

PREPAYMENT METERS

A response to EWON's Discussion Paper



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About NCOSS

The Council of Social Service of NSW (NCOSS) is a peak body for the not-for-profit community sector in New South Wales. NCOSS provides independent and informed policy advice, and plays a key coordination and leadership role for the sector. We work on behalf of disadvantaged people and communities towards achieving social justice in NSW.

Introduction

NCOSS would like to thank the Energy and Water Ombudsmen of NSW (EWON) for initiating further discussion about prepayment meters following the 2013 National Energy Affordability Roundtable.

As EWON would be aware, community sector stakeholders hold a range of views about the value of prepayment meters. And as EWON's discussion paper notes, evaluations of the use of prepayment meters in a number of jurisdictions indicate a high degree of user satisfaction.

Our submission takes both viewpoints into consideration. First, we focus on the aspects of prepayment about which there appears to be general agreement. Namely, that systems which enable bills to be paid in advance, and that provide energy customers with a better understanding of their consumption, may be beneficial to some low-income customers.

Second, we address areas of concerns in relation to the pricing and metering arrangements associated with prepayment meters.

Overall, we conclude that many of the benefits previously made possible through the use of prepayment meters may now be more appropriately delivered through other mechanisms.

Payment arrangements

In principle, NCOSS supports payment arrangements that enable customers to pay their electricity bills in advance, and to pay via smaller, more regular installments rather than via a three-monthly billing cycle. Such arrangements can assist low-income and vulnerable customers to better manage tight budgets and avoid bill shock. In addition, we have previously advocated for the broader availability of Centrepay across all essential services.

Pricing Arrangements

Pay-on-time discounts

EWON's discussion paper notes that in some circumstances customers have been charged a premium in order to access prepaid energy services. Since payments made in advance benefit a retailer, we believe these benefits should be passed on to the customer.

Conversely, we are also concerned about the use of generous discounts to encourage upfront payment of electricity bills where these discounts are attached to harsh penalties for late payment. Where late payment occurs as a result of financial hardship, penalties are likely to exacerbate existing financial hardship and lead to disengagement and disconnection. Systems that enable the early identification of households experiencing hardship should be developed and improved, and late payment penalties should not be applied to these households.

Access to concessions

Rule 129 (8) of the National Energy Retail Rules states that if prepayment meters were to be introduced, Government and retailers would need to adapt systems and information to ensure eligible customers have access to government assistance.

Many eligible customers already have trouble accessing government assistance. Many people are unaware, for example, that they may be eligible for a concession, and there is no consistent process for assessing eligibility on sign-up to a retailer. Others may not realise that their concession entitlement has not been transferred to a new retailer. We have also received feedback from our members that the Family Energy Rebate is not widely known about and the application process is not easy to navigate.

Similarly, many people are unaware that they may be eligible for assistance through the Energy Accounts Payment Assistance Scheme. PIAC's 2013 research into disconnections found that 45% of people who were disconnected were unaware of the existence of energy or water assistance vouchers.¹ Another 23% were unable to access the vouchers² and a further 10% did not want to ask for assistance.

Concerted efforts are needed to improve access to concessions. And although it may be technically possible for retailers and/or the State Government to comply with Rule 129, we are concerned that payment arrangements that reduce the level of contact between the retailer and the consumer may limit opportunities to ensure a customer is accessing appropriate assistance.

¹ PIAC (2013) Cut Off III The Social Impact of Utility Disconnection.

² This was because they couldn't find an organisation that offered vouchers or found an organisation but no vouchers were available at the time or they were unable to make an appointment.

Metering Arrangements

Cost of installation

EWON's discussion paper has been initiated in response to suggestions that prepayment meters may be of benefit to some vulnerable consumers. If customers are required to bear the cost of the installation of such meters, low-income households are unlikely to realise these benefits.

In addition, on moving to new premises, no household should be presented with a prepayment meter as the default option and bear responsibility for transitioning to another meter type.

There is a strong relationship between housing insecurity and financial disadvantage. In relation to accessing the energy market, every effort should be made to ensure that the choices of people who do not have secure tenancy are not artificially limited.

Disconnections

NCOSS believes that no one should be disconnected from their energy supply due to an inability to pay, and we are deeply concerned by the growing number of energy disconnections in NSW and other jurisdictions.

While prepayments meters have the benefit of reducing the costs associated with disconnection and the time it takes to be reconnected to one's energy supply, they also enable automatic or self-disconnection. People should not be reduced to being disconnected from their energy supply in an effort to better manage their bills.

If prepayment meters were to be introduced, the current customer protections should be strengthened including:

- Requiring earlier intervention on the part of retailers around identifying prepayment meter customers who are experiencing financial hardship. The current rules require contact only when a customer has self-disconnected 3 or more times in any 3 month period for longer than 240 minutes on each occasion.
- Increasing the required level of emergency credit. The current rules require a level equivalent to the average cost of 3 days of electricity or gas supply.
- Extending the length of the trial period from three to six months (reducing the impact of seasonal variation).

As an immediate priority, however, we recommend that concerted efforts are made to address the growing number of disconnections. We note that both the South Australian and the Victorian Governments have recently made moves towards better understanding and addressing high disconnection rates, but we are unaware of similar efforts on the part of the New South Wales Government.

Addressing the root cause

As energy bills have risen and new metering technologies been introduced there has been a corresponding increase in efforts aimed at enabling people to better understand their energy usage and to become more energy efficient. While we see value in such efforts, they will not solve the growing problem of energy affordability.

Recent research by Lynne Chester found that awareness of energy efficiency measures is now strong, and that many households have already made substantial changes in order to reduce their energy use.³

Low-income households, however, face many barriers to lowering their energy use that a better understanding of their consumption will not address. In fact, there is a danger that more accurate and immediate information about energy use could encourage energy rationing behavior, affecting the health and well-being of low-income households, and could exacerbate the stress and frustration felt by households who simply cannot afford the energy required to maintain a decent standard of living.

We believe that efforts aimed at addressing the root causes of the energy affordability problem should be prioritised. In NSW these efforts should include reforming the concessions system to provide more effective and equitable assistance to all households, and providing support to low-income households to assist them to overcome barriers to energy efficiency.

Conclusion

As EWON's Discussion Paper notes, prepayment meters have the potential to facilitate effective budgeting, to reduce the build-up of debt, and to enable people to better understand their electricity use.

Conversely, in a context where energy is becoming increasingly unaffordable for low-income households, prepayment meters may also increase the practice of under-consumption and result in more frequent disconnections that are hidden by the prepayment technology.

Overall, we conclude that the majority of benefits associated with prepayment meters can be delivered to customers through payment and metering arrangements other than prepayment meters. Furthermore, we recommend that efforts aimed at supporting households to better manage their electricity bills should first focus on the root cause of the problem – energy affordability.

³ Chester, L (2013) *The impacts and consequences for low-income Australian households of rising energy prices.*