily available includes (Hodge, 2004):

- Safety: a lack of transparent reporting of public safety (accidental electricity fatalities);
- Environmental Performance (emissions and energy conservation savings); and
- Energy usage: a lack of reporting on demand management.

As well, whereas a decade of statistical performance information was previously provided, medium to longer term trends now appear to be harder to discern.

In addition to the presentation of performance information for accountability purposes, there is also the matter of how the regulatory body has performed as our main accountability agent.

The independence of the regulator has been a major advantage in attempting to balance up the competing interests traditionally turning up to the door of government decision makers against those of the broader electricity consumer population as well as other stakeholders[66]. In this vein, Hodge (2004:206) argued that the ORG (now ESC):

[66] Stakeholders might be defined as 'any person, group, or organisation that can place a claim on an organisation's attention, resources, or output or is affected by that output' (Bryson, 1995:27).

> … to the credit of the Kennett Government, was established as independent of the government of the day, and not under the general direction or control of a Minister. This has enabled it to make decisions on independent analytical terms and resist any temptation to meet political or interest group pressures. The very existence of criticism that Victoria's electricity industry is over-governed on the one hand (Moran 2001) and criticism of the market as being under-governed in terms of insufficient market surveillance and reporting on the other (Sharam 2001) may well indicate that the regulator has played a sensible and professional middle road between competing interests.

Thus, a generally positive judgement was made on the performance of the ESC as a major new accountability guardian. Of course this has not always been the judgement of all – particularly when assessing regulatory arrangements across Australia as a whole. On this note, the restructured electricity markets at the national level were seen by review groups in a far more negative light (Parer, Breslin, Sims and Agostini, 2002). They painted a national picture of regulatory arrangements that were confused, excessive, inconsistent and uncertain, in the midst of limited interstate trading.

Another important issue of concern is the important question of how well new regulators listen to consumer concerns, and the strength of meaningful consumer consultation.

## 6.4 Consumer Consultation

As Victoria's electricity regulator, the ESC is provided with a legislative mandate to engage in public consultation. Specifically, s.15 of the *Essential Services Commission Act 2001* (Vic), in conjunction with the *Electricity Industry Act 2000* (Vic),

> … outline the notification, consultation and public procedures that [the ESC] must follow when undertaking [its] functions and making [its] decisions' (ESC, 2002:17).

Under these provisions, the ESC has developed and implemented a Charter of Consultation and Regulatory Practice, under which it aims (2003b:6),

> … to be open and transparent in its decision making, and to consult with as many people in the broader community as possible. Participation in its processes enhances the relevance and effectiveness of its decisions.

Further, through 'best practice' consultation principles outlined by the Charter, the industry regulator aims to be: independent; open and transparent; accessible to, and inclusive of, all relevant stakeholders, representative and fair; effective; and efficient' (ESC, 2003b:11). This process is partially achieved through,

> Encouraging individual consumers or users of regulated services to participate in [its] processes through submissions or public hearings … seeking input from customer representative groups, including its Customer Consultative Committee, and the Victorian Consumer Utilities Advocacy Agency … and complaint handing bodies such as the Energy and Water Ombudsman: (ESC, 2003b:13).

As part of their 'best practice' consultation function, the ESC established a Customer Consultation Committee (the Committee). With membership drawn from a range of Victorian stakeholders, including customers and consumer advocate groups, environmental bodies and government departments, the ESC (2002c) believes that,

> The Committee has played a vital role in advising the Commission on customer issues and needs. It has also provided a forum in which customer

> representatives have been able to exchange information on their needs and, through the Commission, make those needs known to the regulated industries.

While the Committee undoubtedly provides Victorian electricity stakeholders with greater capacity to involve themselves in meaningful consultation with the industry regulator, the actual impact of these stakeholder consultations on the regulatory process remains less certain. As a result, stakeholders appear not to be certain of whether their concerns are heard and whether consultations result in a better appreciation of consumer concerns and improved regulatory policy.

Research literature for some time has suggested that citizen participation can vary along a continuum from empty rhetoric, manipulation and information at one end, to true partnerships and power sharing arrangements at the other. In this regard, the conceptual ladder put together by Arnstein (1969) in the 1960s in the context of planning still rings true today. Arnstein suggested that some degree of citizen power (and control) is needed in planning and governance, and that it is not the title of the Citizen Advisory Committee or Citizen Forum that is at issue, but the real degree to which power is redistributed through negotiation between citizens and power-holders. A similar need to consult with stakeholders as the highest priority has also come through in the domain of corporate planning. Professor John Bryson, one of the world's most respected public sector planning academics, says that if managers only have time to undertake one step in their corporate planning efforts, they should contact their stakeholders and ask them how they are doing.[67]

It is perhaps unsurprising then that in the context of electricity consumer consultation, the importance of strengthening consumer consultation continues to be an ongoing and critical element in Victoria. Deep and genuine consumer participation is needed at the front end – particularly where standards of service and consumer expectations need to be defined before options for change are discussed and explored.

In this regard, it is important to acknowledge that the ESC already monitors its consultation methods through stakeholder and consumer surveys, in conjunction with annual internal reviews. The question to be asked here is whether these practices and principles are by their very definition meaningful and whether consumer representatives and individuals have the capacity to represent the interests of Victorian consumers within the forums provided by the ESC.

In a recent survey of Victorian electricity stakeholders and 500 consumers, conducted by Buchan Consulting (2004), in conjunction with the ESC, respondents were asked a series of questions relating to the ESC's performance, consultation and communication practices. Stakeholders – including regulated businesses, Committee members, Government employees, major customers and consultants – where specifically asked about the consultation practices of the ESC. Interestingly, when asked about their awareness of the Charter of Consultation and Regulatory Practice, only 65% of the stakeholders surveyed were even aware of the Charter's existence.

When considering the ESC's consultation processes and practices, stakeholders (n=62) were asked a series of questions examining their experiences of the ESC's consultation processes, and stakeholder engagement during consultation. Of the 47 stakeholders who responded either positively or negatively to the question regarding their experience with the Charter, 78.7% reported that their experience with the ESC's consultation processes were

[67] This contrasts the more common corporate assumption that if only one step is available then 'surely we should do our mission statement'. The reason for this may well be that whilst the purpose statement is important and we may well have better internal controls over our efforts to articulate this, it is better for us to be challenged by looking 'through the window to the outside world' , rather than continue to 'look into the mirror inside the organization'.

either ‘excellent’ (31.9%) or ‘good’ (46.8%). By contrast, 21.3% of the respondents rated their experience as poor (8.5%) or satisfactory (12.8%).

When asked to consider whether the ESC’s consultation processes adequately engaged all relevant stakeholders, 54.8% of respondents responded positively (n=34), 19.4% responded negatively (n=12), while the remaining 25.8% (n=16) declined to provide a response. Of those who answered ‘no’, the issue of short timeframes, the overwhelming number and frequency of regulatory and review processes, the lack of ‘non-industry’ representatives and the need for consultation rather than simply communication, were identified as shortfalls within the consultation process.

Finally, stakeholders were asked to consider the consultation process within the ESC’s decision making process. Of the 52 stakeholders who provided a response one way or other, 69.3% stated that the ESC decision-making process ‘always’ (21.2%) or ‘often’ (48.1%) demonstrated effective use of consultation. By contrast, 30.7% of respondents selected never (1.9%) or sometimes (28.8%). Importantly, the question provided stakeholders with an opportunity to comment on the decision-making process. On this matter, Buchan (2004:17) noted that,

> In general the strongest theme emerging from comments provided – across each stakeholder set – concerned the genuine level of influence over ESC decisions which the consultation process provides: “Sometimes consultations are just ‘lip service’ and appear to be run just for the sake of being consultative.” And “…it often appears as if the ESC is just going through the motions”.

These comments accord with the opinion of several stakeholders. For instance, one stakeholder remarked that, in their view, the ESC had ‘really poor consultation practices’ (interviews, 2005). To the extent that these types of comments were made, it suggests there is an opportunity for more meaningful consultation to take place between the ESC and its consumer stakeholders.

In their report, Buchan (2004) also reported the findings of a consumer awareness survey in Victoria, in which 500 consumers were surveyed to gauge the public’s awareness of the ESC. Respondents included residential consumers (n=250) and business consumers (n=250), and included an even representation of metropolitan and regional consumers. Of concern, consumer awareness of the ESC was found to be extremely low, with only 27% (n=67.5) of residential and 29% (n=72.5) of business consumers being aware of the ESC. Respondents were subsequently asked whether they could name the essential services regulated by the ESC. Of the 140 respondents who were aware of the ESC, 86% were unable to respond to this question. Of all respondents, 89% of residential consumers and 82% of business consumers responded, ‘don’t know’. With the ESC specifically noting that their ‘decisions have a significant impact on the consumers and users of these services’ (ESC, 2003c:6) and as such, ‘aim to be open and transparent in their decision making, and to consult with as many people in the broader community as possible’ (ESC, 2003c:6), these findings are disappointing.

Overall then, Victorian electricity consumers appear to be unaware of the existence and role of the ESC. The lack of knowledge by consumers about the existence of the ESC and its roles and functions indicates that the public education programs conducted by the ESC have either not being targeted sufficiently to the wider Victorian community or have not yet been successful in their objective of ‘improving [its] approach to consulting and communicating with stakeholders’ (ESC, 2002c). With the ESC at the forefront of protecting Victorian consumers and with the ESC hosting important tools, such as the ‘Energy Comparator’

which is designed to assist consumers in making electricity market choices, widespread consumer awareness of the industry regulator is critical.

In light of these considerations, it is suggested that the measures of informing stakeholders and citizens of the broader community of ESC consultations, the publication of stakeholder comments, consultation reports, decisions and other documentation on its website is likely to have minimal impact on the everyday consumers of the industries that the ESC regulates.

More broadly, consumer representation in the form of independent consumer bodies has been viewed as a crucial feature of the new accountability process. While the state fair trading agency, Consumer Affairs Victoria and agencies such as VCOSS have played important roles in representing the interests of consumers to date, the establishment of CUAC in 2002 has assisted to build capacity in the community sector in relation to energy and water.

Aware that there are 'only a small number of players who are active in the advocacy or policy/regulatory' debate, CUAC has adopted a 'bottom up' approach designed to 'broaden the views which [are] brought to the attention of policy makers and regulators' and capacity build (interview, 2005). With a focus on low-income, disadvantaged and rural consumers, CUAC has 'worked quite hard at engaging more consumers in the debate and particularly rural and regional consumers'. In this context (interview, 2005),

> …having more people participate means having more people representing their own community's interests a little more effectively, which means there is not the need for everybody to be such generalists. But it is difficult, [energy issues] are complex issues and the resources that are required…particularly for civil society organisations, to participate are really quite significant. So there's quite a rational decision to spend your time doing something else because the ability to influence the debate really comes with expertise.

While Naylor (2002b) commended the proposal to establish CUAC and noted that EWOV has performed strongly despite some early concerns about independence and resources, nevertheless there are those stakeholders who remain sceptical about the effectiveness of consumer consultation. Indeed, one stakeholder (interview, 2005) argued that,

> … the consumer voice is *this* small and the retailer's voice in *this* big in the argument. It just doesn't work…So it's a bit crazy the way the system is. It's really unevenly balanced for retailers and not for consumers at all. And that's why the accountability's not there, that's why we're in a bit of a pickle, even though we have a Retail Code.

While these concerns are not limited simply to the area of energy policy, a number of stakeholders identified a lack of resourcing, in conjunction with tight time lines commanded by the ESC in their consultation processes, as major barriers for effective independent representation of consumer interests.

In considering the accountability framework in respect to vulnerable consumers, Kliger (1999) voiced a number of concerns. Specifically, Kliger (1999:1) argued that the privatisation of energy and water in Victoria has minimised the state's responsibility for the provision of essential services to consumers, with social responsibility for these services having been,

> … relegated to a narrowly defined range of community service obligations provided as a specific item in the State Government budget and managed by the Department of Human Services.

It must also be said that from a legal perspective, there are some concerns that the newly privatised electricity supply arrangements are now not subject to all mechanisms within the former regimes of Administrative Law and the *Freedom of Information Act*. Aside from the symbolism that these laws provided, however, the practical legal consequences of this lack of legal access are yet to be determined.

In summary of public accountability for electricity supply, we appear to have substantially met the joint imperatives of allowing some independence of operation by private companies whilst also being accountable for services provided to consumers. This positive result is probably a testament to the purity of the market ideas that were put in place at the generation and distribution levels as well as the strength and independence of the regulatory arrangements established to protect consumer interests.

What might be concluded overall? The accountability mechanisms existing under state ownership were simple, but they were also weak and indirect for service recipients. Under the restructured arrangements involving private electricity providers, accountability mechanisms have become more complex, incorporating a range of regulators and dispute resolution processes. While these new accountability arrangements might be criticised as being fractured and less visible than those existing beforehand, they nevertheless constitute an improvement in accountability performance for all Victorian consumers.

## 6.5 Conclusion

Accountability in the Victorian electricity sector over the past two decades has been somewhat of a paradox, consisting of three different accountability arrangements. First, we saw a traditional political/bureaucratic paradigm under state ownership. Secondly, during the disaggregation and privatisation of the electricity sector accountability throughout the privatisation transaction was viewed at a low in democratic terms, but high in managerial terms. Once privatised operations had been achieved we saw low parliamentary accountability for services but high accountability through independent, regulated markets and new consumer complaint mechanisms. At the political level, of course, the public still regards publicly elected officials as being responsible for the successful operation of electricity supplies. The implementation and administration of the regulatory framework, in addition to the establishment of a dispute resolution scheme, has been undertaken in response to this.

In answering the fundamental questions posed at the beginning of this chapter, it is concluded that the establishment of a cross-sectoral independent industry regulator and an industry funded alternative dispute resolution scheme have underpinned the public accountability gains observed within the post-privatisation Victorian marketplace. The implementation of proactive and adequately resourced accountability bodies has ensured, for the most part, that Victorian consumers have benefited from enhanced public accountability mechanisms as a consequence of market reform. Having said this, however, further work is probably now warranted to enhance the role of stakeholder consultation within regulatory decision making. In addition, it would appear that the ESC could be more open and accountable in its decision making processes.

It is therefore recommended that changes to consumer accountability arrangements which have occurred throughout electricity reforms be made clearer by the ESC. This would enable accountability improvements to be more easily understood by members of the public. It is also recommended that consumer consultation methods and roles be further clarified so that consumers are clear as to how they may contribute to the ongoing development of the evolving regulatory arrangements supporting accountability.

# Chapter 7: Conclusions & Recommendations

## 7.1 Conclusions

This report concludes that whilst electricity reforms in Victoria have produced some significant benefits over the past decade, many of these benefits have accrued to industry, commercial users and metropolitan consumers. Disappointingly, low income and disadvantaged consumers have seen mixed impacts from reforms.

On the matter of electricity prices (Chapter Three), the general consensus is that there has been, under deemed and standing arrangements, a downward trend in real electricity prices for all Victorian consumers in aggregate terms. For domestic consumers the decrease has been slight. Greater benefits have gone to higher volume business consumers and Melbourne metropolitan consumers, in preference to low volume, rural and regional consumers. For those who have entered the competitive market, however, there is no data currently available to provide the basis for a 'before and after' reform comparison. Whilst it is tempting to assume that market choice may guarantee price benefits to consumers, experience in other areas of deregulated sectors, such as banking or mobile phones services, would cast serious doubt on the veracity of this assumption.

Chapter Four considered a range of access issues, and found that physical access to electricity supply has improved with reforms. Some groups of consumers however are more likely to face difficulty maintaining access to electricity due to a lack of capacity to pay. The competitive market has also created new barriers to access in the form of refundable advances and credit management tools. These barriers have introduced potential distributional problems and deserve further review. In accessing today's competitive market, some groups of consumers are at a clear disadvantage because they are 'unattractive' to retailers, suffer from information asymmetry and have low confidence in their ability to exercise choice in the market.

The analysis of quality outcomes in Chapter Five found that on most quality of electricity supply measures, reform has resulted in improvements for consumers. For some quality measures, such as momentary interruptions, however, quality declined. It was also found that quality benefits were not uniform across all consumer groups, with rural and regional areas receiving lower quality gains than their metropolitan counterparts. In terms of customer service quality, reforms have benefited consumers. The competitive market though has also created some new problems for consumers in the customer service area, particularly issues surrounding misleading and deceptive conduct in the marketing of energy contracts to consumers.

Lastly, Chapter Six observed that the establishment of a cross-sectoral independent industry regulator and industry funded alternative dispute resolution scheme underpinned real public accountability gains throughout Victorian electricity reforms. The implementation of these proactive and adequately resourced accountability bodies have ensured, for the most part, that Victorian consumers have benefited from enhanced public accountability mechanisms as a consequence of market reform. Having said this, however, current accountability mechanisms are not perfect, and further work is warranted to enhance the role of stakeholder consultation within regulatory decision making.

## 7.2 Recommendations

1. A major monitoring exercise should be mounted by the ESC to track both the performance of market contracts over time and their performance against the previous deemed and standing arrangements.

2. Initiatives in market aggregation should be seriously investigated in terms of organisational viability to date, potential for public benefit and economic support desirable to achieve optimum aggregate small consumer benefits.

3. That the ESC include in future monitoring efforts measures that would establish the degree to which all consumer groups have market offers made available. Such monitoring should include the price basis on which market offers are being made and the degree to which consumers fully understand the terms and conditions associated with market offers.

4. That changes to consumer accountability arrangements which have occurred throughout electricity reforms be made clearer by the ESC. This would enable accountability improvements to be more easily understood by members of the public.

5. It is also recommended that consumer consultation methods and roles be further clarified so that consumers are clearer as to how they may contribute to the ongoing development of the evolving regulatory arrangements supporting accountability.

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# Appendix

***SCHEDULE A***

***Technical indices for measuring the reliability of supply***

Under each distribution price review, targets are set for total minutes off supply per customer per year, interruption frequency and interruption duration for both planned and unplanned interruptions to supply.

Technical indices are used to set targets and benchmark distributors performance against targets:

- **CAIDI** (Customer Average Interruption Duration Index) measures the average duration of interruptions per customer (or the time taken for supply to be restored following an interruption).
- **SAIFI** (Customer Average Interruption Frequency Index) measures the average number of times or frequency of an interruption to supply.
- **SAIDI** (System Average Interruption Duration Index) measures the total number of minutes (per year) a customer is without electricity due to interruptions.
- **MAIFI** (Momentary Average Interruption Frequency Index) which measures the total number of momentary interruptions (defined as interruptions of less than one minute duration per year).[68]

Under the Electricity Distribution Review 2006-2010 Final Decision, from 1 January 2006, the five Victorian distributors will be required to continue to report on the above quality service measures. Additionally however, 'businesses will provide a breakdown of voltage variations at the zone substation and feeder level, and a breakdown of 10 second voltage variations based on the minimum voltage during that variation' (ESC, 2005c:30).

[68] *See generally ORG*, Electricity Distribution Price Determination 2001-05 *(September 2000). However, as a result of limitations experienced by some distributors in detecting all momentary interruptions, MAIFI was excluded from the financial incentives for the 2001-2005 regulatory period. Nevertheless, each distributor's performance against MAIFI, as with the other reliability indexes must be reported to the ESC as part of the ESC's reporting requirements.*

**SCHEDULE B**

**Case study: EWOV Binding Decision**

A residential consumer contacted his distributor about voltage variations at his residence, which he believed was causing damage to his appliances. As the result of his dissatisfaction with the length of time taken by the distributor to resolve the problem, the customer made a complaint to EWOV.

The distributor tested the voltage variations and advised EWOV that they were 'minor in nature', and took various actions to return the voltage levels to those required by the Distribution Code. The customer then advised EWOV that he was still dissatisfied with the quality of electricity at his property, complaining that when he had more than one appliance operating at a single point in time, he would lose supply.

As a result, EWOV arranged for an independent technical consultant to analyse the voltages indicated by the distributor's testing and to conduct separate tests. The consultant found that the voltage variation was 'extreme' and that the customer's appliances had been damaged, representing a total of $1390. The consultant also indicated that the consumer bore the responsibility of correcting the other technical causes of the voltage problems.

Ultimately, negotiations between the parties failed and EWOV issued a Binding Decision. EWOV noted that the distributor's assessment of the variations as 'minor in nature' was in stark contrast to the independent consultant's finding. EWOV also noted the 'inordinate' amount of time taken to rectify the problem which damaged appliances and affected customer service. Ultimately, EWOV found that the problems had now been rectified and that the consumer bore the ongoing responsibility for correction of ongoing problems. EWOV directed that the distributor pay the consumer $1390 for the damaged appliances and a further $800 as a customer service payment (EWOV, 2003a).[69]

[69] In this case, as the customer did not respond to EWOV's decision, it was assumed that the customer did not accept it and as a consequence, the company was released from any obligations under the binding decision.

**SCHEDULE C**

**Retailers – Customer Service Standards**

| ***Customer service category*** | ***Standard*** |
|---|---|
| Connection | Upon request, the retailer must connect a customer as soon as practicable.[70] |
| Information disclosure | The retailer must on request and within 10 business days provide reasonable information relating to tariffs.[71] |
| Bills | Minimum issuing period (every 3 months).[72]<br>Bill must contain prescribed information including a graph showing the consumer's consumption.[73]<br>Rules in relation to undercharging and overcharging.[74] |
| Meter read | The retailer must use best endeavours to read the meter at least once in every 12 months.[75]<br>Estimated bills are permitted where the retailer not reasonably or reliably able to base a bill on a reading of the customer's meter.[76] |
| Bill payment | Minimum of 12 days before required payments.[77]<br>Prescribed payment methods.[78] |
| Credit management | A refundable advance may be applied in specified circumstances. [79]<br>The amount of the refundable advance must not be more than 37.5% of total amount billed over preceding 12 months or in case of dual duel account, 25%.[80] |
| Payment difficulties | If customer contacts a retailer in relation to payment difficulties, the retailer must assess the customer's capacity to pay on basis of information or advice of a financial counsellor.<br>On request, the retailer must make available documentary evidence of that assessment.<br>Unless the customer has failed to comply with 2 instalment plans in preceding 12 months, the retailer must offer the customer an instalment plan.[81] |
| Instalment plans | The plan must reflect the customer's consumption needs and capacity to pay.<br>The retailer must undertake to monitor consumption and to have in place fair and reasonable procedures to address any further payment difficulties that may arise.[82] |

[p1]

[70] Retail Code, Clause 2.
[71] Retail Code, Clause 26.
[72] Retail Code, Clause 3.2(a).
[73] Retail Code, Clause 4.2 & 4.4.
[74] Retail Code, Clause 6.
[75] Retail Code, Clause 5.1(b).
[76] Retail Code, Clause 5.2.
[77] Retail Code, Clause 7.1(b).
[78] Retail Code, Clause 7.2.
[79] Retail Code, Clause 8.1.
[80] Retail Code, Clause 8.1(b).
[81] Retail Code, Clause 11.2.
[82] Retail Code, clause 12.2.

| | |
|---|---|
| Disconnection | Specific procedures must be complied with before disconnection for non-payment of a bill is permitted (warning, notice with minimum period).[83]<br>A retailer cannot disconnect if:<br>it is a Friday, Saturday, Sunday, Public Holiday, the day before a Public Holiday or after 2pm on any other day;<br>the amount owed is less than specified amount in relevant guideline;<br>the customer has made a complaint to EWOV; or<br>the customer has formally applied for an URG.[84] |
| Explicit informed consent | Explicit informed consent required for market contracts.[85] |
| Complaints and dispute resolution | Retailers must handle complaints in accordance with the Australian Standard on Complaints Handling or the Benchmarks for Industry Based Customer Dispute Resolution Schemes published by the Department of Industry, Science and Tourism (DIST Benchmarks).[86] |
| Direct-marketing | Door-to-door marketing limited to 8.00am - 8.00pm weekdays, 9.00am - 7.00pm Saturdays and 10.00am – 7.00pm on Sundays (not permitted on public holidays).[87]<br>Telemarketing subject to same limitations except on weekdays where provides for extra half hour, until 8.30pm.[88]<br>Identification must be produced when marketing in person.[89]<br>Customer must be added to no contact list upon request.[90] |
| Marketing conduct | Misleading and deceptive conduct and unconscionable conduct prohibited.[91] |
| Contract information | Before entering a contract with a new customer, retailers must provide information about billing, all tariffs and charges, cancellation rights and any terms or conditions that are different to that provided by the industry codes.[92]<br>Within 2 business days of formation of the new contract, the retailer must send the customer a copy of its terms and conditions and all applicable costs as well as information about EWOV, government funded grants and concessions.[93] |
| Customer transfer | Proposed transfer can occur up to 20 business days after customer request to transfer.[94]<br>Meter readings.[95] |
| Objection to transfer new customer | Valid grounds of objection are Valid grounds of objection are**:**<br>a) An objection to a proposed transfer can be made in accordance with the *CATS retail transfer procedures*.<br>b) Subject to clause 5.3, an objection using *CATS code* “DEBT” must |

[83] Retail Code, Clause 13.1.
[84] Retail Code, Clause 14.
[85] Retail Code, Clause 19 and Marketing Code, Clause 7.
[86] Retail Code, Clause 28.
[87] Marketing Code, Clause 5.1.
[88] Marketing Code, Clause 5.1.
[89] Marketing Code, Clause 5.2.
[90] Marketing Code, Clause 5.4.
[91] Marketing Code, Clause 6.2.
[92] Marketing Code, Clause 6.3.
[93] Marketing Code, Clause 6.3.
[94] Transfer Code, Clause 4.2.
[95] Transfer Code, Clause 4.3.

not be made by an existing *retailer* unless the debt is *certified debt*. [96]

[96] Transfer Code, Clause 5.1.

**SCHEDULE D**

**Distributors – Customer Service Standards**

| *Service category* | *Standard* |
|---|---|
| Notification of unplanned interruption | Duty to notify within 30 minutes of being advised of the interruption or otherwise as soon as practicable by way of a 24 hour telephone service.<br>Customer must be advised of nature of interruption and an estimate of supply restoration.<br>Must use best endeavours to restore supply.[97] |
| Notification of planned interruption | Minimum 4 days advance notice of a planned interruption.[98] |
| Customer with special needs | Must register a life support machine address.<br>A registered life support machine address must not be disconnected.<br>Give the customer appropriate notification of planned interruptions.<br>Assist the customer to prepare a 'plan of action' in case of an unplanned interruption.[99] |
| Provision of information | Certain information must be provided on a customer's request.[100] |
| Confidentiality | Confidential information may only be disclosed in accordance with the Distribution Code.[101] |
| Complaints and dispute resolution | Distributors must handle complaints in accordance with Australian Standard on Complaints Handling or the Benchmarks for Industry Based Customer Dispute Resolution Schemes published by the Department of Industry, Science and Tourism (DIST Benchmarks).[102] |

[97] Distribution Code, Clause 5.4.
[98] Distribution Code, Clause 5.5.
[99] Distribution Code, Clause 5.6.
[100] Distribution Code, Clause 9.1.
[101] Distribution Code, Clause 9.4.
[102] Distribution Code, Clause 10.1.

**SCHEDULE E**

**Key Performance Indicators (Retailers)**

| ***Performance Category*** | ***KPI*** |
|---|---|
| Background | Retail Business<br>Month/Year<br>No. of domestic retail customers<br>No. of business customers (according to each tranche of electricity used) |
| Enquiries & Complaints | Calls to account line<br>Calls to account line forwarded to an operator[103]<br>Calls to account line answered within 30 seconds[104]<br>Complaints – affordability (billing or account complaints)[105]<br>Complaints – other retail[106] |
| Accessibility & affordability of service | % of customers offered budget instalment plans.[107]<br>No. of customers who have paid a refundable advance (security deposit) to secure connection or reconnection to supply.<br>Amount of refundable advances.<br>No. of customers disconnected for non-payment.<br>% of customers disconnected for non-payment who are reconnected in the same name (within 7 days).<br>Number of customers making direct debit payments.<br>Number of direct debit customers who default on direct debit payments. |

[103] Includes calls forwarded but terminated before they are answered by an operator.
[104] The time to answer begins when the call is diverted to an operator, and includes any time spent in a queue.
[105] Includes complaints about payment difficulties, overcharging, prices, payment terms and methods and debt recovery practices.
[106] Includes any other complaints about the quality or timeliness of service provided.
[107] For the purposes of the *Information Specification (Service Performance) for Victorian Electricity Retailers,* a budget instalment plan is an agreement whereby the customer pays for arrears and continued usage in regular instalments on their account.

**SCHEDULE F**

**Key Performance Indicators (Distributors)**

Distributors are required to report on a regular basis to the ESC on key performance indicators (**KPIs**) set out in the *Information Specification (Service Performance) for Victorian Electricity Distributors.*[108] The KPIs in the *Information Specification (Service Performance) for Victorian Electricity Distributors* incorporate KPIs relating to both the reliability and quality of supply.

| ***Performance Category*** | ***KPI*** |
|---|---|
| Enquiries & Complaints | Calls to fault line.<br>Calls to fault line forwarded to an operator.<br>Calls to fault line answered within 30 seconds.<br>Complaints (connection & augmentation).<br>Complaints (quality & reliability).<br>Complaints (other distribution). |
| Guaranteed service level payments | No. and amount of low reliability payments.<br>No. and amount of supply restoration payments.<br>No. of customer made appointments and % of appointments not met within 15 minutes of agreed time.<br>No. and amount of GSL payments made for appointments not met.<br>No. of connections made and % not made on agreed date.<br>GSL payments for connection delay (1-4 days and 5+ days).<br>No. of street lights out and % of customers receiving GSL payments. |

[108] Retailers have similar reporting requirements.

**SCHEDULE G**

Wallis

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# CONSUMER LAW CENTRE VICTORIA
# DO THE POOR PAY MORE?
# RESEARCH REPORT

*prepared for*

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# Executive Summary

A study consisting of 33 telephone in-depth interviews with a range of householders in different circumstances but all living in households that earn a total of less than $30,000 and that reported having difficulties in paying basic household bills in the last year found:
With regards to credit:

- 13 of the 33 Victorians interviewed had been refused credit although most others had not applied for credit either because they did not believe they would be accepted or they did not believe in using it;
- Respondents believed that credit had been rejected on the grounds of their low incomes and/or poor credit ratings. Personal loans from banks and credit cards were the main types of credit refused. In the case of being refused personal loans, some respondents were offered credit cards instead. If money was needed for a short time then respondents' first instincts were to turn to family and friends for help, however where no such support is available, credit cards (if accessible) are used. Where major items were to be purchased over a long time frame, respondents leaned towards borrowing money from finance companies, especially to purchase cars.
- When asked which companies respondents would not approach for a loan, some said banks because of fear of rejection, however finance companies and loan sharks (sometimes considered to be one and the same) were mentioned frequently because of the way customers are (perceived to be) treated.

The same number of respondents (13), although not entirely the same people, had purchased major goods and services using credit in the last year. Their experiences were as follows:

- Most purchases were considered to be major and essential, although in some cases day to day expenses including food were paid for using credit cards. While some made a conscious decision to use credit cards for day-to-day purchases in order to control cash flow or gain Frequent Flyer points, for most credit was only used for these items in emergency situations. For larger items such as cars, computers, furniture and major whitegoods, finance companies were the major source of credit.
- Of the 13 respondents who had used credit, 3 had experienced difficulties in meeting the repayments, although only one had defaulted on the loan as a result of a business failure.
- Most respondents were happy with the deal they got in terms of the ticket price of the items purchased and the terms and conditions of the credit used to buy them. Several

respondents felt that finance would have been less expensive had they been able to secure a personal loan from a bank, building society or credit union and some felt that they could have obtained a better ticket price had **they** been more patient.

- While the subject was not raised by many, those that mentioned interest free periods did not seem to understand that retailers build the lack of interest into the ticket price or into the interest payable once payments are due.
- Although not strictly speaking "credit", some people who rely entirely on government benefits reported getting advances of up to $500 from Centrelink to tide them over or to buy items and "paying this back" by receiving a reduced benefit for a pre-determined period thereafter.

As the study was conducted by telephone everyone had access to a fixed line phone, thus we are unable to comment on the ability of these respondents to access such services. Nonetheless, one respondent had been refused a telephone and had the current phone registered in a parent's name. The following points are of note in relation to telecommunications:

- 9 of the 33 respondents had borrowed money to pay telecommunications bills in the recent past. 15 had been charged late payment fees. Late payment fees do not act as a great deterrent to paying bills late - other bills, in particular, mortgage/rent and utilities such as electricity, gas and water, take precedence over telecommunications for all except those whose general livelihood depends on phone and/or internet services, for example, the self employed or those with health problems in the family. People living outside Melbourne see these fees as a greater threat and this also relates to dependence on telecommunications.
- 26 of the 33 respondents have mobile phones and of these 14 are pre-paid. While this sample is not representative, the proportion of all respondents having a mobile phone (eight in ten) is the same as the general community, but the proportion using pre-paid mobiles is higher. Respondents choosing the pre-paid option do so in order to control their phone costs or to avoid monthly connection fees. People living in share homes find having individual mobile phones less problematic than a single fixed-line phone as each is then responsible for their own bills.
- 11 respondents had been disconnected from a telecommunications service. This high proportion probably relates to the speed and ease with which disconnection can occur, coupled with the lower priority placed by most respondents on access to telecommunications and the lower reconnection fees compared with other utilities. When money is tight, other bills take priority over telecommunications as the problems

and costs associated with losing connection are considered to be lower than for other household expenditure items.

- Internet is desirable for some of the 13 respondents who did not have easy access to it. Households containing someone who is studying or working from home consider it a "must have". All respondents reported being able to access the internet through cafés and public libraries if the need arises.
- 7 respondents reported having telecommunications services disconnected, all bar one involved changing internet providers. While cancellation fees were levied these were, generally, thought to be outweighed by the benefits gained from using a different or no service provider.

After paying for major items such as rent/mortgage, major loan repayments (car loan) and, in most cases, food, utilities were considered to be the most important household expenditure items. Electricity was the most talked about of these, although this is not surprising given that only a third of respondents resided in Melbourne with a third being in major regional centres and the rest in rural Victoria – places that are less likely to have access to mains gas. On this subject:

- 17 of the 33 respondents reported having been in a situation where they could not afford to pay a utility bill in the last year. Most respondents turned to friends or family for short-term help. Suppliers were seen to be helpful when payment difficulties arise, offering payment instalment plans and regular payment options to help out. Nonetheless, 3 respondents had been disconnected from one or more of the major utilities and had suffered considerable discomfort, both financially and physically, while waiting for reconnection.
- Of the 33, only one respondent believed that energy costs comprised a low proportion of household running costs and all respondents reported a range of measures they were taking to reduce their energy bills. Some respondents reported not using heaters and other appliances at all to reduce their costs.
- The subject of late payment fees drew mixed, but generally negative, responses from respondents. Some said it would not affect them in the hip pocket as they always paid on time, but it would impose additional stress to ensuring payments were met. Others felt they were already paying these and managing to do so. Some felt that their introduction would cause considerable hardship, especially those who continually pay late, or pay late on occasion because of the way in which they receive income and/or pay their bills. While most felt that late payment fees would make them pay on time, some felt that they would simply have to pay these by reducing expenditure elsewhere.

Late payment fees appear to pose more concern to respondents living outside Melbourne.

- 21 of the 33 respondents paid the Energy Concession Rate. Single parents and elderly pensioners were the most likely of these to receive the Concession Rate **and** to rate the proportion of their household expenditure given to energy as "high".
- All 6 respondents who had disconnected a service themselves lived outside Melbourne. All except one of these related to internet access and the high fees associated with its use. While most respondents felt they had paid disconnection fees these were felt to be offset by the savings made in changing to a new provider.

From these findings we conclude:

- Finance options are limited for low and fixed income Victorians who apply for credit and are even more restricted for those who feel they have no hope of having their credit application approved. The advantages of owning major items, especially a home, are not lost on respondents, one of whom only qualified for this study because of the financial straits she has put herself in to enter the property market.
- Where personal loans are rejected, respondents are directed to finance companies especially for major purchases. While respondents are aware that the "cost" of money to them is higher than personal finance from a bank, credit union or building society, the items they are purchasing are considered to be sufficiently essential that they must proceed.
- Where credit applications are refused, Victorians are faced with resorting to other means to cover occasions where they are temporarily short of money. In particular, family, friends or, if they are in receipt of government benefits, advances from Centrelink are used.
- Respondents are therefore mostly using more expensive forms of credit than "mainstream Australia" and have little choice in this.
- Terms such as "12 months" interest free credit are not well understood and it is thought that if the loan is paid within the timeframe specified **no** interest is payable.
- All respondents in this study had fixed line phones and thus, are not entirely representative of all households living in financially difficult circumstances. About 80% of Australian homes now have mobiles in them[109] and, although this sample is small, the proportion reporting having mobiles is the same as the average. However, unlike the average, more than half of those having mobile phones in this study had chosen pre-paid mobiles – the more expensive option, so that they could control costs or avoid ongoing connection fees.
- A high proportion of respondents reported billing problems, being charged late payment fees and being disconnected. It seems that a combination of respondents' placing telecommunications bills below others in terms of priority order for payment, coupled with the relative speed and ease with which disconnection and late fees can be levied, is responsible for this. Late payment fees pose a greater problem the greater the level of dependence there is on the phone. This seems to be related to remoteness with

[109] IDC Research, May 2004 – "Upwardly mobile: Australian Cellular 2004-2008 Forecast and Analysis"

respondents living in regional and rural Victoria being more likely to say these fees pose a threat.

- There is some evidence that people living in share homes opt for mobiles as well as, or instead of, fixed line phones.
- Most people who wanted internet access had it and felt the costs to be reasonable. However, most of the service disconnections involved the internet and all but one were outside Melbourne highlighting the relatively greater expense involved in using it where calls to ISPs may be charged at STD rates.
- Utilities are given a high priority in terms of paying bills to maintain services, with most respondents putting only food and major ongoing payments for investments such as homes, above these in their priority listing. There is much evidence to suggest that these respondents are taking many measures to reduce energy consumption and it is very likely that some would consume more energy to attain a basic level of comfort, if they had the means to pay for it.
- Disconnection rates for utilities are lower than for telecommunications because of the higher priority placed on paying these bills and the accommodating measures that suppliers are taking, albeit that these are legislated for[110], to assist with billing problems.
- The introduction of a late payment fee would pose considerable problems for the majority, if only to introduce additional stress to the already fraught juggling act that many undertake when deciding the order in which to pay bills with only limited funds available.
- With the exception of the costs of some telecommunications services, there is no evidence to suggest that low-income householders are more or less disadvantaged on the basis of where they live.

[110] See Electricity Retail Code (October 2001), Gas Retail Code (December 2002) which include guidelines that retailers must meet in respect of supply and access to services in order to meet the terms of their retail licenses.

# background and objectives

CLCV has been funded by the Consumer Credit Fund to undertake a research and education project, titled 'Do the Poor Pay More?' (**Poor Pay More Project**). The project aims to analyse, from both an empirical and theoretical viewpoint, the differential cost for people living in poverty. The hypothesis is that differential pricing of essential goods and services for people in poverty, compounded by the need to access differentially priced credit products to fund purchasing goods and services, exists in the marketplace.

In summary, qualitative data is needed which will inform the hypothesis regarding whether or not people in poverty are paying more for banking, credit, telecommunications, utilities and general goods and services (such as furniture etc) than wealthier consumers.

There are four key areas of investigation and key questions as follows:

- Credit
    - Did you apply for a loan, but were refused? What sort of institution was it (bank, building society, pay day lender) and what sort of loan (credit card, interest free purchase, personal loan, housing loan etc)
    - Why do you think you were refused/ what reason were you given for the refusal?
    - How did they treat you - nicely, rudely, like they didn't want to know about you? Are some places more likely to be welcoming than others eg payday lenders?
    - Are there some places you would never even try and go for a loan - eg banks; if so why?
- Goods and Services
    - In the last 12 months have you used credit to pay for any major household items? Which types of credit?
    - Why did you use the type of credit?
    - Have you been able to repay the loan or have you defaulted on the loan?
    - Did you buy the goods because you needed them or did you feel pressured by the salesperson?
    - Did you shop around on the price of goods and/or the credit used to pay for goods?
    - Relating to Department store cards – What is your understanding of the interest free period? What are the terms and conditions of use?

- Did you meet the terms of the credit contract? If not, what happened?

- Telecommunications
    - Do they have a home telephone (that they can make calls from)?
    - If not, why not? Would they like to have a home phone service? If so, why?
    - Do they have a mobile phone? If so, pre-paid? If pre-paid, have you ever lost credit because the credit expired before you could use it?
    - Have you ever had to borrow money to pay a telephone bill? If so, fixed-line, mobile or both? How/from whom did you borrow the money?
    - Have you ever been charged a late payment fee for paying a telephone bill late?
    - Does the threat of being charged a late payment fee affect whether you pay on time?
    - Have credit management/debt collection charges ever been added to your telephone bill for not paying the bill on time?
    - Have you ever cancelled a telephone or Internet contract and had to pay an early termination/cancellation fee? If so, why did you cancel the contract early?
    - Have you ever been disconnected from the telephone for non-payment of a bill? If so, did you pay a reconnection charge to be reconnected? How much?
    - Do you have Internet access at home? If so, why did you obtain the service? If not, why not? Would you like to have Internet at home? If so, why?

- Utilities (electricity, gas and water)
    - Have you ever had to borrow money to pay a gas, electricity or water bill? If yes, from whom did you borrow the money?
    - Have you been asked to pay a refundable advance before being connected to gas, electricity or water services? If yes, how much did you pay? Was it difficult for you to come up with the money?

- Have you ever been disconnected or restricted from a utility service for non-payment of a bill? Were you charged to have the service reconnected?
- Have you been offered a market contract for gas or electricity services? Have you requested a market contract and been denied one? If yes, what is the reason you were given?
- Have you ever been charged a late payment fee or interest charge for paying a water bill late? If yes, how much were you charged?
- Do you regularly pay gas or electricity bills late? If a late payment fee was introduced would this make you pay your bill on time? If not, why not?

A qualitative methodology was designed to tease out answers to these questions.



# methodology

Recruitment for this project was arranged in conjunction with a small quantitative telephone survey designed to gauge whether and to what extent Victorians living in low income and fixed income households are better off since full retail competition entered the Victorian electricity industry.

To qualify for either study, respondents needed to live in households earning less than $30,000. To qualify for this study, to ensure a range of views was represented, the following interviewing grid was established with the numbers in brackets being the number of in-depth telephone interviews completed:

| | Group of young people | Young couple | Single parent | Older families | Older couple |
|---|---|---|---|---|---|
| Source of income | | | | | |
| • All earned | 1 | 1 (1) | (1) | 1 | 1 |
| ○ Metro | 1 (1) | | | 1(1) | |
| ○ Rural | 1 (1) | 1 (2) | 1 (1) | (1) | |
| ○ Regional urban | | | | | |
| • Mostly pensions and benefits | 1 | 1 | 1 (1) | | 1 (4) |
| ○ Metro | | 1 (1) | 1 (2) | 1 | 1 (2) |
| ○ Rural | 1 | | (1) | 1 | 1 (1) |
| ○ Regional urban | | | | | |
| • Combination of earnings and benefits | (3) | 1 (1) | 1 (1) | 1 | 1 |
| ○ Metro | 1 | | 1 (1) | 1 (2) | 1(2) |
| ○ Rural | 1 | 1 | 1 (1) | 1 (1) | 1 |
| ○ Regional urban | | | | | |
| **TOTAL = 33** | **7 (5)** | **6 (5)** | **6 (9)** | **7 (5)** | **7 (9)** |

As the table above shows, of the achieved interviews:

- 12 respondents lived in Melbourne
- 12 respondents lived in rural Victoria; and
- 9 respondents lived in regional Victoria

Respondents were recruited at random from the electronic White Pages listings during the daytime, evenings and weekends. The sample was boosted with numbers from areas that CLCV has outreach programs in including:

- Warrnambool

- Swan Hill
- Morwell and surrounds

In the city, areas with high concentrations of public housing and/or where students tend to congregate were also loaded disproportionately in the sample. Respondents were invited to undertake a short questionnaire, and if they met the criteria in the table overleaf to agree to a longer interview. Participants were offered a $20 Coles Myer voucher in recognition of the length of time donated in the case of the longer interview – the results of which are reported here. The discussion framework used for the interview is appended.

Interviews were conducted between May 12th and 27th 2004.

It is important to note that respondents were contacted by fixed line phone. Therefore we were unable to explore means by which financially disadvantaged Victorians deal with being denied access to this service.

Qualitative research is subjective in nature. Numbers quoted in this report should be treated as indicative.

# detailed findings

Four key areas were investigated:

- The role of credit overall
- The use of credit to purchase major household items
- Utilities
- Telecommunications

While each area was investigated separately, respondents were asked to think about expenditure across the board in order to establish their key priorities. Taken together, payments on major investments such as houses and cars take first priority then the key item is food, followed by essential services, especially electricity and water. Items then are purchased (or sacrificed) on personal preference. There are exceptions to this rule. For example, where a family is dealing with ill health then telecommunications assumes greater importance as does finding money for medical bills. Similarly, the self-employed and those who are studying, place a higher importance on telecommunications as it affects their ability to operate to a greater extent than others.
For example, one young person who has started his own business, believes the telephone is more important than utilities, because without the phone he has no means of earning any money!

> *Utilities are less important because my phone is needed for my business, so if I was disconnected people couldn't get through to me and the business would die* – young person, all income earned, rural Victoria.

While food was most often mentioned top-of-mind as the most important item, respondents were prepared to compromise to pay major bills in terms of the quality, type or amount of food consumed.

> *I don't give up food (to pay electricity bills), but I feel like I'm forever going to the supermarket and then getting to the checkout and having to put stuff back on the shelves because I don't have enough money after paying the bills. I hate that!" –* single mother, all benefits, regional Victoria.

> *It's very important – especially electricity and the heating. I'm not going cold for nothing! If you don't use the heating you get sick and then you have to pay doctor's fees, it's like a vicious circle. It's the same with water. You can't cut back there. Because you've got to make sure you are clean and hygienic*

*and look after yourself* - single mother, all benefits, regional Victoria.

For those respondents who are purchasing a major asset, be it a home or a car, re-payments on the largest loan take priority:

*Yes, we sacrifice our grocery /entertainment /basic living costs in order to pay the bills on time. Utilities are more important than the phone - we have a mobile. But the direct debit for the mortgage and the car loan go first, then we pay designated bills, then thirdly we use what's left over to budget for the remainder of the period until we get paid again* – older family, income all earned, Melbourne

Although the question was not asked directly, the majority of younger respondents were renting their accommodation and this was clearly a major cost to them.

*Utilities make up a moderate proportion of household costs, but rent is very high* – single mother, all benefits, Melbourne

**The Role of Credit**

A key assumption of this project is that low income or people living in financially constrained circumstances have less access to credit and, where it is forthcoming, are penalised for low income or poor credit ratings by paying higher interest and other rates for it.

While 13 of the 33 respondents claimed to have had credit refused, most others either had not applied because they did not believe they would be accepted or because they did not believe in it.

Most people who had applied for credit had applied for a personal loan for a major item (especially cars) or a credit card for general use. However, there were circumstances when loans were wanted for short periods to overcome unforeseen outlays. There is some evidence that the loan would have been more helpful than the solution that was found.

> *I know he (husband) went to get a loan because our car blew up and was rejected because we hadn't paid a water bill. So he took it to the garage and we hope to God it doesn't blow up again. It's taken us six months to pay off that garage bill. We were charged interest on the bill* – older family, all income earned, rural Victoria

Credit cards were considered useful for emergency situations and when regular bills were higher than anticipated:

> *Groceries are purchased on credit when additional or extra payments or late payment fees come into effect or unexpected situations have to be dealt with* - older family, all income earned, Melbourne

> *I once applied for a credit card with NAB. I only wanted it for emergencies as my parents live overseas. I got refused on the grounds of low income. I told my parents what happened. They were concerned and agreed that I needed some kind of emergency funds. So I now have a "supplement card" attached to my father's credit card* – young person, benefits and income, Melbourne

There is also evidence to suggest that there is misinformation and misunderstanding. For example, a middle-aged pensioner who owned her house outright approached her bank to see whether she could borrow money for a car against her home and was told that she could not do this. This respondent obtained finance through a finance company, but it prompted her to make the following comment:

> *I feel demoralised by the fact that pensioners and low income earners can't get loans.* Middle aged pensioner, rural Victoria

Some respondents displayed an aversion to taking on any type of credit:

> *I don't want to live beyond my means. I'm not in a position to pay the bank – I stay away from credit – it is trouble!* – young person, combination of benefits and earnings, Melbourne

> *I don't believe in credit or loans. If you don't have the money to pay for it, you're not meant to have it* – aged pensioner, Melbourne

But there are special circumstances:

> *When I separated from my husband we borrowed off his house to get a loan on mine. This was the only way we could get a house. The bank thought it was an investment property, gave us the loan and when we finalised the divorce we signed the house over into my name. It was the only way I had to do it as no other bank would have given us a loan. Our bank manager advised us to do this* – single mother, all benefits, rural Victoria

> *Yes, once, for one of my husband's missionary trips he was asked to bring a video camera to capture his work. Though a friend offered to lend us one, it was too heavy. It was considered essential. We couldn't afford to buy it up front. AGC financed it with six months interest free. It was paid off within this period and no interest was paid* – age and disability pensioner, Melbourne

Thus there is little doubt that the hypothesis that people living in financially constrained circumstances have restricted access to credit and the credit offered is of the most expensive form. For example, credit cards rather than personal loans or mortgages. The following section elaborates further on these findings.

***Applying for Credit***

As mentioned earlier, 13 respondents had applied for credit and had their applications rejected. Others were not confident that an application would be looked on favourably and/or had not even tried.

> *I would never bother to apply for a loan as we would be refused* – older couple, combination of benefits and earnings, rural Victoria

*We enquired about consolidating all our loans and just having one payment and the answer we got we weren't happy with, so I guess we didn't get rejected, but we would have if we'd applied. Our home loan is through our parent's estate so we don't have interest on it. They (the bank) wanted us to borrow money from them to pay off the house ($30,000) and then they would give us a loan – which is daylight robbery because when their interest kicks in we'd have to pay double!* – older couple, combination of benefits and earnings, rural Victoria

Although in one case an apprehensive respondent had been successful…

*I wouldn't bother applying for credit because I can't afford it. I have a bad credit rating, I wouldn't even try. I have a car with Toyota/Esanda. I went to a number of car yards and was refused from a couple, but this one accepted me. I just signed straight away and didn't read the fine print (or any print). The car is my most important and most essential asset. I have no idea of the terms and conditions or whether I've got a good deal from Esanda. I didn't go to the bank because I tried that before and was told that even though I own my own house outright my income is too low* – middle aged pensioner, rural Victoria

So, this respondent had not attempted to borrow against her home as she felt that she was not creditworthy – which may have been a less expensive option.

Personal loans were the main financial instrument mentioned and these were usually for large items, such as cars, that would be paid back over a long time frame. In most cases, respondents turned to family or friends when short-term financial help was required.

However, in the case of unforeseen circumstances, such as major repairs to a car, finance had been applied for or, if the respondent had one, credit cards had been used.

Banks and credit card companies were those most often mentioned as rejecting applications by this group of respondents:

*I tried with Westpac. The credit card was refused because my income was too low. It was a blatant rejection and they did not offer an alternative suggestion* – young person, benefits and income, Melbourne

*Last week I went for a personal loan with ANZ bank. They refused me because I have a bad credit rating (I hadn't paid*

*one Optus bill). I received no help from them regarding suggestions or alternatives* – young couple, income all earned, Melbourne

*I tried AGC a few times when I had my old job and didn't earn enough. No alternatives were offered. I had to get a job that paid more – it was as simple as that* – young couple, all income earned, regional Victoria

*I was refused by the Bank of Melbourne. They didn't tell me the reason, but I know the reason. I have a bad credit rating because my ex's new girlfriend stole my Keypass and changed the photo in it. She bought mobiles in my name to the value of $1,200. One of the phones was with Vodafone and I explained to them what had happened. Vodafone was able to look up that I had a pre-paid phone with them and they wiped the bill she had made using my Keypass. But Telstra said the bill was in my name, so I had to pay it at $50 a fortnight. They've just called me to say I skipped three payments, but I don't care. I'll pay it when I'm good and ready. It's not my bill!! To meet this Telstra bill I've given up a pair of pants and several dinners! I haven't been to the police because my ex beat me up and threatened to kill me. The police did nothing to help me then and they won't do anything now* – young couple, benefits and income, Melbourne

*I was refused a loan from the bank (CBA) for a motor vehicle. I needed a vehicle, I was separating from my husband. The CBA said that I was renting a property, was a single mother and on casual employment. I had no credentials according to them. They suggested a credit card* – single mother, combination of benefits and earnings, rural Victoria

*A year ago I looked into home loans. My mother enquired for me. It turned out that I may have been eligible for a $100,000 loan, but only just and that would not be enough (to buy anywhere) anyway. I was not optimistic about it. I would normally not even consider any loan because my income is too low* – single mother, all benefits, Melbourne

*I applied to get a loan for a car from Bendigo Bank and got refused because I didn't earn enough money to be able to pay it back. I needed the car fairly desperately. They gave me alternatives and told me to apply for a loan through a car dealership* – single mother, all benefits, rural Victoria

*When we got the computer I rang around all the credit unions for a personal loan and they all said, "no". There was a place in Morwell that was advertising giving small loans to pensioners. The maximum I could borrow from them was $2,000 which was what we needed. We had to pay it back in six months which was impossible for me. We also would have had to put a car (which I don't have) or my whole house full of furniture up as collateral. My ex-husband ended up paying for the computer in cash. I know he would have saved out of his wages and gone without paying other bills like health insurance* – single mother, all benefits, regional Victoria

*I wanted to get a Virgin credit card, but they said I couldn't afford it. I already have a Coles Myer card and I can change that into a Mastercard. But I wanted the Virgin credit card because of the low interest rates. There is a big difference in the interest rates. I won't be able to buy a TV and lounge suite I was hoping to get next year because of the interest rates on the Mastercard* – single mother, combination of earnings and benefits, Melbourne

*We applied for a Virgin credit card because it had no annual fee and we thought the Fly Buy option might be better given that it is Virgin – a flight company. We were rejected on the grounds that my base income was too low. Ideally we would have had the two cards and eventually phased out whichever was the most expensive* – older family, combination of benefits and earnings, rural Victoria

However, some respondents, especially aged pensioners, did own or were buying their homes and had successfully received finance. One young couple only qualified for this study by dint of putting themselves into difficult financial

circumstances in order to *get ahead.* The respondent's partner is completing his studies and she is re-training as a child care worker…

> *I've worked since I was 13 and got a deposit. I lived with my parents so it was easy. I had the deposit and the rent money covered the mortgage – except for about $100 a month, which I could find. So when I bought this unit, I could borrow against the house. I'm 23 at the moment and I bought the house when I was 19 – lucky I bought it, it's worth double what I paid for it!* - young couple, benefits and income, regional Victoria

And another respondent had taken on large borrowings to start a business that subsequently failed.

> *I saved up $17,000 and borrowed money from 5 banks and building societies to get $75,000 to start a stripper business. This included a $42,000 car loan (from a bank). After 7 months the six girls working for me had only one gig a week and I couldn't pay the $500 or so a week in loans, I thought I'd be making much more. I threw in the towel and filed for bankruptcy – I lost the phones, car and credit rating* – single father, benefits and income, regional Victoria

Needless to say, this respondent is not very enthusiastic about his chances of obtaining finance in the future.

***Organisations that would not be approached for credit***

Finance companies and *loan sharks* were mentioned most frequently as companies to be avoided:

> *Possibly not loan sharks. They beat you up if you don't pay!* – young person, benefits and income, Melbourne

> *Loan sharks, for example, AGC and finance companies because they don't have any hesitation in robbing you. They are prepared to see you in any financial difficulty rather than knock you back!* – single mother, combination of benefits and earnings, rural Victoria

> *When I was 18 I got finance from AGC. I didn't pay my last payment for a week too late. They started hassling my mother. It was probably my fault, but I'll still never go with them again* – single dad, all income earned, Melbourne

> *In the early years when we were first married, we borrowed off AGC finance and AVCO loans. It was so hard to get clear of those loans – everything goes towards it because the interest rate is so high. The monthly payments pay the interest first. If you try to pay it off they charge you! I wouldn't go there again* – single mother, all benefits, regional Victoria

> *Yes, organisations like AVCO finance because they're just ruthless. You never get to pay off those loans. The harassment is ridiculous – very rude. It should be illegal to hassle and harass your customers like that* – older family, combination of benefits and earnings, rural Victoria

> *GE Finance – their interest is too high* – young couple, income all earned, Melbourne

> *GE Finance and loan sharks – you owe them $500 and they want you to sell your house and children. They're vicious. This has never happened to me, but I've seen it happen to my friends. GE Finance backs the Coles Myer card and that's one of the reasons I wanted to get rid of it (CM card). It's the principle. As soon as I pay it off I'm getting rid of it* – single mother, combination of benefits and earnings, Melbourne

*Some finance companies because a long time ago my husband bought a car and missed one payment and they confiscated the car. He only had $300 left to pay and they came to his work and took it with all his personal belongings, which he couldn't get back. It was a Adelaide finance company* - aged pensioner, rural Victoria

*I wouldn't go to a bank, any bank. It's too hard. There are too many requirements. Not a chance in hell with my circumstances and income* – single mother, all benefits, rural Victoria

*Banks and financial institutions because I don't work and these institutions don't approve loans for people on benefits or who aren't working* – aged pensioner, Melbourne

Not surprisingly, these opinions were mostly raised by people who had applied for and/or had experienced having loans and credit in the past. Some members of the contingent that is averse to finance voiced opinions shown above and others had no opinion as they had avoided finance completely.

***Credit Summary***

These quotes demonstrate the fact that finance options are limited to low and fixed income Victorians who apply and are even more restricted for those who feel they have no hope of having their credit application approved. One respondent has qualified for this study because of the lengths she has gone to in order to enter the property market and others have no hope of entering it in the first place.

Where personal loans are rejected, respondents were directed to finance companies.[111] Where credit applications are refused, Victorians are faced with resorting to other means to cover occasions where they are temporarily short of money.

There was no discernible difference in the responses of people living in Melbourne, regional or rural Victoria.

[111] A search on the internet revealed that while banks overly publish their interest rates, finance companies do not, instead preferring to quote on the basis of 'working backwards from the amount the applicant can afford'.

**The use of Credit to purchase goods and services**

Respondents were asked a series of questions about purchasing major household items and how they had financed these purchases. While respondents of all types had used credit to purchase items recently, it was respondents in households with children in them that were the most likely to do so. 13 of the 33 respondents interviewed had used credit to purchase major household goods and services.

A range of items was purchased using credit including:

- Cars
- Computers
- Furniture
- Clothes; and
- Food

***Purchasing goods and services using finance***

While some people had access to credit cards, the main source of finance encountered was finance companies.

> *We bought a TV, VCR, DVD and some furniture. We used GE finance credit card (for $3,000) and $4,000 from a financial institution credit card – ANZ. The bed was essential because my wife was coming from overseas, the TV, VCR and DVD were luxuries, but no-one put any pressure on me to purchase those* – young couple, income all earned , Melbourne

> *There is no public transport so we needed to get a car to get my husband to work. The washing machine – just like everyone else, we need to wash our clothes, so I guess they are both necessities. The car was second hand and costs more to keep on the road than it's worth, but we can't afford to even step in the vicinity of a car yard. It's a heap of c##p, but it's all we can afford – it's so far beyond roadworthy, it's not funny. It's a Catch 22 situation – if you have cash for the things you're buying, you can bargain a lot better* – older family, combination of benefits and earnings, rural Victoria

Also in most cases, items purchased were considered to be essential or very important. There were a couple of cases where items were considered to be luxuries, however these respondents were able to pay off the loans without difficulty.

13 respondents had used finance to purchase an item. Of these, only 3 claimed to have had difficulties in paying off the loan. The first of these was a business loan and the respondent declared himself bankrupt (note this quote has been used previously).

> *I saved up $17,000 and borrowed money from 5 banks and building societies to get $75,000 to start a stripper business. This included a $42,000 car loan (from a bank). After 7 months the six girls working for me had only one gig a week and I couldn't pay the $500 or so a week in loans, I thought I'd be making much more. I threw in the towel and filed for bankruptcy – I lost the phones, car and credit rating* – single father, benefits and income, regional Victoria

In the second case, it is the difficulties of juggling resources and a timing issue that causes ongoing problems:

> *Most repayments are on time, however, sometimes we just can't afford it because my husband's wage is one we have to wait for from other people – so if they're not on time, neither are we. We've had to put off bills and ring up and make arrangements for late payments, cut back on food and clothes. Entertainment is non-existent. Cut back on medications that I'm on – Tamoxifen*[112] *is very expensive ($78 a script), there are many months when I can't afford it, so I go without.* – older family, benefits and income, rural Victoria

And in the third, a more expensive option on car insurance was traded off for meeting repayments:

> *Sometimes I had to sacrifice things like car insurance – or the level of car insurance, I should say. The car insurance was not as important compared with paying off credit. I downgraded the type of cover from comprehensive to third party insurance cover.* – young person, income all earned, rural Victoria

The majority (20) of respondents had not used credit to purchase items. Some respondents, especially young singles, had not purchased major items and others believed in paying cash.

***Reasons for choice of credit***

There is evidence that some respondents had no choice in the type of credit they used:

[112] WCG has discovered that Tamoxifen is a chemotherapy drug used to prevent the recurrence of breast cancer.

*I used credit cards because they wouldn't give me a loan. I was only on casual rates and didn't earn enough. I researched everything in the fine print to do with credit cards, that is, interest rates, repayments, timeframes, additional charges etc. That was my only choice!* – young couple, income all earned, Melbourne

*A personal loan (with GE Finance) was a cheaper and better option for us. We couldn't afford to take out a credit card. We pay cash for everything we possibly can. We understood the loan terms and conditions, although you know you're getting ripped off, you have no choice. Additional fees and charges apply if you're late with a payment and if so, the harassment following the missing payment is unbelievable!* – older family, combination of benefits and earnings, rural Victoria

However, others made a reasoned decision and used credit to their advantage:

*I used a credit card – Visa with Westpac. The main reason for using the credit card option is convenience and then, reward points. I read between the lines. The terms and conditions were understood. There was a 30-day interest free period* – young person, all income earned, rural Victoria

*The only credit we have is a Telstra Visa Card. We buy 80% of our groceries with it only because of the Fly Buy option. We want to get enough points to go to the Philippines (wife is Philippino). We pay it off, in full, every month. We are* ***very*** *careful with it – we are fully aware of the terms and conditions of the card!* – older family, combination of benefits and earnings, rural Victoria

*We have a hire purchase plan, Buyer's Edge. I have a card with them for $5,000 worth of goods at particular outlets. We got it through Harvey Norman and we get 18 months interest free credit. We needed a new Telly as my husband wanted to watch the World Cup (soccer) and it wasn't something we could pay off in one hit. We paid it off in six months. We used*

*to have $3,500 credit on the card, but since we paid it off so quickly, they've raised it to $5,000* – age pension, rural Victoria

And others acted on impulse…

*It was an impulse. I got the card (AmEx) in the mail. I thought I'd use it. The fridge was a necessity but the HiFi was a luxury. The fridge was a bargain and I got a great deal on the HiFi. –* single father, all income earned, Melbourne

While those with mortgages or collateral managed to use these to their advantage:

*We used that type of finance (bank loan) because we have everything through the CBA – our mortgage, income protection and more linked to the mortgage (7% interest rate). I had a friend that worked in the loans department so he helped us out. I think the interest rate is about 9% currently but I'm not sure. We make the same repayments every week – by direct debit. The loan setup suited our financial situation and needs. It was a bit complicated to understand the terms at first, but we got there!* - older family, all income earned, regional Victoria

*I once borrowed $8,000 for a car two years ago. I went to the bank and knew I would get the loan because I've been with them for years and I own my home outright and had a good credit rating. I was fully aware of the terms and conditions and satisfied at the time that I got a good deal, however I've seen better loan options since!* – aged pensioner, rural Victoria

While most respondents felt they got good or reasonable deals on the goods they purchased, several respondents commented that it would have cost them less to use bank finance, which they were unable to access.

*I put a TV and Hi-Fi, furniture, medical bills and parenting costs on Mastercard because I can't get any form of loan or finance aid (well, perhaps from a loan shark) due to the fact I'm a single mother, I work casual hours and I rent accommodation. The only reason I have a credit card is because the CBA wouldn't give me a loan to buy a motor vehicle, so they offered a credit card! I understand the terms and conditions of the credit card, however, I had no choice, bills have to be paid. I get no financial help from my family. I'm meeting the repayments and not falling behind. I'm not eating out or*

*throwing money away on sweets though!* – single mother, benefits and income, rural Victoria.

Or that they could have done better given more time:

*It wasn't the best deal, but it was 18 months interest free that was appealing. If I spent more time looking for deals I would have found something cheaper definitely. But I was rushed* – young couple, income all earned, Melbourne

It seems that respondents believe that an interest free period does not penalise them later and several respondents found the notion of an interest free period appealing…

*We bought a refrigerator for $1,000 and computer for $1,550 and a washing machine for $800. We used AGC finance – it was very easy to pay off. We had a 15 month interest free period and we knew we would be able to pay for it in that timeframe. It was a good deal. We spent a while researching all options and went with the best offer* – young couple, income all earned, regional Victoria

Some people who rely entirely on government benefits, reported getting advances from Centrelink to tide them over from time to time:

*Once or twice I've got advances from Centrelink. I used it (the money) for general things like bills and groceries. The advance payment is $500 and I paid it back at $38 a fortnight* – single mother, all benefits, Melbourne

***Summary of purchasing good and services***

The majority of respondents had either made no major purchases or had not used credit to do so. Of those that had used credit, credit card and finance companies were the principal financiers – we did not encounter the use of store card per se but did happen upon a revolving line of credit.

The experiences of these respondents suggest that:

- They are mostly using more expensive forms of credit than "mainstream Australia" and have little choice in this.
- Terms such as "12 months" interest free credit are not well understood and it is thought that if the loan is paid within the timeframe specified **no** interest is payable.

**Telecommunications**

As this study was conducted by fixed line phone, people who are unable to gain connection could not be included. Not surprisingly then, only one respondent reported being refused a fixed line phone and this was because of a former house-mate who was not paying the bills.

9 of the 33 respondents had been forced to borrow money to pay telecommunications bills, 15 had been charged late payment fees and 11 had been disconnected. 20 respondents had easy access to the internet including all young people, and older families. Some single parents did not have access and would like it and all older respondents interviewed did not have access and most did not want it! Internet assumes high importance when there is a student or person running a business in the house.

26 respondents had mobile phones – (4 of the 6 who did not were elderly pensioners). Some respondents had joint mobile/fixed line plans, mostly from Telstra and there were few complaints about the expense.

The general consensus was that phones are important but not as important as utilities. One respondent had managed without any type of phone entirely for 3 years (using a pay phone) and for the last 7 has had outbound "000" access only on a fixed line phone, preferring to use a pre-paid mobile phone to control call costs.

Phones assume increased importance with the presence of an ill person in the house or a relative elsewhere and with increased distances from main centres:

> *Electricity is more important than the phone. But the phone is important because we live half an hour's drive from the nearest hospital and my husband has high blood pressure and heart trouble. We have a mobile, so we could get around it, but the network coverage isn't that good!* – elderly pensioner, rural Victoria.

The high number of billing problems probably relates to the relative lack of importance afforded the phone combined with the ease of dis-and re-connection by both suppliers and consumers.

***Billing Problems***

Nearly a half of respondents had experienced some form of billing problem. 9 said they had borrowed money to pay a bill – in most cases this was borrowed from family. In most cases, if it was a case of paying a telecommunications bill or one for another utility, telecommunications came second.

> *Yes, fixed line. I borrowed from friends and was allowed to pay it back as I could. I had no problems there!* – single mother, part earning and benefits – rural Victoria

This may underpin the reason why more respondents reported having been disconnected from telecommunications than utilities, although the number of disconnections may also relate to the safety net measures in place to protect recalcitrant customers for telco's compared with essential services.

> *The threat of losing the phone is less than losing utilities* - young person, combination of benefits and income, Melbourne

***Disconnection***

There were more stories about mobile and fixed line telephone disconnections than other utilities, with 11 of the 33 respondents able to comment. This may relate to the speed with which disconnection occurs and the ease/speed of reconnection and also the lower importance placed on having access to communications vis-à-vis power and water.

> *Yes, while I was overseas I didn't pay the bills for 3 months. I called them and they re-connected it for a $65 fee and I paid the outstanding bills (mobile)* – young couple, all income earned, Melbourne
>
> *I had a mobile bill of more than $300. I paid it off progressively, but they disconnected it fairly early on* – young couple, all income earned, regional Victoria.
>
> *Yes, twice in the last few years. The re-connection charge with about $55. Then they have the audacity to announce to the public that they made $160 million profit!* – single mother, part income and benefits, rural Victoria.
>
> *With the telephone there is no leniency. They just lob it off if you're late, then you have to pay a re-connection fee. My husband's wages go in right on the date the bill is due. Because I pay at the Post Office it takes 24 hours for the money to go through. So three times I've been cut off because of that. I didn't pay the reconnection fee, but I had to ring up*

*and tell them that I've paid it and the money hasn't gone through and you've been disconnected. It is very stressful. Finally, they've moved the payment date til 3 days after my husband's pay goes in* – older family, all income earned, rural Victoria

The relatively low late payment and re-connection fees relative to other services and the relatively lower inconvenience of being without a phone are being traded off against other bills.

***Mobile Phones***

14 of the 26 mobile phone owners had prepaid mobiles, the remainder were on a monthly plan. Respondents who chose pre-paid plans did this so that phone costs would not accumulate unchecked.

*I went pre-paid because I didn't want another bill coming in and I only use it for an emergency – it helps me control my spending and the calls made* –couple, all benefits, rural Victoria

*I have a pre-paid price plan with $25 re-charge cards. This was the cheapest and the only option for my circumstances. I did not want to be presented with other options because I knew that the only way I could keep myself in line was on pre-paid* – single mother, combination of earnings and benefits, Melbourne

The monthly connection fee is a reason why some people go mobile:

*Yes, I have a pre-paid mobile so I wouldn't have to pay a regular connection fee and I can control my usage and costs* – young single, Youth Allowance and income, Melbourne

People living in share homes had problems with having the fixed line phone in one person's name, including:

- for the named individual if others do not contribute to bills;
- to those not named, if friends and family are trying to find them in the phone directory; or
- to everyone if several friends or family members are trying to call house mates simultaneously.

The only case of a fixed line phone being refused was in this situation where the named person did not pay the bills. When that person left the house the others attempted to change the name on the bill. Having been refused, the phone was put into the name of one of the housemates' parents. Each member of the household having their own phone and taking responsibility for it removes the problems associated with managing joint bills, where the contributors are not related to each other. This phenomenon may be greater than it appears here as we only contacted people with fixed line phones.

There is no evidence to suggest that respondents haven't been offered a range of options and plans. Some chose the least expensive:

> *I have a $20 plan with Telstra – it was the cheapest I could get. There were plenty of options presented, but financially they weren't viable. I've got 14 months left on the contract. I'm satisfied with the costs of running it.* – single mother, income earned and benefits, rural Victoria.
>
> *Yes, I have a CDMA phone - $20 a month plan. I've had it for four years. Last month I made $5 worth of calls, when you consider the convenience it's very economical. I'm very satisfied. I went for the cheapest plan as I knew it would be mostly for emergencies etc* – elderly couple, part pension, part income, rural Victoria

Others matched their requirements with the plan on offer:

> *I have a $50 plan with Telstra. I could have got a cheaper phone, but I wanted this particular type. I make $70 worth of calls and with this plan you get $50 worth of free calls and the phone you want, so it works out fine. Plenty of options were presented to me. I chose this because it suited my expenditure. I'm very satisfied with the phone - it has good*

*coverage. But costs keep going up – I'm not overly happy about that!* – young couple, all income earned, regional Victoria

*$110 a month plan with Optus. For the type of work I do, it was the only option. I'm on a business plan as most of my calls are during the day. This gives off-peak rates during the day and it's tailor made to suit me. There are other bonuses. I get $110 a month free calls. I had other options presented and we decided that this was the best. I've got two months left on my contract. I'm satisfied with the phone and the costs of running it* – single father, self - employed, Melbourne

Several respondents had packaged fixed line and mobiles together to reduce the number of bills and/or expense:

*I have a Telstra mobile on a plan - $20 a month. The plan is tied to a fixed line phone – it's the same bill for both accounts. I was offered a variety of mobile phone plans and I went for the cheapest. I only use the mobile 2 times a week. I think it's very cheap, economical and handy. I only use it when travelling to Melbourne* – middle aged pensioner, rural Victoria

Some had been caught having to pay out a contract and one respondent replied that he considered this to be disconnection:

*I had to pay an extra $40 over four months because my contract hadn't run out and I couldn't use my phone because it was stuffed. So it wasn't a cancellation fee as such, I was just paying out the remainder of the contract* – young couple, all income earned, regional Victoria

Most were happy with the service they received in terms of cost and coverage.

***Late Payment Fee***

15 of the 33 respondents recalled having paid a late payment fee. The effect of the fee relates to how important telecommunications is considered to be to the individual and the timing of the bill.

> *For $5 it's not worth stressing over. If it was $20 then that would be a different story altogether. Utilities are less important because my phone is needed for my business so if it was disconnected people couldn't get through to me and the business would die* – young self employed, rural Victoria

> *If you can't afford the bill, how do you afford the late fee? I'd sacrifice the weekly grocery budget, but electricity is more important than the phone!* – single mother, combination of earnings and benefits, rural Victoria

> *Yes - $5. I had to wait 'til I got paid and then paid the bill with the additional $5 late fee. Sometimes I call them and ask for an extension or split the bill in half option. I just didn't have the money to pay for it, so I had no choice. I get paid a couple of days after the bill comes in* – young couple, all income earned, Melbourne

> *A late payment fee does make you sacrifice other things like food before getting the late fee. But if you haven't got the money, you haven't got the money. My husband was sick one week because he injured his arm and had already used up all his sick pay with the flu. So that fortnight it was hard to pay the bills – a late payment fee makes you feel sick to the stomach!* – older family, all income, rural Victoria

> *I try and pay all my bills in advance or on the due date, but every now and then you just can't do it. My husband had to get brain scans last month and you have to find the money from somewhere and we don't have a credit card. I prefer the electricity to stay connected, but then again, the phone is essential especially if you're living in country areas and you don't have a mobile phone. We sacrifice anything all the time!* – older family, combination of earnings and benefits, rural Victoria

The majority (18 respondents) could not recall having paid a fee and some were adamant that they never would:

> *There is no way I'd pay a late payment fee. I'd give up food if I had to. Those late payment fees just go up and up* – young couple, income part earned, part benefits, Melbourne

14 respondents felt that a fee would encourage them to pay on time and the impact of such a fee seems greatest to respondents outside Melbourne. Again this probably relates to dependence on telecommunications.

***Internet***

Internet is desirable for some of the 13 respondents who did not have easy access to it. Some older pensioners displayed no interest in it whatsoever, but by no means all of them. It is a *must have* for people who need to access it for study or work. For some it is a luxury they cannot justify especially when local libraries and internet cafes are easily accessible.

> *I would like to have a computer and internet at home. I use the internet to pay bills and keep an eye on the world. My friends don't have it. It's at the local library, but that's timed sessions* - young couple, all income earned, Melbourne

> *I'd love to, but it's not within my budget. I have got access to it at my parent's house which is not that far from my home* – single parent, all benefits, regional Victoria

> *At home, because I have 3 teenaged children and they all need to use the internet for school. One of my children submits their homework via the internet. It's a must. My use is minimal – it's all for the kids* – single mother, combination of earnings and benefits, rural Victoria

> *Internet is very important especially for students for research, e-mail etc. I have a dial up connection, $25 a month plus call costs – pretty cheap really!* – student, combination of benefits and income Melbourne

> *I have internet at home. I got it so I could look up my rosters at work* – young couple, combination of earnings and benefits, Melbourne

And some took on the internet, only to have a rude shock at the costs:

> *I used to have it connected. I didn't fully understand the deal I got. I got a dial-up internet access account with the computer.*

> *I thought it would be good for the kids. But we were being charged for STD calls each time we connected on line. This became apparent when my teenage son racked up a $500 bill for looking at porn sites. I cancelled the account, borrowed $500 off my parents to pay the bill and my son paid me back in instalments!* – single mother, all benefits, rural Victoria

This example highlights the problems faced by Victorians outside Melbourne where broad band may not be available and dial up access involves calls to an ISP that may be located in Melbourne or a regional centre thus incurring STD phone call rates.

***Disconnecting Services***

Seven respondents reported having services disconnected, four of the seven were single parents and all bar one involved the internet. In most cases a cancellation fee was levied, however, respondents seemed generally happy to pay this to move to a less expensive service. The one exception was in the case of a mobile phone where paying out a contract and disconnection were seen to be synonymous.

> *I had to pay an extra $40 over four months because my contract hadn't run out and I couldn't use my phone because it was stuffed. So it wasn't a cancellation fee as such, I was just paying out the remainder of the contract* – young couple, all income earned, regional Victoria.

> *Yes. I changed from Telstra my phone line, cable TV and internet, to Optus. There was a $200 fee, but I just paid it. It was the only time I checked my (Telstra) bill and they overcharged me $80, which they reimbursed me when I took it up with them* – single mother, income all earned, Melbourne

> *I used to have it connected. I didn't fully understand the deal I got. I got a dial-up internet access account with the computer. I thought it would be good for the kids. But we were being charged for STD calls each time we connected on line. This became apparent when my teenage son racked up a $500 bill for looking at porn sites. I cancelled the account, borrowed $500 off my parents to pay the bill and my son paid me back in instalments!* – single mother, all benefits, rural Victoria

> *I've swapped, but I don't think they've charged us any fees. Because I'm blind, though, it's very difficult for me to read bills so I usually just pay them. But I'm not doing any more*

*chopping and changing of internet companies because an Optus man came to my door and said he could make our calls to Denmark cheaper but they ended up being $10 more expensive so I went back to AAPT* – single mother, all benefits, regional Victoria

*Internet, yes. It cost me $20. I got a better offer. It is cheaper in the long run* – single mother, benefits, rural Victoria

*I have, the Internet. I cancelled one company because they were too expensive. I wasn't charged a cancellation fee* – older parent, income all earned, rural Victoria

***Summary - telecommunications***

All respondents in this study had fixed line phones but in a high proportion of cases also reported having mobile phones as well. About 80% of Australian homes now have mobiles in them[113] - although this sample is small, the proportion reporting having mobiles is the same as the average. However, unlike the average, more than half of those having mobile phones in this study had chosen pre-paid mobiles – the more expensive option, so that they could control costs.

A high proportion of respondents reported billing problems, being charged late payment fees and being disconnected. It seems that a combination of respondents' placing telecommunications bills below others in terms of priority order for payment, coupled with the relative speed and ease with which disconnection and late fees can be levied, is responsible for this.

There is some evidence that people living in share homes opt for mobiles rather than fixed line phones although these people are not included in this study.

Most people who wanted internet access had it and felt the costs to be reasonable. However, most of the service disconnections involved the internet and one case highlighted the relatively greater expense involved in using it outside Melbourne where calls to ISPs may be charged at STD rates.

While late payment fees do not pose the same threat as late fees for utilities (see section 4.4.4), it seems that respondents outside Melbourne consider them a greater problem. In turn, the perceived degree of severity of these fees appears to relate to the level of dependence on the service.

[113] IDC Research, May 2004 – "Upwardly mobile: Australian Cellular 2004-2008 Forecast and Analysis"

**Utilities**

Respondents place utilities as their highest priority after food, especially electricity. Older people (particularly pensioners) are more likely to scrimp on food to pay utility bills than younger people – particularly if there are children in the house.

Given the sample was heavily skewed towards regional and rural Victoria, where mains gas is not generally available, the emphasis on electricity displayed by respondents is not surprising.

> *Our priority is water, electricity and gas over everything else. You have to run your fridge, you don't want cold showers, you need to cook food, heat your children. When you don't earn much money you tend to spend more time at home because you can't afford to go anywhere, so you need the home to be warm and comfortable* – older family, all income earned, regional Victoria.

Depending on personal circumstance there are occasions where telecommunications can be judged as more important, for example a young self-employed person needed the phone to run his business and his ability to pay other bills rested on the health of his business. An elderly couple placed the phone as top priority as one of the two is diabetic and could slip into a coma. These seem to be the exceptions, not the rule.

Nonetheless, only one respondent felt their electricity/utility costs comprised a small proportion of household expenditure, with most saying it was a high proportion (19 said it comprised a "high" proportion, 13 said or implied it was "moderate"). People on fixed incomes were the most susceptible to fluctuations in cost and the introduction of new fees, such as late payment fees.

No one interviewed reported having to pay a refundable advance before having utilities connected. 21 of the 33 respondents reported paying the Energy Concession Rate. Elderly pensioners and single parents seem the most likely to both receive the Energy Concession Rate and view their energy bills as high. Presumably this is a confluence of low income and high heating needs.

***Reducing bills***

Many respondents took a range of measures to reduce their energy bills, including:

- Ensuring lights and appliances are only on when necessary
- Turning appliances off at the wall when not in use
- Wearing extra clothes
- Buying and using hot water bottles and extra blankets
- Installing low energy appliances and light bulbs (although for some the up-front cost of doing this, even though they acknowledged savings in the long run were too high)
- Going to bed early to save on fuel.

Some respondents did not use their heaters, because they could not afford them:

> *I ring up my supplier to find out how much it's costing me (electricity). So now I only turn the heaters on in the evening and freeze during the day.* – middle-aged family, all income earned, rural Victoria.

Obviously, there is not a fixed relationship between household income or wealth and energy usage as there is only so much energy a household can use at the upper end of the scale. However, at the lower end there is a contingent that would use more energy to attain a base level of comfort, if they could afford it.

***Payment difficulties***

17 of the 33 respondents reported having been in a situation where they couldn't afford to pay their utilities bill in the last year. Water bills did not present the same problems as energy, although several respondents were encountered who used grey water on the garden or vegetable patches and others who had rainwater tanks installed to reduce water usage. In these cases, it was not entirely clear whether these were altruistic or cost-saving measures. There was only one billing difficulty noted with water per se.

> *There was only one instance. We have both town water and other water. The bill for other water is annual and just happened to coincide with the power and phone bills. I deferred payment and borrowed money off a friend to pay the bill, deferred payment on a computer monitor I had just purchased and talked my way out of a late payment fee AND*

*my wife and I didn't go out for dinner* – older couple, rural, pension and income

Gas also seemed to create few problems, so when questioned about payment difficulties in the arena of utilities, the problems that emerged related, almost unanimously, to electricity bills.

Problems came about in a variety of ways including:

- Moving house

  *Currently owe $1,000 for electricity, it has been overdue for 18 months from a previous house. When I moved out I forgot to get the electricity disconnected, then I was hit with this huge bill. I recently filed for bankruptcy. I'm on a pension with part time work, so there is no way I can pay it. I told the supplier to "get lost" and they have stopped sending me letters, so I'll just ignore it. They didn't offer for me to pay it in instalments, I don't think – I can't remember now.* single father, combination of benefits and income, regional Victoria

- Inaccurate and spasmodic meter readings

  *We received an unusually high electricity bill for $350. I rang the supplier to dispute it and another guy was sent out to read the meter again. As it turned out, the first guy had not actually read the meter as he could not find it, so he made an estimation of how much the bill would be. After calling [supplier] I discovered that the second reading hadn't been recorded, so they sent out a third guy and it was agreed then that the first bill was too high – it should have been $160, which we can afford to pay. But we still haven't received the bill and we've had a couple of disconnection threats!* – older family, combination of income and benefits, rural Victoria

- Unforeseen circumstances

  *I couldn't afford to pay a particularly high electricity bill. The bill was $600 – normally bills are around $160. I applied to the supplier for a bill reduction on the grounds that the maintenance on the hot water system done by the landlord had resulted in the high bill. The application was successful and the bill was reduced from $600 to $300. The landlord had to*

*pay a further $150 off the remaining debts. I applied for the reduction because I was advised to do so by a charitable organisation (Interviewer note, couldn't remember the name but said it was like the Smith family or the Salvos). I went onto a payment plan to pay. $60 a month seeing that the reduced bill was still around double my usual bills. I had a lot of trouble paying it off. I reduced the amount I spent on petrol, entertainment for the kids (for example, videos etc) and bought cheaper brands in the supermarket. If my application for the reduction not been a success, I would have borrowed the money from my Mother who would be happy to oblige - s*ingle mother, all benefits, Melbourne

The cases we encountered where respondents queried meter readings and unusually high bills had mixed responses from suppliers. With some being sympathetic as evidenced in the earlier quote (see quote under "inaccurate and spasmodic meter reading" bullet point) and others not…

*When we first moved into a share house our first bill was $560 for electricity. This seemed way too high. We contacted our supplier and were given no options other than to pay it in full. Being students, low income etc we couldn't afford it. So we borrowed the money off our parents* – student on Youth Allowance, Melbourne.

With general bills (ongoing payment problems), suppliers did help respondents by means of arranging instalment plans.

*Sometimes I'm late, but I ring them up and they say it's fine, because I've been here 15 years* –age pensioner, Melbourne

*I offered to pay 50%, but the supplier put me on a contract where I paid $38 a fortnight (this rose to $50 and then $80). This worked out very well and I'm no longer on it. I had no problems making the payments nor did I have to make any sacrifices* – elderly pensioner, Melbourne

While younger respondents tended to turn to their parents for help when payment difficulties arose, older respondents either did not have this option, turned to friends or used their age and experience to negotiate with their suppliers:

*Yes, there's been situations when I couldn't pay all three! I ring them up (suppliers) and ask for extensions. I don't have anyone I could borrow from. We usually cut down on food to pay for electricity, gas and water* – couple, one young child, income all earned, rural Victoria.

Some respondents had opted to pay regular amounts to reduce or cancel their bills completely.

*I already have a payment plan where they calculate how much my bills average a year and divide them by 26. Then I pay the same amount each fortnight. It doesn't matter if the bills are more or less as it averages out over the year* – single mother, combination of benefits and income, Melbourne

*I have four cards, one each for phone, gas, electricity and water. Each fortnight I pay $20 on each in advance which normally clears all my bills before they come* - elderly, all benefits, Melbourne

***Disconnection***

Three cases of disconnection were encountered because of late payment, two of the three were elderly pensioners:

*Yes, I got in contact with them to get it reconnected. It cost about $50. I rang them (electricity supplier) when I noticed it was disconnected and they had it reconnected within 24 hours* – All benefits/pensions, Melbourne

*I was ill and could not make it into town to pay the bill. I rang my supplier and arranged to pay on the last possible day, but on that day I was still sick. To my surprise the electricity was cut off the next day. My thought was it was a blackout. Then I rang my supplier in the afternoon and we were re-connected and we incurred a late fee. Paying the $30 was no hindrance financially; it was just a one-off unfortunate experience* – older couple, pensioners, Melbourne

And the other was a single mother…

*We got disconnected from electricity and water at the same time. We had to pay that bill we didn't pay another one. So we delayed the Telstra bill, which caused trouble. It's all very*

*stressful, it takes a long time to get out of the loop. It's very hard to get on top of things. We had to get re-connected with the water company for a fee of $40. The reconnection took 1½ weeks, then it took us 3 weeks to get back on track regarding payment of the Telstra bill. The electricity was disconnected for 2 weeks and the phone for 3-4 days* – single mother, combination of earnings and benefits, rural Victoria

Although several have come close!

*No, we just got sent a disconnection warning because I was one week over. I honestly forgot all about it, so I rang them up and paid it. They never disconnected it!* – older pensioner, rural Victoria

***Late payment fees***

The introduction of a late payment fee was put to respondents. Some claimed they were already paying these:

*I had a late payment fee for gas. I had to go without food, that is, I didn't eat any meat, and I lived off veggies. It is very demoralising. A later payment fee would affect me a lot. It's hard enough to pay the original bill without paying extra. We already make sacrifices like cutting back on food and buying clothes from the Op Shop* – older low-income family, rural

*Yes, the late fee is only $5 so I just add it to the next bill. I didn't have to borrow from anyone. My company already does charge a late payment fee, so I'm already dealing with it. I guess the only thing you can do is grin and bear it and pay the late fee, I mean, if you haven't got the money you just haven't got it, but when it's time to pay the next bill you budget for the extra $5.* – single mother, benefits and income, regional

Others felt it would make no difference if it were introduced especially younger people, people already paying by installment and those that did not have fixed incomes

*Late payment wouldn't affect me – we've four low payment cards. I pay off $20 a fortnight – which is the lowest amount*

*you can pay off. It doesn't bother me if we've always got something to pay off!* – young couple, combination of benefits and income, Melbourne

*Yes, once. I just paid the excess in the next bill. It had no major impact. The late fee was about $20, I think. (if introduced) it would just make our budget a bit tighter. I'd leave more money for these things in case there are extra costs, or I'd just pay the bill before the end due date or on the date* – young single, all income, regional

Others felt it could cause them considerable hardship. This was especially the case amongst working, single parents and people on fixed incomes made up mostly or entirely of government benefits.

*I'd probably end up paying it every time! I live in a share house and everyone's slack getting their money for bills in on time. I often pay the whole thing first for everyone else. Then they pay me. I sacrifice paying other bills to do this* – young single, regional Victoria

*It would make me angry (if LPF introduced). We'd have less money in your pocket after the fee of $5. I would possibly sacrifice food or entertainment* – young single, part income/pension, Melbourne

*The effect would snowball. It would have the affect of setting us further back on other payments for example, rent. Buy less items when we shop or a combination.* – Young single, combination of income and benefits, Melbourne

*Late payment fee? I've never been charged it but it would affect the household only because it is sometimes tricky logistically to gather the money of three different people to pay on time, but I have never paid late to date* – 4 young people sharing a house – 3 students and one in part time employment, Melbourne

*I've never paid a late payment fee, but if it was to be introduced by my supplier it would have a disastrous affect as I often pay late. Utilities account for a large proportion of*

*household costs.* – young person, income and benefits, rural Victoria

*I haven't paid one, no. It will affect me because every dollar counts. $5 is a lot when you try to budget everything to the cent, but sometimes it can't be helped!* – young couple, all income earned, Melbourne

*Some bills come in a few days before I get paid so I have been late paying, but I've never been charged a late fee. If I had incurred a late fee, I'd just pay it with the next bill. A late fee would have a big impact on my budget* – single mother, all benefits, rural Victoria

*It would make things harder, it would hurt. I already pay things fortnightly, so if I get behind one fortnight then I have to pay more the next. If I had late fees something else wouldn't get paid that week. I'd have to juggle. I'd just get further and further behind* – single mother, combination of benefits and income, regional Victoria.

*We don't normally get late fees, so I don't think it would affect us much. It's only $5 or something isn't it anyway?* – middle-aged couple, pensioners, regional Victoria

*It would have a minor impact. I set money aside for bills so I usually have enough to cover whatever is needed. If it was $5, I'd have no problem. If it was $20 it would have a major impact* – older family, combination of benefits and income, regional.Victoria

*We always pay on time, but a late fee would be seen as having an effect on the household. This household is very conscious of ways to reduce bills and the costs of living. We grow our own vegetables, wear thermal underwear and beanies rather than turn the heating on, recycle our water on the garden, turn appliances off at the power point. It is only because of these precautions that utilities amount to such a low proportion of our overall household costs* – older family, combination of income and benefits, rural Victoria.

*It would affect us greatly! Any late payment for us is a nightmare. Whatever the late payment (fee) is you have to take it out of your food/ clothes budget. My husband and I tend to go without for the sake of paying what we have to pay* – retired, elderly pensioners, Melbourne

*If you don't have the money to pay the bill, how are you going to pay the bill and the extra money? I don't think they should do this, because it is difficult to get on top* – elderly pensioner, Melbourne

*No, I don't think I've paid one. It would have a great impact – every dollar counts* – elderly pensioner, rural Victoria

***Summary – Utilities***

Utilities comprise a significant proportion of household costs for low and fixed income earners in Victoria. The majority of respondents pays the Energy Concession Rate. Single parents and elderly pensioners were the most likely of these to receive the Concession Rate **and** to rate the proportion of their household expenditure given to energy as "high".

Utilities also are a high priority in terms of maintaining services, with most respondents putting only food and major ongoing payments for investments such as homes, above these in their priority listing. There is much evidence to suggest that these respondents are taking many measures to reduce energy consumption and it is very likely that some would consume more energy to attain a basic level of comfort, if they had the means to pay for it.

Half of the respondents interviewed reported being unable to afford a utility bill in the last year. Only one respondent had problems with water and the rest related to electricity. This is not surprising given that many respondents were living in rental accommodation and in areas that do not have access to mains gas. Nonetheless, respondents were able to tell of experiences of being cut off from all three utilities – in one case power, water and telephone were disconnected simultaneously.

The introduction of a late payment fee would pose considerable problems for the majority, if only to introduce additional stress to the already fraught juggling act that many described in deciding the order in which to pay bills with only limited funds available.

Where family is available and amenable, it is turned to for help with bills. However suppliers have demonstrated their willingness to extend payment terms and set up payment installment plans to help respondents avoid disconnection. Where disconnection has occurred in most cases reported here, re-connection has been swift.

No respondents in this study had been asked to pay a refundable advance prior to being provided with the supply of any utility.