Cut off: the losers in utility privatisation

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A study of disconnections in the Victorian electricity industry

A scenario - Jane Smith, Financial Counsellor rings Roger, her contact at the local office of the electricity company. She expects this call to be like others she has made to Roger over the last five years, a quick chat to settle on a repayment plan that her client can afford.

But this call is different. Roger is formal, he insists on calling her Ms Smith and acts as though they don't know each other. And what is worse, he refuses to negotiate an affordable repayment plan. 'Sorry Ms Smith, company policy requires that your client pay in full by Friday or the power will be disconnected.'

So what has changed? Why is Roger acting like a bureaucrat instead of an ally?

The previous week the electricity distribution business for which Roger works was sold to private owners. He is playing it safe - don't appear too friendly with the community sector or you might not be seen to fit the new profit-oriented company.

This is not an entirely fictitious scenario. Similar scenes were acted out across Victoria throughout 1995 as the five electricity distribution businesses were sold to private owners after 75 years of public ownership. It was a bizarre development in a trend that Financial Counsellors had reported for some time, of decreasing flexibility of the State Electricity Commission of Victoria (SECV) and a resulting increase in disconnection of people who were willing but unable to pay their electricity bills (Benvenuti and Walker 1995). Yet the Victorian Government claims through the Office of the Regulator General that disconnections are dropping as a result of privatisation (Age 4.10.95:4, 10.1.97:A5).

Interestingly, the SECV stopped publishing disconnection data in 1992 and financial counselling case work data has not been available since mid 1995. Thus it has been difficult for consumer advocates to substantiate the anecdotal evidence of decreasing flexibility.

With the Gas and Fuel Corporation of Victoria about to undergo a similar process of privatisation it is critically important for those of us concerned with social justice to determine unequivocally what actually happened to low income Victorians in the privatisation of electricity so that we know what dangers to guard against.

This article summarises the findings of a study of historical trends in domestic electricity disconnections, including a compilation of publicly available disconnection figures and data obtained through Freedom of Information processes (Romeril 1997). It shows that the change in the public face of electricity supply in Victoria demonstrated by Roger's strange behaviour was only the final stage of an invisible process of toughening up that had been occurring for the past four years.

The Financial Counsellors were correct - privatisation has inflicted punishment on low income Victorians in the form of increased disconnections. But this process occurred primarily while electricity supply was still in public ownership, during the process of commercialisation and corporatisation of the SECV which prepared it for sale to private owners.

The Victorian Government set a benchmark for disconnection policies and procedures against which the Office of the Regulator General was to assess the performance of the private distribution businesses as the level of performance of the SECV as at September 1994 (ORG 1995:40). Using this criteria, the distribution businesses have reduced domestic disconnections. The historical analysis, however, reveals that the performance of the SECV at September 1994 in regard to disconnection from supply of households in financial difficulty was not its best practice. In fact, the SECV was performing at its worst level on record.

In the period from the mid 1980s to the end of 1996, there were significant variations from month to month in the rate at which domestic customers were disconnected from electricity. The trend line (which eliminates seasonal variations) shows, however, that underlying this variation there are three clear phases - a relatively steady rate of disconnection for several years to the end of 1991; increasing rates of disconnection for four years in the early 1990s; then a decline in the rate of disconnections in the mid 1990s. Given the length of the period of low disconnections and the consistency of the trend, it is reasonable to characterise the average for this period of 0.7 households disconnected per month per thousand domestic customers as the benchmark of best practice of the SECV. In the period 1992 to 1994, the rate of disconnections increased by more than two hundred and fifty percent to an average of 1.8 households disconnected per month per thousand domestic customers.

Thus the government's claim of improved performance with regard to domestic disconnections since the sale of the electricity distribution businesses to private owners is shown to be a hollow victory for disadvantaged Victorians. On the data available to the end of 1996, it appears that the average number of households disconnected from electricity each month will not return to the level of best practice of the SECV until mid 1997. Thus the Victorian community will have experienced more than five years of increased electricity disconnections in the period leading up to and following sale to private owners.

Further, this increase in disconnections was visited on those least able to pay. Figures kept by the electricity industry for domestic disconnections include two distinct groups - households which are later reconnected to electricity in the same name at the same address and those which are not. The latter group are known in the industry as 'skippers' and includes households which choose not to pay their final bill when moving out of a house.

The consumer movement is not concerned with trends in disconnection rates for skippers, primarily because in these cases no-one is living without power. The primary concern is with people who are reconnected in the same name at the same address, as these people were living without power for the period of disconnection. They have been disconnected not because they are cynically evading a bill but because they are genuinely unable to pay it. For the purpose of this paper, this group has been termed 'temporary disconnections'. An analysis of trends in temporary disconnections shows that the increase in disconnections in the 1990s was visited almost exclusively on people who were genuinely unable to pay.

Rising unemployment explains some of the increase in domestic disconnections, but not all. Increased electricity tariffs in combination with high unemployment provides more of the explanation but still there are unexplained aspects of the trends. The increases in tariffs were introduced in the context of commercialisation of the SECV as part of a reorientation of priorities away from social goals in favour of economic efficiency. While there is limited conclusive evidence of a toughening in the attitude of the SECV toward people in financial difficulty, an examination of the full picture of the context of the increase in domestic disconnections in the early 1990s suggests that this was also a significant contributing factor.

Briefly in the 1980s the SECV had a policy of eliminating the need for disconnection due to financial hardship. This policy disappeared, along with the targets that the SECV had set itself to limit the rate of disconnections, in 1990 at the same time that State and Federal Governments started to publish reports and policy discussion papers which consistently indicated a change in priority for public utilities (see for example IAC 1989, Government of Victoria 1991, Office of State Owned Enterprises 1994). All of these reports and policy statements called on the public utilities to increase their economic efficiency and relegated social responsibilities to the secondary status of 'community service obligations'. The SECV knew how its performance would be judged and it appears that it responded accordingly, and Victorians living on low incomes bore the brunt.

A chronology of political events affecting the electricity industry in the late 1980s and early 1990s clearly suggests that the processes of privatisation, including commercialisation and corporatisation were a major cause of the dramatic increase in domestic disconnections.

Disconnections increased temporarily in 1989 during the first government inquiry into the application of economic rationalist policies to public utilities. They started an on-going increase in 1991 when both State and Federal Governments started publishing papers calling for commercialisation, corporatisation and privatisation of utilities. They skyrocketed during the latter stage of the process of privatisation when the SECV was broken up in 1993 in preparation for sale to private owners. Surprisingly, then, the horizontal disaggregation into five distribution businesses twelve months later in October 1994 was associated with the end of the three year period of increase in domestic disconnections. In fact, this final stage in the preparation of the electricity industry for sale coincided with the start of the decline in disconnections that has continued to the present. There was another key event at this time that appears more likely to have produced this positive result for disadvantaged consumers than market forces - in July 1994 the Office of the Regulator General opened for business and in September of that year the Government issued a policy statement requiring the Regulator General to ensure that the performance of the new electricity distribution businesses in regard to a range of indicators including disconnections should equal or better the performance as at 24 September 1994 (ORG 1995:40). Obediently, the distribution businesses started to decrease disconnections the following month. This suggests that regulation rather than competition has been the major cause of the decline in electricity disconnections since sale to private owners.

Trends Since Sale to Private Owners

When the SECV was broken up into five distribution businesses in July 1994, each was performing very differently in regard to the rate at which they disconnected households from supply for failure to pay bills.

The average rate of domestic disconnection at the time the SECV was broken up was more than two hundred percent of the SECV best practice level, at 1.5 households disconnected per thousand domestic customers. One of the newly formed distribution businesses, however, was performing much worse than this average - Citipower.

In July 1994 Citipower disconnected households at a rate of 2.4 per thousand domestic customers which is more than triple the best practice of the SECV. In contrast Solaris and United Energy disconnected slightly more the 1.5 households per thousand domestic customers. Since disaggregation, the performance of the distribution businesses has continued to be highly inconsistent.

Citipower, which tops the graph almost every month, serves the disadvantaged inner northern region of Melbourne. Thus disadvantaged households with the least market power are suffering a disproportionate share of denial of access to essential power.

Eastern Energy, which started with a disconnection record almost as bad as Citipower's, reduced its disconnections in 1996 to equal the best performer. It serves the outer eastern metropolitan region, one of the fastest growing parts of the city with significant pockets of poverty, as well as the rural east of Victoria.

Powercorp serves the disadvantaged outer west of Melbourne and rural western Victoria. It started as an average performer but has failed to reduce its disconnection rate as quickly as others and so is now above the average rate of domestic disconnections.

Solaris serves the privileged inner eastern metropolitan region and was the first to reduce its disconnection rate to the rate of best practice of the SECV. Thus the higher socio-economic groups are receiving favourable treatment by the private electricity companies.

Finally United Energy serves the north west metropolitan region which suffers one of the highest rates of unemployment in the state. It was slow to reduce its disconnection rate but by the end of 1996 it was the best performer.

Mathematical modelling of the trend in Citipower's disconnection rates suggests that it is unlikely to drop to the rate of SECV best practice of 0.7 disconnections per month per thousand households until early in 1997.

Thus it is apparent that the disadvantaged regions of Victoria - the inner north and the outer western metropolitan regions - have suffered particularly.

Implications for electricity customers

In regard to the electricity industry, the findings of this research have implications for consumers as well as for the Regulator General and the government.

The citizens of Victoria have the right to demand further decreases in domestic electricity disconnections. Despite Government claims to the contrary, there is no cause to be grateful to the private electricity companies for the decreases that have occurred to date. In reducing average monthly disconnections they are doing no more than returning to the service levels of the best practice of the SECV. Further it appears that this decrease is only occurring as a result of continuing pressure from the Regulator General.

As the agent of government with responsibility for ensuring that customers benefit from privatisation of utilities, the Regulator General should adopt the rate of SECV best practice of an average of 0.7 households disconnected per month per thousand domestic customers as the benchmark for evaluating the performance of the private electricity distribution businesses. This would require Citipower and Powercorp to immediately reduce their rates of domestic disconnection to this level or below. Further the Regulator General should cease to praise the companies unless and until their disconnection rates fall below this level.

Government must identify specific Community Service Obligations for corporatised and private utilities that ensure maintenance of supply to all citizens regardless of economic disadvantage. In this way the Government can ensure that while the utilities operate in an economically efficient manner, vulnerable citizens are not denied access to essential services. These community service obligations must be adequately funded to ensure that no Victorian is denied access to utilities through inability to pay and the only households to be disconnected are skippers.

Implications for privatisation of other utilities

This research has implications for the Regulator General, the Victorian Government and for consumer advocates in regard to the current privatisation of gas and the possible future privatisation of water.

If the Regulator General is to genuinely pursue the role of ensuring that service standards do not decline below those of the publicly owned utilities, then he must actively seek historical data regarding gas disconnections and water restrictions in order to identify a benchmark of best practice of the public utilities against which to monitor the performance of corporatised government businesses or private companies. In this way the public can be protected from misleading information which obscures the negative impact of corporatisation and commercialisation of public utilities on vulnerable citizens.

Ideally the Regulator should assume responsibility for monitoring and regulation of the utilities well before they are offered for sale to profit-oriented owners. In this way he can ensure that the utilities are genuinely operating in a manner which is fair and equitable to all citizens before the pursuit of profit comes to dominate decision making.

Consumer advocates must be vigilant in monitoring the impact of the entire process of privatisation, including the preparation phases of commercialisation and corporatisation as well as after sale. In this way they will avoid accepting a level of worst practice of public utilities as the benchmark for assessing the performance of private utilities.

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Note: Disconnection figures for 1997 had not been released by the ORG at the time of writing.