

## **Vulnerable consumers, competitive energy markets and energy market contracts**

### **Overview**

For the last 10 years, the Essential Services Commission of South Australia regulated the price of the electricity and gas standing contracts. In early 2013, about 25% of small customers (around 200,000) were on the electricity standing contract. From 1 February 2013, energy prices in South Australia were deregulated and the Commission no longer has responsibility for setting electricity and gas standing contract prices.

With the move to retail price deregulation in South Australia, there is growing attention on the need for all consumers to participate fully in the market in order to maximise the benefits of competition. In particular, enhanced activity by consumers to exercise their power of choice through switching to more competitive retail offers is widely promoted as a sign of market competitiveness and is therefore seen as an optimal state of affairs.

SACOSS has recognised that there are particular issues facing vulnerable consumers in a competitive retail environment and as a result, decided to convene a focus group with members to explore the details of the issues. The focus group was held on the 13 May 2013 and included financial counselors, as well as representatives from the aged, disability and philanthropic sectors. A number of issues emerged from the focus group which then formed the basis of further research. A summary of the findings is presented in this paper.

SACOSS believes that the community has a role to assist those with the least capacity to pay to find the best energy market deal for them. The best deal may not be the offer that, on face value, offers the cheapest rates.

### **Vulnerable consumers – experience in the energy market**

There is a continuum of vulnerability within the residential energy consumer category, which makes it difficult to generalise about the characteristics of vulnerable consumers. Consumers may be vulnerable to price shock, disconnection, threat of disconnection, disengagement with the market, limited access to the housing market, low incomes, strong price signals and health impacts due to behavioural change in extreme weather.

People in poverty or at risk of poverty are among the most vulnerable. A combination of inadequate income, a lack of other resources and particularly high essential living expenses place some consumers at high risk of poverty. Research has found that those at risk of poverty “are especially vulnerable to increases in costs of living and find it difficult to cope in a crisis. They are less likely to have ‘safety net’ resources such as insurance or money set aside for an emergency.”<sup>1</sup> The categories of people most at risk

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<sup>1</sup> Engels, B., Nissim, R. and Langvodt, K. (2009) “Under Pressure: Costs of living, financial hardship and emergency relief in Victoria” at

include unemployed people, particularly singles; sole parents, particularly women; pensioners; Indigenous people; young people and people with a disability.

The SACOSS focus group attendees indicated that the newly arrived, refugees, people with mental health issues, Indigenous people and people with low literacy are also particularly vulnerable energy consumers.

While a distinction is often made between temporary and ongoing vulnerability, many vulnerable consumers in the energy market are faced with shared experiences including:

- Managing high levels of debt
- The threat of imminent disconnection
- Difficulty gaining access to retailer hardship programs
- Difficulty gaining access to a financial counsellor

SACOSS focus group attendees also noted that door knocking, billing disputes and market complexity present particular issues for vulnerable consumers.

Within the vulnerable consumer group, it was noted that households connected to both electricity and gas face unique cost pressures. These *dual fuel* users experience higher costs relative to electricity only consumers. This appears particularly pronounced for households with modest consumption as they are required to pay fixed supply charges of around \$250 per annum for both forms of energy. The fixed energy concession offers no proportional relief for these customers since the same rate applies whether or not a household is connected to gas. This is a particular issue for renters, including many public housing tenants, who are in housing where both gas and electricity are required to meet essential needs and who are therefore left with little choice.

## Market contracts

While the retail sector widely promotes the benefits of market contracts, SACOSS focus group attendees raised a number of concerns related to the conditions under which these contracts are offered. These included:

- The Energy Made Easy comparator website is considered too complex to have widespread use and there are questions about whether people are getting the information they need when they do use the website;
- Energy Made Easy also requires internet access and reasonable levels of literacy – or someone with the time and patience to utilise the service on a household's behalf.
- There is a high level of distrust of the retail energy market sector amongst consumers and this impacts on people's willingness to fully engage with market offers, and;
- While it is acknowledged that fixed term market offers may offer lower prices relative to *no exit fee* or *no lock in contract* offers, these are often not appropriate to renters who do not have guarantees of long term tenancies.

- Also, 'fixed term' does not equate to 'fixed prices' and there were strong views presented in relation to the fairness of this. SACOSS notes that, for example<sup>2</sup>, Origin Energy's *Rate Freeze* Product (rates fixed for 2 years) comes at a 6% premium over their standing offer and costs some 13% more than Origin's best market offer (a 12m contract).
- There was general agreement that households should attempt to find the best deal on offer from their current retailer before contemplating the effort of identifying and switching to a new provider.

## Financial counsellors

SACOSS has previously reported extensively on the crucial role of financial counsellors in assisting people in financial stress.<sup>3</sup> A number of factors can bring on a financial crisis for people or households, including: life events, universal factors, behavioural factors and/or circumstantial factors. In dealing with such crisis, financial counsellors are required to fill a number of roles. A lead Victorian study identified the following as core tasks of a financial counsellor:

- Assessment of whether the debt is legally owed;
- Information on the implications of unpaid bills, debts and fines;
- Advocacy with creditors and/or assistance with self-advocacy;
- Assistance to work out payments with creditors;
- Assistance with budgeting;
- Information about possible financial assistance;
- Information on bankruptcy.<sup>4</sup>

In 2012, SACOSS reported that the considerable growth in demand for financial counselling services in the community has not been met by increasing resources. In addition, cases are becoming increasingly complex and requiring more complex services. This has meant that the system is effectively in crisis and that "large numbers of vulnerable people are being turned away, bounced from agency to agency and/or kept waiting for weeks while their debt and stress burdens increase."<sup>5</sup>

## Debt

Debt is a major factor for people in financial stress, with research indicating that for people accessing financial counseling, the median amount of debt owed was \$5,000 to \$10,000, and almost a third had debts in excess of \$20,000.<sup>6</sup>

<sup>2</sup> Source: Energy Made Easy accessed May 30<sup>th</sup>, 2013 for Adelaide consumption estimated for 2 people'

<sup>3</sup> See for example, SACOSS (2011) "At the Crossroads – Financial Counselling in South Australia" at [http://www.sacoss.org.au/online\\_docs/110505%20At%20the%20Crossroads%20Financial%20Counselling%20in%20SA.pdf](http://www.sacoss.org.au/online_docs/110505%20At%20the%20Crossroads%20Financial%20Counselling%20in%20SA.pdf) or SACOSS (2012) "Unsupported Debt: The Crisis in Financial Counselling in South Australia" at

[http://www.sacoss.org.au/online\\_docs/120103%20Unsupported%20Debt%20crisis%20in%20financial%20counselling%20in%20SA.pdf](http://www.sacoss.org.au/online_docs/120103%20Unsupported%20Debt%20crisis%20in%20financial%20counselling%20in%20SA.pdf)

<sup>4</sup> White, S. and Delaney, B., (1995) 'Financial Counsellors Training Needs Project', Social and Community Services Training Board of Victoria, Melbourne.

<sup>5</sup> SACOSS (2012) p.8

<sup>6</sup> Brackertz, N. (2012) "I Wish I'd Known Sooner: The Impact of Financial Counselling on Debt Resolution and Personal Wellbeing" at

<http://www.salvationarmy.org.au/Global/News%20and%20Media/Reports/2012/00099-I-wish-I-had-known-sooner-Oct-2012.pdf>

Financial counselling can contribute to debt resolution, with organisations like the Salvation Army reporting that more than two thirds of surveyed respondents agreeing that financial counseling had helped resolve their financial difficulties.<sup>7</sup>

Nevertheless, one of the primary issues for clients in financial stress is that there is a need to minimise collectable debts. Switching retailers at this point is only going to add to the level of their collectable debt.

It was noted that NECF reporting will, for the first time, provide publicly available data on the levels of energy debt carried by households.

### **Supports for vulnerable consumers**

A recent paper by AGL has highlighted areas where participation is not being enhanced. While the context for the paper is price regulated markets, it is worth noting the emphasis on lack of promotion of market contracts by providers of financial assistance: “Our survey results show that most providers of financial assistance do not recommend market contracts primarily due to inadequate information”.<sup>8</sup> The authors of the AGL paper proceed to comment that the failure of community sector providers of financial assistance to promote market contracts “is a material problem that requires correcting”.<sup>9</sup> The perception that the role of providers of financial assistance is to make recommendations is of particular concern and will be discussed in more detail below.

While financial counsellors have a crucial role to play in resolving debt, enhancing financial capability and ensuring better health and wellbeing for clients, there are codes of conduct to which financial counsellors are required to abide which impose limitations on the type of service they are able to offer. Financial counselors in the SACOSS focus group reported that their role is to provide options, rather than advice, to people in financial stress.

The Australian Financial Counselling Code of Ethical Practice confirms that provision of options is a requirement for financial counsellors:

“Financial counsellors empower the client to manage their own financial situation. Financial counsellors will seek to assist clients to recognise and develop their own strengths and abilities by providing support, options, resources and promoting skills...

Financial counsellors work with the client to gather accurate and current information on relevant aspects of the client’s financial, social and legal situation. This information is used to assist the client to make informed decisions about their financial circumstances and options.”<sup>10</sup>

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<sup>7</sup> Brackertz, N. (2012)

<sup>8</sup> Nelson, T. and Reid, C. (2013) “Reconciling energy prices and social policy” at <http://www.aglblog.com.au/wp-content/uploads/2013/04/No-37-Reconciling-energy-and-social-policy-FINAL.pdf> p.1

<sup>9</sup> Nelson, T. and Reid, C. (2013) p.18

<sup>10</sup> The Australian Financial Counselling Code of Ethical Practice at <http://www.financialcounsellingaustralia.org.au/getattachment/Corporate/Financial-Counselling/Policies/Code-of-Ethical-Practice-Web.pdf> p.8

This function of providing options strongly suggests that financial counsellors do not have the ability to recommend specific products, including market contracts, to their clients. This was in fact the view strongly voiced by participants in the SACOSS focus group.

This has profound implications for the sector's ability to support vulnerable consumers and frames a response to the findings of the AGL paper.

## Utilities literacy

A consistent theme in the SACOSS focus group was that by the time a person is seeking the assistance of a financial counsellor, they are usually in a situation where their debt is "well and truly entrenched".<sup>11</sup> In this situation, high order options will be prioritised as they are seen to be "fixing the problem".<sup>12</sup> Consultations with clients are also time limited so the highest priority issues are considered, rather than those of a lower order.

An emergent theme among providers of financial assistance in South Australia is of people who are eligible for state based concessions who are not accessing the concessions available to them. Getting those people on to the available concessions is considered to be a high order priority.

While acknowledging the constraints around recommending particular products, it is arguable that the provision of information about more suitable contracts may still be desirable from the point of view of a client in financial stress. A comparison of electricity only offers from the Energy Made Easy website has indicated that in South Australia, savings comparable to the combined energy and water concession may in some circumstances be possible.<sup>13</sup> This suggests that there may be some merit in considering under what circumstances a provider of financial assistance might wish to present to clients the options for pursuing a better deal (including the possibility of switching energy providers), as well as how this possibility might be presented.

Focus group attendees also indicated a perception that many of the conditional discounts which are offered as part of a market contract (e.g. pay on time, direct debit) are not available to those consumers who utilise bill smoothing options, including CentrePay. Indications from retailers that this is not the case and that conditional discounts are available to bill smoothing arrangements suggest that this is another area where utilities literacy training should be targeted.

SACOSS has concluded that there is a resource and information gap in utilities literacy, which exists despite the facility of the Energy Made Easy website. Respondents in the SACOSS focus group all agreed that the website is too complex for their purposes, and were able to cite other examples of financial services providers being unable to use the website to gain the information they needed – especially in the time available to meet with a client.

Given the crisis of resources and time limitations experienced by providers of financial assistance in South Australia, SACOSS would argue that the resource and information gap in utilities literacy must be addressed strategically. SACOSS believes that filling that gap well requires a combination of technical knowledge and familiarity with the

<sup>11</sup> SACOSS focus groups participant, 13 May 2013

<sup>12</sup> SACOSS focus groups participant, 13 May 2013

<sup>13</sup> [www.energymadeeasy.gov.au](http://www.energymadeeasy.gov.au) accessed 22 May 2013

community services sector and their clients. It may be that the Utilities Literacy Program strategy, “Development of Community Sector Skills”, will go some way towards addressing the gap in utilities literacy and resources. SACOSS understands that this South Australian Government Department of Communities and Social Inclusion (DCSI) funded program is expected to commence in July 2013.

## Conclusions and recommendations

While providers of financial assistance are limited in terms of what they can recommend to their clients, there is a gap of information and resources focused on utilities literacy for community sector workers and their clients. It is anticipated that the South Australian Government Department of Communities and Social Inclusion Utilities Literacy Program will help address this gap.

Two aspects of the market arrangements present significant challenges for consumers wanting to get better deals:

- Limited portable contracts options to suit renters (who are unable to guarantee long term tenancies);
- Retailers having the right to change prices during a contract term.

SACOSS recommends that further consideration be given to new arrangements which would help overcome these issues.

SACOSS also recommends the establishment of a ‘hotline’ for financial counsellors by every retailer which would serve to facilitate price checking for clients. Financial counsellors would ideally speak directly to the relevant retailer to determine the best offer a retailer would be prepared to provide for an existing client.

*For further information regarding this briefing paper  
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