Submission

To: AEMC

Topic: Hardship Rule Change

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About Uniting Communities

Uniting Communities works across South Australia through more than 100 community service programs, including: aged care, disability, youth services, homelessness intervention, foster care and family counselling. Our team of staff and volunteers support and engage with more than 20,000 South Australians each year. We strive to build strong and supportive communities, and help people realise their potential and live the best life they can.

We have a long-standing role as a provider of financial counselling services and have observed over recent years that energy affordability set number one presenting issue across our financial counselling services. Consequently we have actively engaged in advocacy and engaged with energy businesses and regulators to seek to make energy more affordable.

This submission builds on the experience of thousands of financial counselling interviews, provision of a diversity of other support services lower income and disadvantaged households along with a decade and a half of active engagement in energy policy and regulation advocacy.

The Problem

The fundamental problem is that energy prices have been growing at a significantly greater rate than incomes for most Australians for the past decade, at least, as summarised in figure 1 below. Rapidly rising prices have been experienced most savagely by people who are private sector renters, and have also impacted on other groups of people who are disadvantaged.

Index of electricity Prices, CPI and wages for Australia, March 2007 = 100

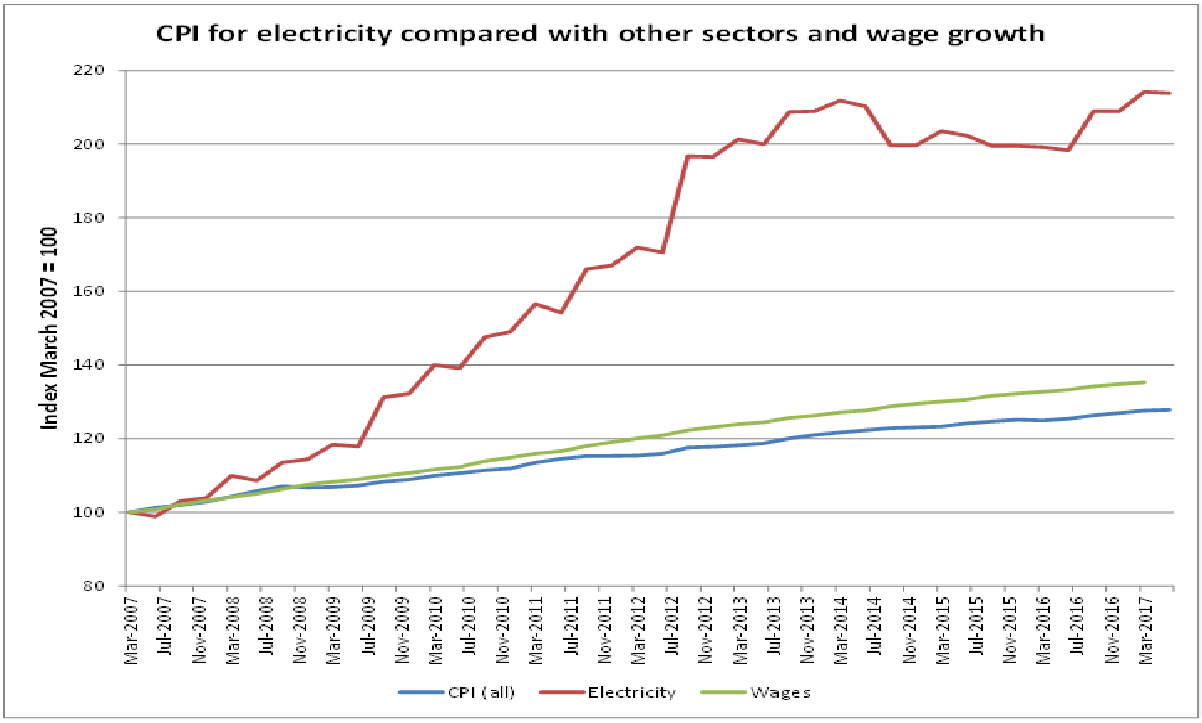

Figure 1 Source: ACCC report re energy affordability

Figure 2 shows percentages of renters and homeowners facing at least one financial stress by income source. We note that one of the most common measures of financial stress is inability to pay energy bills on time

<u>Percentage of renters and homeowners facing at least one financial stress, 2015-16</u>

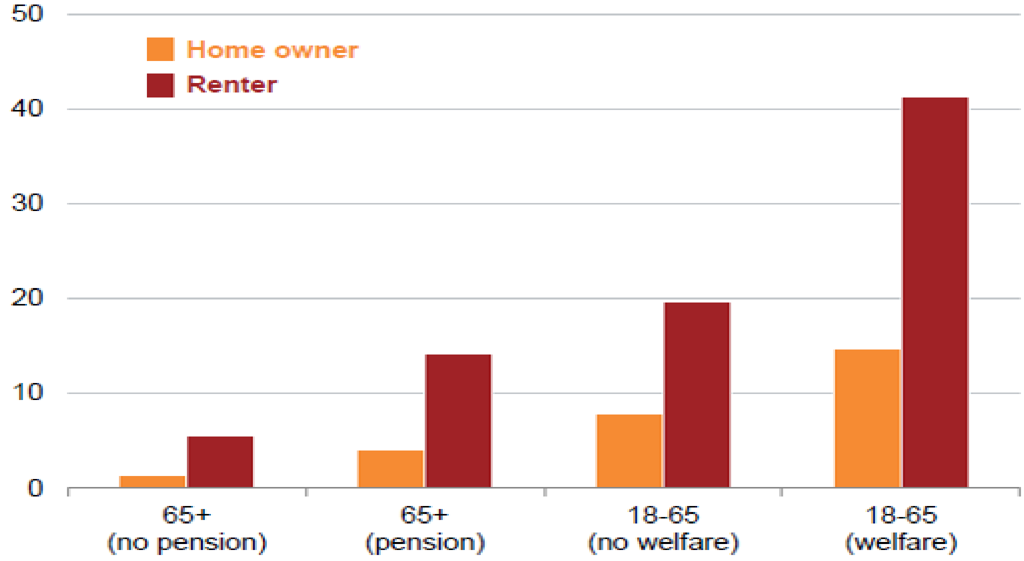

Figure 2, Source: Grattan Institute, Housing affordability: re-imagining the Australian dream
Figure 2 shows that renters, whether or not they receive a pension or welfare support, experience financial stress at much greater levels than homeowners.

This graph gives a sense of the extent of financial stress and consequently bill stress and consequently hardship

The lowest income quintile of households already pays more than three times more of their disposable income on electricity and gas compared to the highest income quintile. The bottom 40% of households by income are four times more likely to not pay their utility bills on time compared to the richest 20%[1] (illustrated in graph below).

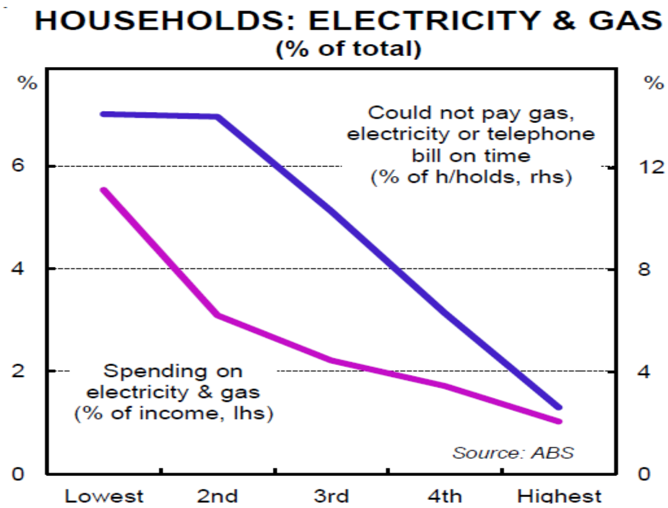

Figure 3, Source ABS, Financial Stress

[1] CBA Global Market Research, Economics: Issues 9th October 2017 pg2

For each of the last five years, more than 10,000 South Australian households have been disconnected from essential electricity supply, due to inability to pay.[2] This highlights the extent to which our poorest households are vulnerable to further rises in power prices.

These indicators give a sense of the factors and the large numbers of people being pushed towards energy hardship by low income, rising housing costs and rapidly rising energy costs.

The hardship will change is therefore very important as a means of introducing greater fairness into the provision of the central service of electricity into Australian communities.

Hardship Rule Change

We understand that this will change request was received by the Australian Energy Market Commission in March 2018, the request been made by the Australian Energy Regulator with the objective being to improve protection's for customers experiencing financial hardship.

Uniting Communities agrees with the Commission's draft rule determination, specifically

1. enhancing the AER's capacity to utilise its powers under the NERL to improve retailer hardship policies.
2. making a rule that hardship guidelines should be binding and establish minimum obligations on retailers. We note that minimum requirements need to be robust and effective.
3. the preferable rule enhances existing requirements on retailers in relation to customers facing payment difficulty due to hardship and allows flexibility to respond to different customer needs in providing hardship support.
4. The law change should be made to require retailers to have an approved hardship policy in place before they are able to receive retailer authorization.

We also agree that the draft rule determination is in the long term (and also the shorter term) interest of consumers.

Some comments about hardship programs

We make a couple of brief comments regarding hardship programs that we hope will be helpful in the transition to implementing the new rule.

1. Small numbers in hardship programs
   We estimate that nearly 40% of households will struggle to pay at least one electricity bill each year, yet only a little more than 1% of household customers are assessed as eligible to be on a hardship program. We think there is an ongoing problem with the very small number of people who are admitted onto hardship programs.

2. Through our financial counsellors in particular, we observe considerable levels of "gatekeeping" by some retailers which we opine is intended to make it very difficult for customers who we believe should be on a hardship programs, to get onto

[2] AER Retail Market Performance Report https://www.aer.gov.au/retail-markets/retail-statistics/south-australia-residential-customer-disconnections.

hardship programs. This 'gatekeeping' to keep people away from hardship programs needs to stop.

3. We think there needs to be capacity for a third party to request that a customer is put into a hardship program, a third party could be a Carer, registered Guardian, financial counsellor or other trusted third party with a capacity to act on behalf of a customer who has limited capacity to act on their own behalf

4. There continues to be a lack of clarity about the purposes of hardship programs and we think that this is a debate that needs to be conducted between the regulator, electricity and gas retailers and consumer groups, along with financial counsellors. For some people a hardship program should be to support the customer during a period of transition for other people hardship programs need to be about ensuring adequate supply of electricity, despite limited capacity to pay.

5. We consider that there are different functions for hardship programs so care needs to be taken so that hardship is not defined to narrow criteria. For example we regard hardship programs as needing to cover the following aspects of hardship:

    a. People who are confronted with a crisis, for example major health episode or a change in employment circumstances where assistance with hardship is needed for a limited period of time so that the customer can get back on their feet
    b. people with limited or reducing capacity to act independently, for example a person for whom Alzheimer's disease or similar conditions are emerging.
    c. People who are just plain poor and are unlikely to be able to afford the energy that they and their children need, for an extended period of time ..
    d. People who for whatever reason have incurred a significant debt that they are struggling to repay whilst maintaining current consumption levels commensurate with their needs.

Hardship programs will need to be structured differently to deal with each of these, and other hardship needs.

We commend the AEMC on their efforts in considering this rule change and look forward to working with the AER and retailers in implementation.