Prepayment meters

An analysis of the prepayment option for customers

Energy & Water Ombudsman NSW

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LIST OF FORMAL RESPONDENTS

Alinta Energy
AGL
Anglicare
Care Inc.
Colin George
Colin McKenna
Council of Social Service of New South Wales
Energy and Water Ombudsman Queensland
EnergyAustralia
Energy Retailers Association of Australia
Gavin Dufty
Joint consumer response
(Victorian Council of Social Service, Alternative Technology Association, South Australian Council of Social Service, Community Information & Support Victoria, Consumer Utilities Advocacy Centre, Financial & Consumer Rights Council Inc., Consumer Action Law Centre, St Vincent de Paul Society, Council of the Aging)
Lumo Energy
Metro Assist
NSW DNSPs (Ausgrid, Endeavour Energy, Essential Energy)
Origin Energy
Public Interest Advocacy Centre
Queensland Council of Social Service
Redfern Legal Centre
Susan Bailey
Terry O'Brien
Toronto Assistance Centre

EXECUTIVE SUMMARY

This Report results from the 2013 National Energy Affordability Roundtable, where participants agreed that further discussion of prepayment options for customers was warranted. This recommendation was made in the context of significant increases in electricity prices and the associated problems of energy affordability and energy debt.

In July 2014 the Energy & Water Ombudsman NSW (EWON) issued a discussion paper on prepayment meters and asked for responses from a wide range of stakeholders. The paper canvassed the pros and cons of prepayment options, protections for prepayment meters under the National Energy Consumer Framework (NECF), metering costs, market innovation and barriers to entry.

This Report outlines the responses provided by a broad range of stakeholders – retailers, networks, consumer groups and peak bodies, community welfare agencies, financial counsellors, and individual stakeholders. The responses reflect a broad range of views and have identified a number of issues.

While some consumer groups took a position against prepayment meters, other consumer and community groups were supportive provided there are adequate consumer protections and sufficient access to assistance and payment channels.

Most industry stakeholders were supportive of prepayment options. Their responses addressed the issues of self-disconnection, allocation of costs, the benefits of smart meters, and product design.

EWON notes the varied understanding of prepayment options amongst stakeholders, with some referring to prepayment meters (the physical technological product) and others to prepayment solutions or pay as you go options (payment methods, perhaps involving technological devices such as in-home displays). We agree that there needs to be a consistent term and definition for a discussion to take place. For consistency with the *National Energy Retail Rules* (NERR) we have used the term *prepayment meter system* in this report, which we understand denotes a meter that prevents the flow of energy to a site when credit runs out (irrespective of whether it is a prepayment meter or a smart meter with prepayment functionality). This is to distinguish prepayment meter products from other pay as you go options that are currently available and do not feature self-disconnection, such as Centrepay and payment plans, or products with a combination of standard metering, in-home displays and shorter payment cycles.

There were 22 formal responses received about the Discussion Paper, see p. 1 of this Report for respondent details. Responses are publicly available at http://www.ewon.com.au/index.cfm/news-articles/prepayment-energy-meters/

IDENTIFIED ISSUES

The following section presents an overview of the key issues identified by stakeholders in their responses to EWON's Discussion Paper.

Affordability and self-disconnection

The possibility of self-disconnection under prepayment meter systems is a key concern of most consumer groups. The majority of consumer group responses expressed strong concerns about customers experiencing automatic disconnection or an increased number of disconnections or longer disconnections, particularly if they are not able to afford credit or not able to access top-up channels. Similarly, some stakeholders oppose prepayment meter systems because the involuntary nature of prepayments requires households to prepay at all times in order to maintain supply, or otherwise face automatic disconnection.[1] Their responses also highlight concerns about the visibility of self-disconnection and the potential for disconnected customers to remain 'under the radar'.[2]

Conversely, the retailers and some consumer groups noted that remote disconnection and reconnection allowed by smart meters would lower associated costs and facilitate faster reconnection.[3] For these reasons consumer groups suggested that customers should not be charged disconnection and reconnection fees.[4] Some also noted that the advanced communication features of smart meters provide visibility on self-disconnections and therefore provide retailers with the ability to monitor these.[5]

Some consumer groups oppose prepayment meter systems on the principle that electricity is an essential service and therefore disconnection should not be used as a justification for better management of bills. Rather, disconnection should be an action of last resort only.[6] They are also concerned that prepayment meter systems may encourage vulnerable households to forego basic necessities (such as heating) in order to keep energy affordable, which runs counter to community expectations for basic standards of living.[7]

Consumer and community groups also voiced strong concerns about safety issues associated with self-disconnections. Many noted the health and social impacts associated with under-consumption (energy rationing) and self-disconnection.[8] Some stakeholders warned of customers resorting to more dangerous forms of power, such as portable butane gas cookers[9]; the need for education campaigns around food spoilage caused by frequent disconnection[10]; and adverse consequences for customers

[1] Joint consumer response, p. 2.
[2] Toronto Assistance Centre (TAC) response, p. 3; Redfern Legal Centre (RLC) response, p. 6; Joint consumer response, pp. 6-7; Council of Social Service of New South Wales (NCOSS) response, p. 5; Public Interest Advocacy Centre (PIAC) response, p. 2.
[3] NCOSS response, p. 4; TasCOSS (informal feedback); AGL response, p. 2; Origin Energy response, p. 6.
[4] TasCOSS (informal feedback); PIAC response, p. 3.
[5] Alinta Energy response, p. 2; Energy and Water Ombudsman Queensland (EWOQ) response, p. 2.
[6] Care Inc. response, p. 2; Joint consumer response, pp. 1, 10; NCOSS response, p. 4; Metro Assist response, p. 1.
[7] Joint consumer response, pp. 2, 9-10; NCOSS response, p. 5.
[8] TAC response, p. 2; Care Inc. response, p. 3; Joint consumer response, p. 6; Metro Assist response, p. 4; PIAC response, p. 2; Gavin Dufty response.
[9] Metro Assist response, p. 3.
[10] Metro Assist response, p. 4.

living in areas that experience extreme temperatures[11]. One stakeholder recommended a comprehensive evaluation of the financial and health impact of prepayment meter systems on customers.[12] Some retailers supported regulatory oversight of remote disconnection and reconnection processes, with one retailer noting the importance of prioritising consumer protections to negate unintended health and safety impacts of prepayment meter systems.[13]

Stakeholders also noted that, unlike quarterly billing in arrears, prepayment meter systems prevent customers from accumulating significant arrears.[14] However, some consumer groups expressed the view that while this is the case, it may be possible for SAC (service to property charge) to accrue while the site remains disconnected. Their concern is that this disadvantages customers as top-ups would first be used to repay the emergency credit and any accumulated SAC, therefore reducing the amount of money available for credit.[15]

One key concern for many stakeholders is the minimal support available to prepaid customers when compared with the range of assistance measures available to post pay customers (for example, hardship programs and Centrepay). Stakeholders commented that the lack of an established credit relationship between a retailer and a prepay customer transfers responsibility for assisting with hardship away from retailers. This represents a diminution of customer protections that benefit post pay customers.[16] It was suggested that there is a need to ensure the same level of support for prepay and post pay customers, particularly as the lack of bills and other written notices (e.g. to communicate price changes) could present information barriers for prepay customers. However, one retailer considers that prepayment meter systems do not limit retailer assistance and it is possible to provide equal access to current forms of assistance for all customers, including hardship programs.[17] EWON notes that in jurisdictions that have adopted the NECF, Rule 141 places significant obligations on retailers to assist customers who have self-disconnected three or more times in any three month period for longer than 240 minutes on each occasion: these include placing the customer back on a standard meter at no cost, and providing information about their hardship program.

The networks and some consumer and community groups argued that existing assistance options already tackle the issue of energy affordability while delivering the benefits of prepayment meter systems. These options include more frequent billing, Centrepay, hardship programs, government rebates and alternative technology solutions (such as standard metering with in-home displays). These stakeholders consider that better outcomes can be achieved if improvements are made to existing options.[18] One retailer considers that broader prepayment options are already available in the market and should not be overlooked in designing products to suit the needs and preferences of different customers.[19]

[11] Care Inc. response, p. 4.
[12] PIAC response, p. 2.
[13] Origin Energy response, p. 5; AGL response, p. 1.
[14] Alinta Energy response, p. 2; PIAC response, p. 3.
[15] Joint consumer response, p. 5; TasCOSS (informal feedback).
[16] Care Inc. response, pp. 2-3; Susan Bailey response, p. 1; TasCOSS (informal feedback); Joint consumer response, p. 9; Gavin Dufty response; EWOQ response, p. 2.
[17] Alinta Energy response, pp. 2-3.
[18] NSW DNSPs response, p. 1; Care Inc. response, p. 3; Joint consumer response, pp. 4-5; NCOSS response, p. 5; PIAC response, p. 1; Colin McKenna response; TasCOSS (informal feedback).
[19] AGL response, p. 2.

Community groups also provided divergent views on whether customers in financial difficulty should participate in prepayment meter systems. Some oppose prepayment meter systems on the basis that they could be used to directly target poorer customers[20], while others queried whether social disadvantage affects a customer's ability to participate in prepayment metering.[21]

NECF consumer protection provisions

As noted in EWON's Discussion Paper[22], Part 8 of the *National Energy Retail Rules* (NERR) provides consumer protections around self-disconnection, payment difficulties and hardship, and life support, amongst others. Stakeholders provided a range of views on these provisions. Most retailers consider that the customer protections under the NERR are adequate.[23] Some retailers also indicated that these provisions warrant further review and discussion to ensure they work as well as intended.[24]

The views of consumer and community groups were mixed. While some groups were strongly against the introduction of prepayment meter systems regardless of the NERR provisions, or they considered these provisions do not sufficiently protect vulnerable customers[25], others preferred to cautiously support prepayment meter systems so long as there are clear protections and that these are adhered to[26]. Consumer and community groups also provided the following comments and proposed changes to the Rules:

Rule	Comments from consumer and community groups
Rule 129(3): Self-disconnection times	• Six hours without energy may have severe consequences for children, the elderly or those with chronic illnesses[27]
Rule 129(6): Emergency credit	• There needs to be guidance on what average the calculation of emergency credit is based on. The average should reflect that of poorer households and not the whole customer base[28] • The level of emergency credit should be increased[29] and coverage should be extended to 5 days[30] • Repayment of emergency credit should be over a series of recharges rather than one transaction[31]
Rule 130: Trial period	• Customers should be given a choice of short and long term trial options[32] • Trial period should be extended to 6 months to reduce the impact of seasonal variation[33] • Trial period should provide sufficient opportunity for customers to compare potential costs or savings compared with post pay products[34]

[20] Care Inc. response, p. 2; Metro Assist response, p. 1.
[21] RLC response, p. 6.
[22] EWON Prepayment Meters Discussion Paper, p. 2.
[23] Energy Retailers Association of Australia (ERAA) response, p. 2; EnergyAustralia response, p. 2; Lumo Energy response, pp. 1-2; Origin Energy response, p. 3.
[24] AGL response, p. 3; EnergyAustralia response, p. 1.
[25] Care Inc. response, p. 2; Metro Assist response, p. 1; Joint consumer response, p. 1.
[26] RLC response, p. 7; TAC response, p. 3.
[27] Metro Assist response, p. 2.
[28] TAC response, p. 2.
[29] NCOSS response, p. 4.
[30] PIAC response, p. 2.
[31] PIAC response, p. 3.
[32] TAC response, p. 2.
[33] NCOSS response, p. 4.
[34] Metro Assist response, p. 2.

Rule 139: Life support	• Retailers should be responsible for obtaining information about life support equipment from customers[35] • Customers who require continuous energy supply at their premises should not be able to sign on to a product that uses a prepayment meter system[36] • Life support equipment could potentially include equipment or medication that requires electricity for correct use or storage[37]
Rule 140: Customer enquiries and complaints	• Telephone calls to the retailer should be to a freecall number as some customers may have limited credit on their phones or incur additional charges for interpreter services or callbacks from their advocates (community agencies, family or friend)[38]
Rule 141: Payment difficulties and hardship	• Customers who have payment difficulties or self-disconnect too often should continue to have a prepayment meter system as an option if preferred[39] • Current requirement for retailers to intervene after the third disconnection is too weak and there needs to be earlier intervention and stronger assistance[40] • Concession card holders and those with a genuine need should be given adequate warning of low credit levels and at least one week's grace before disconnection[41] • There needs to be consideration of hardship provisions as well as special provisions for customers with health requirements (eg refrigerated medicine)[42]
Rule 142(1): At least one recharge method	• Requiring only one recharge option will severely disadvantage customers with only intermittent access to telephone or internet services, or who live in rural or remote areas[43]

Other proposed changes include:

- the need to obtain a customer's explicit informed consent[44]
- allow customers to revert to standard metering at no cost where there is a price increase (this is an extra protection in Tasmania that is not in the NECF).[45]

[35] Metro Assist response, p. 2. EWON notes that under post pay systems the obligation is similarly on the customer to advise their retailer of life support equipment e.g. NERR Rule 124.
[36] PIAC response, p. 3. EWON notes that s. 59 of the *National Energy Retail Law* (NERL) states a retailer 'must not enter into a prepayment meter market retail contract with a small customer in relation to premises where one or more persons require life support'.
[37] Metro Assist response, p. 2.
[38] Metro Assist response, p. 1.
[39] TAC response, p. 1.
[40] Care Inc. response, p. 3; NCOSS response, p. 4; Joint consumer response, p. 9.
[41] St Vincent de Paul Society (informal feedback).
[42] Good Shepherd Microfinance (informal feedback).
[43] RLC response, p. 11.
[44] Metro Assist response, p. 5.
[45] TasCOSS (informal feedback). EWON notes that under the NERR customers may revert to standard metering at no cost where they are identified as experiencing payment difficulties or hardship (Rule 141(2)), or where they have moved into a premises with a prepayment meter system (Rule 147(6)).

Budgeting and consumer control

A number of stakeholders were in agreement on prepayment meter systems being an effective budgeting tool that allow customers to make small, regular payments and avoid bill shock and debt accumulation.[46] However some consumer groups consider that current payment options such as Centrepay, bill smoothing and monthly billing are already delivering the same budgeting benefits, without the risk of automatic disconnection.[47] Other concerns include that unlike post pay products prepayment meter systems do not provide customers with time to save for unexpected higher usage[48]; that budgeting is difficult without a regular bill showing usage and costs[49]; and that prepayment meter systems affect the ability of low income customers to cover other household expenditure and debts[50].

Retailers suggested that prepayment meter systems enhance budgeting by providing transparency to the cost of energy, and by enabling customers to efficiently manage their energy usage in response to price signals in a way that suits their circumstances and needs.[51] Some community advocates commented that this needs to be facilitated by easily accessible meters and easily understood price and credit signals.[52] However, some stakeholders who are against prepayment meter systems are concerned that the constant monitoring of usage and credit levels will introduce an extra layer of stress in struggling households.[53]

Some stakeholders also noted that prepayment meter systems allow customers in shared housing situations to share responsibility for energy costs.[54] Some consumer groups see this as a cultural issue in certain communities and prefer the issue to be addressed with community development programs, customer education and direct case management.[55]

Delivery of rebate, concession or relief schemes

Rule 129(8) of the NERR requires prepayment meter systems to have the technical capacity to deliver rebates, concessions or relief schemes to entitled customers. Retailers strongly indicated their preference for smart meters, which they consider are able to support existing payment and concession options, to deliver prepayment products to customers.[56] Consumer and community groups commented that there is a need to ensure that prepayment meter systems can meet NECF specifications.[57]

In NSW emergency assistance is delivered in the form of $50 vouchers under the Energy Accounts Payment Assistance Scheme (EAPA). NSW consumer and community groups queried how EAPA would work with prepayment meter systems, including whether vouchers could be incorporated into

[46] Origin Energy response, p. 1; EWOQ response, p. 2; AGL response, p. 3; NCOSS response, p. 2; PIAC response, p. 2; St Vincent de Paul Society (informal feedback); Good Shepherd Microfinance (informal feedback).
[47] Joint consumer response, p. 3.
[48] Good Shepherd Microfinance (informal feedback).
[49] Care Inc. response, p. 4.
[50] Joint consumer response, p. 3.
[51] Origin Energy response, pp. 1, 4; Alinta Energy response, p. 2; Lumo Energy response, p. 2; ERAA response, p. 2.
[52] St Vincent de Paul Society (informal feedback).
[53] Care Inc. response, p. 4; Joint consumer response, p. 7.
[54] EWOQ response p. 1; PIAC response p. 2; Good Shepherd Microfinance (informal feedback).
[55] Joint consumer response, p. 4.
[56] Alinta Energy response, pp. 2-3; Lumo Energy response, p. 2; EnergyAustralia response, p. 3; Origin Energy response, p. 5.
[57] Metro Assist response, p. 3; PIAC response, p. 1.

emergency credit or used as recharge credit.[58] Others were concerned that the reduced level of contact between retailers and customers under a prepayment meter system may limit opportunities to ensure that these customers are receiving appropriate assistance.[59]

Payment and recharge options

Stakeholders unanimously supported the need to ensure accessibility and flexibility in recharge options so that customers can top up anytime through multiple channels. Consumer and community groups highlighted some of the difficulties customers may experience in topping up credit, particularly if they lack internet or telephone access, or live in rural and remote areas where the cost of travelling is an issue.[60] They are also of the view that recharging should be as convenient as recharging a mobile phone, with customers able to top up at supermarkets, newsagents and service stations.[61] Some retailers pointed out that payment options should not be mandated so that they can have the flexibility to offer the payment channels demanded by the market.[62]

Metering costs

The networks cautioned that prepayment meter systems are likely to involve higher costs to cover potentially significant meter churn and IT systems required to remotely monitor prepayment sites. There may also be extra site-specific costs associated with meter installation. They indicated they would be allowed to recover the full incremental costs (above the costs of a basic meter) of each prepayment meter system from the retailer.[63] They also noted that the introduction of prepayment meter systems would need to be seen in the context of the AER's recent decision to unbundle metering charges from standard control services. As a prepayment meter system is likely to require a different set of services, customers may pay a cost reflective charge for these services.[64]

Retailers and consumer groups provided divergent views on who should bear the costs of prepayment meter systems. Retailers supported a pass through of costs to customers in various forms. One retailer suggested charging installation and meter replacement fees when customers sign up or terminate the contract after the trial period, and pricing fees into retail tariffs.[65] Community groups are concerned that would result in a more expensive product and alternatively proposed the introduction of a percentage-based concession to avoid disadvantaged customers from bearing the costs associated with meter roll out and maintenance.[66] Another retailer suggested that although metering costs can be passed onto customers, the product can be structured to deliver more benefits to customers in a way

[58] Metro Assist response, p. 2; PIAC response, p. 3; St Vincent de Paul Society (informal feedback).
[59] NCOSS response, p. 3.
[60] EWOQ response, p. 2; TAC response, p. 3; Care Inc. response, p. 4; RLC response, pp. 5, 11; Joint consumer response, pp. 7-8; Metro Assist response, pp. 3-4; PIAC response, p. 2; St Vincent de Paul Society (informal feedback); Good Shepherd Microfinance (informal feedback); Colin George (informal feedback).
[61] PIAC response, p. 3; TAC response, p. 3.
[62] EnergyAustralia response, p. 3; Origin Energy response, p. 6.
[63] NSW DNSPs response, p. 1.
[64] NSW DNSPs response, p. 2.
[65] Origin Energy response, p. 3.
[66] RLC response, p. 7.

that outweighs the costs borne by them.[67] It was also noted that fees and costs could be used as a basis for product differentiation from competitors, such as not charging fees at all.[68]

Community groups are strongly supportive of retailers bearing all costs related to the installation, conversion and removal of prepayment meter systems, on the basis that they are receiving payment in advance and not carrying bad debts. The exception to this is where the customer has requested a reversion to standard metering after installing a prepayment meter system (this excludes move in situations).[69] Other community groups prefer prepayment meter systems to be made available at no cost to vulnerable customers[70], or suggested that fees associated with prepayment meter systems may deter low income customers from taking up prepayment products.[71] One community group also recommended a cost-benefit analysis to consider the cost impact of prepayment meter systems on vulnerable customers, particularly with respect to any cross-subsidising between different customer groups.[72]

Stakeholders also raised concerns about how costs would be allocated in the situation of a customer reverting to standard metering. This would not be an issue if smart meters are used for both prepay and post pay products. Retailers and consumer groups are in agreement on this point, noting that smart meters provide the most flexibility in this regard as these meters only require reprogramming rather than replacement.[73]

Concerns were also raised in relation to the costs involved in customers transferring between retailers. Retailers considered that there would not be any transfer-related issues if smart meters are used, with prepayment functionality enabled and disabled remotely and not locally at the meter.[74] One retailer also considered that it would be up to retailers to establish relationships with different metering providers to minimise the costs associated with meter churn when customers switch.[75] On the other hand, one community group endorsed the need for clear terms and conditions in customer contracts to facilitate easy transfer between retailers, and warned that locking customers into contracts by imposing exit fees for early withdrawal would create barriers to entry and to competition.[76]

Market competition and barriers

The distributors and in particular retailers largely spoke of prepayment meter systems within the context of the AEMC's *Power of Choice Review*. The industry's view is that prepayment meter systems are likely to encourage competition and innovation in the market and widen the range of energy products to suit the different needs and preferences of customers.

Some retailers indicated that the commercial benefit obtained from prepayment (such as reduction in debt levels and receiving payment in advance) could lead to discounted tariffs or credit being offered

[67] EnergyAustralia response, p. 2.
[68] Origin Energy response, p. 3.
[69] TAC response, p. 2; RLC response, p. 5; NCOSS response, p. 4; Metro Assist response, p. 2.
[70] St Vincent de Paul Society (informal feedback).
[71] Joint consumer response, p. 8; Susan Bailey response, p. 1; PIAC response, p. 3.
[72] RLC response, p. 7.
[73] EnergyAustralia response, p. 2; ERAA response, pp. 1-2; AGL response, p. 2; Joint consumer response, p. 8.
[74] Origin Energy response, p. 4; Lumo Energy response, p. 2.
[75] EnergyAustralia response, p. 2.
[76] TAC response, p. 2.

when customers meet certain conditions.[77] This includes, for example, one retailer's suggestion that disconnection is not a necessary feature of prepayment meter systems; if customers run out of credit, they can forfeit certain benefits instead of being disconnected. Community groups similarly pointed out that retailers should offer a pay on time discount for what is essentially a pay on time product.[78]

The industry strongly supported the use of prepayment meter systems on an opt-in basis to provide customers with choice in metering services, and opposed targeting a particular class of customers (for example, customers with payment difficulty).[79]

Consumer and community groups raised concerns that customers could be forced onto prepayment meter systems involuntarily and this contradicts the principle of consumer choice.[80] They also argue that the less competitive nature of the prepayment market would result in customers paying more relative to post pay products. They suggested that mechanisms be introduced to prevent customers from being worse off, such as ensuring that prices are no higher than products with a discount (e.g. pay on time discount).[81]

Stakeholders differed in their views about tariff design. Retailers considered that their ability to determine tariffs is crucial to a competitive retail market. Tariffs differ depending on the metering technology. If smart meters are used for prepayment products, this would widen rather than limit the range of tariff options.[82] Consumer and community groups are similarly supportive of competitive tariffs, provided that tariffs for prepayment products are not higher than post pay products with a pay on time discount, and prepay and post pay tariff structures are communicated to customers in a clear, simple, transparent and consistent manner to facilitate informed choice. Some consumer groups also argued for concession rates to be made available to vulnerable customers provided they regularly maintain credit.[83]

Some consumer and community stakeholders also noted that tenants may not be able to benefit from choice or have access to the full range of competitive products if signing on to a product requires a metering change. One stakeholder who provided informal feedback pointed out that in Tasmania's experience with prepayment meter systems, tenants often require landlord approval to install or remove a meter.[84] A related issue is whether the landlord or the tenant would have to incur the cost of the meter.[85] Another stakeholder is concerned that landlords may prefer prepayment meter systems in private rental properties and that self-disconnection is more likely to occur if the quality of housing is poor.[86] Another stakeholder raised concerns about complications that may arise when switching

[77] Origin Energy response, p. 5; AGL response, p. 2; EnergyAustralia response, p. 2.
[78] TAC response, p. 2; Care Inc. response, p. 3; Metro Assist response, p. 3.
[79] Origin Energy response, p. 7; Alinta Energy response, pp. 2-3; AGL response, p. 1-2; NSW DNSPs response, p. 1; ERAA response, p. 1; EnergyAustralia response, p. 1.
[80] Joint consumer response, p. 1; RLC response, p. 7.
[81] PIAC response, p. 3.
[82] AGL response, p. 2; Origin Energy response, p. 4.
[83] PIAC response, p. 1; RLC response, p.5; Metro Assist response, p. 2-3; St Vincent de Paul Society (informal feedback); Good Shepherd Microfinance (informal feedback).
[84] TasCOSS (informal feedback).
[85] Metro Assist response, p. 3.
[86] Care response, p. 4.

between retailers or between prepay and post pay products, in situations involving frequent changes in tenancy, particularly in unit blocks.[87]

Reporting mechanisms to the AER (for NECF jurisdictions)

Consumer and community groups strongly supported mandatory monitoring and reporting of self-disconnection rates to the AER, and recommended the inclusion of provisions in the NERR to this effect.[88] Retailers have different views about how they can meet the reporting requirements under the NERR. These include that self-disconnection rates be monitored as part of the AER's monitoring of hardship programs[89], or that the AER collect self-disconnection data as part of the annual Retail Performance Report[90]. Another retailer indicated their preference to work within the existing reporting framework instead of revising reporting requirements, at least in the early stages of a prepayment scheme. This would involve reporting quarterly self-disconnection rates to the AER in aggregate form together with disconnection data for post-paid customers, with the AER having the option of requesting disaggregated data.[91]

Potential regulatory changes

Retailers offered different views on what regulatory guidance is needed in implementing prepayment meter systems. One retailer supported the need for guiding principles on how prepayment meter systems, meters and products should be made available.[92] Another retailer considered that the NERR already provides adequate regulation and more regulation would likely impede innovation and customer benefits.[93]

Stakeholders had different views on the issue of whether state or territory governments would have a role in monitoring prepayment meter systems. Retailers consider that although the AER is best placed to monitor the performance of prepayment meter systems and should remain the primary regulator, there may be room for an extra layer of regulation at state and territory level.[94] One community group suggested that while energy matters are a state and territory responsibility, there should be regulatory consistency between each of these jurisdictions.[95]

One retailer also suggested a review of the business-to-business metrology procedures to ensure that it supports remote disconnection and reconnection.[96]

[87] Terry O'Brien response.
[88] RLC response, p. 7; PIAC response, p. 1; Joint consumer response, p. 7.
[89] AGL response, p. 3.
[90] Origin Energy response, p. 7.
[91] EnergyAustralia response, p. 4.
[92] AGL response, p. 2.
[93] Origin Energy response, p. 7.
[94] Origin Energy response, p. 7, EnergyAustralia response, p. 4.
[95] TAC response, p. 3.
[96] Origin Energy response, p. 6.

EWON ANALYSIS

The debate about the value of prepayment meter systems has shifted ground in recent years. In our view this is because advances in technology have removed the clear shortcomings associated with traditional (coin or token operated) prepayment meter systems. We note that recent regulatory reviews, such as the AEMC's *Power of Choice Review*, are premised on the increasing availability of smart meters. We therefore consider that it is important to understand and discuss prepayment meter systems within this context, and that traditional understandings of old prepayment meter systems are increasingly irrelevant.

EWON's experience of customer disconnections under post pay

EWON notes the strong concerns that some consumer and community groups have voiced about self-disconnection (summarised above), which they consider is a step backwards from the current consumer protections for post pay customers. In their view, customers can already access the benefits of prepayment meter systems through other options (e.g. Centrepay and monthly billing).

However, it is worth noting that in the areas of payment difficulty and hardship, many customers have fallen through the consumer protections for post pay customers under the NECF. From our complaints experience, it seems clear that the post pay system has made it difficult for many customers, particularly vulnerable customers, to stay connected. In particular:

- quarterly billing in arrears resulting in the lack of timely information about a customer's consumption can result in 'bill shock'
- high and unmanageable arrears, often paired with high consumption
- increasingly strict credit policies of retailers due to bad debt
- large upfront payments required for reconnection
- unaffordable payment or bill smoothing plans
- difficulties in accessing hardship programs or remaining on hardship programs
- undetected, long term disconnection of extremely vulnerable customers who, for numerous reasons, have not been able to access assistance.

It appears that the harm from hidden disconnection that consumer groups have identified as being unique to prepayment meter systems is also a problem of the post pay system. There is a high rate of disconnection of customers under the current post pay system. We are particularly concerned that some post pay customers in severe hardship have been disconnected for long periods (in some cases months) and have fallen off their retailer's radar because of lack of contact (either by the customer or their retailer) or inability to make a large upfront payment for reconnection. In many of these cases Centrepay, payment plans, EAPA vouchers and hardship programs were exhausted prior to the customer or their advocate contacting EWON.

Without overlooking the fact that some customers may self-disconnect regularly because of financial stress, we consider that prepayment meter systems can deliver benefit to some customers as they can reconnect supply at a much lower cost, instead of being disconnected over a much longer term for significant arrears.

Quarterly billing in arrears prevents customers from actively monitoring their usage and adjusting their usage level if possible. Prepayment meter systems can provide customers with timely feedback on their usage, and the ability to pay in advance removes the problem of debt accumulation. Some consumer groups consider that prepayment meter systems solve the problem of debt but do not address the problem of affordability. EWON agrees that affordability is a key concern, but that it is an issue regardless of whether customers are on a prepay or post pay system.

'Hidden' disconnections

A significant concern of many consumer groups and welfare agencies is the perceived lack of visibility of self-disconnection under a prepayment meter system. This may be a misunderstanding of modern prepayment meter systems. The majority of industry responses suggested that smart meters would best facilitate prepayment products. One of the reasons put forward for this was that the advanced communication features of smart meters would enable retailers to remotely monitor self-disconnection. We also note that this is consistent with Rule 129(5) of the NERR, under which retailers must ensure that their prepayment meter system is 'capable of identifying to the retailer every instance of self-disconnection and the duration of that self-disconnection'.

EWON considers that this obligation sufficiently safeguards against undetected or 'hidden' disconnection. We also consider that the ability to remotely monitor disconnection is an improvement on the post pay system where in some cases disconnection can remain hidden or unresolved for a long period of time.

EWON notes that self-disconnection may not be a concern if retailers are able to offer prepayment products that do not involve disconnection, as Origin Energy suggests[97]. This is a suggestion worthy of further discussion.

Addressing arguments against prepayment meter systems

Opposition to prepayment meter systems is based on a range of factors. However, EWON's experience in dealing with customers in financial hardship over many years shows that a number of these factors apply equally to the post pay system.

Objection to prepayment meter system	Does this apply to the post pay system?
Prepayment meters might result in longer disconnections, particularly if customers are not able to afford credit or not able to access top-up channels	Many customers contact EWON because they have not been able to arrange reconnection after a post pay disconnection as they often have high arrears and are not able to afford the amount requested by their retailer for reconnection
There are concerns about the visibility of self-disconnection and the potential for disconnected customers to remain 'under the radar'	Customers disconnected under a post pay system can also lack visibility once the disconnection has been completed, as there is no requirement for follow up by the retailer

[97] Origin Energy response, p. 3.

Objection to prepayment meter system	Does this apply to the post pay system?
Prepayment meter systems are opposed on the principle that electricity is an essential service and therefore disconnection should not be used as a justification for better management of bills. Rather, disconnection should be an action of last resort only.	This same objection would appear to apply equally to disconnection under a post pay system
Prepayment meter systems may encourage vulnerable households to forego basic necessities (such as heating) in order to keep energy affordable, which runs counter to community expectations for basic standards of living.	Reports from major welfare organisations, other research, and feedback to EWON from customers and advocates confirm that many individuals and families are already going without basic necessities such as heating under a post pay system, often for long periods
There are safety issues if customers self disconnect and use dangerous forms of power such as portable butane gas cookers	For years EWON has been aware of customers disconnected under the post pay system who are using a combination of kerosene and candles or other unsafe alternative forms of heat and light
The involuntary nature of prepayments requires households to prepay at all times in order to maintain supply, or otherwise face automatic disconnection	Although the timing of payments is different customers are similarly required to make payment under the post pay system or otherwise face disconnection
There are health and social impacts associated with under-consumption (energy rationing) and self-disconnection	Reports from major welfare organisations, other research, and feedback to EWON from customers and advocates confirm the health and social impacts of current post pay disconnection on households
Service availability is still charged even though a customer has self disconnected	Service availability is still charged even though a customer is disconnected under the post pay system
Customers might have difficulty contacting their retailer as they have limited mobile phone credit	The same applies to customers needing to contact their retailer after post pay disconnection
It is hard for some customers to budget without a regular bill showing usage and costs	Customers on a prepayment meter system receive immediate information about usage and costs
The constant monitoring of usage and credit levels with prepayment meters will introduce an extra layer of stress in struggling households	Reports from major welfare organisations, other research, and feedback to EWON from customers and advocates confirm that many struggling households are under stress with high bills and debt collection action under the post pay system

Objection to prepayment meter system	Does this apply to the post pay system?
Prepayment meter systems affect the ability of low income customers to cover other household expenditure and debts	Reports from major welfare organisations, other research, and feedback to EWON from customers and advocates confirm that many low income customers under a post pay system have difficulty meeting all of their household expenditure and other debts
Requiring only one recharge option will severely disadvantage customers with only intermittent access to telephone or internet services, or who live in rural or remote areas	Prepayment meter systems are not for everyone and should be a choice only if they suit a customer's circumstances. They might not be suitable for customers who: • live in rural or remote areas and have intermittent access to phone or internet • have life support equipment[98] or medical needs

Prepayment as an option for some

EWON notes the concern of some consumer groups that prepayment meter systems target or will be imposed on vulnerable customers. It is clear from retailers' responses that customers should be able to choose a prepayment products if it suits them, and that retailers' ability to offer these products should not be limited. EWON agrees that prepayment meter systems should not be imposed on vulnerable customers simply as a debt collection response. It is important that the choice is with consumers, where they should be able to choose from prepay and post pay products based on what best meets their needs. Contractual terms and conditions need to be clearly communicated to customers in plain language so that they can understand the benefits and risks of both prepay and post pay, and can make an informed decision about which product is best for them.

Some customers in Tasmania and Queensland already use a prepayment system. Even though the systems are dated, not covered by NECF protections, and the users can identify issues with them, customers are reported as saying that they prefer prepayment over the post pay system so that they do not receive bills. The Queensland Council of Social Service (QCOSS) recently released a report[99] on their research into the experiences of prepayment meter customers living in remote Aboriginal and Torres Strait Islander communities in Queensland. QCOSS found that despite issues identified with this system, these customers 'were in favour of their arrangements, compared to quarterly billing. Reasons given included the fact that pre-paying can facilitate budgeting and energy conservation outcomes within the household, and it prevents the build-up of debt under quarterly billing arrangements'.[100]

[98] EWON notes that under Rule 139 of the NERR and s. 59 of the *National Energy Retail Law*, prepayment meter systems are prohibited at premises with life support equipment.
[99] Queensland Council of Social Service, *Empowering remote communities: Experiences of Aboriginal and Torres Strait Islander customers using electricity pre-payment meters in Queensland,* August 2014 ('QCOSS Report').
[100] QCOSS Report, p. 4.

EWON suggests that **disconnection** of an essential electricity service is the problem that needs to be addressed more than the *process* of either prepay or post pay systems. Both systems have positives and negatives. Disconnection rates for post pay systems have raised significant concerns, e.g. the Essential Services Commission of Victoria was recently asked to look at the high disconnection rate in that state[101], and EWON and others have expressed concern about rising disconnection rates in NSW.

A prepayment meter system is based on small regular payments to avoid bill shock, as well as real time information about consumption. Other regular payment systems are already in place or being developed, eg Centrepay, bill smoothing, monthly billing. Although some of these do not provide real time information about consumption, these options might mean that prepayment meter systems might have a more limited role. However consumer feedback suggests that they will be a useful option for some households.

CONCLUSION

EWON considers that a prepayment meter system should be a choice available to all Australian energy consumers. Jurisdictions that have already adopted the NECF are required to pass enabling legislation, as required by s. 56 of the NERL. EWON notes that South Australia and Tasmania have already done this, but NSW is yet to do so. Retailer-led trials in such jurisdictions may assist in clarifying regulatory issues and identifying potential regulatory gaps.

Prepayment meter systems should:

- be one option among a range of payment options
- be for some customers by informed choice
- have strong consumer protections as already provided under the NECF.

[101] Herald-Sun, 'Disconnections of tens of thousands of hard-up customers spark state inquiry into power suppliers', August 26, 2014 (accessed 27 October 2014): http://www.heraldsun.com.au/news/victoria/disconnections-of-tens-of-thousands-of-hardup-customers-spark-state-inquiry-into-power-suppliers/story-fni0fit3-1227037885296?nk=0430f3270dc603560140f60d85bcca5b