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Thank you for the opportunity to comment on *Strategies for reducing reliance on high-cost, short-term, small amount lending. Discussion Paper April 2012.*

The Energy & Water Ombudsman NSW (EWON) investigates and resolves complaints from customers of electricity and gas providers in NSW, and some water providers.

EWON believes that the Discussion Paper is correct when it states:

*Evidence from community organisations as well as the high numbers of customers using small amount lending services to pay utility bills suggests that their inability to pay utility bills is a major reason that people access short-term loans. Demand could be reduced through improved access to utility retailer's hardship programs and other schemes aimed at improving energy efficiency and financial management<sup>1</sup>.*

EWON has expressed public concern over the issue of energy affordability. In 2010-2011 electricity disconnections for non-payment in NSW increased 17% on the previous year. Gas disconnections rose by 18%. Over this same period EWON itself saw a 21% increase in credit related complaints.<sup>2</sup>

EWON supports the proposed national energy legislation, especially the provisions around hardship programs and the proposed \$300 minimum disconnection amount. We note however that the introduction of this national legislation into NSW and some other states has recently been delayed until 2014.

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<sup>1</sup> P 11 *Strategies for reducing reliance on high-cost, short-term, small amount lending Discussion Paper April 2012*

<sup>2</sup> P1 *EWONews Issue 25 May 2012*

As well, we are concerned that these measures, while welcome, may not fully address the complex issues of energy affordability. The proposed average price increase of 16.4%<sup>3</sup> on top of the previous two years increase of 27% in NSW will have significant impact on low income customers.

EWON believes that there needs to be a national discussion on the issue of energy affordability involving the energy retailers, energy networks, government, regulators, and consumer stakeholders. A significant driver of the price rises are network costs which are fixed and no amount of energy efficiency on the part of the consumer reduces these charges. Further, for many low income consumers some energy efficiency measures are unaffordable (eg replacement of energy inefficient hot water services and white goods). This means that the trend for low income consumers to access short term loans is likely to increase rather than decline over the next few years.

The Discussion Paper provides an overview of the regulatory framework and the hardship programs that energy retailers provide. In examining the limitations of such programs the Paper suggests that there is a lack of awareness of the energy hardship programs and that some customers may be embarrassed at disclosing that they have difficulty paying. In EWON's experience, there are also some other issues.

Some customers report to EWON that it is difficult to access the retailer customer assistance programs. Sometimes a credit area or contact centre will require the customer to pay a significant proportion of the arrears before providing a referral to the hardship program. This approach would still require the customer to access short term loans.

As well, payment plans offered by retailers sometimes do not take other financial commitments into account, and set a repayment rate based on the energy debt and current consumption and a set period to repay the arrears. Difficulties can arise when a customer advises that such a plan is unaffordable but the retailer has met their regulatory requirements in relation to offering two payment plans in a 12 month period.

In some instances there can be a lack of training for contact centre and credit management staff, and vulnerable customers often do not get the appropriate referral to the hardship program or other assistance measures.

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<sup>3</sup> *Changes in regulated electricity retail prices from 1 July 2012 IPART*

As energy prices have increased, so too has the number of customers seeking assistance from retailers, community welfare services and government emergency assistance programs such as the NSW Energy Account Payment Assistance Scheme (EAPA). There is increased pressure on the resourcing of retailer assistance programs. One option that we have previously proposed to address the growing demands on hardship programs is that the energy networks (whose costs are driving the price increase) should contribute to retailer hardship programs<sup>4</sup>. This could help ensure that the level of resources for such programs meets the increasing customer demand.

We have also recommended an independent review of all the energy customer assistance measures to identify the most efficient ways of delivery. The Independent Pricing and Regulatory Tribunal (IPART) has recently recommended a review of the EAPA scheme and assistance measures in general<sup>5</sup>. EWON supports this initiative by IPART.

Our responses to the particular questions raised in the Discussion Paper are below. We have used the same numbering as the Discussion Paper for ease of reference.

*3. Should providers of high-cost small amount loans be required to advise individuals about the existence of hardship programs where the individual is seeking loans to pay a utilities bill?*

**EWON Response:** EWON supports this proposal. If a customer is seeking a loan at that point they are likely to be attempting to avoid disconnection or, if their supply has been disconnected, to arrange for reconnection. The information about a hardship program may be too late in the case of disconnection of energy supply, however it may be of assistance in the future.

*4. How can individuals be encouraged to use these alternatives for paying utility bills rather than using high-cost small amount loans?*

**EWON Response:** Participation in hardship programs needs to be promoted by the retailers in a proactive way, with processes in place to identify early indicators of affordability issues. Retailers also need to ensure their internal staff training and referral pathways work effectively.

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<sup>4</sup> EWON submission IPART Changes in regulated electricity retail prices from 1 July 2011 Electricity — Draft Report, pg 3

<sup>5</sup> Electricity retail businesses' performance against customer service indicators in NSW, IPART, January 2012, page 3

As well, the building of relationships with community welfare agencies which customers may approach for assistance is an important access point.

*5. What are the advantages and disadvantages of requiring energy providers to provide information on their payment plans and hardship programs initially when contracts are entered into or renewed, and on each bill?*

**EWON Response:** Advice about hardship programs and the availability of payment plans at the time the contract is entered into would be relevant information for all customers. Customers may not be in financial difficulty at the start of the contract, but if their circumstances change, they are more likely to self-identify to their retailer as being in hardship if they have prior knowledge of these programs.

*6. Are there other support services that would help reduce energy hardship and the demand for small amount, short-term loans to pay energy bills?*

**EWON Response:** In NSW the scheme for emergency financial assistance for energy customers is the Energy Accounts Payment Assistance (EAPA) scheme. One issue is that the total EAPA budget has not increased to the same degree as price rises despite the fact that if the current price rise is approved, the total cost of electricity will have risen by 43.4% in the last three years. If consumers are to be assisted in avoiding the need for small amount, short-term but high cost loans then consideration should be given to the level of assistance provided through schemes such as EAPA.

The Discussion Paper lists a number energy efficiency programs available for low income customers. While these are of benefit to some consumers, a large proportion of an energy bill is the fixed costs. For a low income, low consuming customer, further energy efficiency will have little impact.

EWON is concerned that the range of assistance measures – government, retailer and community based, will not be able to keep up with the level of demand. The underlying affordability of energy supply needs to be addressed through a national discussion with all stakeholders.

*7. Should energy hardship programs be promoted more widely? If so, what mechanisms could be used?*

**EWON Response:** It is important that hardship programs are promoted more widely.

Information provision about these programs should be provided by government agencies, community organisations and through the providers of small amount, short-term loans.

However the key point of provision of information remains the energy retailer. The key point of contact is when there is a delay in the payment of an account. It is at this point that the provision of information about payment options and hardship programs can play a critical role. While customers having payment difficulty have a responsibility to advise their retailer and request assistance, equally the retailer needs to communicate the options that they provide, so that a customer can then access that service.

If you would like to discuss this matter further, please contact me or Emma Keene, Manager Policy on 02 8218 5250.

Yours sincerely



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