



Level 2, 172 Flinders St
Melbourne VIC 3000
Phone: 03 9639 7600
Fax: 03 9639 8966
ACN 100 188 752

24 November 2008

The Secretary
Code Governance Body
Mr Randall Brown
Origin Energy
GPO Box 186
Melbourne VIC 3001

Via email to:
randall.brown@originenergy.com.au

LPG Retail Code Review

This submission has been prepared by the Consumer Utilities Advocacy Centre Ltd (CUAC), an independent consumer advocacy organisation, established to ensure the interests of Victorian consumers, especially low-income, disadvantaged, rural, regional and indigenous consumers are effectively represented in the policy and regulatory debate on electricity, gas and water.

The submission is endorsed by the following organisations and individuals:

- John Mumford, Financial Counsellor
- St Vincent De Paul Society
- Consumer Action Law Centre

We welcome the review of the LPG Retail Code (the Code), the opportunity to comment on the operation of the Code since its inception and to provide input into the scoping of issues under consideration as part of this review.

Scope of the Review

We believe the review should be used to assess whether the Code is currently meeting the needs of Victorian LPG customers, specifically if there are systemic issues not being addressed by the Code, or if there are more effective means of meeting the needs of LPG

customers. Given that compliance with the Code is not monitored by an independent regulator we believe that community and consumer stakeholders would benefit from information that may be available to the Code Governance Body (CGB) regarding compliance with the voluntary Code. In the absence of this information, the CGB may need to conduct or direct research that would assist the review of the effectiveness of the Code.

Identifying the Issues

The following case studies, research and analysis highlight the issues faced by Victorian LPG consumers. This material illustrates the deteriorating affordability of LPG, the impact this is having on LPG dependant households and the inequity experienced by LPG households relative to those with mains gas, in particular, to information about their rights and access to concessions and hardship policies which would assist in alleviating the impacts of the price volatility of LPG.

We believe these case studies are indicative of issues that are widely experienced by LPG consumers, and are therefore indicative of systemic issues. The case studies provided have been taken from research conducted regarding the Upper Yarra Valley Gas rollout by Eastern Access Community Health (EACH), 2008, and research into the adequacy of the concessions framework conducted by Kate Allsop, 2008.

The case studies highlight the type of systemic and compounding disadvantage experienced by LPG consumers, who are often:

- located in rural and regional areas that experience harsh winters
- on low or fixed incomes, thereby making it extremely difficult to save the money required to connect to mains gas, upgrade appliances or building fabric
- tenants, with the result that even if they could save the money required, they rely on a landlord or Government agency to make upgrades to their property.

Due to energy price and concession differentials, those on LPG are significantly disadvantaged compared to those on mains gas supply.

Case study 1 (Eastern Access Community Health, 2008)

1. “I’m a working single parent with three children and I take home about \$900 a fortnight. The rent is \$420 a fortnight and there’s nothing left over after I pay for gas and electricity. I pay \$99.50 a fortnight for LPG and \$50 a fortnight extra for electricity for heating in winter.

The area I live in is in the mountains and it’s cold. There is a gas wall furnace as the only source of heating in the house. Much of the house stays cold and damp which directly contributes to my son’s asthma and means that my electricity bill over the winter is around \$300 dearer.

The landlord doesn't want to put gas on and I can't because I don't own the house. The wall furnace and the hot water would have to be converted."

Case study 2 (Eastern Access Community Health, 2008)

2. "My disability pension is \$520 a fortnight. I have a severe back injury so I have to buy wood. Every fortnight I pay for LPG, and electricity and wood. The gas and electricity are around \$100 and the wood costs \$80 fortnightly during winter. It's a considerable chunk of my income. The LPG does the hot water and a camp stove.

I own my home but it would cost around \$15,000 to convert to gas. I don't have any savings or money left over each week so it's not on my agenda.

The connection is so much because I live more than 20 meters from the pipeline. My street is a kilometer from the highway. If other people in the street also wanted a conversion, the connection costs would be reduced: at this point they don't."

Case study 3 (Eastern Access Community Health, 2008)

3. "The owner of the house I rent doesn't want natural gas here. I have two appliances on bottled gas and I get through about four bottles every three months. Even though I have a wood heater, I use a bit more gas and electricity in winter.

I'm an aged pensioner. It was very hard for me to save to put the gas on. That's the gas lines for LPG, not the natural gas. I paid for it myself because the owner wouldn't help."

Case study 4 (Allsop, 2008)

4. "Bob is a single pensioner on \$546.80 /fortnight. He lives in a rented house with LPG for heating. He typically uses 1 bottle of LPG a fortnight over winter (usually for 10 weeks). At a cost of \$100 / bottle, Bob is using 18% of his fortnightly income over the winter period on heating.

He is eligible for the NMWEC of \$105 /yr which in effect gives him a 21% discount. With the rebate he pays \$79/ fortnight on heating during winter, 14.4% of his fortnightly income.

Similar heating requirements using natural gas would cost Bob \$32.61/fortnight. With a 17.5% MWEC this would cost Bob a total of \$26.90/fortnight, or only 4.9% of his fortnightly income.

Lack of Access to Hardship Programs: Inequity Issues

The following case study highlights the distress that ineffective hardship management can cause, with customers often dependant on an intervention from a financial counsellor or community worker to ensure access to LPG. Customers who don't have access to information and support networks, including financial counselling, experience significant distress and hardship caused by ineffective hardship management. The intervention of a financial counsellor should not be required to ensure a family will have access to energy as it is an essential service.

Case study 5 (Financial Counsellor, 2008)

Anne is a Sole Parent with 4 children living in a town in South Gippsland. She contacted the financial counselling service as she had run out of LPG. Anne used LPG for hot water and had 2 empty bottles at her property.

She had contacted the local LPG supplier who delivers for a large LPG retailer to obtain the delivery of an LPG bottle. The local Supplier advised Anne that the LPG retailer had put a stop on delivery as she had an outstanding account. Anne advised that she owed the retailer about \$105. Anne advised that she had rung DHS Concessions and requested the forms to apply for a Utility Relief Grant (URG). DHS Concessions agreed to send the URG application but had advised Anne that the URG application would take 2-3 weeks to process. Anne was distressed that her family could be without LPG for hot water for up to 3 weeks.

The financial counsellor suggested to Anne she should call the LPG retailer, advise them that she was applying for an URG, and request that they authorise the delivery of a bottle immediately.

Shortly after this discussion, the counsellor was rung by the Credit Section of the LPG retailer to discuss Anne's request. They were concerned that Anne had requested 2 LPG bottles as they were only prepared to deliver 1 bottle. They were also seeking some assurance that the URG application would be successful. They had rung DHS Concessions who could not authorize delivery until they had an URG application. The financial counsellor advised the LPG retailer that Anne should be successful if she met the eligibility criteria for the URG. The counsellor requested that a bottle of LPG be delivered immediately which the LPG retailer agreed to do.

The unknown level of disconnection/restriction

This case raises an important question about the degree to which disconnection/restriction is taking place due to the combination of high LPG prices, the lack of customer awareness in regard to the Code and their rights, the lack of information

about concessions and grants and the lack of hardship intervention. As far as we are aware, no specific research has been undertaken into this important issue and it remains hidden by the various statistics collected. Until the hidden problem of self-disconnection/restriction is better understood, it is impossible to judge the success or otherwise of the Code. The cases taken to the Energy and Water Ombudsman (Victoria) (EWOV) do not, of themselves, indicate the full extent of this problem.

Low Level of Concession and Grant Uptake

Indicative of the extent to which the lack of awareness may impact on affordability, research by Allsop, 2008 indicates relatively low levels of Non-Mains Winter Energy Concession uptake – estimated at 40% of eligible customers. While it is difficult to attribute the cause of low uptake, the research indicates financial counsellors believe it is due to low awareness. With such a low uptake rate, there is significant risk that a large number of customers are restricting their supply, in effect, disconnecting themselves from energy due to affordability issues. Allsop, 2008 estimates approximately 30,000 out of 52,000 estimated eligible customers are not accessing concessions.

Another indicator of low consumer awareness of the Government support available to them is the very low number of Non-Mains Utility Relief Grants (NURGS) distributed. In 2007-08 there were 98 successful NURGS with an average grant of about \$273. In 2006-07 there were 109 NURGS with the average grant being \$240 (gas average \$304). In 2005-06 there were 83 NURGS with the average grant being \$275 (gas average \$322).

It is reasonable to assume that an effective the Code, backed by effective hardship programs delivered by LPG retailers, would be the most effective way to address this issue. Ultimately, LPG retailers are the contact point for customers, so they are best positioned to identify and manage hardship issues.

While it is understandable LPG retailers may have reservations about the cost of delivering hardship programs, this must be balanced against the need to ensure the most disadvantaged energy consumers in Victoria, LPG consumers, have access to affordable energy supplies. Without a thorough independent examination of the issues highlighted in this submission, we believe there is a significant risk that LPG consumers will experience continued systemic disadvantage, and continued inequality when compared to those consumers connected to mains gas.

Growing Pressures on LPG Customers

Exacerbating these issues, energy markets are undergoing significant transformation with the Carbon Pollution Reduction Scheme (CPRS) and expanded Renewable Energy Target (RET) likely to result in a significant increase in gas demand both for low emission electricity and to complement intermittent renewable energy generation. At the same time, global demand for gas is likely to remain strong, placing additional strain on domestic supply. In the immediate term, this confluence of factors makes an effective the

Code for LPG essential to ensure those dependant on LPG have access to affordable energy supplies.

Conclusions

Based on the research referenced in this submission, we contend that Victorian LPG consumers are experiencing systemic disadvantage that is exacerbated by the failure of the system whereby LPG customers are advised of their rights to concessions and grants and of a retailer hardship policy response generally. We acknowledge that there is a lack of useful data about self-disconnection, however, the take up rate of concessions against the eligibility clearly indicates, in our view, a failure to provide equity for LPG customers compared to other Victorians.

We believe that the Review would benefit from consideration of how the Code could be amended to:

- Improve awareness of the Code amongst consumers
- Improve awareness and take-up of the Non Mains Winter Energy Concessions and the Non Mains Utility Relief Grants
- Provide access to Hardship Policy interventions to address self-disconnection and restriction of supply issues

The signatories to this submission have also considered the issue of whether the most appropriate model for introducing these improvements is through the imposition of a mandatory Code and the oversight of independent regulation and believe that consideration of the benefits, and disadvantages (including costing) of the alternative models for achieving substantial improvements for LPG customers should be included as part of the review consultation with key stakeholders.

We would welcome further consultation on the issues raised in this submission and consideration of its recommendations.

In the first instance, please contact Tosh Szatow on 03 9639 7600 should you have any questions about this submission.

Yours sincerely

Tosh Szatow
Policy Officer
Consumer Utilities Advocacy Centre