



By email: AERinquiry@aer.gov.au

20 June 2016

Ms Sarah Proudfoot
General Manager, Retail Markets
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Ms Proudfoot

AER approval of minimum amount owing for disconnection

Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) consultation on its approval of the minimum amount owing for disconnection pursuant to rule 116 of the National Electricity Retail Rules (**NERR**).

We submit that the minimum amount should be increased to at least \$500. This submission articulates the policy justification for such a shift, and draws upon research conducted by Consumer Action and the analysis undertaken in the recent Victorian Energy Hardship Inquiry. We consider that the AER should more clearly consider the social and other impacts of disconnection for those affected, and also the impacts caused by changes in the market such as the increasing incidence of remote disconnection.

Factors to consider—impact on those disconnected

The AER's consultation letter lists a number of factors that were considered when the AER initially approved the current minimum disconnection amount of \$300 in 2012. We generally support those factors, but urge the AER to consider the following.

Disconnection of an essential service has an impact far beyond the immediate financial implications for affected households. Our 2015 report, *Heat or Eat*,¹ identified the following impacts of disconnection:

- Impact on wellbeing: Overwhelmingly, participants of the research found that being disconnected caused significant distress. Participants experienced feelings of shame, humiliation, fear and anxiety, and the disconnection events compounded existing mental health issues and had a serious impact on participants' wellbeing. All participants suffered

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mental health problems and several were experiencing post-traumatic stress disorder (PTSD), depression and anxiety at the time of disconnection.

- Impact on dependents: The impact of high debt levels and disconnection is not limited to the account holder. It is likely that there are multiple occupants, including children, living at the disconnected property, or where a debt has been pursued, and the impact of these actions extend to them as well. In those interviewed for *Heat or Eat*, all but two participants had dependent children at the time of disconnection. They expressed concern about the emotional impact on their children through being exposed to the parent's stress and shame.
- Impact on financial stability: Disconnections resulted in extra costs for participants that made it harder for them to get out of debt and avoid future payment defaults and disconnections. Some of these extra costs are very direct—for example, disconnection and reconnection fees. Other, less obvious costs include:
 - replacement of spoiled food when there is no electricity to power fridges and freezers
 - purchase of take-away meals, often for the whole family
 - taxi fares or petrol costs, including trips to laundries, other people's houses (to shower, wash clothes, cook), shops (to buy new food after existing food has spoiled), take away stores, and other services
 - using coin-operated public laundries for washing or BBQs for cooking.
 - entry to public facilities such as swimming pools to shower
 - phone charges (calling retailers, social service providers, EWOV and others to deal with disconnection/seek help)
 - purchasing candles, blankets and other goods to manage in the absence of heating and lighting.

Heat or Eat also details the significant impact on community assistance services, including financial counselling and emergency relief. Substantial consideration should be given by the AER to these deleterious impacts of disconnection for vulnerable households.

Disconnection should not be available unless customers are six months' behind in payments

The AER argues that electricity bills have decreased since 2012, and therefore the level of protection provided by the current minimum amount has not eroded over time. The AER acknowledges that it is not true for gas bills, but also states that gas bills are generally lower than electricity.

We caution the use of averages in determining the appropriate amount. The Australian Energy Market Commission states that the national average total bill for electricity for 2014/15 is \$1,507, but for some states the amount is much higher.ⁱⁱ This total is also inaccurate for dual fuel households, and also masks the fact that different households have different usage requirements depending on their location, household fabric, appliances etc. The cost of bills can also be wildly different for those on standing tariffs compared to market rates. Reports from the St Vincent de Paul find that for some households, the cost of energy can be over \$2,200 annually.ⁱⁱⁱ

Moreover, given the policy acknowledgment that disconnection should be last resort, we do not consider that the amount of quarterly bills is a sufficient indicator of the appropriate level of the minimum disconnection amount. We submit that at least 6 months' usage should be outstanding on an electricity or gas bill before any disconnection procedure (Part 6 of the National Electricity Retail Rules) can be initiated. This will address any incentives for retailers to initiate disconnection as a means to engage a vulnerable customer who has not made payment.

The recent Victorian Energy Hardship Inquiry found that a customer should not be able to be disconnected for missing a single bill.^{iv} Instead, if a customer misses a payment, then they will be automatically placed on a defined payment plan and contacted by their retailer to discuss other assistance that they may need. While the current minimum disconnection amount in the Victorian Energy Retail Code is \$120,^v this seems likely to change in practice given, following the implementation of the Hardship Inquiry proposals, a customer will not be able to be disconnected for missing a single bill. In practice, it appears likely that an energy retailer will not be able to disconnect a customer for usage of less than two billing periods.

Remote disconnection a simpler process

Smart meters have enabled more efficient disconnection processes. The introduction of the remote disconnection function of the meter speeds up the disconnection process as the distribution business no longer needs to physically visit the property.

In Queensland, staff of distribution business Energex are required to check in on householders prior to proceeding with disconnection. Energex has been tracking this since October 2013 and report that these checks have resulted in the avoidance of about 700 disconnections.^{vi} The following types of checks are performed before proceeding with disconnection:

- Indications that disconnection may cause a risk to customer's life (e.g. customer requires supply for oxygen concentrator);
- Indications that disconnection may cause a risk to other people in the customer's care (e.g. child care centre);
- Risk to livestock (e.g. disconnecting a fish farm's pumps may result in loss of all stock, disconnecting a cattle property may result in cattle not being able to be watered); and
- Advice of family bereavement.

St Vincent de Paul has also found that remote disconnections clearly impact on disconnection completion rates and the frequency with which households experience multiple disconnections.^{vii} The incidence of remote disconnection has increased substantially since 2012, so we urge the AER to consider the impact of this change in the market when determining the appropriate minimum amount owing for disconnection.

Conclusion

Given the above, we urge the AER to consider a significant increase to the minimum disconnection warning. We suggest that the amount be at least \$500, and perhaps more. The AER should also ensure that the amount is updated annually so it is not eroded by inflation, and that there should be additional three-yearly reviews of the appropriate amount.

Please contact me on 03 9670 5088 should you wish to discuss further.

Yours sincerely

CONSUMER ACTION LAW CENTRE



Gerard Brody
Chief Executive Officer

ⁱ Consumer Action, Heat or Eat: Households should not be forced to decide whether they heat or eat, August 2015.

ⁱⁱ Australian Energy Market Commission, *Residential Electricity Price Trends*, December 2015.

ⁱⁱⁱ St Vincent de Paul, Victorian Energy Prices : An update on the tariff tracking project, January 2016.

^{iv} Essential Services Commission, Supporting Customers, Avoiding Labels: Energy Hardship Inquiry Final Report February 2016, page 70.

^v Clause 116, Energy Retail Code Victoria

^{vi} As reported by a Queensland-based consumer advocate.

^{vii} St Vincent de Paul, Households in the dark: Mapping electricity disconnections in South Australia, Victoria, New South Wales and South East Queensland, June 2016.