



Bleak House

The implications of the contest between private utilities and landlords for the non-discretionary income of vulnerable households

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Table of Contents

List of Tables	3
Executive Summary	4
1. Introduction	7
1.1 Structure of paper	9
1.2 Methodology.....	9
1.3 Current research	10
2. Background: trends in income and expenditure	11
2.1 Employment	11
2.2 Housing.....	12
2.3 Household debt.....	14
2.4 Conclusion	16
3. Energy supply	16
3.1 Introduction	16
3.2 Background.....	16
3.3 Regulating for risk	18
3.4 Security deposits	18
3.5 Reconnection fees and late payment fees.....	19
3.6 Shortened collection cycles	19
3.7 Debt recovery.....	19
3.8 Credit checks	19
3.9 Higher prices	20
3.10 Prepayment metering	23
4. Research findings	25
4.1 Introduction	25
4.2 Background.....	25
4.3 The Rent Assistance Survey.....	26
4.4 Reach Out for Kids data	30
5. Discussion	34
5.1 Conclusion	36
Bibliography.....	37

List of Tables

Table 1. Household Expenditure Survey 1998-99: levels of deficit or surplus for each statistical household by quintile

Table 2. Median private rents in metropolitan Melbourne, June quarter, 2002

Table 3. Percentage change in end cost electricity, general domestic customers, 1991-2003, including GST

Table 4. Percentage change in end cost of electricity consumption to general domestic customers also taking supply under Y6/T6 off-peak hot water, 1991-2003, including GST

Table 5. RAS housing affordability (Australia)

Table 6. RAS (Victoria): How many times have you changed your address?

Table 7. RAS: If you have been behind in your rent in the past year, what were the main causes?

Table 8. RAS (Victoria): Do you ever have to borrow small amounts of money to make ends meet?

Table 9. Responses to financial stress

Table 10. ROK: Housing affordability

Table 11. ROK: Housing affordability in relation to tenure

Table 12. ROK: Private renters: housing affordability according to income source

Table 13. ROK: Non-private renters: housing affordability according to income source

Table 14. ROK: Privaterenters: incidence of housing affordability and energy affordability

Table 15. ROK: Incidence of rental arrears compared with energy debt

Table 16. ROK: Incidence of energy debt compared with other debt

Table 17. ROK: Incidence of rental arrears compared with other debt

Executive Summary

The Australian economy has undergone extensive change in the past two decades. Financial and labour market deregulation, combined with widespread privatisation of services, continues to transform income and expenditure patterns. The market, however, is increasingly characterised by sharp differences in treatment of those customers it wants to serve and those it does not. New technological capacity to engage in sophisticated market segmentation permits providers to choose their customers and maximise the profit taken from each. 'Unattractive' customers or BOZOs ('bringing only zero outcomes') (Cornell 2003) are assigned into 'residual markets', sub-prime markets, or markets of 'last resort' where prices and the terms and conditions of supply reflect the market power of the retailer. The market power which retailers can exercise over low-income and/or unattractive customers relates directly to the essential nature of the service, and the lack of regulation to mitigate such power.

In Victoria, a growing number of households with low and/or unstable incomes reside in expensive but poor quality private rental tenure as it is their only housing option. In other words, they are in the 'residual' housing market. These households are now also subject to full retail competition (FRC) in gas and electricity. A consequence of chronic income deficits and cash flow difficulties on the one hand and competitive pressures on the other is competition for the limited household dollar. Suppliers of essential non-discretionary goods and services (like energy utilities) are confronted with rivals, not so much within their industry, but providers of other essential services (like rental housing) for what the credit scoring industry refers to as the household's 'share of wallet' (Fair Isaac 2003).¹

This paper explores this rivalry between private low-income tenancy and competitive utility provision in Victoria by tracking regulatory changes in the utility sector and through the experience of low-income tenants. Two sources of data were used: 200 case studies from a financial counselling service, and a survey of Commonwealth Rent Assistance (CRA) recipients.

Our concern was that increasing competition on the part of providers would result in market segmentation and corporate strategies to 'reorder' household expenditure in an attempt to prevent bad debt and improve cash flow. What we realised was that, for electricity, a reordering of expenditure had already taken place, largely after privatisation but prior to FCR. In other words, the state, rather than the market, had been instrumental in this reordering. Nevertheless, further softening of regulation

¹ Credit scoring refers to the assessment of a person's credit worthiness, that is, whether or not they are deemed to be a credit risk and what price might be applied to the level of risk which they represent for the lender.

and/or the introduction of prepayment metering (PPM) technology would, from the retailers' perspective, improve the efficacy of this reordering.

We concluded that this reordering of household expenditure has been highly regressive but probably self-defeating. It has acted to reduce households' flexibility to make payment in full. Utilities usually argue that providing more flexibility (that is, leniency in credit management) constitutes a moral hazard. However, the households in the two data sets demonstrated that the issue is capacity to pay, not unwillingness. As Entergy in the United States has appreciated, utilities' self-interest would be better served by addressing the causes of disadvantage, rather than by reacting in a punitive manner to its symptoms.

Summary of Findings

- Household expenditure is dictated by necessity. Housing, utilities and food comprise basic non-discretionary purchases. In order to maintain supply of utilities, low-income households ration their energy consumption if and where possible, and juggle expenditures by paying their rent or energy accounts late. Some not only go without food in order to make payments on their housing and utilities, but appear to do so in order to avoid being late with payment.
- Outright default on payment for either rental or utilities is a costly strategy with longer-term consequences in relation to access and affordable supply. Households who default are accordingly facing extreme circumstances, losing the small degree of flexibility required to maintain their juggling act.
- Utilities typically understand revenue protection in terms of avoiding customer default and cash flow: The strategies they put in place tend to remove the flexibility that is crucial in enabling low-income households to maintain supply. These strategies are generally informed by a view that poor customers are a 'problem'. The data used in this study shows that low-income rental households already give priority to utility payment, occasionally over food.
- In order to protect their cash flow and revenue, Victorian energy retailers have been partially successful in reordering household expenditure to ensure that payment for energy usage is made before all other expenditure. This has occurred at the same time as private landlords are attempting to protect their revenue through tenancy databases and blacklists.
- The credit traditionally associated with utility supply and the credit effectively afforded through the ability to accrue rental arrears appear to be crucial to low-income tenant cash flow management. The issue therefore is about these households' capacity to pay bills, rather than their commitment to paying. Any reordering of household expenditure that undermines the utility credit relationship

– which, in the case of Victoria, it does – will diminish the vulnerable households' capacity to pay and increase the likelihood of disconnection.

- The case studies provided by the financial counselling service located at *Reach Out for Kids* offer an unequivocal finding that utility arrears reflect a more general problem of indebtedness: these households rarely had utility arrears without other debts. The most remarkable result was that around a third of low-income private tenants managed to avoid becoming indebted at all. This is extraordinary as it requires incredible discipline, good health and luck, and can involve considerable sacrifice.

1. Introduction

The labour market is increasingly characterised by full-time job losses, growing casualisation and downward pressure on wages and conditions at one end, and rising rewards within specific professions in specific industries at the other. There is consequently greater income disparity and a greater number of low-income households. The capacity for wage earners at the bottom end to purchase housing has been eroded. Private rental is increasingly the only tenure available to these low-income households: However, for many it is not affordable. These shifts in the labour and housing markets have consequences for the ability of low-income households to manage expenditure.

'Fuel poverty' arises when inadequate income, poor thermal efficiency of housing, inefficient appliances, needs, life cycle stage and tariff structures intersect (Kiers 1983; Backman et al. 1987; Day Rate Working Party 1991; Deasey and Montero 1983; Kymantis 1986; Mills 1988; Kliger 1998; Reark Research 1996; Neilson c2001; Department of Industry, Technology and Resources 1985). Deasey and Montero (1983: 5) state that fuel poverty, or fuel hardship, is 'a term originating the United Kingdom to cover the problems which arise from people's inability to meet their basic needs for energy'. These problems are primarily under-consumption, disconnection from supply, prioritisation of utility payments over other essentials like food, and accumulation of debt.

As of January 2002 residential electricity customers were able to seek supply from competing retailers. Although a market – full retail competition – was established, the Victorian government effected a legislative 'obligation to offer' through the provision of 'deemed' and 'standing offer' tariffs.² Through the independent electricity regulator, the Essential Services Commission (ESC), it provided the terms and conditions of supply for these tariffs and minimum standards of consumer protection for domestic competition generally. These provisions are embodied in the Retail Code.

What competition 'is' or 'means' is relatively unexplored. For too long the simplistic assumptions of classical economics regarding the impact of competition on efficiency have dominated public policy. In the marketing literature, which addresses real business activities and is often in stark contrast to economic theory, commodification

² The deemed tariff is the transitional tariff onto which household customers were placed when the market commenced. It is a transitional tariff. Once the customer goes onto a market contract or moves dwelling, the deemed tariff is void. The standing offer is the safety net tariff which customers can access if unable to obtain a market contract. For all intents and purposes, the deemed and standing offer tariffs have the same price and terms and conditions. Both were initially slated to 'sunset' (or cease existence) at the end of 2003. The government extended both until the end of 2004, and is currently considering its options in regard to future safety net provisions.

is discussed in terms of the need for producers to 'segment' their market in order to improve the profitability of each individual customer (Hallberg 1995; Berry and Linoff 1997; Clancy and Shulman 1991; McDonald and Dunbar 1995; Stewart 1996). As witnessed in banking and telecommunications, this in turn generates sharp differences in treatment of those customers the market wants to serve and those it does not. But market segmentation and its corollary economic discrimination is far from new.

In the United States, 'redlining' (discrimination aimed at exclusion from the market) by credit and insurance industries has long been a problem which legislators have attempted to fix with equal opportunity laws and community reinvestment schemes. In the United Kingdom, service withdrawal/denial and segmentation within various deregulated markets is increasingly apparent (University of Newcastle upon Tyne 2000; Conaty and Bendle 2002; Knights, Sturdy and Morgan 1994).

Exclusion has been only one part of the problem. Consumer advocates like Colton realised that schemes to overcome exclusion from markets often resulted in 'markets of last resort' or 'residual' markets that were highly disadvantageous to the consumers without market power who had no choice but to access goods and services through them. Colton defines 'residual' markets as being those markets 'for which little or no effective competition exists... Consumers take what is available' (Colton 1995b: no page number). Residual markets refer to a class of customers that have been separately identified and segmented according to their lack of (conventional) market attractiveness and concomitant lack of market power. Rosen, Sverrisson and Stutz (2000: 56-7) state:

When price discrimination is not based on the willingness to pay but, rather, on the consumers' inability to negotiate the terms of the sales contract, or some other manifestations of market power that turns a particular customer class into *price takers*, particularly for a necessity of life, then it is clear that price discrimination has taken a negative turn. It is also clear that such price discrimination is likely to hurt small customers, while large customers are likely to benefit [author's emphasis].

Stutz, quoted in Colton (1999b: 1), warns that small customers face the risk of 'cost shifting and lack of market power [that] will result in small captive customer rates increasing'. 'Low-income customers, in a competitive market, will be the least desired customer segment' (Binz, Feiler and McFadden 1997: 16). This makes them susceptible to price and service discrimination and market abuse.

There have been a number of United States contributions to the electricity reform debates arising out of previous experience of economic discrimination in markets,

market segmentation and the problems of residual markets (Colton 1995a, 1995b, 1995c, 1995d, 1996, 1997, 1999a, 1999b, 2000; Coyle 2000; Rosen, Sverrisson and Stutz 2000). In the United Kingdom, the National Consumer Council (1977, 2000) has produced important conceptual work on the existence and operation of disadvantage in markets. Lack of market power by disadvantaged households has already emerged as a theme in the deregulated electricity market (Baker 2001; Boardman and Fawcett 2002), and price discrimination and service withdrawal have already been identified (Brigham and Waterson 2003; Giulietti, Waddams Price and Waterson 2000; University of Newcastle upon Tyne 2000). Residual markets have also been examined by Alwitt and Donley (1996), Sharam and Gregory (2002) and Sharam (2003a). In the telecommunications industry, segmentation is subject to a debate on the 'digital divide' (Cooper 2000; Kahl 1997; National Telecommunications and Information Administration 1999).

Market segmentation is beneficial to attractive customers but works to exclude some customers and identify others whose lack of market power offers the opportunity for higher returns (economic exploitation). It has grave implications for low-income households who juggle energy and housing costs as a matter of prudent domestic budget management (Deasey and Montero 1983; Kliger 1998; Sharam 2004) as retailers' drive for profit maximisation – in the absence of explicit social objectives and controls – will reduce the discretion and flexibility in bill payment which these households need to maintain supply.

1.1 Structure of paper

This paper is divided into five chapters. Chapter 1 outlines the data sets and methodologies employed, together with a literature review of current research. Chapter 2 provides background on income and expenditure trends, including employment, housing and debt. Chapter 3 examines the changes that have occurred in the domestic retail energy sector – particularly the regulatory framework – that permit energy retailers to reorder household expenditure. Chapter 4 presents quantitative evidence regarding household expenditure and the relationship between the three non-discretionary expenditure areas of housing, utilities and food. Chapter 5 concludes with a discussion of the findings.

1.2 Methodology

This research has used three sources of data. Primary data was obtained through a random selection of two hundred cases handled by the financial counsellor at the Reach Out for Kids Foundation (ROK), an outer eastern suburban community based service that provides amongst other things a free financial counselling service. Financial counselling assistance frequently involves dealing with creditors, consumer complaints and bankruptcy. The cases cover the period from 1 July 2000 to 30 June 2003 (42% of the cases handled during this time) which includes six months prior to

the market opening in January 2001. The value of the ROK data resides in its reliability. Income and expenditure are subject to scrutiny by a professional who is familiar with local costs, and clients have an incentive to disclose all income. As many are social security recipients, there is also considerable governmental scrutiny of earnings. The limitation of this data is that clients of financial counsellors generally have a broader financial issue or crisis, yet probably represent a small proportion of those in difficulty overall, as services are limited. Financial counselling services generally have long waiting lists and are not widely available. As case studies, the data is not representative of the wider population.

The second source is secondary data drawn from a national survey of Commonwealth Rent Assistance (CRA) recipients who were not on a waiting list for social housing (Burke, Neske and Ralston 2004). The main aim of the survey was to gain a sense of the issues and problems associated with entering assisted rental housing, both social and private, including recipients' perceptions and practice of entering the rental sector. CRA is a form of income support paid to means tested low-income households in private rental. The Rent Assistance Survey (RAS) used data obtained through a questionnaire mailed to 12,000 addressees randomly selected from Centrelink records. There were 2,493 responses nationally, and 310 valid responses from Victoria. In most cases, Victorian data is used in this paper.

In both samples, median income reflected the median Victorian individual income. Only a quarter of tenants in both data sets lived in affordable housing (that is, spending less than 30% of income on rent).

Figures in the tables and text sometimes do not total to 100%. This occurs as a result of rounding up. For the ROK sample, CRA has been treated as income.

The third source of data was obtained through a literature review (see Section 1.3) and public policy documentation.

Confidentiality and ethics

Financial counselling agencies are required under the Privacy Act to ensure the confidentiality of clients. Undertakings were provided that case studies referred to in the research would not contravene clients' confidentiality.

1.3 Current research

The short period in which there has been competitively provided energy to households anywhere means that the literature is limited. There are few post implementation studies. The ESC (2002, 2004) has examined the effectiveness of FRC, and the United Kingdom regulator undertakes yearly reviews (for example, Ofgem 2002). The specific impact on households in the United Kingdom was studied by Baker (2001), Brigham and Waterson (2003) Giuliatti, Waddams Price and

Waterson (2000) and Boardman and Fawcett (2002). In Victoria, Sharam (2003b) found that customer attitudes were likely to be a significant factor in explaining customer inertia, and that customer switching rates were inflated as a result of households moving. Sharam (2004) also found problems with the consumer safety net protecting vulnerable customers. Bowman, Coghill and Hodge (2004), Dufty (1995), Benvenuti and Walker (1995), Romeril (1998) and Kliger (1998) tracked the increasing hardship of low-income households in Victoria in the pre-competition period as the utilities focused solely on commercial objectives. Frameworks Consulting (1997) conducted a review of the safety net for the Victorian Department of Human Services, although this was mainly concerned with the operation of the Utilities Relief Grant Scheme. The development of safety nets in the electricity market has been canvassed by Oppenheim (2001), Alexander (2001a, 2001b), Sharam (2001, 2002) and Chisari and Estache (1999).

An understanding of fuel poverty is crucial to any appreciation of the impact of competition in essential services. The literature on fuel poverty is extensive in the United Kingdom (Cheshire 2002). A guide to the Victorian literature can be found in Sharam (2004).

Chapter 2

Background: trends in income and expenditure

2.1 Employment

Until relatively recently to be in paid work but poor used to be a contradiction in Australia (Senate Community Affairs Reference Committee 2004).

Employment and earning trends in Australia provide a broadly optimistic aggregate picture. For the period 1990 to 2000, total employment grew by 16% or 1.3 million jobs and average real earnings rose by 25%. Unemployment fell from 7% to 6% of the workforce, a trend that has continued:

To those who focus on aggregate economic indicators talk of a social crisis, especially one driven by trends within the economy, is incomprehensible. After all, for much of the past decade employment and average real earnings have been growing strongly, and unemployment has been falling (Borland, Gregory and Sheehan 2001: 3).

Aggregate data, however, conceals underlying trends to inequality. The incomes of those near the bottom have fallen by 10%, whereas the incomes of those near the top have risen by 6%, resulting in a 'gap between rich and poor' attributable to 'how much people earn from selling their labour' (Gittins 2004: 19). The Australian Council of Social Service estimated that there were 365,000 Australians in 'working poor' households in 2000 (Senate Community Affairs Reference Committee 2004). The

Australian labour market is recognised as having relatively low job stability and high flexibility (OECD, quoted in Australian Council of Trade Unions 2003).

Much of the growth in jobs in the last quarter of the twentieth century in Australia occurred in service industries that pay low wages, require low skill levels and are confined to part-time and casual work (Borland, Gregory and Sheehan 2001). Casual employment over the period 1984-2002 grew by 68%, whereas the same period saw significant losses in full-time (male held) jobs (Australian Council of Trade Unions 2003). Growth in full-time jobs was restricted mainly to the managerial and professional sector. For managers and administrators the increase in real incomes was 41.4%, while for labourers it was 6.9% and for elementary clerical, sales and service workers 4.3% (Borland, Gregory and Sheehan 2001: 8). Income growth is directly linked to access to full-time jobs.

Insufficient hours of work pose almost as great a problem as unemployment. In 2001 563,600 people were under-employed (ABS 2002a). The Australian Council of Trade Unions (2003) estimates that, together with the unemployed, a total of more than 1.2 million people of workforce age are either unemployed or under-employed, which represents 12.6% of the workforce. Many others, including those with a disability, sole parents and those who are not participating in the workforce, are not included in this estimate.

2.2 Housing

The private market, whether by way of purchase or rental, supplies the greatest part of housing in Australia. A shift in policy direction from public housing to CRA payments via the social security system has produced a greater degree of reliance upon the private rental market. In Victoria, public housing comprises only 4.4% of total housing stock, and in the Melbourne Eastern Metropolitan Region, 1.8% (Department of Human Services 2002). Private rental comprises 23% of housing stock in Victoria (ABS 1997) and is the most rapidly growing form of tenure for low-income earners, particularly the young and middle-aged. The cost of private rental increased by 24% during the period 1975-99, and low-income private tenants' housing costs increased from 16% to 23% of income, a rise of 43.75% in real terms (Burke and Ralston 2003).

As of 30 June 2002, 201,477 or 42% of Victorian tenants were receiving CRA (Steering Committee for the Review of Government Service Provision 2003). Receipt of CRA does not preclude ongoing housing stress, and as a means tested scheme does not assist all households in such a situation. The National Housing Strategy (1991) defined housing stress as where housing costs comprise more than 30% of income. This definition should be seen as more relevant to households in the lowest two income quintiles of the ABS Household Expenditure Survey. As Table 1 shows,

only households with incomes on or above the median (third quintile) earn more each week than they need to spend.

Table 1
Household Expenditure Survey 1998-99: levels of deficit or surplus for each statistical household by quintile

Average for each quintile	Quintiles and upper weekly income boundary				
	First (lowest) \$300	Second \$552	Third \$884	Fourth \$1,373	Fifth (highest) \$unknown
Income	\$159	\$413	\$712	\$1115	\$1996
Expenditures	\$342	\$482	\$648	\$851	\$1171
Surplus/deficit	-\$183	-\$68	\$64	\$264	\$824

Source: ABS (1998-99)

Using the figures in Table 1, housing costs should presumably be no more than \$47 per week for the lowest quintile, \$124 for the second, and \$213 for the third. When these are compared with private rents in Melbourne (Table 2), the extent of housing stress is apparent. Based on income and cheapest rental accommodation in Melbourne, housing costs absorb almost 100% of the income of those in the lowest quintile. The second quintile households would be severely stressed, as even a single bedroom flat (\$160 pw) would absorb almost 38% of their income. The cost of a three bedroom house (\$205 pw) would absorb over 48%. The picture for those within the bottom two income bands renting privately is a bleak one.

Table 2
Median private rents in metropolitan Melbourne, June quarter, 2002

Property types	Median rent (weekly)
1 bedroom flat	\$160
2 bedroom flat	\$190
3 bedroom flat	\$240
2 bedroom house	\$220
3 bedroom house	\$205
4 bedroom house	\$260

Source: Office of Housing (2002)

Commonwealth Rent Assistance

CRA is a demand-side subsidy paid by the Commonwealth government. It ranges from \$95.40 per fortnight for a single person to \$126.70 for a family of at least one adult and three children (figures current at September 2004) (Centrelink 2004). This is the equivalent of just under 30% of the median rental for a single bedroom unit and 31% for a family renting a three bedroom house in June 2002. These households could expect to run a chronic deficit of expenditure over income despite the rental subsidy.

A segmented labour market and a residual private rental housing market could be expected to lead to greater turnover of tenancies, shorter leases, increases in frequency of notices to vacate, eviction and homelessness. Risk management tools such as tenancy databases (effectively blacklists) that record arrears and disputes for future reference by landlords and agents, and over which tenants exercise no control or input, permit the surveillance of tenants and a commensurate increase in the market power of the providers (Shield 2003).

2.3 Household debt

Household debt has reached historically high levels. The ratio of household indebtedness to income rose to 125% in 2002. This included housing related debt (83.5% of the total) (La Cava and Simon 2003). The Reserve Bank of Australia (2003: 9) noted:

the large rise in the availability of housing credit has not resulted in a larger proportion of households obtaining housing credit, but instead shows up in a stable proportion obtaining a much higher level of credit per household.

Despite greater indebtedness, the debt to asset ratio has changed little and the ability of households to service debt is currently high (Reserve Bank of Australia 2003; Commonwealth of Australia 2002-03). The ABS (2002b) questions this view. The debt and asset boom is attributed in part by the Commonwealth to the availability of credit and low interest rates. Nevertheless, for investment properties, this debt burden necessitates an increase in rental returns. Housing related indebtedness of one segment of the population therefore has the potential to influence the non-housing related indebtedness of tenants.

Non-home purchasing related personal debt has attracted considerable attention. Research commissioned by Visa International found that 'in dollar terms, the proportion of default debt to total credit card debt has halved over the past seven years'. This reflected the practice of credit scoring. Half of the defaults are attributable to unsolicited credit offers (KPMG 2001). KPMG cites Insolvency and

Trustee Service Australia bankruptcy data that the main causes of personal bankruptcy are:

- Unemployment (41%);
- Excessive use of credit, which includes all forms of loans and borrowings (19%);
- Domestic discord (17%); and
- Ill health (11%).

Media reports about rising levels of household indebtedness seldom mention the use of credit amongst non-home owners. What we do not know from these sources is whether the borrowings of non-home owners are sustainable, given that rental costs have increased and wages for many in this group have failed to keep pace. As they are more likely to access non-mainstream credit providers (like store cards, interest free periods and payday lenders), the idea that lower interest rates is delivering these households benefits needs to be examined.

The relationship between cash flow constraint and debt has been little explored, but financial counselling casework experience points to many low-income households carrying debt *precisely* because of cash flow constraints (although a number of households in all income quintiles are probably imprudent, the lower the income the more necessarily prudent a household becomes). Debt ranges from Centrelink advances, rent arrears, utility arrears and credit card debts through to large secured loans (car loans) and Centrelink overpayments.

The cost of debt includes servicing of interest, repayment of principal and debt collection costs. The cost of debt recovery is effectively unregulated and has become a growing burden on low-income households who have been subject to a disproportionate number of judgements (a formal legal confirmation of a claim for money, or an amount liable to be paid under a court order). These judgements can double the financial burden (Kliger 2001).

Once indebted, debt servicing poses a significant burden which is often unsustainable for a low-income household. Burke and Ralston (2003: 28-9) state:

The need to service such loans *and* pay rents may be a real hardship for many tenants. In terms of public housing, this raises the policy issue of whether the debt situation of tenants should be ascertained at the time of application, with a view to either monitoring for potential arrears or offering financial counselling so that there is a reduced risk of arrears and loss of tenancy. It is difficult to say what can be done in the case of private tenants.

The debt burden arises in part due to 'risk based pricing', that is, discriminatory terms of credit provision. The most extreme approach taken by the commercial market is that of the short-term advance (payday lending) in which interest rates can soar to the equivalent of 1,300% per annum.

2.4 Conclusion

Widespread privatisation of services and deregulation of the Australian economy have produced the conditions for a bifurcated workforce with secure and high wage employment at one end and low wages and insecurity at the other. This income pattern is increasingly reflected in the market segmentation of consumers. Benefits from competition flow to those at the top of the labour market whereas low-income users of essential services are vulnerable to assignment into residual markets. Consumers in residual markets lack market power.

Chapter 3 Energy supply

3.1 Introduction

The following chapters argue that microeconomic reform of a range of essential services like electricity and gas has exacerbated the inequality that has become a feature of the deregulated Australian economy. We contend that competition between different types of essential service providers, rather than between individual energy retailers or individual landlords, is increasingly apparent. Utilities have always been concerned about protecting their revenue and cash flow against late payment and default, and competition has served to heighten their concern. The existence of the standing offer as a safety net or 'provider of last resort' currently inhibits market segmentation. However, regulation ostensibly applied to all customers has differential distributional impacts on customers in the energy market. This chapter outlines how the Victorian regulatory arrangements which were intended to provide basic consumer protection in the energy market effectively segment and discriminate against vulnerable low-income customers.

3.2 Background

Some customers may represent a higher risk of late or non-payment but, just as the credit and insurance industries practise risk based pricing, so can energy retailers. As a non-discretionary good, the potential for the formation of a residual market is readily apparent. The payday lending industry is illustrative of these concerns. The belief that low-income customers cost more to service and/or are riskier is part of a utility culture that J. Wayne Leonard, CEO of the United States utility Entergy, describes as the 'war on the poor'. His company's internal research found that 'the overwhelming majority of low-income customers have excellent payment records, do not overtax our phone centres or other customer services, and in many instances

may cost less to serve than non-low-income customers' (Entergy 2003: 29). Unfortunately, more negative stereotypes of such customers prevail.

In Victoria disconnection rates have again peaked,³ after having fallen from a previous high associated with the initial privatisation of the companies (Romeril 1998). Disconnection and reconnection in the same name is an important indicator of household financial stress. In 2002 over 5,000 customers were reconnected after disconnection for non-payment (ESC 2003a). This is a low figure, which we would expect as disconnection involves substantial formal penalties, such as reconnection fees. There is also the loss of refrigerated and frozen foodstuffs, as well as basic household amenity. Financial counsellors report that households place a high priority on payment of electricity and gas. Where income fails to cover essential expenditure, gas supply is sacrificed in order to maintain electricity. Disconnections for electricity are usually of a very short duration, whereas gas can be for extensive periods (Sharam 2004). Disconnection consequently represents a household in extreme circumstances, especially if there are children involved. The use of credit is the single most important factor enabling customers without the means of payment to retain supply. It provides scope for the juggling of finances that is a feature of the financial life of low-income households. A useful example of the value of flexible payment arrangements is provided by Entergy (2003) who found that the introduction of flexible instalment plans and extended payment arrangements limited non-pay disconnection to 404,573 cases, from of a total 7,288,853 delinquencies in 2002.

The *Electricity Industry Act 2000* made the ESC responsible for establishing the minimum standards of consumer protection for FRC and prescribing the terms and conditions of supply for the deemed and standing offer tariffs. The ESC is an independent energy regulator charged by the *Essential Services Commission Act 2001* with a number of obligations, the primary one being to 'protect the long-term interests of Victorian consumers with regard to price, quality and reliability of essential services', and at a secondary level 'to ensure that users and consumers (including low-income or vulnerable customers) benefit from the gains from competition and efficiency'. The ESC prepared a position paper detailing its formulation of the role of consumer protection in the competitive market (Office of the Regulator-General 2000). It also developed the Electricity and Gas Retail Codes, legally binding instruments setting out the rights and responsibilities of both customers and retailers. This version of the Electricity Retail Code was based on one approved in 1997 by the ESC's precursor, the Office of the Regulator-General, which was in turn based on the Sale and Supply Code in use under the former State Electricity Commission of Victoria (SECV) (Siemon 1995).

³ In 2002 there were 11,931 disconnections. Reconnection in the same name increased by 12% to 0.3% of customers and from 45% to 49% of all disconnections (ESC 2003a: 9).

This shift in the regulation of domestic supply has effected a reordering of household expenditure. Just how this occurs is described below, but the results have been evident for some time. Benvenuti and Walker (1995) examined an apparent trend towards harsher credit and debt recovery practices by the corporatised retailers. Romeril (1998) later attributed the significant jump in household disconnections during the corporatisation period to the retailers' increased commercial focus. Kliger (1998) studied the credit management and debt recovery practices of the privatised retailers, finding harsher practices and regular non-compliance with the Retail Code. A similar study subsequent to FRC by Sharam (2004) reached similar conclusions. Two themes emerge from these studies. The first is that the regulation of credit management and debt recovery has shifted focus from the needs of vulnerable customers to providing retailers with greater flexibility. The second is that, even where protections exist that favour disadvantaged households, retailers have frequently ignored them. Moreover, the regulator has ignored such non-compliance. We have had to conclude that the state, rather than the market, has been instrumental in the reordering of household expenditure. This reordering provides a foundation for later market segmentation.

3.3 Regulating for risk

Under the Retail Code and its subsidiary guidelines, there are a number of measures to mitigate retailer losses accruing from non-payment or late payment. The key methods of containing financial risks are the application of risk premiums, the seeking of compensation, and a general strategy to increase the price paid by problem payers. We call these 'recovery' and pre-recovery' mechanisms.

Changes in pricing are discussed later in this paper. Increasing the price paid by vulnerable customers, however, raises the immediate point that this heightens the probability of arrears and default on payment. If a service is non-discretionary but chronically or periodically unaffordable, the consequences are obvious. On face value, this strategy would lift profits, but increased default and late payment would offset the gains. In practice, it depends on the size of the risk premium and who assumes the cost. It is worth noting that economic theory supports risk based pricing. However, when it is a non-discretionary service the, question of market power needs to be examined, and as energy is an essential service there is a question of ethics.

3.4 Security deposits

A customer at the point of connection or reconnection may be asked to provide a refundable advance (security deposit or bond). If they are experiencing chronic fuel poverty, this merely increases their financial stress. The bond may protect the retailer from potential losses, but it adds to the likelihood that the customer will default. Refundable advances are like maximum tariffs and high standing charges in that they act as pre-recovery mechanisms for the retailer.

3.5 Reconnection fees and late payment fees

High reconnection fees and mooted late payment fees act in the same way as security deposits, except that they are recovery forms of compensation.

3.6 Shortened collection cycles

The collection cycle is the frequency of billing, and the time between bills and reminder or disconnection notices. Its length will reduce or increase the flexibility which the customer has in making payment, but if it is longer it presents as cash-flow loss for the retailer. A longer cycle increases the propensity for payment (McLeod 2001). The established practice for many years has been to allow for two pension or benefits payments (four weeks) in the period between the date of issue and the due date. Shortened collection cycles have been permitted since privatisation, with the standard collection cycle being reduced by two days. Customers who have had arrears are frequently placed on a monthly rather than quarterly. Simply failing to pay by the due date (rather than on the disconnection notice) can result in the customer being shifted to a collection cycle in which reminder notices are no longer issued and disconnection warnings arrive earlier than before.

3.7 Debt recovery

The Retail Code provides retailers with the legal right to payment in full and hence to debt recovery. A customer assessed as experiencing 'incapacity to pay' has the right to affordable instalment plans and can avoid disconnection, but retailers routinely contravene this. Customers disputing decisions involving incapacity to pay have not necessarily been able to enforce their rights by recourse to the Energy and Water Ombudsman Victoria (EWOV), and the ESC has failed to enforce this provision (Sharam 2004; VCOSS 2004).

3.8 Credit checks

A recent development is the emergence of firms that work with real estate agents, offering tenants a 'one stop' shop service to connect them to all their utilities including telecommunications (VCOSS 2004). The emergence of 'moving agents', as they are known, has led to concerns regarding misleading or deceptive practices. and the ESC, EWOV and Consumer Affairs Victoria are examining the issue (ESC 2004).

Moving agents would appear to refute the idea that landlords and utilities may be in competition. However, such a service has a significant advantage to energy utilities as potential tenants provide considerable amounts of personal information to landlords or estate agents in order to secure a tenancy. A successful tenant is assessed as a worthy credit risk. In this way, utilities can avoid undertaking their own credit assessments and avoid some of the restrictions of the ESC's *Credit Management Guideline*. The effect is market segmentation that does not diminish our

argument that low-income households are increasingly subject to attempts at revenue protection by both utilities and landlords.

3.9 Higher prices

In opening the market to the household level, the Victorian government introduced legislation (now s35 *Electricity Industry Act 2000*) providing for a transitional tariff (deemed contract) and a safety net tariff (standing offer). Both were legislated to sunset (that is, cease to exist) at the end of 2003, but this has been extended to the end of 2004. These tariffs were conceived as including 'headroom' or a premium over the cost of supply as an incentive for retailers to enter the market in order that the price of electricity and gas could be competed down to its 'real' and economically efficient level. In terms of the deemed contract, the higher price would be an incentive to the customer to move into the market. In theory, the standing offer would be a contract of last resort for customers otherwise unable to secure a market offer. In practice, there is extensive customer inertia, and this is not likely to change significantly (Sharam 2003b; Bowman, Coghill and Hodge 2004). Nevertheless, there is some evidence that avoidance is already practised (Community Power 2004).

The existence of the standing offer is not generally promoted, so few customers realise they have the choice between a market contract and the standing offer as a safety net tariff.⁴ As such, the standing offer was likely to service those customers who were considered to be credit risks or regarded as low-margin or no-margin. For some of these – the most vulnerable low-income customers – access to supply was premised on the payment of a premium (the headroom). The safety net therefore failed to consider affordability as a precondition to ensuring access to supply. As other customers opt for the market, the pool left on the deemed or standing rate will increase the pressure for the tariff rate to rise to cover the purported additional costs of supplying problem payers (Alexander 2001a, 2001b). Vulnerable customers in Victoria are less likely to be able to access cheaper prices. The standing offer as a 'provider of last resort' is characteristic of a state-sponsored residual market.

While the first reaction is naturally to assume that retailers may seek to avoid low-profit customers, and there is evidence to support this (Community Power 2002; Sharam 2004), an alternate strategy is to retain these customers but increase prices. Given that the government's safety net currently obliges host⁵ retailers to serve domestic customers, the latter becomes the more obvious strategy, for the time being at least. If the customer understands the increase in costs and switches, then the retailer has in any event avoided a customer whom it did not really want. It is possible for retailers to increase charges simply by changing the structure of the tariff. This

⁴ See for example EWOV (2003) *Changing your Electricity or Gas Retailer*

⁵ The incumbent retailers AGL, Origin and TXU have an obligation to supply customers in their former franchise areas. New entrants have no obligation to supply.

can offset imputed discounts on the deemed or standing offer even where there is no change in consumption. For example, a retailer may offer a 30% discount off the existing energy charge⁶ but place the customer on a new tariff with standing charges that are \$5 higher than previously and a slightly reduced per kilowatt hour charge for consumption. The retailer is guaranteed an additional \$20 per annum on the standing charge. As the consumption charge has declined, the customer has an incentive to consume more.

Together the changes provide a considerable disincentive to ration consumption, as little monetary saving would be achieved by doing so. Research by Sharam (2003b) on customer experience in the market found that only a fraction of switchers (8%) compared tariffs. While inducements are necessary to encourage switching, this does not mean that the overall margin available for the retailer must drop. The Victorian government and the ESC have not responded to calls from domestic consumer and welfare groups to introduce 'pricing principles' to ensure equitable tariff structures (VCOSS 2003).

Tables 3 and 4⁷ demonstrate the impact of the increased fixed charges on low-consumption households. Table 3 shows that such households across all retailers experienced price increases in the period 1991-2003. Low-consumption correlates heavily with low-income. Other than Citipower customers with a medium level of consumption, the only customers to receive price cuts were the high-consumption users. Vulnerable households not only pay a higher tariff rate but the fixed charges guarantee the retailer a minimum level of payment that is significantly more than that in the early 1990s.

⁶ That is, of the per kwh consumption charge, distinguishing this component from the fixed (and therefore total) costs.

⁷ Tariff structures changed significantly under the Kennett government reforms (1992-99). The tariff rate was raised by 10% in late 1992. In 1993 the fixed charge, which had been reintroduced during the early corporatisation phase of the SECV, was doubled (from \$17 to \$33 per quarter). While the Kennett government and indeed the ESC claimed that domestic prices fell as a result of the competition reforms, those claims only consider the period after 1995 from which time legislated cuts took effect.

Table 3

Percentage change in end cost electricity general domestic customers, 1991-2003, including GST* (GD/GR tariff SECV and deemed/standing offers)

Retailer	Consumption per annum			
	Low	Medium	High	Average
Citipower	6	(0.32)	(5.5)	0
TXU	11.3	5	(2.8)	5
Origin	13.8	8	5	9
Pulse	6.7	0	(3.3)	1
AGL	6.7	1	(2.6)	2
average	8.9	3	(1.8)	3

• (low volume = 2,500 kwh pa; medium = 4,000 kwh pa; high = 6,000 kwh pa) Two-block inclining tariff, with differential between first 1,020 consumption per quarter and balance per quarter. An assumption is used regarding how much annual consumption is charged at the higher rate, given the lack of consumption data. This assumption is that consumption is uniform over each quarter.

Table 4 also shows the impact of the tariff structure changes, but the difference is quite considerable for these customers as the price changes for off-peak usage have been dramatic. There are approximately 500,000 off-peak domestic customers in Victoria.

Table 4

Percentage change in end cost of electricity consumption to general domestic customers also taking supply under Y6/T6 off-peak hot water, 1991-2003, including GST* (GD/GR tariff SECV and deemed/standing offers)

Retailer	Consumption per annum			
	Low	Medium	High	Average
Citipower	7.3	1.3	(6.1)	0.8
TXU	24	15	3.9	14
Origin	18	12	7.8	11.2
Pulse	15	7	1.7	8
AGL	11	4.7	0.4	5
Average	15.2	3	1.5	8.2

• (low volume = 2,500 kwh pa; Medium = 4,000 kwh pa; high = 6,000 kwh pa) Two-block inclining tariff, with differential between first 1,020 consumption per quarter and balance per quarter. An assumption is used regarding how much annual consumption is charged at the higher rate given the lack of consumption data. This assumption is that consumption is uniform over each quarter.

Low-income domestic energy customers spend proportionally less of their income on their energy⁸ needs than do higher-income households (Kiers 1983; Deasey and

⁸ Gas, electricity, LPG, wood and other fuels used for domestic purposes (heating, cooking, lighting, hot water heating, refrigeration).

Montero 1983; Siemon 1995; Ernst 1994; Lawrence 2002; Roy Morgan Research 2002). Almost half of Victorian households engage in rationing as a budget measure (Sharam 2003b).

In summary, retailers have secured a minimum rate of return on each customer; have increased the returns available from low-volume households; and have other insurance or recovery mechanisms in case of default. The introduction of prepayment metering (PPM) technology is on the agenda.

3.10 Prepayment metering

PPMs involve payment in advance of usage, removing the need for the traditional credit relationship between retailer and customer. This has profound consequences for the ordering of household expenditure. PPMs provide the opportunity to segment problem payers. In the United Kingdom they form a residual market in which supply is significantly more expensive and disconnection is hidden.

The introduction of PPMs has been approved in some Australian states, and trials have been conducted in others. Either smart card or electronic funds transfer systems are possible. PPMs improve retailer cash flow, prevent bad debt and remove the requirement for billing and customer service. They are the ultimate reordering device: they avoid the clumsiness, inefficiency and transparency of the regulations examined above. The risk of non-payment is shifted from retailers and government to the customer and the charitable sector (Sharam 2003a).

PPMs work well for the industry because they deny supply when the customer cannot pay. Their 'emergency credit' feature permits strictly limited indebtedness, and these arrears must be repaid before supply can be restored. The disadvantage of traditional credit is the stigma, disempowerment, inconvenience and costs associated with supply being disconnected. Disconnection as the ultimate sanction for non-payment is intentionally punitive. Like the stigma associated with traditional poor relief, disconnection is used as a disciplinary device. Self-disconnection in the case of PPMs privatises the act of disconnection, hiding a social problem, although it does allow the customer to avoid public humiliation. The key benefit of the traditional credit relationship is that credit provides the flexibility which allows households to avoid being in a position of having to choose between different essential goods. PPMs, in contrast, create a 'Sophie's choice' situation in which families are forced to select, for example, heating/lighting/cooking/refrigeration over food or vital medicines.

The reordering of household expenditure on energy utilities comes in response to a competitive framework for utility provision and, perhaps more importantly, competition with non-energy utility service providers. Such a strategy is shortsighted, and fails to recognise that declining affordability and inflexibility must undermine

household demand. What is gained in improved cash flow and debt recovery will be lost in a declining volume of sales. It also fails to recognise that households already give preference to paying utility bills, particularly electricity. What utilities need as a policy to address this new inter-industry competition is counter-intuitive and requires some sense of history.

Prior to the 1980s low-income households were severely disadvantaged in relation to electricity supply. Tariffs were highly regressive, customer service was hostile, debt collection was deeply prejudiced and punitive, security deposits were required, and there was a lack of appropriate housing and appliance standards. Income support from the state government was fragmented and minimal. During the early 1980s significant reform took place. Domestic tariffs were restructured from the regressive declining block tariff and high fixed charges to inclining block tariffs, with a 'lifeline' amount of electricity charged at a highly affordable rate and no fixed charge. These changes rewarded rationing and were positive for the environment. Rural customers were recipients of a cross-subsidy funded by urban customers, therefore tariffs that took account of the needs of low-income households reflect a reasonable trade-off. Off-peak tariffs were promoted. This mitigated day peaks, alleviating the need for system augmentation, and avoided the inefficient operation of the large coal fired power stations.⁹ Concessions were regularised and extended. The Cain government acknowledged that the mortality and hospitalisation rates of the elderly were attributable in part to fuel poverty, hence the introduction of the winter energy concession. Emergency relief for one-off crises was introduced (now the Utility Relief Grant Scheme). The Home Energy Advisory Service undertook extensive retrofitting (improving the thermal properties of homes and installing energy efficient appliances). Over time, the use of security deposits was wound back. Easyway instalment payment plans became a useful budget tool for low-income or fixed-income households. Billing and payment cycles were extended, improving the capacity of social security recipients in particular to meet these expenses. There were no reconnection fees. The SECV and the Gas and Fuel Corporation embraced demand management, such as replacement of day rate hot water services at no cost to property owners or occupiers.¹⁰ Disconnection rates fell, welfare improved, cash flow improved, bad debt was lowered.

⁹ Coal fired stations have a minimum output (they are not intended to be turned on and off, but to operate continuously). If demand does not reach the desired minimum, they still operate at that level, but the steam is put onto bypass and released into the atmosphere, instead of being put through the turbine.

¹⁰ Day rate hot water services (DRHW) had been identified a significant cause for arrears and 'skipping' (leaving the premises without paying the account). They are typically found in rental flats because they were cheap to purchase. However, they are expensive to run. A proposal to replace 50,000 DRHW units was unfortunately vetoed by the incoming Kennett government in 1992-93.

Only one significant element was missing in this approach to fuel poverty, and that was the mandating of minimum standards of housing and appliance energy efficiency. In effect, an almost 'whole of government' response was made. It differs little from the Victorian Council of Social Service's current 'Fuel Poverty Alleviation Strategy' (VCOSS 2003). The change was from utilities reacting to symptoms of fuel poverty to engaging in a broader process concerned with its causes and ways to alleviate it. That is, utilities went from undermining government social objectives and programs to being a key component of those programs. In the process, they made financial gains rather than losses. It could be argued that a consensus developed regarding the order of household expenditure and what could or could not be expected.

Chapter 4 **Research findings**

4.1 Introduction

This paper has argued that increasing labour market flexibility, combined with escalating real increases in the cost of private rental tenure, has created the conditions for a sharp deterioration in housing affordability for the bottom two quintiles of the Australian population who reside in private rental. The decline in the provision of public housing and its increased targeting to those most in need has meant that the private rental sector services a greater number of low-income households. Both social security recipients and low-income wage earners unable to secure home ownership experience a lack of power in the housing market that is characteristic of consumers in residual markets. Privatisation and implementation of competitive gas and electricity regimes in Victoria have introduced a new element of competition between private rental providers and essential utility services who, in attempting to reduce the risk of bad debt or improve cash flow, seek to reorder household expenditure to prioritise payment to their service.

4.2 Background

Landlords currently receive payment in advance and generally require the lodgement of a security bond. Rental payments are commonly made on a monthly basis. Gas and electricity utilities have traditionally provided service on the basis of credit, hence all customers are debtors once payment falls due. Bonds or security deposits can be requested from energy customers in Victoria, but this is not common for households at present (ESC 2003a). Payment for electricity is usually quarterly, and gas bi-monthly. However, either through choice or through being placed on a shortened collection cycle (generally a function of a history of late payment), utility customers can pay monthly. The gas and electricity bills synchronise twice a year.

The Victorian government's Budget Paper no. 3 (2003/04) revealed that there had been 740,330 claimants for an electricity concession. This is the equivalent of 40% of households. Roy Morgan Research (2003) reported that as of mid-2000 there were a total of 1,244,055 general concession claimants in Victoria: 441,637 age pensioners, 422,033 veterans and 380,385 holders of a health care card. Two-thirds of these have a permanent concession entitlement.

4.3 The Rent Assistance Survey

Utility costs are a major concern for low-income renters and a major cause of arrears. What can be done about this generally is unclear but, as it applies to SHAs [State Housing Authorities], it raises the possibility of an audit of the type of heating appliances provided and whether they may lead to high utility costs (Burke, Neske and Ralston 2004: iv).

Private rental left the vast majority of this RAS cohort in housing stress (Table 5). The median rent for Victorian respondents was \$640 per month (n = 288) and their median income was \$300 per week.

Table 5
RAS housing affordability (Australia) n = 1917

Percentage after tax income spent on rent	RAS %
Less than 25%	24.2
25% – 29%	12.9
30 – 35%	13.8
35 – 49%	33.9
50 – 79%	15.2
Total	100.0

The RAS respondents were asked how many times they had moved dwelling in the past year and during the past three years (Table 6). The results reveal high mobility amongst this low-income cohort, with 58% stating they had moved at least once in the past year and 83% at least once in the past three years.

Table 6**RAS (Victoria): How many times have you changed your address?**

Times changed	% in the last year (<i>n</i> = 216)	% in the last 3 years (<i>n</i> = 218)
0	42	17
1	31	33
2	18	27
3	7.9	11
4	0.9	7.3
5	0.5	1.4
6	0.5	2.3
7	0	0.9
8	0	0.9
12	0	0.5
Total	100	100

The RAS did not fully explore the reasons for high mobility, for example, to avoid rental arrears, obtain cheaper rental or avoid payment of other debts. One consequence of mobility is that, as gas or electricity customers, these households are now – for the first time – entering market contracts for energy supply. While these contracts can be portable, a lack of awareness of being under contractual obligation in the first instance heightens the potential for low-income tenants to break contracts and find themselves subject to termination fees, eventually attracting security deposits. On the other hand, competitive supply now provides the opportunity to avoid utility arrears through moving dwelling. Retailers have the right to block the transfer of a customer who has debt but, if they move into another retailer’s former franchise territory, that retailer currently has an obligation to supply. Alternatively, new connections rather than switchers may attract less attention from the new retailer’s credit department. Energy arrears therefore could encourage mobility.

35.7% (*n* = 305) of respondents had had rental arrears during the past year. Based on Productivity Commission assessment of the number of CRA claimants at the end of the 2002 financial year, these would equate to 70,516 people. For 29% (*n* = 296), difficulty in meeting rental payments was an aspect of concern in regard to their current housing situation.

Asked to provide up to three reasons why they had had rental arrears, problems in paying utility bills were given by nearly two-thirds as the main cause (Table 7). Of those who cited utility bills as a problem, nearly half (44.7%) related to competing expenditures rather than absolute lack of income (associated perhaps with job loss). This indicates cash flow or chronic affordability issues rather than crisis.

Table 7

**RAS: If you have been behind in your rent in the past year, what were the main causes?
Multiple response (choose up to 3) (n = 122)**

Reason for arrears	Victoria %
Health expenses	28
Educational expenses	21
Gambling debt	3.3
Car repair	29
Appliance repair	3.3
Debt repayment	25
Christmas expenses	11
Holidays	1.6
Gas/electricity etc	63
Food bills	34
Administrative error by landlord	0.8
No income/job loss	29
Total	100

Respondents were asked whether they agreed, strongly agreed, disagreed or strongly disagreed that there were times when they were unable to heat or cool their home. The sample results were grouped into those with debt and those without. (20%, $n = 98$) of non-debtors agreed or strongly agreed that they sometimes went without heating or cooling. For debtors, a much larger group, the proportion was 34% ($n = 183$). A significant number of households ration their energy consumption. Later data suggests that some do so in order to avoid debt. For the debtors, it may be precisely because they have debt.

The survey found that 36% of respondents had no debt. Of those with debt, 10% had debts greater than \$10,000. Higher indebtedness was clearly associated with families. Car ownership was also highly associated with families, but the lack of breakdown in the survey for causes of indebtedness meant that any linkage between debt and car ownership could not be verified.

Informal borrowing was common (Table 8). Families (particularly sole parent families) and single person households were the most frequent 'small informal borrowers'.

Table 8

RAS (Victoria): Do you ever have to borrow small amounts of money to make ends meet? (n = 301)

Do you borrow small amounts?	%
Yes	56.8
No	43.2
Total	100.0

Half of those in the RAS who borrowed small amounts of money had experienced rental arrears in the past year, but only 20% of non-borrowers.

The survey asked a series of questions that yielded insights to our inquiry here regarding cash flow. As Table 9 indicates, debt had considerable impact upon responses.

Table 9

Responses to financial stress (percentages)*

	I pay all my bills on time	
	Agreed/strongly agreed	Disagreed/strongly Disagreed
Non-debtor (n = 102)	80	10
Debtor (n = 184)	47	36
	sometimes there's not enough money to buy basic food items	
	Agreed/strongly agreed	Disagreed/strongly Disagreed
Non-debtor (n = 97)	23	42
Debtor (n = 183)	36	40
	I don't have to seek assistance from welfare/ community agencies	
	Agreed/strongly agreed	Disagreed/strongly Disagreed
Non-debtor (n = 99)	44	23
Debtor (n = 182)	36	39

* 'don't know', 'not applicable', 'neither agree or disagree' answers excluded

Closer analysis revealed that 20% of non-debtors and 9% of debtors went without food in order to pay bills on time. Similarly, 18% of non-debtors and 16% of debtors sought welfare assistance so that they could do so. This accords with anecdotal evidence and previous community studies (Deasey and Montero 1983; Lawrence 2002; Neilson c2001; Dufty 1995). Broken down into household types, it was clear that couples without children fared the best. 38% of sole parent families failed to pay their bills on time and – alarmingly – a quarter also went without food. 42% sought welfare assistance. 12% of couples with children went without food, but most paid

their bills on time. 37% of sole person households went without food, but 22% managed to pay their bills on time. Only 28% sought welfare assistance.

Access to emergency funds saw non-debtors in a relative good position. Asked 'If I urgently needed \$1,000 I could borrow it from my bank or credit union or from a friend or relative', 49% of non-debtors ($n = 101$) agreed or strongly agreed that they could do so, and only 27% disagreed or strongly disagreed. For the debtors ($n = 186$), this question reveals the greatest proportional difference in responses, with only a third (32%) agreeing that they could obtain credit. The majority (44%) could not. The experience of financial counsellors is that clients present at their services after family and community networks – credit options – are exhausted.¹¹ Respondents may have exhausted their options to borrow or had none. These people have much reduced flexibility in managing cash flow.

4.4 Reach Out for Kids data

The median income for private renters in the ROK sample was \$398 per week. Median fortnightly rental was \$280 ($n = 116$). As Table 10 indicates, just less than a quarter of the clients were in affordable housing. Not surprisingly, almost half (44%, $n = 106$) reported being in rental arrears.

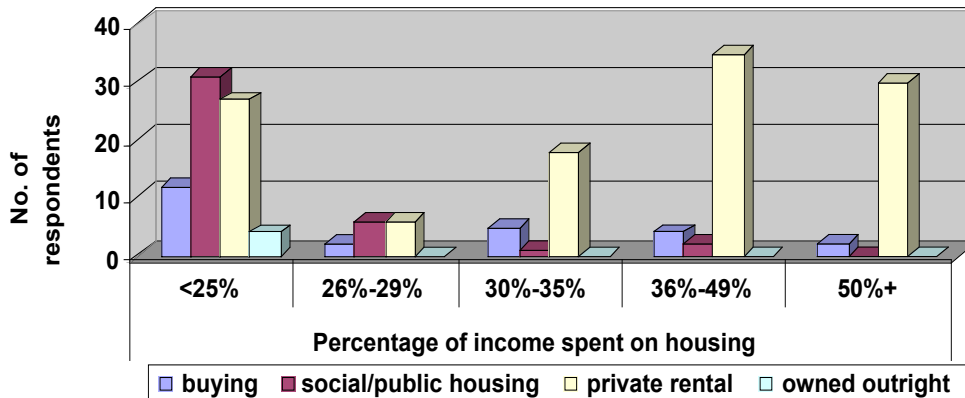
Table 10
ROK: Housing affordability ($n = 116$)

Percentage after tax income spent on rent	%
Less than 25%	23
25% – 29%	5
30 – 35%	15
35 – 49%	30
50-79%	20
80+	5
Total	100

The ROK data demonstrates the nexus between housing tenure and housing affordability (Table 11). 77% of those in social rental tenure were in affordable housing, but only 23% of private renters. Outright home ownership has clear implications. Purchase of housing meant that almost half of the sample was in affordable housing. It is unknown whether the extent of over-commitment by the other half of purchasers reflected capacity to pay or not.

¹¹ Information obtained through interviews conducted for FCRC (Sharam 2004).

Table 11
R0K: Housing affordability in relation to tenure (n = 185)



In the private rental sector, only 18% of beneficiaries and 38% of those with private income were in affordable housing (Table 12). Given the low median income of the sample, this suggests that households in this sector are subject to a pincer movement of low income and high rents.

Table 12
R0K: Private renters: housing affordability according to income source (n = 114)

% income spent on housing	income type		
	benefit only	private only	benefit & private
less than 25%	12	13	2
25-29%	1	3	2
30-35%	11	6	1
36-49%	22	5	8
50+%	21	7	0
Total	67	34	13

The sample highlights the benefits that social housing confers upon social security beneficiaries, with 74% achieving housing affordability (Table 13). Overall, only 55% of those with private incomes did so.

Table 13**ROK: Non-private renters:¹² housing affordability according to income source (n = 82)**

% income spent on housing	income type		
	benefit only	private only	benefit & private
less than 25%	49	5	3
25-29%	8	1	1
30-35%	3	1	2
36-49%	3	2	1
50+%	3	0	0
Total	66	9	7

The ROK data afforded the opportunity to categorise energy affordability as a percentage of income in the same way that housing affordability is determined (National Housing Strategy 1991). Richardson and Travers (2002) contend that the United Kingdom fuel poverty indicator of 10% of income spent on heating overstates energy needs of South Australians. As most of the Victorian population lives south of the Divide, the percentage of income required for Victorian households would be more than that required for most South Australians. Nevertheless, it should be less than 10% for total energy needs. Putting Australian domestic energy usage into perspective, Richardson and Travers (2002: 5) state that:

data from the Australian Household Expenditure Survey (1993) suggest that it is unusual for Australian households to spend such a high proportion of their income either on fuel or on electricity. For example, when households are ranked by equivalent household expenditure, those in the lowest decile spend on average 4.7 % of total expenditure on electricity and 6.4% on fuel (authors' calculations). (The average for the whole population is 2.1% on electricity and 2.9% on fuel).

Lawrence (2002: 14) noted that the later 1998-99 Household Expenditure Survey research indicated that 'those in the highest income quintile allocated less than half as much of their household income (1.2%) to "domestic fuel and power: as did those on the lowest income quintile (8.2%)'. Whilst the percentage spent on energy is higher for low-income households, this frequently represents lack of income rather than greater demand. Rationing of electricity is common amongst such households. However, greater demand can arise in cases of larger families or needs associated with illness or unemployment, for example, or as a result of poor housing and appliance quality.

¹² Non-private includes owning home outright, purchasing home, public housing and community housing.

Table 14 shows that 19 private tenants in the ROK sample were in affordable housing, but two of these were experiencing fuel poverty. Of the 69 renters in housing stress, 30% also experienced fuel stress. Beneficiaries or part-beneficiaries formed 87% ($n = 32$) of the fuel stressed group, but as beneficiaries they have both an income floor and an income ceiling. Fuel poverty in these instances points to the cost of energy or some other additional factor. The remaining four derived their income from private sources, and their fuel poverty may relate to either low income or high energy needs. The high percentage in fuel poverty could be attributable to high need, poor thermal quality of housing, poor appliance performance or wastage. Within the Victorian fuel poverty literature, poor energy efficiency is frequently cited in relation to rental housing stock. Amongst the other tenure groups in the ROK sample, those in receipt of benefits or part-benefits comprised 100% of those in fuel stress. Private income appeared to protect households from fuel poverty, although not from housing stress.

Table 14
ROK: Private renters: incidence of housing affordability and energy affordability ($n = 94$)

Percentage income spent on housing	Percentage Income spent on energy		
	0-6%	7-12%	13+%
less than 25%	19	1	1
25-29%	5	1	0
30-35%	9	5	0
36-49%	21	6	0
50+%	8	9	9

15% of the private renters in the ROK sample had a utility debt (Table 15), but only 3% did not also have rental arrears. 37% ($n = 71$) of ROK clients in non-private rental had gas and/or electricity debt. As the non-private tenure types¹³ deliver greater housing affordability, this advantage should offset any additional energy costs, but it does not appear to do so. This may result from higher consumption needs, poorer quality of housing and/or appliances, less capacity to manage or more time spent at home, which in turn could reflect the increased targeting of public housing to those with greater needs.

In the ROK sample, 39% of private renters ($n = 108$) had no debt (excluding rental arrears and energy debts), but 54% had non-energy related debts. 45% had debts greater than \$10,000. These related in many cases to car purchase. Tables 15, 16, and 17 demonstrate that only 3% of households had an energy debt without other

¹³ The median housing cost for this group was \$147 per fortnight.

debts, and that someone with rental arrears is twice as likely to have other debts. The existence of debt in itself did not mean that rental arrears were any more likely.

Table 15

ROK: Incidence of rental arrears compared with energy debt (*n* = 99)

	No rental arrears	Rental arrears
Energy debt	3	12
No energy debt	52	32

Table 16

ROK: Incidence of energy debt compared with other debt (*n* = 98)

	No other debt	Other debt
Energy debt	3	9
No energy debt	39	47

Table 17

ROK: Incidence of rental arrears compared with other debt (*n* = 97)

	No other debt	Other debt
Arrears	13s	30
No arrears	27	27

Chapter 5 Discussion

Private rental tenure is increasingly the market of last resort for low-income households unable to secure private home ownership or access to public housing. Over three-quarters are in housing stress, partly as a result of labour market flexibility and declining housing affordability in most major centres. As a consequence, low-income private rental housing is taking on the characteristics of an expensive residual market. These changes are indicative of a trend towards inequality in Australia.

It is likely that a significant proportion of private renters in housing stress may also experience fuel poverty. Affordable rental housing does not preclude the existence of fuel poverty. Although many low-income households manage without becoming indebted, this may be at the cost of foregoing food at times or seeking emergency relief. Not surprisingly, indebtedness is prevalent, and there appear to be correlations between rental arrears, energy debts and other debts, although it is not necessarily the case that other debt will result in rental arrears or outstanding energy bills. The ROK data indicates that energy debts are uncommon unless associated with other

debts. This is indicative of the importance which people place on supply. Access to credit is important to financially constrained households in order to smooth out cash flow problems. For some, borrowings are manageable. But for many others, the debt is simply not serviceable in the short or long term. It is arguable that that low income and the terms and conditions of commercial credit mean that provision of credit is inappropriate. In the face of non-discretionary needs and income deficits, however, it is not surprising that many households are caught in a debt trap. The 'credit' provided by energy retailers and the effective credit that occurs when tenants are late with their rent provides the flexibility which is crucial to cash flow management in a financially constrained household.

Energy retailers have a major service rival in private low-income tenancy providers, but research suggests that poor energy efficiency and certain types of credit provision should also be regarded as rivalrous. The impact of discriminatory credit lending practices on its business is recognised by Entergy (2003: 12):

Because unscrupulous lenders and check-cashing businesses often gouge low-income people, a Predatory Lending Council was established to research these entities. The group is made up of Entergy employees, state low-income advocates and elected officials, and its mission is to develop strategies for reducing the number of Louisiana citizens who fall victim to predatory lending.

Customers' commitment to prioritising utility payments over other essentials indicates that energy retailers are failing to recognise the current order of household expenditure. They do face a threat from the increased costs of other service providers, but the punitive solutions developed so far (and those proposed like PPMs) misdiagnose the problem only to create another – declining sales as a result of increased periods of disconnection and further rationing.

Energy retailers have other options. Those concerned about cash flow and customer indebtedness should consider introducing progressive tariff structures. For example, the current regressive structure of energy charges significantly reduces the benefits of rationing. This denies budgetary options to customers in fuel poverty. Low-income customers are price responsive: they ration, but they also increase energy consumption when incomes increase. Secondly, utilities can and should undertake energy efficiency retrofits. The contribution of general indebtedness to default on energy bills suggests that retailers also could benefit from participation in a 'no interest loan scheme' to reduce this source of rivalry. As providers of essential and non-discretionary services that are high-volume and low-margin, they could enter into a dialogue with the broader community about what it means to have an extensively impoverished community or customer base. This may involve debate around the merits or otherwise of a highly flexible workforce and high unemployment, of easy

and discriminatory credit, and of low-density cities where a private car is the only option for most people.

Finally, as Sharam (2004) found, market segmentation is inhibited by the effective obligation to supply that is afforded by the deemed and standing offer tariffs, and by customer inertia. The shedding of unwanted customers cannot become systematic until the former is removed. The Victorian government has indicated that it would like to see a rollback of the current consumer safety net provisions (ESC 2003b: Appendix). Reducing the availability of the deemed and standing offers would force a migration onto market contracts and 'address' customer inertia.

5.1 Conclusion

Rental blacklists, poor housing quality and affordability, and harsher utility credit management practices reduce the stability and flexibility required by low-income vulnerable households to manage financially. Competition accelerates market segmentation, increasing pressure within utilities to reorder household expenditure as a means of protecting cash flow and reducing bad debt. Action to reorder household expenditure in the ways that utilities are adopting, however, undermines both the capacity of these households to maintain supply and government programs aimed at promoting welfare. Therefore, utilities' longer-term interests are not advanced by such strategies, as volume of sales must drop as affordability declines and as incidence and length of disconnection increases. The effect of the competition between service providers is to further disempower and impoverish marginal households. This occurs because providers react to the symptoms of poverty rather than its causes. Yet, history has demonstrated that the counter-intuitive approach of supportive credit management works. 'Whole of government' fuel poverty alleviation and prevention programs deliver considerable benefits for all stakeholders.

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