



ENERGY AND WATER OMBUDSMAN Victoria

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13 September 2012

Committee Secretary
Senate Select Committee on Electricity Prices
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email: electricityprices.sen@aph.gov.au

Dear Sir/Madam

Re: Senate Select Committee on Electricity Prices

Thank you for the opportunity to comment on the Senate Select Committee Inquiry on Electricity Prices (the Inquiry).

The Energy and Water Ombudsman (Victoria) (EWOV) is an industry-based external dispute resolution scheme that assists Victorian energy and water customers by resolving complaints they have with their company. Our interest in providing comments is based on our extensive experience in handling customer complaints.

The information we provided below, about the number and type of cases EWOV receives, provides insight into the impact electricity price rises may have on customers. Electricity prices have a potential impact across several complaint issues, but particularly three key areas that EWOV investigates:

- Customer financial hardship.
- Energy disconnections.
- Higher than expected energy bills.

We have also provided some general comments based on the Inquiry's Terms of Reference.

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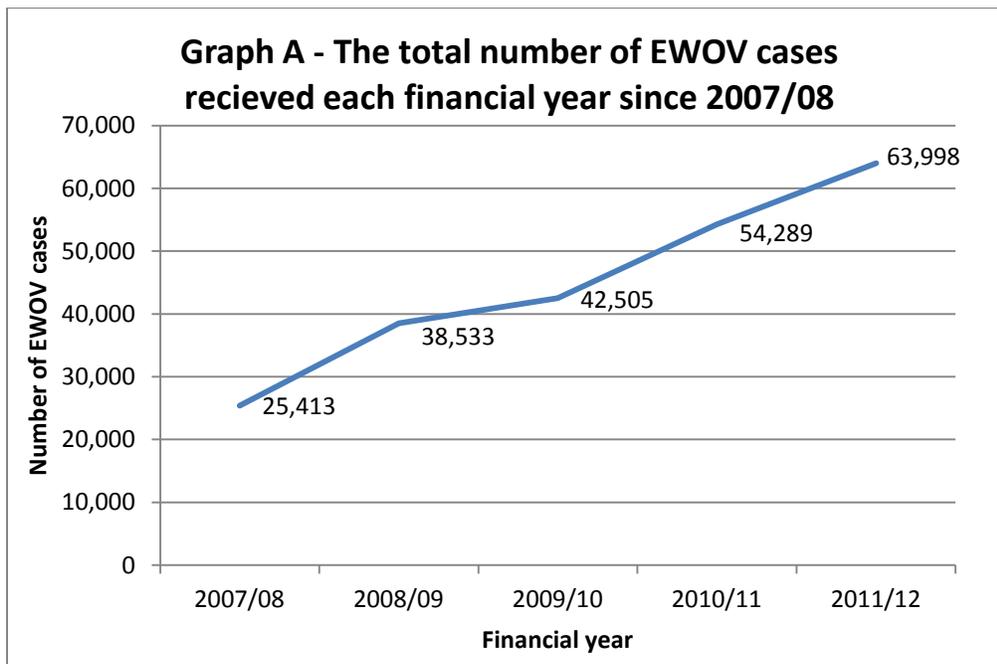
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EWOV's case trends

Overall number of cases

There is an increasing number of Victorians contacting EWOV for assistance with energy and water matters. This is in part driven by customer concerns about rising energy and water prices and associated affordability issues.

Graph A below shows the total number of EWOV cases received each financial year since 2007/08:



In the 2011/12 financial year, the number of EWOV cases increased by 18% from the previous financial year — an increase of 9,709 cases. There was a 152% increase in EWOV cases from 2007/08 to 2011/12. Any conclusions drawn from the changes in the type of complaints we receive should be taken in context with the overall increase in EWOV cases.

Customer financial hardship

Many customers who call EWOV are concerned about their ability to pay their bills. A customer in financial hardship is someone who has the intention but not the financial capacity to make bill payments when they are due. There is a regulatory obligation on all energy retailers and water corporations in Victoria to provide support to residential customers experiencing

payment difficulties by placing them on the company's financial hardship program¹. The customer assistance is required to include:

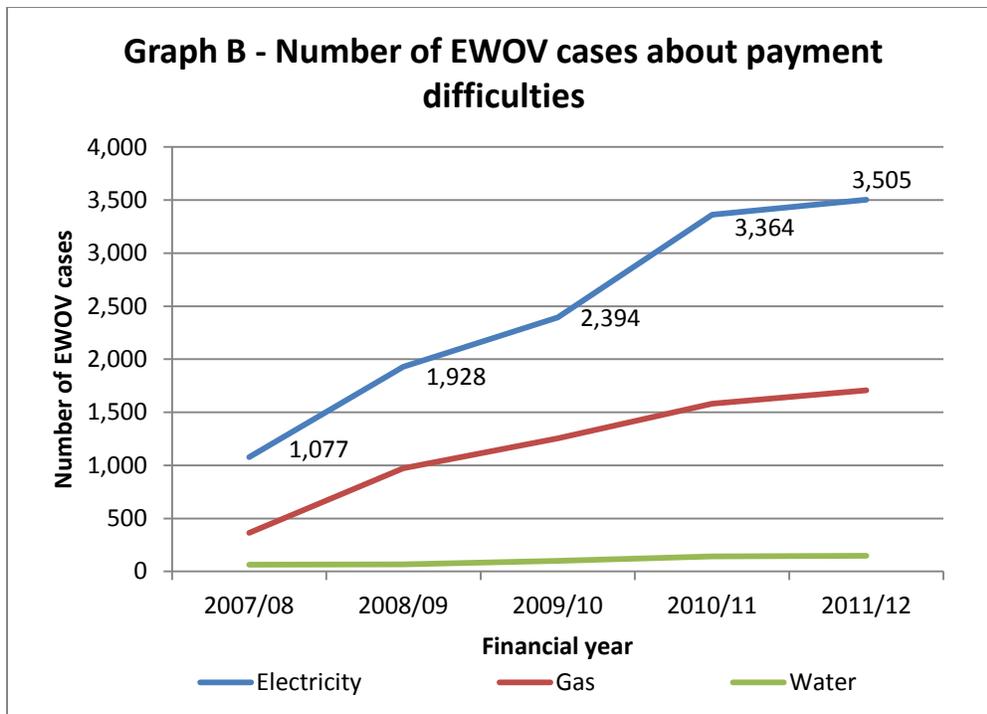
- a payment plan based on the customer's capacity to pay
- information about government-funded assistance programs (including the Utility Relief Grant Scheme (URGS))
- information about independent financial counselling at no cost to the customer
- information about how to reduce energy and water use and improve energy efficiency, including a referral to relevant government programs
- a free energy audit at the customer's property.

Graph B below shows the number of EWOV cases received each financial year since 2007/08, from customers experiencing payment difficulties:²

¹ See section 11 of the *Energy Retail Code 2012 (Vic)* - <http://www.esc.vic.gov.au/getattachment/06661f37-494a-4f8c-8604-7fdf33a27dd2/Energy-Retail-Code-Version-10.pdf> and sections 5.3 and 5.4 of the *Customer Service Code - Victorian Urban Water Businesses (June 2012)* - <http://www.esc.vic.gov.au/getattachment/78ddf29e-3e5a-4483-b86d-cd93ab4e9f8b/Code-Customer-Service-Code-for-Victorian-metropoli.pdf>

² The following qualifications need to be taken into account when reviewing EWOV case data:

- Customers sometimes lodge more than one case. For example, if a customer states that they are having problems paying their electricity and gas bills, EWOV will register two distinct cases for the same customer – one case is registered for their electricity account and one case for their gas account.
- EWOV may register more than one issue to a customer's complaint. For example, a customer may contact EWOV because their electricity supply was disconnected and they are having difficulties paying their bills. Two issues are then registered to the same case – the primary issue is the disconnection and the secondary issue is payment difficulties.
- Customers sometimes recontact EWOV. For example, customers sometimes recontact EWOV because their concerns remain unresolved after previously being referred back to their company. This can result in EWOV registering an additional case for further investigation.



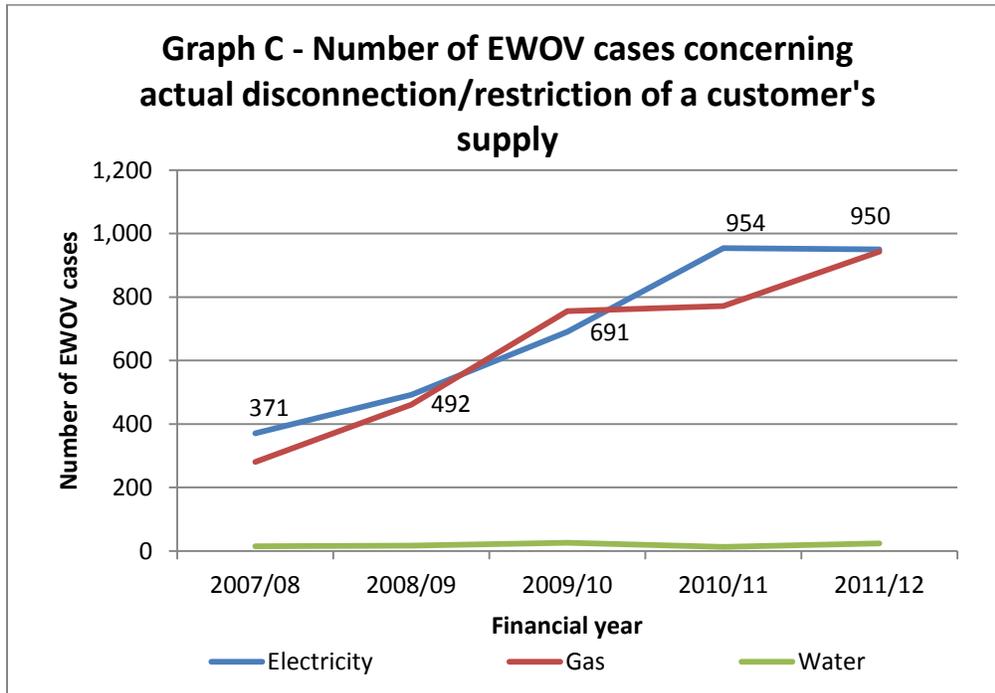
There has been a steep increase in the number of customers contacting EWOV because they are having difficulties paying a bill. There was a 4% increase in payment difficulty cases between the 2010/11 and 2011/12 financial years and a 225% case increase in the four years from 2007/08. Energy and water prices are rising and people tell us they are facing other cost of living pressures.

Energy Disconnections

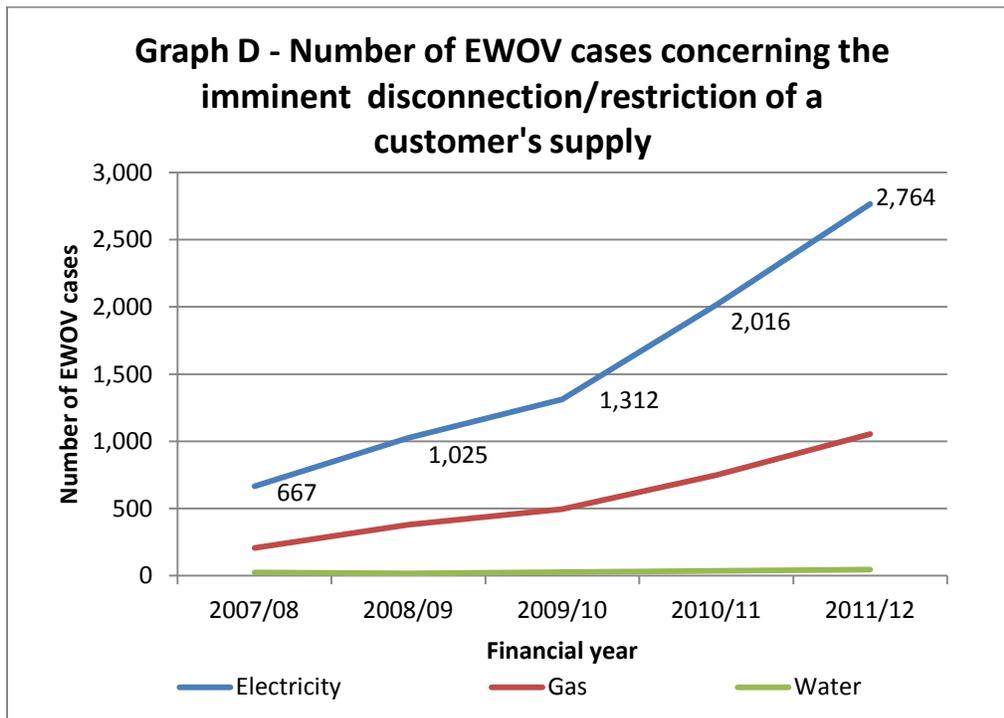
A customer’s energy supply may be disconnected by their company for non-payment of bills. EWOV will arrange for the same-day reconnection of a customer’s energy supply while we investigate the issues raised by the customer and the circumstances surrounding the disconnection. If the company does not follow the correct procedures before disconnecting the customer’s supply, then the disconnection may be found to be ‘wrongful’ under Victorian law and a Wrongful Disconnection Payment would be payable to the customer³.

³ See section 40B of the *Electricity Industry Act 2000* (Vic) and section 48A of the *Gas Industry Act 2001* (Vic) - [http://www.legislation.vic.gov.au/Domino/Web_Notes/LDMS/PubStatbook.nsf/f932b66241ecf1b7ca256e92000e23be/4fc2a8645c6e1e8fca256e5b00213f45/\\$FILE/00-068a.pdf](http://www.legislation.vic.gov.au/Domino/Web_Notes/LDMS/PubStatbook.nsf/f932b66241ecf1b7ca256e92000e23be/4fc2a8645c6e1e8fca256e5b00213f45/$FILE/00-068a.pdf) and [http://www.legislation.vic.gov.au/Domino/Web_Notes/LDMS/PubStatbook.nsf/f932b66241ecf1b7ca256e92000e23be/fffd9370b6ca49b9ca256e5b00213f3c/\\$FILE/01-031a.pdf](http://www.legislation.vic.gov.au/Domino/Web_Notes/LDMS/PubStatbook.nsf/f932b66241ecf1b7ca256e92000e23be/fffd9370b6ca49b9ca256e5b00213f3c/$FILE/01-031a.pdf)

Graph C below shows the number of EWOV cases received each financial year since 2007/08, from customers who have had their energy supply disconnected for not paying a bill:



Graph D below shows the number of EWOV cases received each financial year since 2007/08, from customers where an energy disconnection for not paying a bill is imminent:



EWOV cases about billing-related disconnections of energy supply continue to rise. This is a trend that EWOV has reported for some years.

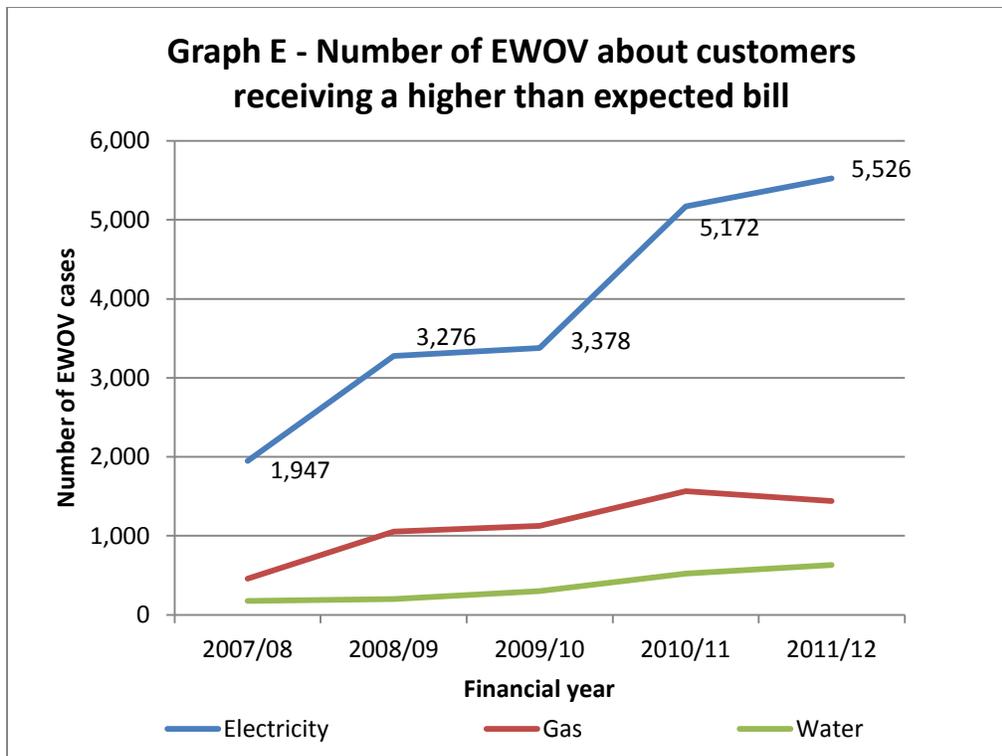
The number of actual electricity disconnection cases stabilised between 2010/11 and 2011/12, however over the four financial years since 2007/08 there was a case increase of 156%. Also gas disconnection cases increased by 22% between 2010/11 and 2011/12. EWOV finds that people are more likely to prioritise payment of their electricity bills, as it is commonly considered a more essential service than gas.

Significantly, there has been a considerable upward trend in the number of imminent disconnection cases EWOV received in the last four financial years – a 314% increase since 2007/08. This supports EWOV's continued experience that many energy customers cannot pay their bills and are waiting for collection notices and an imminent supply disconnection before making payments.

High bills

EWOV is often contacted by customers who are concerned about receiving a higher than expected energy or water bill and want to understand what caused the unforeseen cost increase. EWOV's investigation into a high bill is a process of elimination to determine whether a company's assets or billing system has contributed to the high bill, although it is not always possible to identify the exact cause. EWOV often finds that high bill cases mask the actual issue of customer affordability.

Graph E below shows the number of EWOV cases received each financial year since 2007/08, from customers concerned about receiving a higher than expected bill:



In the four financial years since 2007/08, EWOV cases received from customers concerned about higher than expected electricity bills have increased year-on-year. There was a 184% increase in these cases from 2007/08 to 2011/12, and a 7% increase in 2011/12 from the previous financial year.

Discussion of the Inquiry’s Terms of Reference

The Inquiry’s Terms of Reference raise several areas of discussion. EWOV will comment under four subject areas raised in the Terms of Reference — vulnerable customers and low income, consumer choice and information, energy efficiency, and new technologies.

Vulnerable and low income customers

As stated on page 2, all Victorian energy retailers are required to maintain regulator-approved financial hardship programs. The proper implementation of these programs and sustained customer engagement with their company is key to helping vulnerable and low income customers with increasing electricity prices.

Further, EWOV believes that the following policy initiatives would help vulnerable and low income customers with increasing prices:

- Introducing a flat rate ‘social’ tariff for eligible concession card holders that is less than a retailer’s cheapest market offer.

- A mandatory requirement that retailers recommend the most appropriate tariff to a customer in financial hardship and monitor the customer's payments, usage behaviour and circumstances.
- An increase in government concessions, grants and/or rebates in response to higher electricity costs.
- Government support to allow concession card holders to buy and install an in-house display free of charge to use in conjunction with the Advanced Meter (Smart Meter). This will help inform customers in 'real time' about how and when they use electricity and shift electricity use to cheaper times of the day.

EWOV is also concerned about the impact of the introduction of Time Of Use (TOU) tariffs on vulnerable and low income customers such as the unemployed, the elderly, and people with a disability. While TOU tariffs discourage peak demand electricity use, they may disproportionately impact customers who may be at home during more expensive peak times, potentially leading to higher bills. These customers may also be unable to shift their use to off-peak times. EWOV would like vulnerable and low income customers to have the option to remain on a single rate tariff where this is more financially beneficial.

Further, it is essential that any shift to TOU pricing is supported by a comprehensive and coordinated communications strategy, funded by industry and government, which clearly explains the customer costs and benefits of moving to a TOU tariff.

Consumer choice and information

In response to the Australian Energy Market Commission's *Issues Paper - Power of choice - giving consumers options in the way they use electricity*⁴. EWOV made a detailed submission about customer understanding of how to reduce their electricity bill and how to improve delivery of consumer information, particularly regarding the actual consumption of appliances.

Customers receive information about energy services and prices from a variety of different sources, which can create problems with the provision of clear and correct information:

⁴ EWOV's submission is provided in full on our website. See http://www.ewov.com.au/_data/assets/pdf_file/0003/5088/EWOVs-Comments_AEMC-Issues-Paper-Power-of-choice-giving-consumers-options-in-the-way-they-use-electricity-25-August-2011.pdf

Price comparison websites

Price comparison websites and energy brokers, such as GoSwitch, Switchwise and EnergyWatch may potentially mislead customers because they do not provide an objective and accurate comparison between all available energy contracts⁵.

Customers should be encouraged to use regulators' independent price comparison websites. In Victoria this is the Essential Services 'Your Choice' website portal. EWOV also welcomes the AER's price comparison website 'Energy Made Easy'⁶.

The marketing experience

Many customers do not actively seek out information about energy services and prices. Often, such information is provided to them during a marketing experience, either by door-to-door marketing or telephone sales. There is a risk that this information may be intentionally or inadvertently misleading.

Understanding contract terms

Customers may have difficulty understanding the terms of their energy contract, especially at the point of sale. In Victoria, a marketer should give a customer an offer summary every time they market the terms of a new energy contract, or at the customer's request⁷.

Inadequate customer service

On a daily basis, information is frequently delivered to customers by their energy retailer, usually over the telephone. It is therefore important that this information is correct and presented in a clear and easily understandable way.

EWOV suggests that call centre staff become better equipped to deal with customer queries through better training both in processes and in building customer relationships. It is also important that customers get easy access to specialised staff.

⁵ The Consumer Utilities Advocacy Centre produced a paper titled *Energy Switching Websites – A policy briefing paper* on recent CUAC initiated research into the performance of online energy market switching websites (May 2011). See http://www.cuac.org.au/index.php?Itemid=30&option=com_docman&limitstart=5

⁶ See <http://www.energymadeeasy.gov.au/>

⁷ Essential Services Commission Guideline 19 – Energy Price and Product Disclosure. The offer summary must include information about:

- all fees, tariffs, early termination fees and other charges
- the term of the contract
- an explanation of how tariffs change
- a scripted statement referring a customer to the Essential Services Commission's 'Your Choice' website
- if applicable, rebates, incentives, the times that different tariffs apply and how to get further information.

Energy efficiency

EWOV reiterates the comments we made in response to Australian Energy Market Commission's *Issues Paper - Power of choice - giving consumers options in the way they use electricity*⁸.

There is a range of educational information from a variety of sources to help customers understand how they use electricity and how their energy use may be reduced. Information resources include:

- star ratings on electrical appliances
- annual consumption information listed under the star rating
- energy efficiency advice on energy retailer websites, government websites (e.g. Sustainability Victoria's 'Resource Smart' website⁹, the Department of Climate Change and Energy Efficiency 'energy rating' website¹⁰)
- information on customer bills, which includes usage graphs and daily average usage calculations.

The provision of educational resources is relatively low-cost and should be undertaken by both the energy industry and governments in a coordinated fashion. It is important however that this information is targeted to people who need it most, such as vulnerable and low income customers where electricity costs take up a large part of their budget, and communicated in clear and simple terms.

Also EWOV believes that consideration should be given to the following energy efficiency measures:

- Encouraging in-home display units. In properties with Smart Meters, in-home displays give customers real time information about their energy use. The possibility of subsidies to low income groups to help purchase an in-home display could also be considered.
- Retrofitting housing. Various characteristics of a property can inhibit energy saving, such as poor insulation and drafts. This can be overcome through retrofitting to make the building more energy efficient. The government could consider retro-fitting public housing and providing subsidises to low income households¹¹

⁸ EWOV's submission is provided in full on our website. See http://www.ewov.com.au/_data/assets/pdf_file/0003/5088/EWOVs-Comments_AEMC-Issues-Paper-Power-of-choice-giving-consumers-options-in-the-way-they-use-electricity-25-August-2011.pdf

⁹ See <http://www.resourcesmart.vic.gov.au/>

¹⁰ See <http://www.energyrating.gov.au/>

¹¹ Recent research by the One Million Homes Alliance (which includes the Alternative Technology Association, the Victorian Council of Social Service and Environment Victoria) suggests that retrofitting one million low-income

- The Victorian Energy Efficiency Target Scheme (VEET). The scheme is a Victorian Government initiative, maintained by the Essential Services Commission to drive consumer awareness and uptake of energy efficient products and services. The VEET scheme encourages organisations to sell and supply energy efficient products such as light bulbs, standby power control units and water heaters. The customer may get these products at a discounted rate or free of charge.

New technologies

In response to the Standing Council on Energy and Resources' *Policy Paper Two – National Smart Meter Protections and Pricing*,¹² EWOV made a detailed submission about the impact of Smart Meters and new technologies such as direct load control, supply capacity control, TOU pricing arrangements, Home Area Network and in-home display units. EWOV's comments relative to the Inquiry are summarised as follows:

New pricing arrangements

Smart Meters enable a variety of new and complex pricing arrangements. It will be a challenge for many customers to compare and select different offers, especially with the availability of TOU pricing, and critical peak tariffs and rebates. EWOV believes that energy retailers and marketers have a responsibility to provide customers with an accurate TOU 'offer summary' which includes clear and useful information about changing to a TOU tariff.

Direct Load Control (DLC) and Supply Capacity Control (SCC)

EWOV believes that DLC and SCC are effective methods to manage network supply and are an equitable way to get around the current cross-subsidising by the general community of high energy users during peak times. However, EWOV does not want to see SCC or DLC used as a proxy for credit control. SCC should be prohibited as an alternative to disconnection for credit purposes, and a customer in financial hardship should not be required to put an appliance on DLC.

Messaging via the Home Area Network

While in principle EWOV supports Home Area Network messaging on to a web portal or in-home display unit for properties with Smart Meters, we have reservations about providing

households would reduce enough energy to save \$2.5 billion on energy concession payments over the next 20 years. See http://www.ata.org.au/wp-content/uploads/2-5-Billion-Reasons_OMH-Report.pdf

¹² EWOV's submission is provided in full on our website. See http://www.ewov.com.au/_data/assets/pdf_file/0004/5089/EWOV-comments-SCER-National-Smart-Meter-Consumer-Protections-and-Pricing-28-February-2012.pdf

customers with important information using this channel, especially in time critical circumstances. Delivery of the following information should be restricted:

- disconnection warning notices
- reminder notices
- marketing information, unless the customer's explicit informed consent is given
- price increases, unless the customer's explicit informed consent is given
- changes to contract terms, unless the customer's explicit informed consent is given.

Further, with a customer's explicit informed consent, the Home Area Network provides an opportunity for the government or regulators to deliver information about energy efficiency and available government assistance.

Smart Meter safety

EWOV believes that there is a role for both industry and government in clearly and effectively communicating the safety standards which apply to radiofrequency emissions and Smart Meters.

We trust that these comments are useful. Should you require further information or have any queries, please contact Justin Stokes, Senior Research and Communications Advisor on (03) 8672 4272.

Yours sincerely



Cynthia Gebert
Energy and Water Ombudsman (Victoria)