



Review of the Minimum Disconnection Amount AER Consultation Letter

June 2016

Submitted via - AERInquiry@aer.gov.au

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for financial counsellors in Australia.

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1 INTRODUCTION

1.1 About this Submission

Financial counsellors assist low-income and vulnerable Australians who have financial problems, often involving issues with credit and debt. These problems often related to unemployment, illness or relationship breakdown or because many people struggle to make ends meet because Centrelink benefits are so low. Difficulty in paying energy bills are very common.

Our submission responds directly to questions 1-6 in the consultation letter.

We also support the submission to the Review, including all recommendations, by Consumer Action Law Centre (Consumer Action).

1.2 About Financial Counselling Australia (FCA)

FCA is the peak body for financial counsellors in Australia. We support financial counsellors and provide a voice on national issues. We advocate on behalf of the clients of financial counsellors for a fairer marketplace that will prevent financial problems in the first place.

1.3 What Financial Counsellors Do

Community based financial counselling are free services that provide assistance, information and advocacy to people experiencing financial difficulty including problems with debt. Financial counsellors have knowledge of a range of areas of law and policy, including consumer credit law, debt enforcement practices, the bankruptcy regime, industry hardship policies and government concession frameworks. Financial counsellors are required to hold (or to obtain) a Diploma in Financial Counselling.

Financial counsellors also document their experiences and highlight issues that have a negative impact on their clients. Either individually, or through FCA, they consult with industry, government and other stakeholders and encourage practices that prevent financial and consumer problems.

Q 1: WHAT OTHER FACTORS (IF ANY) SHOULD THE AER CONSIDER WHEN REVIEWING AND APPROVING THE MINIMUM AMOUNT OWING FOR DISCONNECTION?

In general, the factors considered in reviewing the minimum disconnection amount appear to be a sound basis for its determination.

In particular, we note that customers 'should not be disconnected from an essential service for relatively small amounts or for being one quarterly bill behind' as a factor for consideration. The current minimum disconnection amount of \$300 for many Australian households will represent *less* than the cost of one quarterly bill particularly for electricity¹. We are therefore pleased to see that this will be considered in the review.

Q 2: WHAT OTHER DATA (IF ANY) SHOULD THE AER CONSIDER WHEN REVIEWING AND APPROVING THE MINIMUM AMOUNT OWING FOR DISCONNECTION?

We consider the data sets referenced in the consultation letter to be an appropriate basis for reference.

Q 3: WHAT ARE STAKEHOLDERS' EXPERIENCES OF THE OPERATION OF THE MINIMUM DISCONNECTION AMOUNT TO DATE?

FCA is not aware of any significant issues with breaches in relation to the minimum disconnection amount. It is worth noting however, that debt collectors engaged by some energy retailers do on occasion threaten to disconnect people for amounts less than the minimum. This issue could usefully be addressed as part of the review.

Q 4: DO STAKEHOLDERS CONSIDER RETAINING A MINIMUM DISCONNECTION AMOUNT OF \$300 (GST INCLUSIVE) TO BE APPROPRIATE? WHY/WHY NOT?

Q 5: IF STAKEHOLDERS DO NOT FAVOUR RETAINING THE CURRENT MINIMUM DISCONNECTION AMOUNT, SHOULD IT BE INCREASED / DECREASED?

FCA does not support the retention of the minimum disconnection amount at \$300, and recommends the amount be increased to at least \$500.

We understand the AER's desire not to exacerbate a customer's debt level and financial hardship. Disconnection however has a much more severe financial impact: retaining a slightly higher debt level therefore would be preferable.

¹ Australian Energy Market Commission, *Residential Electricity Price Trends*, December 2015.

The severe impacts of disconnection include: the cost of reconnection, the cost of replacing food in the family fridge, the cost of takeaway food when a family has no means to cook it, the social impact on a family having no hot water or heating in winter, just to list a few examples. If gas is disconnected before electricity (as is recommended in dual fuel contracts), the cost of running electric heaters sends electricity bills skyrocketing.

Furthermore, retailers often insist on payment of a specific amount of money (as dictated by them) before reconnection can occur. For families shouldering the high cost of running a household with no electricity or gas, disconnection makes them even more incapable of paying these amounts, compounding their financial hardship.

All these factors exacerbate financial hardship, not protect customers from it. Customers would be better protected from financial hardship by having the minimum disconnection amount increased to \$500.

Furthermore, as described above, we consider that in most states \$300 represents less than the average cost of a quarterly electricity bill, and we agree that customers should not be disconnected for a single bill.

Therefore, FCA proposes that an appropriate level of consumer protection should be a minimum disconnection amount of at least \$500 (GST Inclusive) for a minimum 6 months' worth of usage (being two quarterly bills).

Q 6: WHEN SHOULD THE AER NEXT REVIEW THE MINIMUM DISCONNECTION AMOUNT?

Should changes be made to the minimum disconnection amount, we suggest an internal review be conducted 12 months from implementation.