



Promoting Responsible Consumer Lending

www.nfsf.org.au

Information requested Monday 24th October 2011

at the

Parliamentary Joint Committee on Corporations and Financial Services Hearing

into the

Consumer Credit And Corporations Legislation Amendment (Enhancements) Bill 2011

Submitted via email to

corporations.joint@aph.gov.au

Monday 31st October 2011

Contact:

Philip Johns
CEO
National Financial Services Federation Ltd
PO Box 140
Redcliffe QLD 4020

TABLE OF CONTENTS

	Page
Executive Summary	2
Introduction	2
Disturbing developments in the energy supply industry	3
Supplier assistance to pay	4
Other assistance by suppliers	5
Disconnections still occur	5
Making reconnections	6
Reconnection Penalties	6
How many disconnections happen each year?	7
Annual disconnections extrapolated nationally	8
More than just the actual disconnections	9
Conclusion	10
Reference List	11
Appendices – Media Articles that trigger this report	12

A brief exploration of economic, social, and personal ramifications to customers with Energy Supply Disconnections

Executive summary

Preparation of this exploration was spurred by recent media articles which have reported on the disturbing unexpected increase in the number, and change in type, of households who cannot pay their energy bills to the point where disconnections occur. The purpose of this exploration is not to present accurate, concise figures but to demonstrate that problems exist in the community in relation to residential energy disconnections. It is also to demonstrate that reconnection of these services have a potential impact on customers' economic and social wellbeing, as well as possible personal exclusion.

This exploration shows that, with an estimated 80,731 households being disconnected from electricity and gas services each year in Australia, it should be expected that residential energy customers seek access to credit to maintain essential energy supplies when the hardship, instalment and payment programs provided by the energy suppliers fail to deliver the much touted protection to these customers.

Furthermore, this exploration will demonstrate why it may be a better option to access short-term credit to maintain these vital energy services rather than risk suffering economic and social wellbeing penalties, and possible personal exclusion resulting from disconnection and reconnection of these energy services.

Introduction

Access to domestic electricity and gas supplies is considered a basic necessity for most Australians. Yet there are thousands of Australians each year who lose access to this basic necessity due to non-payment. These disconnections occur despite payment and instalment plans that are set in place and designed to support struggling and disadvantaged energy users.

This brief exploration will examine publically available information on the internet. Firstly, two media articles are examined which describe disturbing developments in the residential energy supply industry regarding an increase in the number, and change in type, of households which suffer energy disconnections. Then an examination is made of possible supplier programs which are available to assist customers who struggle to pay their energy bills as well as other types of assistance that might be available. This is followed

by a discussion on how these schemes can nevertheless still mean that a residential customer will have their energy supplies disconnected.

An examination is then made of the penalties and ramifications of the reconnection process. Then an endeavour is made to put a number on how many disconnections happen each year and how this can be extrapolated to determine an estimate of annual disconnections nationally.

Finally, a brief examination is made as to how this problem goes beyond the actual disconnections and draws conclusions about the supplier assistance programs and the associated ramifications of these programs.

Disturbing developments in the energy supply industry

Two recent media articles¹ describe disturbing developments in the residential energy supply industry. In September 2011, an article in the Courier Mail reported that the number of Queensland households that had electricity disconnected due to non-payment rose 38 per cent in 2011. (CM 2011) The article, which reported on newly released figures for electricity supply to Queensland households, stated that '25,000 had their electricity cut off for non-payment in 2010-2011, compared with just under 18,000 the year before'. (CM 2011)

This trend was echoed in an article in July 2011 in the Sydney Morning Herald on the New South Wales gas and electricity supply industry which warned of an expected 'increase in disconnections in the current financial year because of "price pressures"' (SMH 2011) although the article also reported that there actually had been a decrease in the number of disconnections in 2009-10 compared to 2007-08. This Sydney Morning Herald article further reported on another disturbing trend in that there had been a change in the type of household suffering disconnections. The article reports:

'PEOPLE who work, and not pensioners, the unemployed and students, are the new group who face having their electricity disconnected in NSW.

Both the NSW Energy and Water Ombudsman and the Public Interest Advocacy Centre report that working people are increasingly facing disconnection, and it is a trend that would get worse.

The Energy and Water Ombudsman, Clare Petre, said consumer anxiety was high.' (SMH 2011)

¹ Only two media articles were chosen for discussion from many other such recent articles which are easily accessible on the internet.

This article further commented that ‘...working people were vulnerable to disconnection because they were less likely to qualify for low-income rebates.’ (SMH 2011)

This evidence for lack of assistance to working households is supported by a comparison of other comments within both of these media articles. The SMH article reports comments by Energy Minister (Qld), Chris Hartcher that payment assistance vouchers were available to people needing ‘emergency assistance to pay their bills’. When compared to a comment in the CM article where ‘QCOSS⁽²⁾ is calling for electricity concessions that apply currently to pensioners to be extended to all low-income earners who have a healthcare card’ (CM 2011 [parenthesis and footnote added]), it appears that the workers caught in this emerging trend may not be sufficiently catered for in energy assistance and concessions schemes.

These disturbing trends warrant an investigation as to how Australian households can be protected from energy disconnections and the ramifications which ensue when reconnections are attempted.

Supplier assistance to pay

On a national basis, it is reasonable to assume that instalment and payment assistance plans for residential customers would be similar to those set out in a reporting guide prepared by the Economic Regulation Authority Western Australia (ERAWA) titled “Electricity Retail Licence Performance Reporting Handbook” (2011). While this particular guide is for reporting indicators for Western Australia and the electricity supply industry, it appears reasonably safe to assume that similar reporting guidelines are set out for other Australian states and other residential energy suppliers, such as gas suppliers.

In the ERAWA reporting guide, under the heading of Affordability and Access, a list of specific indicators is given which form the basis of reporting on instalment and payment assistance plans. (ERAWA 2011, p6). These reporting guidelines indicate that there are (at least) four types of instalment and payment assistance programs available. These are as follows:

- an instalment plan used to pay both account arrears and continued usage;
- an extension of time to pay bill;
- a shortened billing cycle (to make smaller regular payments more often); and
- a direct debit plan/facility.

² QCOSS (Queensland Council of Social Service)

Other assistance by suppliers

There are other ways in which an energy supplier can assist if the customer is having trouble in paying for their energy consumption. For example, according to the Energy Water Ombudsman Queensland (EWOQ) website, the residential customer may be offered:

- access to a financial hardship program;
- information on independent financial counselling; or
- an energy usage audit to identify where the customer could save money. (EWOQ 2011)

Financial hardship programs could include assistance vouchers in the form of low-income rebates (SMH 2011). However, it appears that these vouchers/rebates may only be available to (at best) 'low-income earners who have a healthcare card' (CM 2011) and therefore will not address the growing number of disconnections to households which have paid income (SMH 2011). This means that workers will not have access to emergency assistance when they need it to pay their energy bills.

Disconnections still occur

Despite these identified assistance schemes disconnections still occur. The ERAWA handbook, under the heading of Disconnections for Non-Payment, further sets out the reporting indicators for this section to be those residential customers who:

- have been disconnected for failure to pay an energy bill;
- have been disconnected and previously the subject of an instalment plan;
- have been disconnected at the same supply address within the past 24 months;
- have been disconnected while receiving a concession. (ERAWA 2011, p8).

The SMH article reports that, in Queensland, 'About 8 per cent of residential customers who were disconnected in 2009-10 were disconnected more than once' (SMH 2011).

So with the best of intentions in making payment and instalment plans and other avenues of keeping the energy supply open when a customer is struggling to pay a bill, there are still customers who have their energy supply cut off. **A disturbing trend has been identified (SMH 2011) that these unfortunate customers are increasingly found in households**

which have income from paid employment and not just those which have income as pensioners, unemployed or students.

Making reconnections

The ERAWA guide also goes on to discuss indicators for retail reconnections such as customers who have been reconnected:

- following a disconnection for failure to pay a bill;
- within 7 days of disconnection and in the same name and at the same supply address; and
- among groups such as those who had previously been on an instalment plan and those in receipt of a concession. (ERAWA 2011, p10).

A requirement to report on these reconnection indicators infers that, even with the best of intentions and social benefit factors included:

- (1) not all disconnections are reconnected;
- (2) not all disconnections are reconnected in the same name and/or address;
- (3) not all disconnections can be reconnected within 7 days of the disconnection; and
- (4) any forced disconnections for whatever reason will have economic and social wellbeing ramifications for the customers involved. Even one day without electricity can spoil a family's food purchases because of non-refrigeration and cause health problems for example when no heating is available in very cold weather.

Reconnection Penalties

Apart from general economic and social wellbeing ramifications as in point 4 above, it is also possible that some sort of penalty or embargo is placed on an account by a supplier to enable reconnection to occur. For instance, the EWOQ website warns:

'Contact your retailer straight away if you can't afford to pay your bill....If you wait until you have been disconnected to contact your retailer **you may have to pay a reconnection fee, security deposit (sic) and the balance of your bill before reconnection**'. (emphasis added) (EWOQ 2011).

Another, more obvious 'penalty' before a reconnection can occur would be that the person whose name is registered as the **account owner is personally excluded from having a reconnection done** and that an account reconnection at the same address would have to be done in a different name (see point 2 above). This could cause significant problems if

the household was a one-parent or one-person household. Arrangements would have to be made to find a relative or friend who would consent to have their name on the energy account so that supply could continue to that particular address.

Summary of possible penalties

- payment of reconnection fee;
- payment of a security deposit;
- payment of balance owing before reconnection can occur; and
- account owner personally excluded from being reconnected.

How many disconnections happen each year?

A report on electricity usage in New South Wales put out by Independent Pricing and Regulatory Tribunal (IPART) examines "Electricity retail businesses' performance against customer service indicators in NSW for the period 1 July 2006 to 30 June 2010". This report contains the following warning to electricity suppliers regarding disconnections to retail customers:

"Disconnections for non-payment of bills
Disconnection of essential services is expensive for both the consumer and the provider. It creates further hardship for consumers who are already experiencing financial difficulties. In March 2010, new licence obligations were imposed on energy retail suppliers to develop and implement customer hardship charters and ensure customers experiencing financial difficulties have access to payment plans. It is too early to determine the effectiveness of these new obligations. However, we note that despite electricity price rises the reported number of customers disconnected for non-payment of bills is at its lowest level over the last 5 year period and has remained constant in percentage terms over the last 3 years. With further electricity price rises expected in the next few years, all energy retailers will need to maintain their focus on providing assistance to customers experiencing financial difficulties." (IPART 2011a, p 6).

An extract of figures from Table 3.1 from this report is produced below:

Table 3.1 Total residential and non-residential disconnections for non-payment of **electricity** bills in NSW

Type of Customer	2005/06	2006/07	2007/08	2008/09	2009/10
Residential (electricity)	24,056	18,339	18,153	18,168	15,835
As % of residential custs	0.9%	0.7%	0.6%	0.6%	0.6%

(IPART 2011a, p 6).

These figures indicate that 24,056 of residential customers had their electricity supply disconnected in 2005/06 but that this number had reduced to 15,835 in 2009/10. In percentage terms of total residential electricity

customers these figures represent a drop from 0.9% in 2005/06 to 0.6% in 2009/10.

Similar figures are available (see extract below) from a similar IPART report for gas retail customers with disconnections having a higher percentage rate to total residential customers compared to disconnections in the electricity industry. An examination of residential disconnection figures for the gas industry show a decrease from 19,781 (2.1%) in 2005/06 to 14,811 (1.4%) in 2009/10.

Table 3.1 Total residential and non-residential disconnections for non-payment of gas bills in NSW

Type of Customer	2005/06	2006/07	2007/08	2008/09	2009/10
Residential (gas)	19,781	22,707	19,441	12,633	14,811
As % of residential custs	2.1%	2.3%	1.9%	1.3%	1.4%

(IPART 2011b, p 6).

Using the 2009/10 number and percentage figures for electricity and gas, a number and percentage range can be extrapolated for combined electricity/gas customers who have had their supply disconnected. The simple average of these figures is 15,323³ customers or 1%⁴ of total residential energy customers in NSW in 2009/2010.

Annual disconnections extrapolated nationally

Determining an estimated national figure for the total number of electricity and gas customer disconnections per year is difficult because of:

- the number of states involved;
- the different levels of usage of gas compared to electricity in each state; and
- the lack of publically available current figures.

However, an estimate can be made by extrapolating the above figures for NSW and the number of national households taken from the Australian Bureau of Statistics.

The number of households nationally in 2006 was 7,780,000 and there was a projection of 8,498,000 households in 2011 (ABS 2010). It must be acknowledged that not all of these national households would use electricity or gas supplies as their household energy source. Other energy sources used (either as an alternative or as a supplement to retail electricity and gas

³ Average number of residential disconnected customers in NSW in 2009/2010 $((15,835+14,811)/2) = 15,323$

⁴ Average percentage of total residential disconnected customers in NSW in 2009/2010 $((0.6\%+1.4\%)/2) = 1\%$

supplies) could be one or more of solar power, wind power, or petrol generation power.

In the absence of public data on the number of households currently using these alternative energy sources (households also could be using a combination of alternative sources and/or mains electricity and gas), if an educated guess of 5% is applied to the above household numbers then these household numbers using retail electricity and gas supplies fall to 7,391,000 for 2006⁵ and a projection of 8,073,100 for 2011⁶.

Using the simplified average figure of 1% calculated from the NSW figures above, an **estimated annual number of national households which have energy supplies disconnected is:**

- **73,910 (2006)⁷; and**
- **80,731 (2011)⁸.**

Given the amount of extrapolation needed to get to these figures, the figure of 80,731 for 2011 is at best a broad estimate but it does serve to illustrate that there:

- (1) are potentially 80,731 residential energy customers per year who may consider seeking out a payday loan to stop the process of energy disconnection; and
- (2) will have been many thousands more nationally who, by seeking out a payday loan, managed to keep their energy connections. from becoming a statistic for disconnection and paying penalties (e.g., economic and social wellbeing, and possible personal exclusion) for reconnections.

More than just the actual disconnections

As discussed above, this estimated figure does not speak to all of the many thousands of residential energy customers who already seek a payday loan to stop disconnection or who do not wish to approach a charity where it may be seen as 'begging' for money to pay their bills.

With NILS and LILS loans provided by charities, consumer advocacy groups and others taking up to 3 weeks to go from application to approval, and the low number of loans actually available through these schemes or only

⁵ Calculated estimate of number of Australian households not using alternative energy sources in 2006 is 7,391,000 (95% x 7,780,000).

⁶ Calculated estimate of households not using alternative energy sources based on projection of number of Australian households in 2011 is 8,073,100 (95% x 8,498,000).

⁷ Estimated annual number of disconnected Australian households in 2006 is 73,910 (7,391,000 x 1%).

⁸ Estimated annual projected number of disconnected Australian households in 2011 is 80,731 (8,073,100 x 1%).

available for specific items like new whitegoods, there appears to be a huge shortfall in access to credit for energy customers who do not wish to suffer disconnection of their energy supplies.

The monetary, social wellbeing, and personal exclusion penalties revealed in this exploration appear to indicate that an energy customer could conceivably go to significant lengths, such as getting a payday loan, to keep the energy supply connected. The interest and charges on a payday loan could be a much better option compared to the penalties and personal embargoes applied for reconnection to an energy supply.

Conclusion

The purpose of this exploration is not to present accurate, concise figures but to demonstrate that problems exist in the community in relation to energy disconnections. It is also to demonstrate that these problems include economic, and social wellbeing impacts as well as possible personal exclusion and that the ramifications of these impacts from disconnection could conceivably warrant the choice of using a payday loan. The choice of a payday loan would ensure continued supply rather than suffer the alternative economic, and social wellbeing impacts and possible personal exclusion, which could potentially result from the disconnection/reconnection issues, penalties, and embargoes of energy supply to residential customers.

This exploration has demonstrated that an estimated 80,731 households are being disconnected from electricity and gas services each year in Australia. It has also demonstrated that there is a growing disturbing trend for those households suffering energy disconnections increasingly to be found in households with paid income as opposed to traditionally only in households with pensions and other social support payments. Consequently, it should be expected that customers seek access to credit to maintain essential energy supplies when the hardship programs fail to deliver the much touted protection to these customers.

Furthermore, this exploration also demonstrated why it is a better option to access short-term credit to maintain these vital energy services rather than risk suffering the economic and social wellbeing penalties, and possible personal exclusion, of disconnection and reconnection of these energy services.

Reference List

- Australian Bureau of Statistics. (2010). *Household and family projections, Australia, 2006 to 2031: 3.2 Projected number of households - Australia*. (Cat. No. 3236.0). Canberra: ABS. Retrieved from www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/F32FDFD19296EC55CA25773B0017C628?opendocument.
- Courier Mail. (2011). *Number of Queensland households that had electricity disconnected due to non-payment rose 38 per cent in 2011*. 24 September 2011. Retrieved from <http://www.couriermail.com.au/news/queensland/number-of-queensland-households-that-had-electricity-disconnected-due-to-non-payment-rose-38-per-cent-in-2011/story-e6freoof-1226144858803>.
- Economic Regulation Authority Western Australia. (2011). *Electricity retail licence reporting handbook* Perth: ERAWA. Retrieved from www.erawa.com.au/cproot/9579/2/20110516%202011%20Electricity%20Retail%20Licence%20Performance%20Reporting%20Handbook.PDF.
- Energy Water Ombudsman Queensland. (2011). *Consumer Information: Disconnections*. Brisbane: EWOQ. Retrieved from www.ewoq.com.au/Consumerinformation/Disconnection.aspx.
- Independent Pricing and Regulatory Tribunal. (2011). *Electricity retail businesses' performance against customer service indicators in NSW for the period 1 July 2006 to 30 June 2010. Electricity information paper 2011*. Sydney: IPART. Retrieved from www.ipart.nsw.gov.au/files/Electricity%20retail%20performance%20indicators%20Information%20Paper%202009-10%20-%2018%20January%202011%20-%20Yan%20Cheung%20-%20Website%20Document.PDF.
- Independent Pricing and Regulatory Tribunal. (2011a). *Gas retail businesses' performance against customer service indicators in NSW for the period 1 July 2006 to 30 June 2010. Gas information paper 2011*. Sydney: IPART. Retrieved from www.ipart.nsw.gov.au/files/Gas%20retail%20performance%20indicators%20Information%20Papers%202009-10%20-%2018%20January%202010%20-%20Yan%20Cheung%20-%20Website%20Document.PDF.
- Sydney Morning Herald. (2011). *Workers can't pay power bills*. 31 July 2011. Retrieved from <http://www.smh.com.au/nsw/workers-cant-pay-power-bills-20110730-1i5e7.html>.

Appendices – Media Articles

Appendix 1 – SMH - Workers can't pay power bills

Appendix 2 – COURIER MAIL

Numb of Qld households that had elect disconnected rose 38 per cent

Workers can't pay power bills

Alicia Wood
July 31, 2011

Source: <http://www.smh.com.au/nsw/workers-cant-pay-power-bills-20110730-1i5e7.html>

PEOPLE who work, and not pensioners, the unemployed and students, are the new group who face having their electricity disconnected in NSW.

Both the NSW Energy and Water Ombudsman and the Public Interest Advocacy Centre report that working people are increasingly facing disconnection, and it is a trend that would get worse.

The Energy and Water Ombudsman, Clare Petre, said consumer anxiety was high.

Advertisement: Story continues below

"This is a group of people who work but are on low incomes and are so financially stretched that they have no financial flexibility to deal with any increases," she said.

Although the profile of people who have utilities disconnected is changing, the rate of gas and electricity disconnection in NSW is decreasing.

Figures from the Independent Pricing and Regulatory Tribunal (IPART) show that in the 2009-10 financial year, 30,646 people in the state had their gas and electricity disconnected, compared with 37,594 in 2007-08. About 8 per cent of residential customers who were disconnected in 2009-10 were disconnected more than once.

But in the past six months, the Ombudsman has seen a 5 per cent increase in the number of people who have called and said they were facing disconnection, compared with the same period last year.

Carolyn Hodge, the senior policy officer at the Public Interest Advocacy Centre, said she expected an increase in disconnections in the current financial year because of "price pressures".

She said working people were vulnerable to disconnection because they were less likely to qualify for low-income rebates.

The Energy Minister, Chris Hartcher, said that the government provided Energy Accounts Payment Assistance vouchers to people who needed emergency assistance to pay their bills, and he would make sure fewer people were forcibly disconnected from utilities in future.

"We are doing everything we can to reduce the impact of power price rises and prevent massive increases in the future, including reducing instances of disconnected utilities," he said.

IPART predicted residential customers would pay between \$4 and \$6 a week more for electricity from July 1.

Energy companies must contact a customer at least twice before disconnection and propose a suitable payment plan.

Number of Queensland households that had electricity disconnected due to non-payment rose 38 per cent in 2011

Source Link:

<http://www.couriermail.com.au/news/queensland/number-of-queensland-households-that-had-electricity-disconnected-due-to-non-payment-rose-38-per-cent-in-2011/story-e6freoof-1226144858803>

COURIER MAIL

- From: AAP
- September 24, 2011 12:00AM

THE number of Queensland households that had their electricity disconnected because they couldn't pay their bills rose 38 per cent in the past financial year, latest figures show.

The Queensland Competition Authority's hardship statistics for the last quarter was released this month.

Taken with previous reports, the latest publication reveals 25,000 had their electricity cut off for non-payment in 2010-2011, compared with just under 18,000 the year before.

The Queensland Council of Social Service (QCOSS) says the skyrocketing cost of essentials, including electricity, is driving the trend.

"Consumer price index has increased by 19 per cent over the last five years but over that same period of time electricity's gone up by 63 per cent, public transport's gone up by 48 per cent, insurance has gone up by 40 per cent, rents have gone up by 35 per cent, and food's gone up by 23 per cent," QCOSS director Mark Henly told AAP.

"So what we're finding is it's the cost of essentials that are the ones that are spiralling at a far greater rate than other costs out there in the community and these are all the ones that are basic essentials that people need to rely on day to day."

He said the number of disconnections could be reduced if more people sought to join hardship programs through their electricity provider.

Many don't even know the programs exist, he said.

"We're saying to consumers, make sure you ask about what's available, make sure that you inform people if you are experiencing issues around financial capability in relation to paying for electricity.

Number of Queensland households that had electricity disconnected due to non-payment rose 38 per cent in 2011

"And we're also saying to retailers make sure that you let people know what programs are available so they're best supported."

QCOSS is also calling for electricity concessions that apply currently to pensioners to be extended to all low-income earners who have a healthcare card.

"This is done in other states and is a far more equitable system," he said.