

Combined Pensioners & Superannuants Association

OF NEW SOUTH WALES INC



Submission to the IPART Review on Early Termination Fees

18 November 2013

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Combined Pensioners & Superannuants Association of NSW Inc (CPSA)

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CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA has 130 Branches and affiliated organisations with a combined membership of over 29,000 people living throughout NSW. CPSA's aim is to improve the standard of living and well-being of its Members and constituents. CPSA depends for the majority of its funding for core activities as a peak body on a \$440,000 grant from the NSW Government. CPSA engages in systemic advocacy on behalf of its constituency and also auspices four services which receive Government funding: the Health Promotion Service for Older People, the Older Persons Tenants' Service, the Park and Village Service and a Community Visitors Scheme. CPSA acknowledges the potential for conflict of interest arising for CPSA and the NSW Government as a result of this funding arrangement. CPSA is committed to managing any conflict of interest issues in an ethical manner.

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Key recommendations:

- 1. CPSA is against early termination fees. If an early termination fee is to be incorporated into a contract, CPSA proposes that it be capped at \$20 in line with what is charged in Victoria while maintaining an exemption for customers accessing financial assistance.**
- 2. That the exclusion from an early termination fee for customers on hardship programmes and those accessing assistance schemes and rebates be extended to people who have accessed these within the term of the contract, not just on their last bill.**
- 3. Clear disclosure of early termination fees. CPSA recommends that this information, along with the end date of the contract be required to appear on all bills. Whether or not a customer can move within the contract period and take their contract with them needs to be clearly spelled out when the contract is signed.**
- 4. All retailers be required to have a contract option that has no early termination fee.**

CPSA welcomes the opportunity to make comment on the Review of early termination fees for electricity contracts and commends the NSW Government for imposing a cap on early termination fees for small electricity customers in NSW.

CPSA is against early termination fees. Such fees restrict the ability of customers to obtain the best energy price available at the time and provide a disincentive for energy providers to positively engage with customers once they have signed onto a contract. Nevertheless, in the absence of a ban on early termination fees altogether CPSA is pleased that there will be restrictions on such fees imposed by energy retailers from 1 March 2014.

Need for transparency on early termination fees

CPSA agrees with the Energy and Water Ombudsman NSW (EWON) that there is a critical need for clear disclosure of early termination fees to customers. While the draft report notes that the Australian Energy Regulator's Retail Pricing Information Guideline requires energy price factsheets to include information about early termination fees, CPSA recommends that this information along with the end date of the contract, should also be required to appear on all bills. This would keep customers informed about where they are situated with their current contract and encourage retailers to continue to positively engage with customers who will be more informed.

All too often customers are of the assumption that should they change addresses during the contract period that they will be able to do so without facing an early termination fee, however this is not necessarily the case as it is not mandated. Whether or not a customer can move within the contract period and take their contract with them needs to be clearly spelled out when a contract is signed.

CPSA also proposes that retailers be required to have a contract option that has no early termination fee. While CPSA recognises that retailers are not required to charge early termination fees and that many offers do not, such offers are not available to all customers. Such a requirement, even if it resulted in slightly higher per unit costs, for people who decided to go with such offers (assuming these higher per unit costs are made clear to potential customers) would allow customers to have additional choice to not have early termination fees applied. This would be particularly beneficial for customers who know they may be likely to move within the contract period or those who do not want to be financially penalised for taking up a better offer at a later stage.

Impact on people living in insecure housing

Early termination fees negatively affect people in insecure housing who are likely to move more regularly and not be in the position to absorb the financial burden of termination fees. People who rent are more likely to be living on lower incomes than home owners and particularly those who are renting without a lease can be unable to predict whether their housing contract will be terminated. As such, early termination fees disproportionately affect people on low incomes and those living in insecure housing. CPSA is concerned by a comment made by an AGL Energy Limited spokesperson at the public hearing on this issue on 4 November 2013 that early termination fees are, in a sense, optional because if they fulfil the terms of the contract customers will not incur that fee. CPSA disputes that this fee is optional for all customers, particularly those without secure housing.

CPSA recognises and is pleased that early termination fees cannot be applied to customers on hardship programmes, people who paid any part of their last bill via an Energy Accounts Payment Assistance (EAPA) Scheme voucher and customers receiving the Low Income Household Rebate or the Medical Energy Rebate on their last bill before termination. CPSA however proposes that while the exclusion of these groups from early termination fees is welcome, the criteria means that there are still customers under financial stress who will be negatively affected by early termination fees who may not have accessed these initiatives for their last bill either through a lack of knowledge of them or a reluctance to do so.

CPSA proposes that people who have accessed any of these forms of assistance over the course of their contract be excluded from early termination fees, not just those who accessed them for their last bill. While this will not capture people who are struggling financially with their bills but have not accessed such assistance programs, it will capture

more people who have a history of difficulty in paying their energy bills and are therefore more likely to be pushed into financial stress if an early termination fee is added as well.

Costs associated with early termination

CPSA proposes that upfront inducement costs and customer acquisition costs should be excluded from the calculated costs that can be claimed under an early termination fee. CPSA supports the Public Interest Advocacy Centre's (PIAC's) position that while we prefer a zero early termination fee cap, of the two approaches put forward, the one that more closely aligns with the costs imposed on retailers which cannot be recovered by other means is more appropriate, particularly in light of the fact that retailers are already compensated for customer acquisition costs with regulated contracts through the customer acquisition and retention costs allowance.

CPSA reiterates that we're against this customer acquisition and retention cost allowance, and maintains that it is inappropriate that customers are charged to assist energy retailers in providing market discounts and covering the cost of acquiring new customers in the name of improving competitiveness. CPSA cannot see the logic in giving retailers an extra allowance in the hope that in time it will push prices down. This extra allowance seems to go against the notion of increasing competitiveness through innovation, allowing retailers to gain more for less rather than think of more cost effective ways of delivering services. CPSA still maintains, as put forward in our submission on this matter, that it should not be IPART's role to make the regulated price a less attractive option and that the market players should be responsible for coming up with offers that tempt customers to enter into a new contract.

Similarly, as raised by PIAC, it seems inappropriate that customers bear all the risk of being in the market and exercising their right to terminate earlier, while the retailer can walk away not only with the fee but also any profit that they generated from the customer while they were a buyer of their service.

CPSA also disputes the notion that early termination fees are becoming common place and are therefore justified. Unlike other services for which customers may sign contracts, the price of energy can increase over the course of the contract. For most other contracts customers are signing on for a fixed term at a fixed price but this is not the case with this essential service. Customers can spend a great deal of time searching for the best deal only for the value of this deal to change within a short space of time.

CPSA proposes that the administration costs associated with processing a contract cancellation are minimal, as found in Victoria, where the early termination fee cap is set at \$20, vastly lower than the \$130 proposed for NSW.

CPSA therefore proposes that the early termination fee cap be set at \$20 in line with the Victorian model, while maintaining the exemption for customers accessing financial assistance. CPSA does not want to see a situation where electricity retailers compete on the level of early termination fee rather than price, as the majority of customers who will remain with their contract for the entire duration will not benefit if this is to occur. Likewise customers who go out in search for a better deal should not be penalised substantially for doing so, it should be up to the retailer to provide the best value for customers rather than penalising them for leaving, despite no longer providing the price that a customer signed up to.

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