

11 May 2007

Gas Retail Pricing 2007/8 to 2009/10  
Independent Pricing and Regulatory Tribunal  
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Thank you for the opportunity to comment on the Tribunal's review of regulated gas retail pricing for 2007/8 to 2009/10.

The Energy & Water Ombudsman NSW investigates and resolves complaints from customers of electricity and gas providers in NSW, and some water providers.

EWON believes that the voluntary transitional pricing arrangements currently in place for the standard suppliers have been beneficial to retailers and customers alike. For this reason we recommend they be retained for the next period, together with the maintenance of side constraints on individual customer bills. We also strongly recommend close regulation of the quantum and application of miscellaneous charges, and their alignment with those for electricity.

If you would like to discuss this matter further, please contact me or Brendan French, Deputy Ombudsman, on 82185250.

Yours sincerely



**Clare Petre**  
**Energy & Water Ombudsman NSW**



Energy & Water  
Ombudsman NSW

*Response to*

*Independent Pricing and Regulatory Tribunal*

**Review of Retail Gas Prices in NSW**  
**1 July 2007 to 30 June 2010**

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*Submitted by the*

**Energy & Water Ombudsman NSW**

*11 May 2007*

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## Introduction

The Energy & Water Ombudsman NSW (EWON) is pleased to respond to the *Draft Voluntary Transitional Pricing Arrangements for supply of natural gas to small gas customers – 1 July 2007 to 30 June 2010*.

Established in 1998, EWON is the approved independent dispute resolution mechanism for customers of electricity and gas providers in NSW, and some water providers. Our aim is to provide fair, equitable and independent investigation and resolution of customer complaints. We work with all the key stakeholders – providers, community, government, regulators – to improve the standard of service delivery for the benefit of NSW consumers.

For some years the Tribunal has elected to adopt an avowedly light-handed approach to the regulation of gas prices for small customers. This approach has proven a successful one, particularly as it has allowed the standard suppliers (for the most part) to ensure their tariffs are cost reflective while at the same time mitigating price volatility for customers by imposing constraints at the level of individual customer bills. In other words, the balance between retailer and customer needs has been achieved with a considerable amount of success.

It is clear that NSW utility customers are entering a period of considerable price uncertainty in relation to the provision and availability to all of essential services. All services regulated by the Tribunal will experience significant price increases over the next few years. Energy competition, while increasing, is not at a level that can guarantee benefit to all, least of all to vulnerable customer groups. In this context of change and uncertainty, we consider there is value in maintaining the current regulatory model for gas pricing for small customers but increasing the Tribunal's scrutiny of the amount levied by retailers for miscellaneous charges. We also consider that as far as possible such charges should be identical across retailers and with the equivalent charges for electricity.

Our comments are included under the following headings: form of price control; regulation of miscellaneous charges; individual miscellaneous charges.

## Form of Price Control

The *Draft Voluntary Transitional Pricing Arrangements* [VTPAs] recommend a weighted average price cap [WAPC] pricing model, thus allowing retailers to vary individual tariffs without constraint within a cap weighted by customer numbers and consumption. Unlike the current VTPAs, the form of WAPC does not require constraints at the level of customer bills.

While EWON acknowledges the Tribunal's data – and our own – that suggests the level of competition in the NSW market is growing at a steady pace, it could not be concluded that the market is sufficiently mature to allow for price to be controlled solely by competition. It is clearly for this reason that the NSW Government and the Tribunal sought to continue regulating pricing – even if via a light-handed approach – for 2007/8 to 2009/10. One of the main reasons for doing so, no doubt, is to provide adequate protection for those who are unable to access competitive offers or who choose for the moment to continue to be supplied under a standard form contract, as is their legislated right. The question is whether the proposed WAPC model is sufficient to protect the interests of this type of customer.

The current arrangement has allowed retailers to rationalise tariffs effectively and to ensure that (in the large majority of cases) tariffs are cost reflective. It is important to note that these very real achievements – to some extent, in advance of the arrangements for electricity – have been achieved while maintaining a 'safety net' price control at the level of customer bills. This has ensured that over a relatively short number of years, retailers have created a simplified tariff regime (no doubt resulting in lower compliance costs), while at the same time customers have been provided with a regulatory buffer from price shocks. Given that there would be no added compliance burden of maintaining these side constraints and that we understand they are 'relatively simple to administer', it appears sensible that such limitations be maintained.<sup>1</sup> Further, as most New South Wales gas tariffs are already cost-reflective, it would be difficult to argue that side constraints artificially suppressed cost reflectivity.

We believe that the abolition of price constraints on individual bills would remove an important protection for vulnerable customers. There would also be a potential, as highlighted in the Explanatory Note, for standard suppliers to gear tariffs to protect certain customer groups from competitors:

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<sup>1</sup> 'This form of price limit ensures that customers are protected from unacceptable price increases and is relatively simple to administer' (Independent Pricing and Regulatory Tribunal of New South Wales, [Review of Gas and Electricity Regulated Retail Tariffs Issues Paper February 2004](#), 14).

*There may be concern that the removal of the constraint on customer bills could provide opportunities for incumbent suppliers to act strategically to inhibit competition. For example, suppliers could maintain some tariffs below fully cost-reflective levels in order to dampen competition and maintain their customer base. On the other side, suppliers could increase tariffs above cost-reflective levels if there are customer groups that are less likely to enter the competitive market ('sticky' customers).<sup>2</sup>*

While we acknowledge the Explanatory Note's observation that 'there is no evidence that under the current WAPC the gas suppliers have sought to act strategically to segment customers using different tariffs and to price in a way that hinders competition', it is not an impossible development.<sup>3</sup> Were this to occur, it is likely that those least likely to switch retailers (eg. those in rental accommodation) would bear the brunt of above cost-reflective – thus higher – prices. To mitigate this possibility, we recommend that in the absence of side constraints, the Tribunal considers developing a threshold price increase test such as that which the Tribunal has recommended for Country Energy electricity tariffs in the *Draft Determination No 1, 2007*.<sup>4</sup> Under this arrangement, should price increases exceed the threshold, the retailer would be required to explain the reason to the satisfaction of the Tribunal. We acknowledge that at present the trend (particularly, for instance, for AGL) has been to rationalise tariffs so it is quite unlikely that a reasonable threshold would be reached by the current product offerings. Nevertheless, in the absence of side constraints, such a reassurance would be valuable for customers.

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<sup>2</sup> Independent Pricing and Regulatory Tribunal of New South Wales, *Review of Retail Gas Prices in NSW – 1 July 2007 to 30 June 2010: Draft voluntary Transitional Pricing Arrangements: Explanatory Note*, 4.

<sup>3</sup> *Explanatory Note*, 5.

<sup>4</sup> The 'threshold price increase test is designed to deter a significant, unjustified increase in an individual tariff, while ensuring that increases based on underlying costs are allowed' (Independent Pricing and Regulatory Tribunal of New South Wales, *Draft Report No 1, 2007: Promoting retail competition and investment in the NSW electricity industry – Regulated electricity retail tariffs and charges for small customers 2007 to 2010*, 42).

## Regulation of Miscellaneous Charges

The Draft VTPAs have been explicitly described by IPART as ‘a stepping stone towards a removal of formal price regulation once the competitive market has matured’.<sup>5</sup> To this end, a focus on the competitive market has characterised the current pricing reviews for both gas and electricity. Nevertheless, EWON notes that the NSW Government has made no equivalent explicit commitment to the removal of price regulation. While it may be appropriate for the Tribunal to employ a regulatory method that will help to ease the transition to full price deregulation, there is ultimately no guarantee that it will occur.

Clearly, any argument for price deregulation will need to be supported by close examination of the effectiveness of competition, such as that being proposed by the Australian Energy Market Commission. Such an assessment will need to examine how different consumer segments are being served under market contracts, particularly those in circumstances that might be considered vulnerable (eg those on low, fixed incomes; culturally and linguistically diverse communities; tenants; frail aged). EWON has recently experienced a significant rise in the number of complaints by those who are vulnerable to coercive or misleading marketing.<sup>6</sup> It is clear that a number of these customers are in circumstances that at present would suggest a standing contract would be of greater benefit than a market contract. For instance, they will not be penalised if they do not elect to pay via direct debit; they can pay their accounts at a post office; they are on limited duration tenancies and therefore do not run the risk of a termination charge on a market contract if they move; and they have access to a 1<sup>st</sup> tier retailer’s hardship program. Such customers, even under the current VTPAs, are particularly vulnerable to unexpected or ‘high impact’ costs. In this context we believe there is value in the Tribunal considering differential regulatory approaches to particular elements of retail pricing, notably miscellaneous charges, to ensure proportionality in the application of these charges and thus to provide added protections for vulnerable customers.

It appears that many miscellaneous charges – particularly late payment fees and disconnection/reconnection fees – are applied with greater frequency and with more detrimental effect to financially vulnerable customers. This is not to suggest that retailers in any way seek to deal punitively with vulnerable customers – in fact EWON’s experience for the most part suggests the opposite. Nevertheless, we regularly observe that the large majority of those who contact us for referral to community welfare organisations, negotiation of payment plans with retailers or

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<sup>5</sup> *Explanatory Note*, 3.

<sup>6</sup> The number of marketing complaints to EWON rose 254% in 2005/06 from 2004/05. For detail, see EWON’s 2005/06 Annual Report and fact sheets for seniors at <http://www.ewon.com.au/>.

assistance with reconnection have arrears that include one or more miscellaneous charges. Not uncommonly, these will have built up over time.

**Judy called EWON on behalf of her cousin Scott who had been living without hot water since his gas was disconnected 8 months ago. Judy said that Scott was Aboriginal and was permanently in a wheelchair. He wasn't comfortable talking on the phone so she was calling for him. She said he couldn't go on without hot water – he had been using cold water but winter was approaching. Scott had made part payments towards his bill and only had \$20 arrears outstanding. His bills were usually less than \$100 but having been disconnected 4 times in the past 2 years his debt was mostly made up of reconnection fees. The disconnections happened when he was in and out of hospital and couldn't get to pay his bills.**

**EWON contacted the company who said they would reconnect and waive the fee if Scott set up a Centrepay arrangement. We explained to Judy that Centrepay meant there were regular payments going towards his bills. Scott agreed and Judy helped him set up Centrepay to cover future accounts and avoid disconnection.**

EWON considers that if retailers are entitled to recover costs for miscellaneous services outside of their retail operating costs allowance, then certain factors should be given close consideration by the Tribunal.

### *Charges should be consistent between standard suppliers*

The miscellaneous charges that currently apply appear as follows on retailers' websites (10 May 2007). We note that:

- These prices are exclusive of GST (which appears to apply to all other than security deposits and, for one electricity retailer, late payment fees)
- Some of these charges are network charges allowed under gas access arrangements so are passed through to customers by their retailer. Sometimes there is also a 'reasonable costs' allowance for the retailer.<sup>7</sup>

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<sup>7</sup> See, for instance, Origin Energy's website: 'These charges will be passed through to you, including our reasonable costs of arranging network related services' (<http://www.originenergy.com.au/home/template.php?pageid=14485>). It appears, for instance, that Origin Energy charges a total of \$145.46 for disconnection/reconnection for their customers in

	AGL	Country Energy	Origin <sup>8</sup>	ActewAGL	Current Electricity Charges
Account establishment	\$21.30	\$15	\$26.27	\$21.30	<i>Disallowed</i>
Account establishment (pensioner)	\$10.60	-	-	\$10.60	<i>Disallowed</i>
Collector call	\$32.20	\$30	-	\$32.20	\$35.00
Disconnection/reconnection	\$75.30	\$60	\$101.81 (\$45.45 + \$56.36) <sup>9</sup>	\$75.30	\$70
After hours reconnection	\$107.70	?	\$167.73? ('Same Day Premium Service')	\$107.70	\$75
High bill field visit	\$52.70	\$0.00 <sup>10</sup>	\$155.00 ('High Account Investigation')	\$52.70	<i>No such fee</i>
Late payment fee	\$10.60	\$5.00	\$8.00	\$10.60	\$5 <sup>11</sup>
Dishonoured payment	\$22.60	Bank fee x2	\$20.45	\$22.60	<i>Bank fee x2</i>
Special meter read	\$34.10	?	\$13.64	\$42.90	\$35
Network disconnection/reconnection	\$81.90 / \$286.90 <sup>12</sup>	?	-	\$191.10 (\$109.90 + \$81.20) <sup>13</sup>	-
Meter test	\$45.20	?	\$151.64	\$45.20	\$58
Security deposit (residential)	\$150 (1.5 average account)	\$90.91	\$150	\$150	<i>1.5 average account</i>

AGL's network area

([http://www.originenergy.com.au/files/excl\\_serv\\_retail\\_prices\\_gas\\_nsw\\_res.pdf](http://www.originenergy.com.au/files/excl_serv_retail_prices_gas_nsw_res.pdf))

<sup>8</sup> The charges listed here are for Albury / Murray Valley customers. There are significant variations for pass-through costs for customers on negotiated contracts. See in *ibid*. It is also worth noting that Origin Energy lists a large range of miscellaneous charges for these customers not otherwise seen by NSW standard retailers.

<sup>9</sup> The total comprises a fee for disconnection and a further fee for reconnection

<sup>10</sup> Country Energy explicitly states they do not charge for a high bill field visit, thus '\$0.00'.

<sup>11</sup> EnergyAustralia has noted that 'GST is currently not applied to this fee. If this changes, the fee will be increased by the relevant GST rate.'

<sup>12</sup> The former figure for meters with a capacity of up to 6m<sup>3</sup>/hr; the latter greater than 6m<sup>3</sup>/hr.

<sup>13</sup> The total comprises a fee for disconnection and a further fee for reconnection

As is clear from the above table, there is considerable inconsistency across standard retailers in the nature and quantum of miscellaneous charges – both retail and network pass-through costs. For NSW standard electricity suppliers, the Tribunal sets maximum charges which each retailer is entitled to charge so that customers have at least an assurance that the maximum has been independently verified and regulated. This is not the situation for NSW regulated gas customers. While it is, at least potentially, arguable that there may be some cost differential between small and large suppliers, there still exists considerable variation between the three smaller suppliers. Such obvious inconsistencies operate to the detriment of customers, not least because a mobile population has the potential to be considerably confused by the variety of approaches across retailers. EWON recommends that the Tribunal consider simplifying the charges to ensure consistency across retailers.

### *Charges should be consistent between for gas and electricity*

In virtually all areas of utility provision there is a growing convergence of approaches to electricity and gas. This is seen, for instance, at the legislative and regulatory level<sup>14</sup> but also in the minds of customers, many of whom are looking to bundle the two products for the purposes of contracts and billing. It is also the case that no standard supplier of gas in NSW is not also a major electricity retailer (and most electricity suppliers are also retailing gas). This appears to be a natural development, and one that reduces costs and improves convenience for both retailers and customers. It is surprising, then, that this convergence has not been extended to the review of miscellaneous charges.

Given the context of the current electricity retail price review – in which a significantly more light-handed approach to regulation has been adopted – it is important to note that the Tribunal has maintained an interest in determining the maximum quantum of miscellaneous charges as well as the rules governing their application. EWON is strongly in favour of this approach being adopted for the gas VTPAs and, further, that the same charges apply for both utilities. We base our view on the following observations:

1. *Simplicity and consistency for customers.* Given the increasing sophistication of the energy market (contracts, metering, national regulation etc), it seems sensible to reduce the potential for confusion for consumers wherever possible.
2. *Retailer billing/compliance systems.* At the recent IPART Roundtable on the gas VTPAs a number of large 2<sup>nd</sup> tier retailers (eg EnergyAustralia,

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<sup>14</sup> For instance, the Draft Determination No 1 (electricity) and the Draft VTPAs both recommend a weighted average price cap with no side/bill constraints. The latter has also adopted the CPI formula from the former to improve consistency.

TRUenergy) and standard gas suppliers (Country Energy) indicated in-principle support for setting identical miscellaneous charges for gas and electricity.

3. *Price-matching*. A number of large 2<sup>nd</sup> tier gas retailers in NSW offer ‘price match’ contracts (dual fuel or otherwise), ie they ensure that their gas customers on negotiated contracts receive bills with identical tariffs to the standard supplier. As above, a number of such retailers at the Roundtable suggested there would be value in being able to offer identical miscellaneous charges. Benefits include reduced compliance costs, increased streamlining of billing systems, and the ability to provide customers with increasingly comparable bills and formats.

### *The VTPAs should clearly articulate rules of application of the charges*

EWON does not believe that market forces alone will ensure that miscellaneous charges will be applied evenly, appropriately and (at most) at a cost-reflective level. It is not impossible that product offers may eventually be developed that provide a trade off between tariffs and miscellaneous charges, eg a ‘lower tariff / higher miscellaneous charges’ product. While it is arguable that such flexibility may advantage some customers, it is also clear that others – particularly those with limited literacy, the frail aged, etc – could suffer considerable detriment as a result, particularly where the charge arises from a pre-existing financial disadvantage. For this reason, EWON believes that close regulation of miscellaneous charges should be maintained even in the context of (otherwise) full price deregulation.

With regard to the VTPAs, it is important to note that the current electricity Determination offers clear guidance to retailers (and to network providers under the Distribution Determination, whose costs are passed through to customers by the retailer) on how and in which circumstances each charge may be applied. This is not the case for gas miscellaneous charges. Unlike the *Mid-term review of AGL Retail Energy’s gas retail prices to 2004*, for instance, the draft VTPAs do not mention what the charges are or should relate to, when they may and may not be applied, or provide any detail regarding exempt customer groups. We hope that this information will be available in the final report.

### *Customers should be informed of the rules of application of the charges*

We are pleased to note that the VTPAs require the standard suppliers to publish their miscellaneous charges on their websites within five days of the agreement. (EWON agrees with retailers that five working days would be preferable to five calendar days.) We are disappointed, though, that there appears to be no requirement for the suppliers to list on the website – or anywhere else – what the charges relate to and the circumstances in which they may be levied. Customers have a reasonable right to expect this degree of detail and definition, particularly where (as here) such knowledge can assist them to avoid being the subject of the charge (eg late payment fee).

We have been unable to find information on any of the standard supplier's websites that provides detail on the charges. The only information provided about any of the charges relates to security deposits: 'refund after residential bills paid on time for one year' – and then only for two of the four suppliers. EWON requests that the Tribunal include in the VTPAs equivalent detail for miscellaneous charges as provided in the retail price Determination for electricity. Further, this information should be made available to customers – at the least by inclusion on standard suppliers' websites.

### *Charges should include mechanisms to protect the vulnerable*

NSW retailers have consistently stated that miscellaneous charges are a means of recovering certain service delivery expenditure not otherwise accounted for under the allowance for retail operating costs. Given the nature of VTPAs, it is difficult for external agencies to assess this, as the data is unavailable. For EWON, our concern in relation to miscellaneous charges has been the propensity for this form of charge to be disproportionately felt by customers who have specific vulnerabilities, particularly of a financial nature.

The Tribunal has consistently stated in relation to electricity, for instance, that the late payment fee is designed to encourage those who are able to pay on time to do so while not penalising those who are financially disadvantaged. The Tribunal has established various mechanisms to support this objective. The fee cannot be charged or must be waived

- during the period of an extension arrangement
- if the customer has raised a billing complaint with EWON
- if an instalment arrangement is in place

- where the customer has approached a welfare agency for assistance
- where payment or part-payment is made by Energy Accounts Payment Assistance (EAPA)
- where EWON considers it appropriate.

EWON has previously provided information to the Tribunal noting that other jurisdictions have disallowed late payment fees and, instead, sought to provide incentives for on-time payment. We have supported the Tribunal's view that where late payment fees are to be levied, the sorts of measures outlined above assist retailers to ensure that vulnerable customers are not further disadvantaged.<sup>15</sup>

EWON notes that the standard suppliers operate successful customer assistance programs and that, in some instances, these are among the best available. It is also clear that no supplier wishes for their miscellaneous charges to compound disadvantage. Nevertheless, we are concerned that none of the conditions outlined above apply to regulated gas customers.<sup>16</sup> This means that a late payment fee is likely to be applied even where the retailer has clear information suggesting disadvantage (extensions, instalment plans, EAPA, EWON, contact with a welfare agency). EWON is able to use our discretion to request removal of late payment fees for electricity customers; we have no equivalent discretion for gas customers.

We believe that the same protections currently available to regulated small electricity customers should also be available to gas customers.

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<sup>15</sup> We note in this context that Country Energy does not charge late payment fees.

<sup>16</sup> We note that the *Mid-term review of AGL Retail Energy's gas retail prices to 2004* requires that the 'fee is waived if the customer seeks assistance with financial counsellors in line with AGLRE's agreement with the AGL Customer Council', 20. This appears to be significantly narrower than the arrangements for electricity that require a waiver if the customer has 'approached a welfare agency for assistance'.

## Individual Miscellaneous Charges

### *Account Establishment*

We note that the current electricity retail Determination states that:

*The Tribunal considered the proposal from some retailers that new retail charges for account establishment, credit card payments and administrative costs associated with the pass through of network charges be established. However, as the Electricity Supply Act 1995 limits the retail charges to those listed in Table 6.1, the Tribunal is not able to introduce these charges. The Tribunal also notes that the costs associated with these activities are part of the costs of doing business and therefore are already included in the retail operating cost allowance.<sup>17</sup>*

Given that, for electricity at least, account establishment costs are considered to be accommodated among the retail operating cost allowance, it is difficult to understand how the same would not apply for gas. We also note the significant differential between the amounts charged by the four standard suppliers to establish an account.

### *Disconnection / Reconnection*

Of all the miscellaneous charges, disconnection / reconnection charges appear to have the most immediate impact on financially disadvantaged customers. Often, if a customer is disconnected for non-payment, the imposition of a disconnection fee may well only make reconnection more remote. In this context it is important to refer the Tribunal to its own data regarding the high rate of gas disconnections in NSW.

Given that customers pay a premium to have their supply connected out-of-hours, we believe that they need to be provided with information to allow them to choose the option best for them. We note that the current electricity retail Determination states that:

*The Tribunal considered EWON's comment that there is currently no obligation on retailers to inform customers who request their electricity to be reconnected after-hours (as defined in the Electricity*

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<sup>17</sup> Independent Pricing and Regulatory Tribunal of New South Wales, *NSW Electricity Regulated Retail Tariffs 2004/05 to 2006/07: Final Report and Determination (Determination No 1 2004)*, June 2004, 26.

Supply Act 1995) *that they can be reconnected within business hours for a lesser fee.*

*Although the reconnection charge is a network pass through and not a retailer imposed charge, the Tribunal notes that retailers are responsible for handling requests from customers. It therefore considers that it is appropriate to address this concern at the retail level. The Tribunal agrees that customers should be made aware of the difference in charges and must be given sufficient information to be able to make an informed decision. The Tribunal has incorporated this requirement into the determination.<sup>18</sup>*

We recommend that the same approach should apply for gas customers. We also note that there remains significant difference between the quantum of the charge for each of the suppliers – from \$60 to over \$100 – and that one supplier appears to have separate fees for disconnection and reconnection whereas the others have combined the charges. This has the potential to lead to confusion and inequity for customers.

### *Late Payment*

As noted above, EWON is very concerned that rather than encourage on-time payment by those who can afford to do so, late payment fees have the unintended potential to raise energy costs for those who struggle to pay their bills and who often – or always – require extensions or instalment plans. Under the current VTPAs, it is not impossible that such customers may pay \$46.64 in GST-inclusive late fees for gas in a single year.

As previously noted, EWON considers that the following factors are critical to any examination of late payment fees

1. *All of the same protections that currently apply for electricity customers should also apply for gas customers.* As noted above, these protections include waivers/exemptions:
  - a. during the period of an extension arrangement
  - b. if the customer has raised a billing complaint with EWON
  - c. if an instalment arrangement is in place

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<sup>18</sup> Ibid.

- d. where the customer has approached a welfare agency for assistance<sup>19</sup>
- e. where payment or part-payment is made by Energy Accounts Payment Assistance (EAPA)
- f. where EWON considers it appropriate.

It is important to note that EAPA vouchers may be used to pay gas or electricity bills so it would appear inconsistent for an exemption for late payment fees to apply to one energy but not for the other.

2. *The amount charged must be a demonstrable, compensable expense not otherwise accounted in retail operating costs.* We understand that the annual revenue from late payment fees amounts to millions of dollars a year. For all other retailer costs, the Tribunal requires data to demonstrate costs to be recovered via the determination. We would anticipate the same would apply with regard to late payment fees, particularly as it is possible that many such costs would already have been accounted for in the Tribunal's estimation of retail operating costs.<sup>20</sup>
3. *There should be compelling evidence that late fees actually encourage on-time payment.* It is quite possible that many people who do not pay on time may well not be compelled to pay on time even by a higher fee and will continue to pay at their own convenience. There may be value in considering incentives that may be offered to customers to pay on time, rather than to penalise those who do not.
4. *Those who are genuinely unable to pay on time must be exempted from the fee.* EWON considers there is value in ensuring that exemptions are in place for all customers who receive acknowledged rebates (pensioner, life-support, etc). We also consider there is value in incorporating into the exemption list recipients of a Commonwealth Health Care Card (as applies in Tasmania, for instance) – thus including Newstart recipients, students and those in receipt of parenting payments. These are significant categories of potential disadvantage.
5. *Retailers should be required to waive the late payment fee when, in their reasonable analysis, the customer is in financial difficulty.* We feel that a customer should not be required to pay a late payment fee when, for instance, the customer regularly pays by instalment or seeks payment extension. The reality of hardship is that many customers do not wish to self-identify. The retailer is well situated to recognise the indicators of

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<sup>19</sup> See fn16 above.

<sup>20</sup> *Draft Report No 1*, 89.

disadvantage and financial vulnerability and, in such circumstances, should not be charging the fee.

### *Security deposits*

As noted in our recent response to the *Draft Report and Draft Determination* for electricity customers, EWON welcomes the Tribunal's decision that Centrepay should be specified as an instalment plan for the purpose of applying the exemption on security deposits.<sup>21</sup> EWON recommends that the same should apply for gas customers.

As we have noted elsewhere, customers often equate a security deposit (or surety bond) with a traditional refundable advance in which, for instance, the advance is returned once an equivalent amount has been paid for goods or services (eg. a \$100 advance is returned once a customer has paid \$100 towards an account). In this context it is interesting to observe the disproportion that applies in relation to security deposits for gas accounts. A standard security deposit of 1.5 times the average quarterly electricity account (or 4.5 months of usage) will be retained by the retailer for an absolute minimum of twelve months and, potentially, for much longer as it need not be returned until such time as there have been four *consecutive* on-time payments.<sup>22</sup> Thus if an account is paid one day late, the security deposit may be retained for a minimum of another twelve months. As EWON noted in our submissions to the electricity pricing review, if the underlying intention of the requirement for a security deposit is to protect retailers from bill default then an occasional reminder notice could hardly be considered an indicator of intention to default.

If the Tribunal retains its view that the deposit may be reserved by gas retailers for a period equivalent to four quarterly bills, then EWON would recommend that consideration be given to refunding the security deposit following four on-time payments, rather than four *consecutive* on-time payments. If this is logistically difficult for retailers, then we recommend (and our preference would be) that consideration be given to reducing the number of consecutive quarters of on-time payment – perhaps to two.

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<sup>21</sup> *Draft Report No 1*, 87.

<sup>22</sup> We note that the *Mid-term review of AGL Retail Energy's gas retail prices to 2004* notes that 'Advances are refunded if customers pay their account on time for 2 years', 20.

### *Dishonoured payment*

EWON notes that the Tribunal has recommending a legislative amendment to allow electricity retailers to levy a fee on dishonoured direct debit payments (at present only dishonoured cheque payments attract a fee). It appears that the 'dishonoured payment' charge for gas already applies to dishonoured direct debits. EWON believes that such a charge should only be levied with consideration to demonstrable retailer costs and to protecting vulnerable customers from rises in the ratio of consumption charges to fees on an average bill. This becomes increasingly critical as direct debit is clearly the preferred payment channel for retailers.