Submission in response to

Issues Paper - Review of payment difficulty protections in the NECF

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Submission by

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Submission in Response

We are pleased to submit our response to the *Review of payment difficulty protections in the National Energy Customer Framework: Issues paper May 2024*. We are researchers based at the University of Sydney (USyd) and the Australian National University (ANU), whose expertise focuses on issues of energy poverty and energy justice. We conduct research on the intersection of energy policy and First Nations rights and interests, including in relation to prepayment. Our work also considers the impacts that policies for energy transition can have on consumers, in both positive and negative ways. These areas of investigation inform our responses to the issues paper.

Question 1. Do you have any feedback on the proposed approach for the review?

As noted in the issues paper, current hardship measures such as bill payment difficulties do not capture all customers who are experiencing issues paying for sufficient energy. The proposed indicators and measures would not capture those "other" customers who are, for example:

- curtailing their electricity use voluntarily to uncomfortable levels (see Willand, Torabi, and Horne 2023)
- sacrificing other necessities (e.g. food or medicine) to afford electricity
- borrowing money from friends, family, or short term loan options or credit cards to pay energy bills

While the proposed measures will likely capture the most urgent cases, they will not be able to capture the full scope of energy hardship faced by consumers, and this gap will limit abilities for forward planning and development of assistance programs. It may also obscure the potential benefits of new program development. Developing a definition of hardship or energy poverty that captures customers currently falling into the "other" categories identified in the issues paper would be a first step towards more comprehensive approaches to customer payment difficulties.

Developing measures to capture consumers not currently reflected in hardship statistics due to curtailments or sacrifices in place of bill debt may become increasingly important as time-varying tariffs and other demand management measures are introduced. Consumers can face unexpected energy affordability challenges with the introduction of time-varying rates as the default, while international studies have shown that time-varying rates can drive worse financial outcomes for the elderly and those with disabilities, and can also worsen health outcomes for those with disabilities (White and Sintov 2020). A more comprehensive hardship approach could also consider requiring randomised control trials be run by retailers prior to introducing novel tariff structures, with these trials able to support analysis of expected impacts on consumer wellbeing. This approach has been used in some jurisdictions internationally, such as by California's Public Utilities Commission.

Future tracking should ensure that any self-disconnections by pre-payment customers are counted, with disconnections being the only real available measure of hardship for pre-pay customers at an aggregated level. We extensively addressed the importance of counting self-disconnections in a submission to AER's 2023 review of Retail performance reporting procedures and guidelines, and this can be accessed in the submissions record: https://www.aer.gov.au/documents/anu-submission-retail-guidelines-review-issues-paper-aug-2023

Recommended reading:

- Willand, Nicola, Nooshin Torabi, and Ralph Horne. "Recognition Justice in Australia: Hidden Energy Vulnerability through the Experiences of Intermediaries." *Energy Research & Social Science* 98 (April 1, 2023): 103013. https://doi.org/10.1016/j.erss.2023.103013.
- White, Lee V, and Nicole D Sintov. "Health and Financial Impacts of Demand-Side Response Measures Differ across Sociodemographic Groups." *Nature Energy* 5, no. 1 (2020): 50–60. https://doi.org/10.1038/s41560-019-0507-y.
- Colton, Roger. "Measuring the Outcomes of Low-Income Energy Assistance Programs through a Home Energy Insecurity Scale." OCS' LIHEAP Committee on Managing for Results. LIHEAP, 2003. https://www.acf.hhs.gov/sites/default/files/documents/ocs/measuring_outcome_0.pdf.

Question 2. What can we learn from other approaches to strengthening protections for consumers experiencing payment difficulty?

Ensuring that hardship support information is easily accessible to consumers is critical to program benefits. Information that makes it easier for consumers to compare rate options, either between retailers or within retailers (such as flat vs. time-varying) is also critical to ensuring that consumers access the best rate. Australia's competitive electricity market rests on the assumption that consumer switching will drive retailers to provide the best prices, and any informational barriers or barriers to switching will reduce the market's ability to achieve good consumer outcomes. Sharing information about accessing support via bills will not get that information to prepayment customers, because they do not receive bills. Alternative approaches need to be explored for ensuring that information on any available hardship supports reaches these customers. Prepay customers may also have limited choice between retailers and thus be unable to switch to a better tariff.

As noted in the issues paper, measures that reduce the amount of the energy bill (rebates, energy efficiency, debt waivers) are often difficult to access or not offered. Payment plans can only go so far in addressing affordability challenges for consumers, particularly during the current cost of living crisis. International programs provide examples of lowered bills for low-income customers, such as the CARE/FERA program offered by the California Public Utilities Commission based on a combination of household size and income levels which discounts bills by 30-35%[1]. This California program intersects with other programs offered at federal level to identify those in need of reduced energy costs, and Australia could consider similar supports based on e.g. Centrelink payments.

Question 3. How adequate, effective and appropriate is the current eligibility framework for payment difficulty protections?

In addition to the points we covered under Question 1 regarding the need to capture "other" customers, we note that the current eligibility based primarily around bill payment difficulties cannot support pre-payment customers, because pre-payment customers do not have bills and can only accrue limited debt during 'friendly credit' times. Friendly credit or emergency credit just defers the 'self-disconnect' problem to the next non-prohibited period, at which point disconnection still occurs. In practice, this means that these credit strategies provide little support for prepay customers struggling to pay for their electricity. Another approach could be to consider the need for discounted electricity tariffs, energy efficiency or solar installation subsidies, or support payments in areas of high disconnection rates. These approaches could address payment difficulties directly by reducing the magnitude of energy costs, rather than simply deferring disconnection for a few days or hours.

Question 6. How could the framework better ensure that consumers experiencing payment difficulty are supported appropriately with assistance that is tailored to their individual circumstances?

The options identified by stakeholders and consumers would all be beneficial forms of assistance; these are supports for energy efficient appliances and advice, tools for understanding energy use, financial support such as debt waivers or payment matching, service support to help consumers ensure they're on the best offer, and process changes to give consumers more time to plan repayments. In addition to these, we again note the example of CARE/FERA in California, where low-income customers receive a 30-35% discount on electricity costs.

Although construction codes and building energy efficiency are outside the remit of the AER and this review, we still note that this can impact experience of energy hardship. Customers in states and territories where disclosure of building energy efficiency is not required on sale or rental have less ability to project and plan for their energy expenses, and may be more likely to require support in face of unexpected bills due to this lowered ability to plan. Visibility of building energy efficiency would support tailored support for individual circumstances, including potential cost benefits of upgrades.

Question 7. How could the framework better ensure that disconnection is a last resort?

Extended time periods between first warning and actual disconnection would be beneficial. The time periods can be quite short in Australia, less than 14 days in Victoria and less than 6 days in some parts of remote Australia. Although there is now a requirement for disconnection reporting including in Queensland card-operated communities from 2025, it will be important to

[1] https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/care-fera-program

ensure that disconnection reporting requirements encompassing pre-pay and card-operated meters remain robust within the AER's remit.

Pursuing energy efficiency measures to reduce energy costs would also be beneficial. This was also identified by the stakeholders referenced in the Issues Paper, where a response to energy hardship could be to offer energy efficiency upgrade rebates to reduce energy bills at the front end (while also having emissions and/or comfort benefits). This would support the 'last resort' approach by attempting to first provide means for households to reduce their electricity demands before disconnection occurs.

We also note again that pre-pay customers do not have these protections for disconnection as a last resort – there are no warning notices for pre-payment customers, simply a disconnection of electricity once the prepay meter runs out (with possible extension of a few days of friendly credit). Protections should consider the potential for future pre-payment arrangements within NECF coverage.

Most of Australia currently does not have protection from disconnection during extreme temperatures (see White et al. 2024), in contrast to international jurisdictions (see e.g. Flaherty et al. 2020). It is good that this has been noted in the issues paper. Given that disconnections during extreme temperatures remove electricity access when consumers may need that access for health and to prevent extreme discomfort, this area should remain in focus for state and territory amendments to enliven the existing Retail Rules in jurisdictions beyond South Australia. This is particularly important as climate change continues to increase severity and frequency of extreme weather events.

Recommended reading:

- White, Lee V., Bradley Riley, Sally Wilson, Francis Markham, Lily O'Neill, Michael Klerck, and Vanessa Napaltjari Davis. "Geographies of Regulatory Disparity Underlying Australia's Energy Transition." *Nature Energy* 9, no. 1 (January 2024): 92–105. https://doi.org/10.1038/s41560-023-01422-5.
- Flaherty, Matthew, Sanya Carley, and David M. Konisky. "Electric Utility Disconnection Policy and Vulnerable Populations." *Electricity Journal* 33, no. 10 (December 1, 2020): 106859. https://doi.org/10.1016/j.tej.2020.106859.