



Mr Paul Kelly
ECCC Chairman
Level 6, 197 St Georges Terrace
PERTH WA 6000

Dear Paul

SUBMISSION ON PROPOSED PRE-PAYMENT AMENDMENTS TO THE CODE OF CONDUCT FOR THE SUPPLY OF ELECTRICITY TO SMALL USE CUSTOMERS 2008

Thank you for the opportunity to comment on the proposed changes to Parts 9 and 13 of the *Code of Conduct for the Supply of Electricity to Small Use Customers 2008* (the Code).

Background

The Office of Energy (the Office) notes that the original policy intention of Part 9 of the Code was that pre-payment meters (PPMs) would initially be permitted only in Aboriginal and Remote Communities Power Supply Program (ARCPSP) and Town Reserve Regularisation Program (TRRP) communities. Prior to these programs, electricity supply to these communities had been unregulated with power provided either by Horizon Power through a master meter, or through a stand alone generator owned by the community. Payment for power was on generally on a 'chuck-in' basis, which proved unsatisfactory to both community members and Horizon Power (where applicable).

The use of PPMs is part of a regularisation program that also includes upgrading distribution infrastructure to improve safety and reliability and installing new power generation facilities. Customers now have access to the uniform tariff, State Government concessions and rebates that were not previously available to them, and customer protection under the Code.

The Office recognises that the delivery of conventional retailer services in remote communities is difficult. Aside from geographic issues there are socio economic demographics and cultural issues involved. Disconnection and reconnection of customers under the credit meter system in remote communities is costly and time consuming for both the retailer and customer. In a sense PPMs allow the customer, at least cost to themselves and the retailer, to manage their own energy budget and consumption. While PPMs are a pragmatic response to many of the issues involved with delivery of electricity services to remote communities, appropriate consumer protection mechanisms to alleviate the social costs of self-disconnection have not (as yet) been developed and put in place.

Feedback to the Office indicates that the introduction of PPMs in these communities has been widely supported. For example, the Office commissioned a customer survey to give an indication of the success or otherwise of the use of PPMs in six remote Aboriginal

communities¹. Qualitative data was collected from 133 households. The analysis revealed that there was a high level of satisfaction with PPMs and the overwhelming majority of PPM user respondents indicated that PPMs are preferred when compared to the previous method of billing and paying for power usage. PPMs offer the customer greater visibility of electricity use and individual control over disconnection and reconnection.

The Office also notes that two of the submissions to the Electricity Customer Consultative Committee's (ECCC) *Review of the Code of Conduct for the Supply of Electricity to Small Use Customers 2008 - Draft Review Report February 2008* commented on PPMs. One submission, from Ms Carol Martin MLA, Member for Kimberley, calls for an extension of the operation of PPMs. Ms Martin notes that residents in communities in the Kimberley that have had PPMs installed are generally very satisfied with these meters and very satisfied with the manner in which they had been informed about their use.

Another submission, from Horizon Power, notes that it has received a significant amount of positive feedback on both the ARCPSP and TRRP projects and, based on that feedback, comments on its desire to use PPMs outside of the prescribed areas.

The Office also recognises that PPMs have been widely used over a long period in other Australian jurisdictions and elsewhere in the world, particularly Europe and Africa, and that there is considerable experience on which Western Australia can draw in developing PPM policy and regulation in this State. The Office is also aware of other demonstrated benefits of PPMs, such as reduced energy usage as a result of the immediate visibility to the customer of their electricity use.

Removal of the general restriction on PPMs

The Office acknowledges the success of PPM trials in Aboriginal communities in Western Australia and supports their wider application in principle. However, the Office is reluctant to support the removal of the general restriction on PPMs at this time, and would prefer to see a more measured expansion, on an efficient regional and case-by-case basis as approved by the Minister for Energy in association with Horizon Power and Synergy.

While there is evidence to suggest that PPMs have the potential to benefit customers, there is also evidence that some vulnerable customers may be worse off. For example, a KPMG report produced on behalf of the Essential Services Commission of South Australia concluded that the particular customer groups who may be vulnerable to the negative impacts of PPMs include people on low incomes, older people, those with special health needs, those using public housing or lower cost rental accommodation and those from culturally and linguistically diverse backgrounds.

Of particular note is that PPMs break the conventional retailer-customer relationship which, under the existing arrangements, enables early identification of hardship customers. The Office believes that the current hardship approach for credit meter customers, through utility hardship policies and government hardship programs, is working well. However, hardship assistance mechanisms associated with PPMs in Western Australia lack maturity and are still under development.

The policy intent, when the Code was introduced, was that PPM customers would not be denied access to hardship programs, and considerable discussion was held with Aboriginal

¹ This report is available at <http://www.energy.wa.gov.au/cproot/1478/13356/PPMSurveyDataAnalysisReport.pdf>

communities about ways to protect vulnerable community members so that PPM customers would not suffer disadvantage from the introduction of the PPMs.

The Department of Child Protection is working with other State Government agencies and Horizon Power to develop mechanisms to ensure that funding under the Hardship Utility Grant Scheme (HUGS) is available to customers with PPMs. These mechanisms are not yet fully developed, and their effectiveness has yet to be rigorously tested. The Office believes that until there is clear evidence that vulnerable customers with PPMs are able to access HUGS and other hardship measures provided by retailers, the general restriction on PPMs should remain in place.

The Office notes that the Economic Regulation Authority's report *Pre-Payment Meter Systems in Western Australia: Cost-Benefit Analysis and Regulatory Impact Assessment* (the Report) finds that the direct financial benefits associated with the use of PPMs do not generally accrue to the customer. It also finds that the use of PPMs may result in some social costs and benefits to customers, the value of which is uncertain and not factored in to the quantitative assessment.

The Office would like to have a better understanding of the risks to consumer welfare associated with PPMs and more confidence in the efficacy of risk mitigation measures before a decision is made about whether or not to allow the widespread use of PPMs in Western Australia.

Hardship policies

Under Part 6 of the Code retailers are required to develop a hardship policy. Many of the requirements for a hardship policy were developed for credit meters and assume that there is an ongoing billing relationship between the retailer and customer. The requirements include that the retailer develop guidelines:

- for suspension of disconnection and debt recovery procedures;
- on the reduction and/or waiver of fees, charges and debt; and
- on the recovery of debt.

Although some of the requirements of a hardship policy are transferable to PPMs, the ones above are not.

A credit meter and billing system, in association with a hardship policy, provides a retailer with an insight as to the financial capacity of its customers. It provides data on late payment and/or debt, which in turn provides the basis for a process of engaging with the customer with respect to payment plans, bill smoothing and Centrepay arrangements. This provides the evidential basis for a retailer to determine if the customer is in hardship and requires referral to an independent financial counsellor and consideration for HUGS payment. A credit meter and billing system allows the retailer to use its hardship policy to address customer payment issues.

As Part 6 of the Code is drafted, there is an absence of effective safety net for PPM customers. PPM customers are automatically disconnected. They do not have the option to accumulate debt (other than the "emergency credit" function on the PPMs). They do not have the capacity to negotiate a payment plan with their retailer, although it is understood that the ability to pay for electricity in small, manageable amounts often forms a key part of

such payment plans, and this facility is the core customer advantage of PPMs. While complementary measures could be put in place for PPMs, it is not yet clear what these measures will look like.

Any amendments to the Code to allow for the widespread use of PPMs would need to be accompanied by modifications to Part 6 to ensure that retailers' hardship policies are relevant to PPM customers. For example, the Office believes that using disconnection patterns to alert assistance agencies to the likelihood of hardship is a valuable feature.

Appropriateness of proposed measures

The Office is concerned with the appropriateness of using other jurisdictions' regulations of PPMs without fully considering the particular characteristics of electricity supply in Western Australia, in particular in remote Aboriginal communities. For example, the usefulness of the proposed measure of disconnection 'three or more times in any three-month period for longer than 240 minutes on each occasion' as an appropriate indicator of hardship for a customer in a remote Aboriginal community, or for any other customer, does not appear to have been supported with evidence.

Office of Energy proposals

In order to provide clarity on the intention of Part 9 of the Code and the flexibility to allow PPMs to be used in additional communities, the Office recommends the following (note the clauses refer to the existing Part 9 not the proposed amendments):

- Move clause 9.2(1) to Part 1. This is an explanatory clause that identifies the parts of the Code that are not applicable to a PPM customer, and would be better located in the 'Preliminary' section. This change would have no impact on the operation of the Code.
- Amend clause 9.2(2) to include the whole of the Kimberley and other communities on an efficient case-by-case basis as approved by the Minister for Energy and gazetted in the Government Gazette. (Note that it is not suggested that "case by case" includes consideration on an individual customer basis.)
- Amend clause 9.6(a) and (b) to accommodate the Kimberley and 'other communities' as above.
- Modify Part 6 to include hardship policies that are specific to PPMs.

The Office recommends that the retailer be required to establish mechanisms to enable a monitoring program be carried out on a number of PPMs in the Kimberley region to establish:

- the level of household consumption;
- indicators of the patterns of disconnection that indicate hardship; and
- the extent to which retailer and Government hardship programs are reaching the PPM customers most in need.

An initial report on these measures should be submitted to Government after 12 months of wider PPM installation and, subject to the results, further monitoring may be required prior to full roll-out.

Comments on each of the specific questions raised by the ECCC are provided in **Attachment 1**, while comments on each of the proposed amendments are provided in **Attachment 2**.

Yours sincerely

ANNE HILL
A/COORDINATOR OF ENERGY

::odm\trim\6\oeloff\541

Attachment 1**Operating areas**

The Office supports a general restriction on PPMs with additional areas permitted as approved by the Minister for Energy and published in the Government Gazette. The Office believes that the Code should not be amended to remove the restriction on PPMs until there is evidence of workable measures to protect vulnerable customers.

Specific information from Horizon Power regarding the capabilities of existing technology and any transitional costs

No comment.

Whether any proposed provisions should be "grandfathered" to allow time for transition and if so, which provisions and for how long.

The Office notes that Horizon Power is best placed to comment on which provisions will need to be grandfathered. As a general principle however, the Office supports grandfathering for a defined period where existing metering or telecommunication technology means that Horizon Power or Synergy are unable to meet the requirements of the Code.

Attachment 2

Prescribed areas

The Office does not support total removal of the prescribed areas immediately. The Office supports clarifying the general restriction on PPMs and amending the current clause to allow PPMs in other areas as approved by the Minister for Energy and published in the Government Gazette. It is suggested that initially the use of PPMs be permitted in the Kimberley as a trial to ascertain the impact on vulnerable customers and monitor the mechanisms available to assist such customers.

Harassment and Coercion (proposed clause 9.3(1))

The Office supports, in principle, the notion that customers can not be harassed or coerced into accepting a PPM. However, in defined Aboriginal communities individual PPMs are installed to replace a master meter by community, rather than individual, consensus as part of a broader improvement of electricity supply arrangements.

Suggest modifying the clause to read:

(1) A retailer must not require a customer or community, where the decision to install pre-payment meters is a community based decision, to install or maintain the installation of a pre-payment meter.

Trial period (proposed clause 9.5)

Support in principle, if meters were to be made more generally available. However, this provision is not applicable in remote Aboriginal communities where individual PPMs are installed to replace a master meter by community, rather than individual, consensus.

Reversion (proposed clause 9.6)

Support in principle, if meters were to be made more generally available. However, this provision is not applicable in remote Aboriginal communities where individual PPMs are installed to replace a master meter by community, rather than individual, consensus.

Disconnection times (proposed clause 9.8(1)(a))

Support.

Identification of self-disconnection (proposed clause 9.8(1)(b)(c)(d))

(b) (i) Support

(ii) Support

(iii) Would need to see more evidence of what this provides. What can a retailer do on a minute-by-minute basis with the information?

(iv) A – as above and also have concerns about defining terrestrial digital wireless where such a service may be supported but the quality is such that the sort of information provisions required are not feasible. If included, the provision needs to recognise technological limitations and geographical constraints.

(iv) B – do not support, suggest every 2 months is more appropriate so patterns of disconnection that are indicative of hardship can be identified in a timely manner.

(c) Support

(d) Support

Meter checking (proposed clause 9.11)

Support. If included, the provision needs to recognise geographical constraints.

Recovery of outstanding debt (proposed clause 9.13(1))

Support.

Payment difficulties (proposed clause 9.13(2))

(a) Support in principle. However, a more flexible communication method may be required to cater for customers where face-to-face contact would be used.

(b) Do not support. Question the relevance for remote communities of the measure 'three or more times in any three-month period for longer than 240 minutes on each occasion' and whether this is an indicator of hardship. The Office would like evidence that this measure is useful, and consideration of alternative methods to support vulnerable customers with PPMs.

(c) Support in principle, if meters were to be made more generally available. However, this provision is not applicable in remote Aboriginal communities where individual PPMs are installed to replace a master meter by community, rather than individual, consensus.

Reporting requirements (Part 13)

Support updating reporting requirements to reflect amendments to Part 9. Support (f) to (j), but not (k), as per discussion above.