ANGLICARE
TASMANIA

Response to

Review of Aurora Energy Pty Ltd's Aurora Pay As You Go
Draft Report by the Office of the Economic Regulator

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1. Introduction

Anglicare Tasmania welcomes the opportunity to respond to this review of Aurora Pay As You Go (APAYG). This response draws on Anglicare's research into the issues affecting low income earners in Tasmania, especially research relating to the causes of financial crisis, and on our experience as a service provider. Anglicare delivers services in a range of areas but our statewide financial counselling service in particular has expertise in the experiences of people facing problems with the cost of electricity.

In responding, Anglicare's main concern is with the impact of APAYG policy and pricing decisions on low income households. One in three (34.1%) Tasmanian households depend on income support payments as their main source of income (ABS 2009, p. 33). These households are not homogenous but include people living in a wide variety of circumstances. Not all of them experience difficulty paying for electricity and not all face hardship. However, in this submission, Anglicare would like to focus on the issues facing those people who do experience problems with the cost of electricity as this is the group most in need of policy and regulatory attention.

This submission focuses on three aspects of the APAYG debate: disconnections, the extent to which APAYG is a genuine 'product of choice' and affordability. First, however, the submission reviews the findings of recent Anglicare research that is relevant to the experience of disadvantaged households, especially those using APAYG.

In 2007-08, 15,900 Tasmanians approached emergency relief services for crisis assistance and the trend is one of rising demand (Adams 2009, p. 26). In the same period, financial counselling services saw 435 new clients (P Mallett 2009, pers. comm., 29 September). Clearly the need for assistance with personal financial difficulty in Tasmania is considerable. At the end of April 2009, Anglicare conducted a survey of emergency relief and financial counselling clients across the state, with the findings to be published towards the end of this year (Flanagan forthcoming). The responses to the survey indicate a high level of disadvantage and financial crisis among clients. Among the participants, for example:

- 94.4% were receiving income support payments and only 8.3% received any income at all from employment;
- of the 81.0% who had applied for emergency relief or used financial counselling services before, 46.1% had used services four or more times in the previous year;
- 47.2% said their household regularly or always had financial problems; and
- 75.1% had gone without meals in the previous year because of a shortage of money.

Of course, not every person who seeks crisis assistance due to financial difficulty is doing so because of the cost of electricity, but substantial proportions of them are. Of the Anglicare survey participants:

- 67.9% said electricity bills were a problem for their household;

- 30.3% said electricity bills were a big problem;
- 18.4% said their electricity bill was one of the main reasons they had needed to seek assistance;
- 31.1% said they had an overdue electricity bill;
- 57.4% said that they had been unable to heat their home in the previous year due to a shortage of money; and
- 28.3% said they had had the power off during the previous year due to a shortage of money.

These findings present a picture of considerable ongoing difficulty with the costs of electricity affecting some of the most vulnerable and disadvantaged people in the state. APAYG plays an important part in this picture. The participants in the survey had a much higher rate of APAYG usage than electricity customers more generally: 45.7% of the participants used an APAYG meter, with single parents, young people, households with two or more children and public housing tenants particularly likely to use APAYG.

Table 1 below compares the level of difficulty with electricity costs experienced by participants in the survey on different payment arrangements.

Table 1.
Percentage of participants reporting they had experiencing difficulties with electricity costs by electricity payment method

Type of difficulty with electricity costs	Payment method used by participant (%)		
	Pay As You Go	Standard account	Payment plan
Electricity bills are a big problem for the household	23.5	45.7	37.5*
Electricity bills are one of the household's main reasons for needing assistance	13.0*	35.0	18.5*
Household owes money on an overdue electricity bill	19.2	45.3	57.1
Household was unable to heat home in the previous year due to a shortage of money	63.1	50.6	51.4
Household had power off in the previous year due to a shortage of money	33.8	19.5*	27.3*

** Result has a relative standard error of 25-50% and should be used with caution.*

The table suggests that while APAYG customers are less likely to have or perceive that they have difficulties with electricity bills (probably because they do not actually receive bills) they are more likely than customers on other payment methods to actually experience problems that are linked to electricity affordability, such as being unable to heat their home and being without electricity at all. This lends weight to assertions by consumer advocates that pre-payment meters can 'mask' hardship and lack of access to supply.

2. Disconnections

As the Regulator's draft report indicates, a higher proportion of concession customers use APAYG than are using standard tariffs (OTTER 2009, p. 6). APAYG is popular among low income earners because it allows them to spend incrementally on electricity rather than wait for large quarterly bills and because it gives people a greater sense of control over their electricity budget (Ross & Rintoul 2006). APAYG has ostensibly not been targeted at any specific customer group (ESCOSA 2004, p. 112). However, Aurora's website stresses the benefits of APAYG for budget-conscious customers: 'No more quarterly electricity bills that break the budget. Just affordable electricity paid for weekly or every couple of days – it's up to you, you're in control' (Aurora Energy 2008). The recent public controversy over APAYG price increases indicates that, whatever Aurora's actual intention, Tasmanians do see APAYG as the 'low income earner's tariff' and in fact some believe that it has been marketed to them on that basis (e.g. Brown 2009). This perception is also held by some policy makers. One Member of the Legislative Council was quoted in the newspaper as saying that it was 'misleading' of Aurora to target APAYG to low income earners on the basis that it would save them money, given that the cost of APAYG was higher than standard tariffs and unregulated (*Mercury* 26 June 2009, p. 5). Anglicare workers consulted in the process of preparing this submission indicated that in their view, APAYG was a product intended for low income customers.

While Aurora has explicitly stated that APAYG is 'not a product that is generally suitable for customers who are under long-term financial stress' (Aurora Energy 2004, p. 6), the reality is that customers under long-term financial stress are precisely those customers who will be most attracted to the 'no bills' and budgetary control aspects of APAYG.

The elements of APAYG that make it unsuitable for people in financial stress have been well canvassed. The summary and 'hidden' nature of disconnection in particular has been of concern for advocates in Australia and overseas (McLean 2005, pp. 2-3; Duggan & Sharam 2004, p. 23; FSC 2001, p. 5). Anglicare notes the inclusion of clause 9A.5.1 in the Tasmanian Electricity Code, inserted in May 2007, which requires new and replacement meters to be capable of recording information about self-disconnections. This information will allow Aurora to identify and extend additional support to those customers experiencing multiple disconnections, which is a positive step. However it will be some time before this facility is available to the majority of customers.

Even once it is available, the new technology will not prevent disconnections due to inability to pay from occurring and support will be offered to customers after the fact. While Aurora has emphasised the costly and delayed nature of reconnection for customers on standard tariffs compared to the immediacy and low-cost nature of reconnection for APAYG customers (Aurora 2004, pp. 6-7), in Anglicare's view this is balanced by the greater protections that apply to customers on standard tariffs in relation to *dis*connection. Aurora's treatment of standard tariff customers in relation to disconnections extends beyond its obligations under the Regulations (Energy Regulator 2004, p. 29). In practice, standard tariff customers are not disconnected until after they have received two written notifications, a telephone call and a site visit by an Aurora officer, and if customers at any point either pay their accounts or enter into a payment plan, disconnection does not proceed (McLean 2005, p. 3). APAYG customers are disconnected as soon as their emergency credit runs out.

In this context, Anglicare notes the ninth term of reference to this review, which states that the Regulator is to review 'whether Chapter 9A of the Code has achieved its objective in respect of providing APAYG with protections commensurate with customer protections available to tariff customers…' (OTTER 2009, p. 54). In relation to disconnection for inability to pay, APAYG customers still experience a lesser level of customer protection, and will continue to do so even under the new pre-payment meter technology. As Sharam (2003, p. 13) points out, '[i]t is contradictory to talk about "consumer protection" whilst failing to provide a safety net that prevents disconnection. The provision of emergency credit … only delays the evitable [sic] disconnection if affordability is the issue'. According to ESCOSA (2004, p. 87), the absence of a safety net occurs primarily because 'the relationship between consumer and retailer revolves around meter supply rather than electricity supply'.

The other aspect of APAYG that has been criticised is the lack of credit, beyond the $10 of emergency credit, available to APAYG customers. Duggan & Sharam (2004, pp. 17, 23) argue that,

> The use of credit is the single most important factor enabling customers without the means of payment to retain supply. It provides scope for the juggling of finances that is a feature of the financial life of low income households. …. The key benefit of the traditional credit relationship is that credit provides the flexibility which allows households to avoid being in a position of having to choose between different essential goods. [Pre-payment meters], in contrast, create a "Sophie's choice" situation in which families are forced to select, for example, heating/lighting/cooking/refrigeration over food or vital medicines.

Or as a US discussion of pre-payment meters puts it,

> With prepayment meters … the option is never provided to the customer to manage his or her money to address household necessities. When the meter runs dry, a payment must be made irrespective of other household financial necessities or service is effectively terminated. This requirement is not placed on other customers. …. Under traditional billing, these customers do not place their energy service in jeopardy because of a broken refrigerator or a childhood illness. Under the prepayment meter, they do (FSC 2001, pp. 5-6).

In other words, being able to delay payment is critical to cash flow management in households on restricted incomes. (It is important to recognise that delayed payment due to a cash flow problem is not the same as wilful non-payment). Without this flexibility of electricity 'credit', households where there are persistent cash flow problems or where essential requirements are constantly in competition for the limited discretionary funds that are available will inevitably and regularly 'self-disconnect' from their electricity supply. These self-disconnections will continue to occur even under the new pre-payment meter technology.

The devastating impact of being without electricity was highlighted by a recent survey of 172 electricity customers in Sydney. The survey found that the impact of electricity disconnection went beyond practical consequences, such as having to throw out food from the fridge or freezer, being unable to wash or being unable to use medical equipment. The impact was psychological as well: 36% of respondents reported that their children became anxious or distressed and 34% said that other people in the house became anxious or distressed. One in ten (10%) sent their children to stay somewhere else (Connell & Hill 2009, pp. 29, 31).

There are mixed findings in the limited research available on the rate of disconnection among APAYG customers in Tasmania, partly because of technological limitations which prevent the collection of prevalence data. Research conducted by Aurora found that 2% of the PAYG customer base had self-disconnected due to a lack of funds or because they had used funds for other expenses (Energy Regulator 2004, p. 35). Research commissioned by TasCOSS in 2006 found that 23% of APAYG customers had self-disconnected in the last year, 21% of whom had done so because they had found it difficult to get money for household bills (Ross & Rintoul 2006, p. 35). The Anglicare survey discussed above found that a third (33.8%) of APAYG customers participating in the survey had been disconnected in the previous year due to a shortage of money. The differing characteristics of participants in each of the separate research projects would suggest that the risk of disconnection for financial reasons is greatest for those who are most vulnerable to financial crisis. Among the most disadvantaged, the rate of self-disconnection is unacceptably high. It is also worth noting the point made by ESCOSA (2004, p. 68, n. 39), that surveys of reasons for self-disconnection may under-estimate the number of people disconnecting for financial reasons; some people may prefer to answer 'I forgot' rather than admit to experiencing financial problems.

The emergency credit programmed into APAYG meters is supposed to provide households with a window of opportunity in which to recharge their meter. Use of emergency credit was quite high among the participants in the TasCOSS research: 56% had used it and 19% had used it four or more times in the previous year (Ross & Rintoul 2006, p. 33). However, as ESCOSA (2004, p. 66) has pointed out, the provision of a few days emergency credit is really only likely to assist customers who have self-disconnected as a result of forgetting to recharge their meter. It is less useful for people who have self-disconnected because they lack the funds to recharge. Effectively, if the problem is one of affordability, emergency credit simply delays the inevitable (WACOSS 2009, p. 12).

3. A 'product of choice'

Supporters of PAYG assert that there is a high level of demand for and satisfaction with APAYG and that customers using APAYG are making a free and informed choice to do so. The issue of 'choice' is important, especially given that the Regulator's draft conclusion, that

APAYG should not be included among the regulated tariffs, is drawn on the basis that APAYG is 'a product of choice' (OTTER 2009, p. xvii).

Satisfaction

In the UK, National Energy Action (2008) has questioned the reliability of expressed satisfaction with pre-payment meters on the basis that it is not clear that customers appreciate that prepayment meters are the most expensive payment method available. This ambiguity exists in Tasmania too – although perhaps to a lesser degree since the recent media coverage of APAYG price increases. A quarter (25%) of participants in the TasCOSS research had installed APAYG because they believed it would be cheaper (Ross & Rintoul 2006, p. 31). Participants in Anglicare focus groups suggested that APAYG was cheaper (Law 2004, pp. 2, 8), but the meaning of 'cheaper' varies according to the financial position of the household. One participant, for example, commented that, 'about $55 a fortnight covers it. And it's easier to fork out $55 than it is to… I just can't begin to imagine what the power bill would be' (Law 2004, p. 2.). It is likely that her power bill would be approximately six times $55 ($330), but for people on very restricted incomes the difficulties in pulling together large lump sums mean that smaller amounts are in reality more 'affordable' than large ones, even if the total is exactly the same – or higher.

Pre-existing meters

Anglicare workers report that one of the main impediments to genuine choice over APAYG is the presence of pre-existing meters in public housing and private rental properties. Given that APAYG is particularly attractive to low income earners and given the high turnover in low-cost rental housing, it is likely that APAYG meters will increasingly come to dominate this part of the market (ESCOSA 2004, p. 80). Anglicare has previously noted that the halving of the connection fee if the customer keeps APAYG operates as an incentive to retain APAYG even if it would not be the customer's first choice (Law 2004, p. 11). Aurora has defended the arrangement on the basis that the lower connection fee for APAYG reflects efficient costs and that charging the same connection cost as for a standard meter would mean APAYG customers would 'unnecessarily pay more' (Aurora 2004, p. 4).

Housing Tasmania's policy on APAYG states that Housing Tasmania 'is supportive of as many clients as possible having access to Pay As You Go' (Housing Tasmania 2007, p. 1). Tenants living in properties without APAYG can request installation, which will be approved if Housing Tasmania believes the property to be suitable, although they must meet all costs themselves. Tenants who move into a property with an existing APAYG must likewise meet any conversion costs themselves: 'Future tenants accept the property in its condition on allocation. This includes the [A]PAYG meter…' (Housing Tasmania 2007, p. 2). Anglicare workers advise that some of the public housing properties made available as NGO-managed emergency or transitional accommodation are fitted with APAYG meters, which can cause considerable financial difficulty for clients who cannot afford APAYG rates.

Once again, the issue is related to capacity to pay. The higher cost to connect to a standard tariff is essentially a disincentive as the limited discretionary incomes of many disadvantaged households mean immediate needs (such as the covering the cost of a move or connection fees to other utilities) take precedence over future expenditure (the higher ongoing cost of APAYG) (Sharam 2003, p. 11). Is a customer choosing to retain an APAYG meter out of genuine, informed choice, or because they are unable to afford the additional cost involved in converting to a standard tariff?

An informed choice

The difficulties an APAYG customer would face in trying to independently come to an informed conclusion about whether or not APAYG offers them a better deal are well expressed by ESCOSA (2004, p. 43):

> To calculate costs under different options, a household would have to be able to estimate their typical usage patterns in summer, winter and between seasons, and calculate these for the [pre-payment meter] option and other metering arrangements. The exercise is both highly involved and demanding, and will be made even more difficult if a household attempts to factor in the cost of purchasing credit (such as time and transport costs) under the [pre-payment meter] option.
>
> In reality, few households would have the available consumption history data required, the ability to make informed assumptions about consumption, and the skills to undertake such calculations.

These difficulties are the reason why the Regulator publishes the annual pricing comparison report. However, Anglicare would query how many APAYG customers are aware of the existence of the report, would know where to find it and would have the skills to interpret it correctly or apply it to their own situation.

The draft report argues that the 2733 requests Aurora has received to revert from APAYG to a standard tariff since the latest price increases were announced suggest that 'customers are able to, and have, exercised their right to revert to the standard residential tariffs if they believe they would be disadvantaged by the price increases' (OTTER 2009, p. 50). However, these requests were made after the APAYG price increase was given considerable and high profile media attention. This level of coverage is not typical. It coincided with a particular focus in the media on the impact of the global financial crisis on the cost of living and with the introduction of new billing and pricing arrangements for water and sewerage. This context contributed to newspaper headlines such as 'cost-rise tsunami' (Mounster 2009). It would also be reasonable to assume that the proximity of a state election contributed to the degree of political attention the issue received. Had the APAYG price increase not received such a media profile, how many people, particularly disadvantaged customers, would have been aware of the price discrepancy between the two tariffs and how many people would have been aware that they could revert from APAYG to a standard tariff at no cost?

Reasons for the choice

Anglicare's financial counsellors report that many clients regularly run out of the funds with which to recharge their APAYG meter in the days leading up to payday. Some people are without electricity for several days each fortnight. Nevertheless, clients tell their financial counsellors that they prefer this situation to receiving a quarterly bill. It is reasonable to ask whether people choose APAYG because it is a genuinely affordable, flexible product that meets their needs or whether they choose APAYG because it is the best alternative out of a range of unaffordable options. As Ross and Rintoul (2006, p. 31) found, among APAYG customers, 'there appeared to be more emphasis on avoiding large bills and less on the cost of electricity'.

Sharam cites UK research which found that only 10% of pre-payment meter customers would change back to standard billing arrangements despite knowing that this would be a cheaper option. The UK researchers, she states, 'believed this indicated "satisfaction" and should be read as consumer preference.' However, Sharam argues,

> any customer who knows that they are likely to have difficulties paying for their electricity or gas also knows that they will need to pay reconnection fees, spend time negotiating with the utility over payments of arrears, be unsure of when disconnection would occur, and go through the "public" embarrassment of the disconnection. …[Pre-payment meters] do not provide flexibility or budget help but they do allow low-income customers a small amount of discretion and privacy in relation to which essential item they forgo when ends do not meet. They know that the cheaper price of paying by credit is illusionary because payments cannot be maintained (Sharam 2006, p. 16).

In other words, it is a choice, but it is a choice made within a context of constrained finances, a compromised standard of living and an inability to afford essential items. This context increases the vulnerability of customers to the flaws in the APAYG system discussed above, namely the ease with which disconnection can occur and the lack of budgeting flexibility.

It is true that alternative pre-payment options exist, PrePay, EasyPay and Centrepay among them. McLean (2005) has argued that these options are a better option than APAYG for low income earners. The Regulator has concluded that these alternatives are not as well-advertised as they could be and has asked for comment on whether these options should be included on customer accounts and/or made available through financial counsellors and to new customers. Anglicare supports both these suggestions and has previously called for these alternative pre-payment methods to be given a higher profile (Law 2004, p. 13). However, it will be some time before awareness of these options penetrates the market to the degree that awareness of APAYG has done. Including these options on Aurora accounts, for example, will not reach existing APAYG customers because they don't receive accounts. Neither do they necessarily access financial counselling services. Much more proactive strategies will be needed to ensure that these options are promoted fairly and equitably to all customers and this will take time. Meanwhile, for many disadvantaged people, APAYG will continue to be seen as the only real alternative.

4. Affordability

According to the Regulator, in relation to APAYG, the recent price increases were justified and Aurora is recovering 'on average, no more than its efficient costs' (OTTER 2009, p. 35). Anglicare lacks the technical expertise to comment on the rationale for this assessment, other than to note that Aurora, as a dividend-paying state-owned company subject to the *Corporations Act*, has presumably also included a profit margin in its pricing decision. That the amended price for concession customers is to be paid for through a reduction in Aurora's dividend to the State Government (Bartlett 2009) suggests that this is in fact the case.

Anglicare's main concern in relation to APAYG prices and in relation to electricity prices more generally is the capacity of low income earners to afford to pay them. Electricity has become an essential service. Alternative means of heating, cooking and lighting have increasingly fallen away (Sharam 2003, p. 8) and electricity has become critical not just to health and wellbeing but to people's sense of social inclusion – one of the reported consequences of disconnection in the New South Wales survey was social isolation due to the inability to use the radio or television (Connell & Hill 2009, p. 29). As an essential service, electricity should be affordable to all.

The public controversy over APAYG prices arose because the increase was so disproportionately greater than the increase in the standard tariff prices. Of particular concern was that some of the greatest increases applied to periods when there was limited capacity for shifting usage, such as evenings in winter (OTTER 2009, p. 27). The government's intervention has resulted in a narrowing of the gap between APAYG and standard tariff prices for concession customers to the point where there is now only a small difference. However, Anglicare's experience is that for our clients, even these prices are not affordable.

For standard tariff customers experiencing difficulty in paying their bills, Aurora offers payment plans. About 350 payment plans are put in place each month, but only about 10% are successfully completed (OTTER 2008, p. 133). Anglicare's financial counsellors report that affordability issues are the reason why many payment plans collapse. For example, the approximate breakdown of a 12 month payment plan for a $300 quarter bill will be a usage component of $50 a fortnight and a repayment component of $12 a fortnight. A typical client will be able to afford the repayment component. The part that causes the payment plan to be unsustainable is the usage component – the client is using $50 worth of electricity a fortnight but they cannot afford to spend $50 on electricity a fortnight. Clients' inability to afford the electricity they are actually using is not because they are wasteful with electricity. It is because, on their limited incomes, they are simply unable to afford even frugal usage.

And if a client is unable to afford the cost of electricity paid fortnightly on a payment plan, they are unlikely to be able to afford the cost of electricity paid incrementally via an APAYG meter either. The findings of Anglicare's emergency relief and financial counselling survey discussed above, which include a disconnection rate of 33.8% among APAYG customers, confirms this.

Theoretically, APAYG offers customers the opportunity to reduce their costs to more affordable levels by utilising APAYG's time-of-use component.[1] The TasCOSS research found that 55% of customers used the cheaper periods, although only 20% used them every day (Ross & Rintoul 2006, p. 37). Actaris, a pre-payment meter manufacturer, has stated that 'the introduction of TOU [time-of-use] PrePayment meters around the world, including Australia, has shown that, on average, consumers do NOT adjust their consumption pattern when paying a TOU tariff, unless the difference in price is really restrictive' (cited in Sharam 2003, p. 13). This may be because the consumption patterns of low income earners are relatively fixed. Ross and Rintoul (2006, p. 37) concluded that while activities like laundry or bathing could be moved to make use of time of use pricing, other requirements, like heating, were less flexible.

In 2004, the Regulator concluded that customers would have to shift a large amount of their consumption to lower cost periods before there was any significant impact on the weekly cost (Energy Regulator 2004, p. 4). The terms of reference for this inquiry require the Regulator to explore 'whether customers are likely to have the necessary understanding of time-of-use pricing and their own consumption patterns in order to make informed decisions relating to the relative benefit of APAYG and tariff pricing' (OTTER 2009, p. 54). 'Necessary understanding' would need to include information about whether the cost benefit of using the time-of-use pricing outweighed the costs of disruption to the household routine.

Another suggested benefit of APAYG is that customers are more easily able to 'see' the electricity they are using – they can, for example, see by reading the meter the impact of turning off lights or appliances. This greater awareness allows customers to better control and reduce their energy consumption. However, statements like this 'ignore the nature of low-income energy use. The largest uses of electricity in a low-income home are frequently, if not generally, driven by factors outside the ability of the consumer to control' (FSC 2001, p. 3). These factors include poor quality housing with low energy efficiency or cheap but inefficient appliances. However, even strategies to address some of these issues are not always effective – Energy Action Scotland (2004, p. 8) has concluded that while improving insulation and heating efficiency will help to reduce the overall cost of running a home, 'the underlying problem of poverty meaning that households just cannot afford to pay for fuel is very real'.

In fact, research suggests that most electricity usage in low income households is non-discretionary and that households have very limited capacity to reduce their consumption

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[1] On this point, the draft report cites an Anglicare submission to the previous review of PAYG and states '[r]esearch undertaken by Anglicare in 2005, suggested that the majority of APAYG customers were aware of the [time-of-use] rates and took advantage of the cheaper periods' (OTTER 2009, p. xi). Anglicare is concerned that this statement misrepresents the submission. The research referred to (Law 2004) was based on focus group discussions held to provide additional information for Anglicare's submission to the previous APAYG review. As was made clear in the introduction to the submission, these focus groups involved just seven people (Law 2004, p. 1). Although the focus groups were able to provide important information about the real-life experience of using APAYG, the participants were not representative of APAYG customers more generally and, given that they had volunteered to be involved in a focus group, may in fact have been more proactive and engaged with the issues than the average APAYG customer. The comments of focus group participants should therefore not be taken to indicate what 'the majority' of customers did or did not think about APAYG.

(Langmore & Dufty, cited in WACOSS 2009, p. 12). What, then, do people do if they cannot reduce their usage but they also cannot afford the cost of what they do use?

Lawrence (cited in Sharam 2003, p. 9) argues that different households will respond differently. Age Pensioners, for example, will cut back on their food intake, while families will accrue arrears and use emergency relief as a coping strategy. US research found that inability to pay resulted in 'unreasonable' and 'dangerous' budgeting decisions, such as 'heat or eat' or going without medical treatment and not taking prescription medicines or taking lower than prescribed dosages of prescription medicines (FSC 2001, p. 3). Research in the UK in the late 1990s found that one in five pre-payment customers said that they generally used less electricity than they needed to use (Ofgem 1999, p. 21). A fifth (22%) of the respondents to the TasCOSS survey said that they had put off paying for other household expenses to make sure that they did not run out of electricity. These expenses included other bills such as water or gas (13% of all respondents), groceries and supplies (10%), food (8%) and rent or mortgage payments (2%). These are hardly non-essential items.

In relation to the expansion of pre-payment meter use in Western Australia, the Western Australian Council of Social Service has commented that '[pre-payment meters] play a role in a much wider policy debate, in that they are being used by retailers to address customer debt, rather than broader consideration being given to the underlying causes of this debt' (WACOSS 2009, p. 13). In the Tasmanian context, this point could be restated as, 'APAYG is being used to address the difficulties customers face with large bills, rather than broader consideration being given to why large bills are so difficult to manage'.

5. Conclusion

The 'regulatory test' that is applied by the Regulator in deciding whether or not to include APAYG in the suite of regulated tariffs requires that Aurora have 'substantial market power' in respect of APAYG and that the promotion of competition, efficiency or the public interest requires APAYG prices to be regulated (OTTER 2009, p. 39). It is Anglicare's assertion that, in relation to disadvantaged customers, Aurora does have 'substantial market power' in respect of APAYG and that the public interest does require those customers to receive protection from the risk of unreasonable price increases through regulation of pricing.

Market power

Anglicare believes that Aurora does have substantial market power in respect of APAYG. This is because, as outlined above, for many APAYG customers, especially the most disadvantaged, APAYG is not a genuine product of choice but rather a last resort option. For these customers, the standard tariff does not offer a 'safety net' but instead offers even greater difficulty and stress through the imposition of large and unmanageable amounts of debt. The other pre-payment billing options offered by Aurora are not well enough promoted or understood by customers to provide a realistic and meaningful alternative.

The public interest
The draft report defines the public interest in the following terms: 'The public interest in this matter includes both promoting efficiency through appropriate regulation of price and the redressing of the inequality of bargaining power arising when some classes of customer face a monopoly supplier' (OTTER 2009, p. 42). The Regulator also cites elements of the ACCC's interpretation of 'public benefit' as including the fostering of business efficiency, industry rationalisation, promotion of industry cost savings, promotion of competition, promotion of equitable market dealings, expansion of employment, development of import replacements, growth in export markets and a smooth transition to deregulation (OTTER 2009, pp. 42-3). Anglicare submits that taken together, these interpretations represent a very narrow definition of 'public interest'. In focussing exclusively on economic benefits to the public, such an interpretation ignores the fact that it is also very much in the public interest for all citizens to have fair and equitable access to affordable essential services, including electricity.

Anglicare agrees that regulating APAYG will not automatically make prices more affordable (OTTER 2009, p. 48). However, it will ensure that due attention is paid to a range of factors when maximum prices are set and will provide an additional layer of protection for customers. Concession customers cannot rely on the government to intervene in the event of every price increase and customers who fall outside concession eligibility limits but who are still on low incomes or at risk of financial hardship due to personal circumstances are entitled to equitable pricing. The greater vulnerability of APAYG customers is in Anglicare's view sufficient justification for additional protection to be applied.

The draft report states that if APAYG was to be regulated, 'it could then be argued that it would then not be a true product of choice' (OTTER 2009, p. 49). Anglicare disagrees. Regulating APAYG will not detract from customer choice: customers who are in a position to choose will still be able to be on a standard tariff or on APAYG according to which best suits their individual circumstances. But those customers whose reliance on APAYG is the result of constrained personal circumstances will receive additional protection from the risk of future unreasonable price increases.

Anglicare also calls for better promotion of existing alternative payment methods and effort by Aurora to develop new payment options that meet the needs of people on very low incomes without adding to their risk of disconnection.

6. References

ABS – *see* Australian Bureau of Statistics.

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