

# ACCESS TO ESSENTIAL UTILITY SERVICES

## SUBMISSION TO THE SENATE COMMUNITY AFFAIRS REFERENCES COMMITTEE INQUIRY INTO POVERTY IN AUSTRALIA

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### SUMMARY

This paper is specifically relevant to item 1 (a) (i) of the Terms of Reference of the Inquiry as it addresses the *nature* of poverty and inequality in Australia.

It will be argued that the Commonwealth's National Competition Policy has caused an increase in poverty in Australia. It has done this by contributing to disturbing trends in the practices of the privatised electricity and gas industry in Victoria in which increasing numbers of households are being disconnected from essential power due to inability to pay.

The paper concludes that the Senate Inquiry, in responding to item 2 (b) in its Terms of Reference (...ideas to address poverty amongst ... individuals and households) must address the unintended consequences of national competition policy in exacerbating poverty.

### INTRODUCTION

#### The Nature of Poverty in Australia

Clearly there are few people in Australia in the 21<sup>st</sup> century who experience absolute poverty. However there are a number of Australians who experience relative poverty, as indicated by living with insufficient resources to fully participate in all aspects of society.

*Poverty is where people have unreasonably low living standards compared with others; cannot afford to buy necessities, such as a refrigerator for example; and experience real deprivation and hardship in everyday life.* " (McLelland 2000)

One vivid example of relative poverty in Australia at the start of the 21<sup>st</sup> century is the experience of households which are disconnected from power (electricity and/or gas) because they are too poor to pay. Access to light, heating, cooking and popular culture through radio, television and increasingly, the internet, are essential elements of what is considered a reasonable standard of living for all Australians.

No-one can deny that a household in modern Australia which cannot afford light, heat or cooking is living in extreme poverty.

#### Affordability of Essential Services as a Measure of Poverty

While it is important for the Senate inquiry to address employment and income security as mechanisms for ensuring people have sufficient income to maintain a reasonable standard of living, this is only one part of the equation. In a market

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<sup>1</sup> Disclaimer: This submission represents the personal opinions of the author. It does not represent the views of the Energy and Water Ombudsman of Victoria or of any other organisation.

economy relative poverty is caused by a mismatch between the spending power of the purchaser and the cost of the goods and services required.

While the disposable income of the purchaser is crucial to maintaining a reasonable standard of living, the terms of sale of the retailer also has a significant impact on the affordability of essential goods and services.

### **Access to Essential Utility Services**

Affordability of discretionary goods and services is not central to considerations of poverty - if a household is unable to afford restaurant meals then it is reasonable to expect them to go without. However essential services such as energy are entirely different.

If a household is unable to pay a utility bill then modern views of what constitutes a reasonable standard of living requires that policies and programs are in place to ensure on-going access to essential services. One example is hardship policies which provide extended time to pay and reduction or waiver of debt.

This paper documents research conducted over the last 5 years which demonstrates that application of National Competition Policy to essential utility services has led to debt recovery practices which penalise low income households and result in disconnection for inability to pay, plunging these households into poverty living conditions.

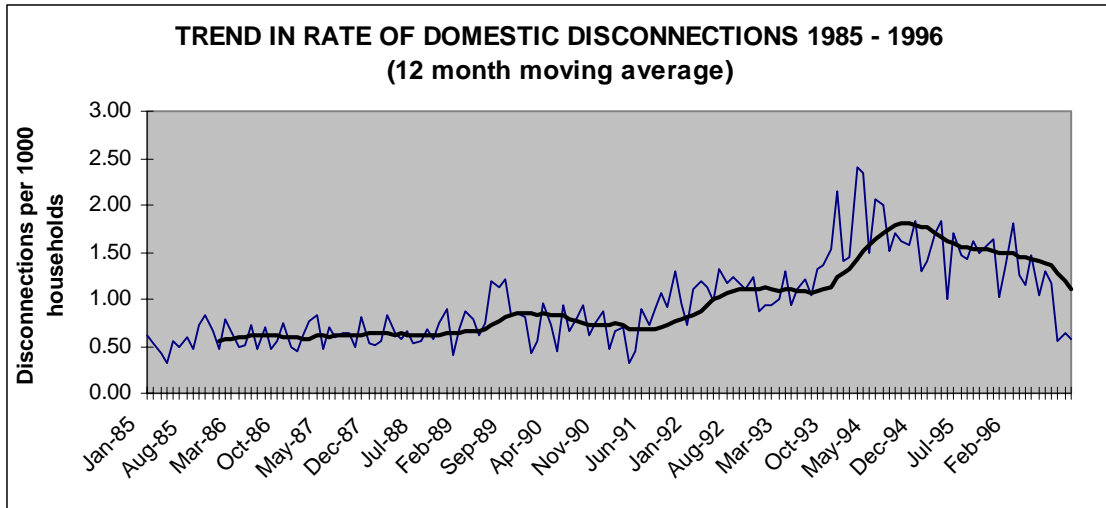
### **INCREASE IN DISCONNECTIONS FROM ELECTRICITY**

As a public service, the publicly owned State Electricity Commission of Victoria (SECV) had a policy of not disconnecting customers who were genuinely unable to pay their electricity bills. Best practice for the numbers of households disconnected from electricity was established in the latter half of the 1980s, when an average of 0.7 households per thousand domestic customers was disconnected each month over a period of six years.

The rate of domestic disconnections started to climb in the late 1980s when Competition Policy started to influence the electricity industry in Victoria. By late 1994 households were being disconnected at double the best practice level, at 1.6 households disconnected per month per thousand domestic customers.

Increased electricity tariffs in combination with rising unemployment explains some of the increase in domestic disconnections, but not all. An examination of the timing of key events in the process of privatisation in the early 1990s suggests that a toughening in the attitude of the SECV toward people in financial difficulty was a significant contributing factor.

In the second half of 1991 a series of government reports was produced, all calling for commercialisation, competition and/or sale to private owners. At precisely the same time disconnections took off and did not return to the historical best practice level for six years. In late 1993 the SECV was broken up into separate businesses and again disconnections went up. The rate at which people in financial difficulty were cut off from essential power did not start to decline until late 1994, when the government set this historically high level as a benchmark for measuring the performance of private electricity businesses.

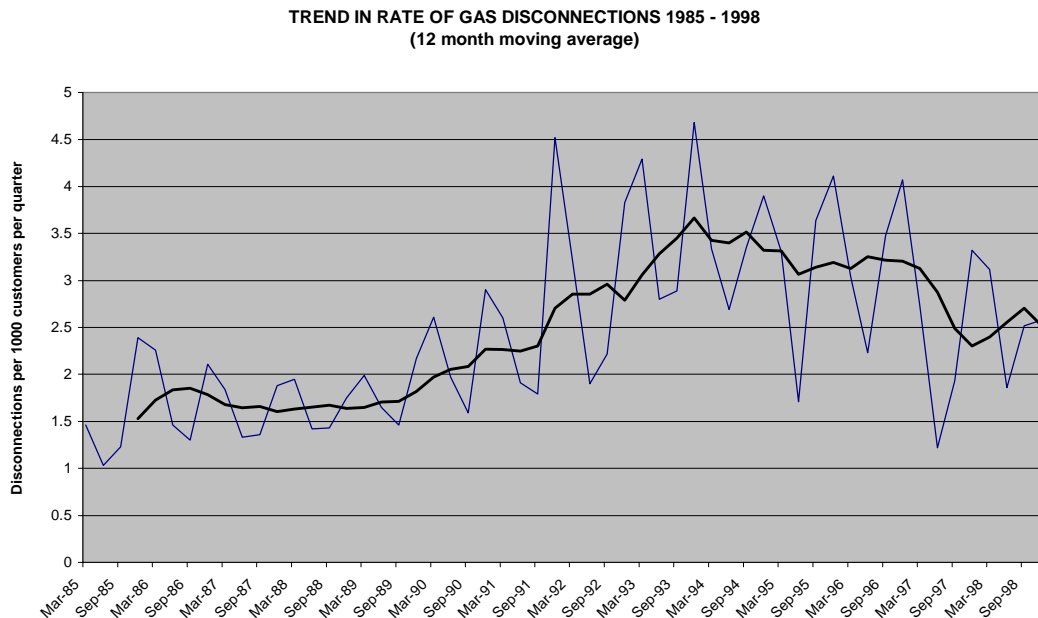


Source: Romeril 1998

These figures show that vulnerable consumers were not adequately protected from commercial pressures during that part of the privatisation process in which the government-owned electricity utility was prepared for sale. At the same time similar trends were occurring in the other major source of household energy, gas.

### INCREASE IN DISCONNECTIONS FROM GAS

As competition policy rolled out in the gas industry in Victoria, gas disconnection figures showed the same depressing picture as the electricity disconnection figures.



Source: Romeril 1999

Gas customers experiencing difficulties paying their bills were disconnected at increasingly higher rates as the industry went through the process of transformation from a public service to a commercial, profit-oriented enterprise. A restructure of the gas industry in Victoria in 1991 heralded the start of an inexorable climb in the rate at which people in financial difficulty were cut off from gas supply. Sale of parts of the

gas industry started in 1993 and a further restructure in 1994 matches the historical high point in gas disconnections.

So left to its own devices, competition policy directly caused a decline in living standards for low income households in Victoria, plunging them into poverty living conditions without light, heat or cooking facilities. The next section documents the limited effectiveness of efforts to reduce this negative impact on low income households.

## **EFFORTS TO ESTABLISH A CULTURE OF RESPONSIVE CUSTOMER SERVICE**

Consumer advocates have argued unsuccessfully for many years for mandatory hardship provisions which require the utilities to reduce or waive debt for people who are unable to pay their bill for reasons outside their control (Kliger 1998). To date none of the companies has offered a system that meets the needs of people in hardship.

The Energy and Water Ombudsman of Victoria (EWOV) regularly reports on the disturbingly high number of complaints it receives about the disconnection practices of electricity and gas retailers. EWOV held a conference on hardship policies in November 2001, showcasing some positive initiatives in the water industry in an attempt to promote good customer service policies in the energy industry. More recently the EWOV has responded to a request from the Essential Services Commission for a paper on the extent to which electricity, gas and water retailers are taking account customers' capacity to pay when disconnecting or threatening to do so.

Depressingly, recent trends in disconnections show no evidence of success of any of these initiatives.

## **MORE RECENT TRENDS IN DISCONNECTIONS FOR INABILITY TO PAY**

As a result of vigorous lobbying by consumer advocates, the Office of the Regulator General (now the Essential Services Commission - ESC) adopted the practice of tracking disconnections relative to the historical trends from the mid 1980s. The most recent public report on electricity disconnections (2001) shows the trend since the period documented by Romeril (1998). There was a continued drop in the rate of disconnections in 1997 then a flattening out of the trend followed by a distinct increase in the rate of electricity disconnections for residential customers in 2001. In fact, the increase is a massive 30% more households disconnected in 2001 than in the previous year (ESC 2002).

The worst fears of the consumer movement have been realised - the pressure of competition has prevented the providers of essential energy services from maintaining low levels of disconnection for inability to pay.

Attempts by individual electricity retailers to justify this disturbing trend reveals some deeply concerning attitudes. AGL advised the ESC that it does not consider a 10% increase in its rate of disconnections to be unreasonable. It argues that its rate of disconnections would have been even higher if it hadn't established a new customer information system (ESC 2002). It seems unlikely that the AGL customers living without power are reassured by this defence.

Citipower recorded an alarming 125% increase in the rate of disconnections in 2001. Again the retailer gave an explanation that provides cold comfort to households sitting in the dark - the company messed up its billing system and so it didn't know who to disconnect for many months; when it fixed its billing problems it then went ahead with disconnections. Further, Citipower trots out the excuse it has provided for many years - a high transient renter population, causing a large number of disconnections when customers 'skip' without paying the last bill (ESC 2002). This explanation does not explain the high number of Citipower customers who are disconnected then reconnected in the same name. Clearly these households have *not* moved out leaving an unpaid account but rather are living in the dark until they can find the funds to pay for reconnection.

It is interesting to note that disconnection of business customers for non-payment of declined 24% in 2001. So it is only low income households which are bearing the brunt of competitive pressures on the privatised electricity industry.

The ESC report shows similar trends in the gas industry where disconnections increased each year including 2001. And the rate of disconnection is even higher than in electricity, where '*... gas customers continued to be disconnected from supply at almost twice the rate of electricity customers.*' (ESC 2002)

As mentioned above, EWOV reports on customer complaints show a disturbing increase in disconnection cases. Its newsletter for the second half of 2001 notes a high number of disconnection cases, accounting for nearly one quarter of all complaints against gas companies, and an increase in the number of complaints about electricity disconnections. EWOV notes the contribution to this trend of increased customer awareness of the ombudsman service, but concludes that this does not fully explain the increase. Again, EWOV urges the companies to examine their hardship policies (EWOV 2001).

So consumer advocates and the energy industry's own complaint scheme have been unsuccessful in protecting low income households from the harsh impact of competition policy. State governments have been similarly unsuccessful.

## **ATTITUDES AND EXPECTATIONS OF STATE GOVERNMENTS**

State Governments of both political persuasions have embraced National Competition Policy with enthusiasm. Liberal Governments in particular have taken the opportunity provided by Competition Policy to pursue their explicit agendas of small government through commercialisation and privatisation.

During my time as a consumer advocate (Executive Director of FCRC) I had the opportunity to hear the Treasurer in the Kennett Government in Victoria speak on utility industry restructure. I was horrified to hear him advocate for the introduction of pre-payment meters as a way of enabling low income households to ration their electricity usage to stay within their budget. He claimed that if they can put money in the meter to heat the baby's bottle it is preferable to complete disconnection.

It is hard to imagine a more vivid example of relative poverty in modern day Australia, where a household sits in the dark, unable to cook food or participate in popular culture through watching television or listening to the radio. The fact that the baby gets to drink warm milk does not lift this household out of extreme poverty.

ALP governments have also been seduced by this technology. Recently the NSW Government announced the introduction of pay-as-you-go electricity meters ([www.smh.com.au/text/articles/2002/11/22/1037697872432.htm](http://www.smh.com.au/text/articles/2002/11/22/1037697872432.htm)) in order to address 'the high level of forced disconnections'. What the Government does not address in this proposal is what will happen with self-disconnection as occurred in the UK after privatisation (John Ernst 1994).

A household that is without light, heating and cooking due to inability to pay is living in poverty regardless of who pulled the plug.

The current ALP Government in Victoria was originally elected in 1999 on a policy commitment that no-one would be disconnected from utilities for inability to pay. The ESC report demonstrates that the Government has yet to be successful in honouring this commitment.

## CONCLUSION

Vulnerable Victorians suffered harsh negative impacts as result of competition policy in the early to mid 1990s, when commercialisation and privatisation of utilities resulted in increasing numbers of low income households being cut off from essential power supplies due to inability to pay. Government regulation and consumer pressure provided some relief in the late 1990s as the rate of electricity disconnections declined briefly. But this counterbalance to the pressure of competition was not sustained, and by 2001 disconnections had again increased, with more and more households forced to live in poverty conditions without light, heat or cooking or access to popular culture.

State Governments have clearly failed to protect vulnerable consumers from the harsh impact of National Competition Policy. So it falls to the Commonwealth to do something to reduce this disturbing aspect of poverty in Australia.

The terms of reference for this Senate Inquiry include a call for '...ideas to address poverty amongst ... individuals and households' (Terms of Reference 2b). One clear way to do this is for the Senate to recommend a national approach to ensuring that low income households have guaranteed access to the essential utilities they need to maintain a decent standard of living in the 21<sup>st</sup> century.

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