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Joint consumer submission to EWON prepayment meter discussion paper

August 2014

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

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

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

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

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

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

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

Some consumer advocates and community service workers support PPMs because of the way they prevent vulnerable households from accumulating energy debts – however there is little recognition of their impact on levels of other types of household debt. Some households with PPMs like them for a similar reason – however when asked about it, their answers (see below) reveal lowered expectations that point to a fundamental level of disadvantage that runs counter to community expectations for a basic standard of living¹.

Defining prepayment metering

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

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

The problem(s) solved by prepayment metering

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

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

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

Advantages and disadvantages

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

¹ Note also that some research (Bushlight Centre for Appropriate Technology, *Prepayment Meters and Energy Efficiency in Indigenous Households*, 2013) shows that support for prepayment metering by households in remote Aboriginal communities (and documented harm from a switch to post-payment billing) is almost exclusively among those who have had no prior experience of post-payment.

Advantages

A 1. Facilitating effective budgeting

1.1. It can be a useful way for customers to budget, including those customers on a low income. Customers can pay smaller amounts as they go, rather than having to pay a much larger amount for the previous 3 months usage within 10 days of receiving the bill.

1.2. Many customers on low incomes are already familiar with budgeting in advance of receiving their quarterly bill, by the use of regular Centrepay deductions.

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

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

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

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

The constant necessity to top up their card or key can have a profound effect on the ability of low income PPM users to cover other household expenditure and service outstanding loan and debt repayments.

Continually having to find the money to put in the meter, sometimes two or three times a week, clearly has a detrimental effect on the ability of PPM users to survive on a day-to-day basis let alone plan for the future. With increases in fuel costs in the pipeline, the stark reality facing the majority of our householders is whether they pay for food or fuel, live in a cold home and eat, or put the heating on and face eviction. 2

A 2. Delivering timely consumption feedback

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

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

² Stratford-upon-Avon and District Citizens Advice Bureau, *Left Out in the Cold: Why Prepayment Meter Users Need a Better Deal*, Legal Advice Warwickshire Social Policy Group and Consumer Empowerment Partnership, 2013, pp. 13–14

remote-switchable prepayment-capable meters. Home energy usage can also be understood via an in-home energy audit.

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

A 3. Sharing the energy cost burden more fairly

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

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

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

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

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

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

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

Significantly, while PPM customers may not face the same financial hardship that large unpaid bills and arrears cause, they generally face higher energy prices and more frequent disconnections than conventional account customers.³

³ Bushlight Centre for Appropriate Technology, Prepayment Meters and Energy Efficiency in Indigenous Households, 2013, p 14.

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

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

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

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

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

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

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

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

The constant drain on limited financial resources incurred by moving on to Emergency Credit, combined with the repayment of missed deductions and current Standing charges, results in a high price being paid for reconnection. For low income and vulnerable households the reduced amount available for fuel costs is likely to result in a move back on to Emergency Credit within days and the repetition of meter debt accruing.⁴

While an Australian implementation will differ in some ways from the UK system, the cost of reconnection for PPM users may still be high if they have used emergency credit that must be repaid, if standing charges have accumulated while the customer was off supply, or if part of the top-up is applied to existing arrears (we have questioned whether this is allowed in our response to paragraph 4.3).

⁴ Stratford-upon-Avon and District Citizens Advice Bureau, *Left Out in the Cold: Why Prepayment Meter Users Need a Better Deal*, Legal Advice Warwickshire Social Policy Group and Consumer Empowerment Partnership, 2013, p. 9

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

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

Disadvantages

D 1. Causing disadvantage from disconnection

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

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

Additionally, the threat of having their credit run out may encourage people to under-consume at the expense of their health and welfare.⁵ In the UK, the close relationship between fuel poor households, cold housing and cardiovascular and respiratory diseases is widely acknowledged and has also been attributed to the exacerbation of existing conditions such as arthritis and rheumatism.⁶ In Victoria, research by the Consumer Utilities Advocacy Centre (CUAC) highlighted many health, wellbeing, and safety impacts in Aboriginal households due to under-consumption of energy. For example:

- people with diabetes and asthma are more sensitive to extreme temperatures and are thus more reliant on effective cooling and heating
- some mental illnesses are exacerbated by hot temperatures
- some chronic health conditions require treatment with energy-intensive machinery or refrigerated medications (e.g. insulin)
- lack of sufficient energy for cooking and washing leads to poor nutrition and hygiene
- use of fire, propane, kerosene, or candles as alternative sources of heating, cooking and lighting leads to safety risks from fire or carbon monoxide poisoning
- stress, anxiety and depression can also result from having no energy.⁷

D 2. Reducing disconnection visibility

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

⁵ See numerous examples in Stratford-upon-Avon and District Citizens Advice Bureau, *Left Out in the Cold: Why Prepayment Meter Users Need a Better Deal*, Legal Advice Warwickshire Social Policy Group and Consumer Empowerment Partnership, 2013, and Bushlight Centre for Appropriate Technology, *Prepayment Meters and Energy Efficiency in Indigenous Households*, 2013

⁶ Stratford-upon-Avon and District Citizens Advice Bureau, *Left Out in the Cold: Why Prepayment Meter Users Need a Better Deal*, Legal Advice Warwickshire Social Policy Group and Consumer Empowerment Partnership, 2013, p. 13

⁷ Consumer Utilities Advocacy Centre, Wein, Paen, Ya Ang Gim: Victorian Aboriginal Experiences of Energy and Water, 2011, pp. 4–5.

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

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

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

D 3. Payment challenges

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

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

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

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

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

These disadvantages are well documented in research on prepayment metering, such as the *Bushlight* and UK reports cited throughout this document. The low penetration of home Internet access, unstable or erratic credit status of mobile phones, and less access to credit cards in low-income households underscore this particular disadvantage. Emergency relief and homelessness workers report that many of their clients only have prepaid mobile phones that rarely have credit on them and can only be used for incoming calls. Remote Indigenous households are 76 per cent less likely to have internet access than non-Indigenous metropolitan households.⁸ In 2012–13, 43 per cent of households earning less than \$40,000 p.a. – the expected target group for PPMs – still had no internet access at home, compared to just 2 per cent of households earning over \$120,000 p.a.⁹ New research by CUAC also found that older persons are less likely to use the internet than typical consumers.¹⁰

⁸ Anglicare & Australian Communications and Consumer Action Network, *Trying to Connect: Telecommunications Access and Affordability Among People experiencing Financial Hardship*, 2013.

⁹ Australian Bureau of Statistics, 8146.0 - Household Use of Information Technology, Australia, 2012-13

¹⁰ Consumer Utilities Advocacy Centre, *Tariff Switching Among Older Energy Consumers*, 2014, pp. 13-14.

Where payment is by way of a charge card, the problem is compounded for older persons, people with disabilities or for rural and remote consumers, who may not be able to get to the recharge points easily and some of these recharge points may be located at a distance away.¹¹

D 4. Compromising benefits of competition

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

This is clear when looking at current examples of prepayment systems, characterised by higher fixed and volumetric charges as well as, in many cases, additional fees; and compounded by the concomitant lack of access to competitive market offices, which in Victoria can be over \$900 per year cheaper than default tariffs for households with average consumption.¹²

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

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

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

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

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

Systems providing for the integration of concessions into prepayment tariffs and giving appropriate access to rebates and other assistance programs are conceivable. However this would require

¹¹ See numerous examples in Stratford-upon-Avon and District Citizens Advice Bureau, *Left Out in the Cold: Why Prepayment Meter Users Need a Better Deal*, Legal Advice Warwickshire Social Policy Group and Consumer Empowerment Partnership, 2013, and Bushlight Centre for Appropriate Technology, *Prepayment Meters and Energy Efficiency in Indigenous Households*, 2013

¹² May Mauseth Johnston, *Victorian Energy Prices July 2014: An Update Report on the Victorian Tariff-Tracking Project*, St Vincent de Paul Society.

governments' commitment to ensuring concessions flow to all who need them – and the poor performance of many governments in this area¹³ does not inspire confidence.

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

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

Significantly, however, the Bushlight report found that while there is an array of electricity hardship programs and rebates available in the Northern Territory, there is limited awareness and uptake of these programs among PPM customers. The onus is usually on the household to seek out and apply for the concession. Some of the support agencies administering the 'Stay Connected' program do not offer relief payments to PPM customers at all, and others do so at their own discretion but offer only minimal support when compared with what is offered to conventional customers with unpaid bills. Standard application processes and forms can also pose a barrier for PPM customers as they do not receive paper bills or have official account numbers.¹⁴

The provision in NERR Part 8 that, *'if a customer has self-disconnected for longer than 6 hours more than 3 times in a 3-month period, the retailer must contact the customer to offer replacement of the meter with a standard meter, and a referral to their hardship program'*¹⁵ is several orders of magnitude weaker than the disconnection provisions for customers with post-payment arrangements. For post-payment customers, disconnection cannot even take place *once* without considerable efforts by the retailer to engage with the customer (including serving reminder notices and disconnection warnings according to prescribed timeframes), offer payment arrangements and hardship assistance, and so on.

Analysing consumer support for prepayment metering

Looking closely at responses¹⁶ to *'Does a PPM have a good or bad effect on your finances?'* by UK consumers who said it had a *good* effect paints a stark picture of a world of lowered expectations and a quality of life far below the generally accepted community standard – sacrifices made by vulnerable households in the name of affordability. The NERR and the Victorian Energy Retail Code aim to keep households with affordability problems on supply wherever possible. This ideal has clearly been abandoned for these UK customers.

¹³ See, for example, May Mauseth Johnston, *The Relative Value of Energy Concessions: Part 1 of the Vinnies' Concessions Project*, St Vincent de Paul Society, 2013; and May Mauseth Johnston, *The Relative Value of Energy Concessions 2009–2012: Part 2 of the Vinnies' Concessions Project*, St Vincent de Paul Society, 2013.

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

¹⁵ EWON, *Prepayment Meters Discussion Paper*, 2014

¹⁶ Stratford-upon-Avon and District Citizens Advice Bureau, *Left Out in the Cold: Why Prepayment Meter Users Need a Better Deal*, Legal Advice Warwickshire Social Policy Group and Consumer Empowerment Partnership, 2013, p. 20

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

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

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

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

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

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

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

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

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

'No big bill'

These respondents have not disclosed the cost of their avoidance of debt and bill shock. However we know that their tariff is higher than post-pay tariffs¹⁷, so the least we can say is that their debt problem has been solved at the expense of their affordability problem. We don't know how much their more expensive energy has led to decreased standard of living, and how much has led to increased debt for other household necessities.

Conclusion

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

¹⁷ Stratford-upon-Avon and District Citizens Advice Bureau, *Left Out in the Cold: Why Prepayment Meter Users Need a Better Deal*, Legal Advice Warwickshire Social Policy Group and Consumer Empowerment Partnership, 2013, p. 3

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