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# Why APAYG is not the best option for people living on low incomes

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## Introduction

Aurora Energy, Tasmania's only electricity retail company offers its domestic customers one alternative to the standard regulated electricity tariff, that is, Aurora Pay As Go (APAYG), a pre-payment meter system. Approximately 33,000 Tasmanian households (that's about 15%) now have APAYG meters installed.

Many see APAYG as a budgeting tool that assists them to keep control of their electricity use by paying for it in advance. Financial counsellors often recommend APAYG to people in financial stress or who have trouble budgeting. This paper argues that APAYG may not be the best option for people living on low incomes and that other payment options, especially EasyPay, may actually be better budgeting tools.

## What's what: APAYG and Standard Tariffs

APAYG is a metering system that employs pre-payment meters in place of the standard black meter. Pre-payment meters are activated and electricity is supplied by swiping a pre-paid smart card (or APAYG card) in the meter. Customers can have their APAYG cards 'charged' with credit at designated Point of Sale (POS) agencies throughout the state. When a customer's credit runs out, an emergency credit facility is activated and an additional \$10 is made available before the meter cuts off supply. Once a card is re-charged and re-swiped, electricity supply is restored and the amount of emergency credit used (which includes daily fixed charges) is deducted from the credit on the card.

Once connected with an APAYG system, customers need have no further contact with Aurora, unless they choose to make contact themselves.

Electricity supplied through an APAYG pre-

payment meter is charged to the customer at a different rate (or tariff) than that supplied through a black meter (the standard tariff). APAYG rates are based on time of use, that is, different prices are charged at several different blocks of time during the day and night, and during summer and winter seasons. APAYG customers can also have HydroHeat and OffPeak tariffs, providing that their homes are connected to those systems. These have different rates again, also based on time of use, summer and winter. APAYG rates include a daily standing charge or fixed charge (a charge you pay whether you use any electricity or not) of 86.12c per day.

**Standard tariffs** are based on blocks of usage with a rate that decreases as electricity usage increases (known as declining block tariffs). The standard tariff has separate rates for light/power and for hot water, and for HydroHeat, and OffPeak. It has a daily standing charge or fixed charge of 60.691c for light and power, and 5.746c per day for hot water (HydroHeat and OffPeak have separate fixed daily charges).

Because Aurora is a monopoly electricity retailer, the Tasmanian Energy Regulator sets limits on how much Aurora can increase its standard tariffs every year, and other charges related to the standard tariff (such as the daily fixed charges, connection fees, etc) are also regulated. Because APAYG is seen as a tariff choice for consumers and not the only option available, rates and charges are not regulated.

In addition, Aurora standard tariffs and conditions of supply are subject to other regulations contained in the Tasmanian Electricity Code and the Electricity Supply Industry (Tariff Customers) Regulations. These documents set out in detail requirements relating to supply of electricity in Tasmania and include regulations relating to accounts and payment procedures, security deposits, interest on overdue accounts, payment difficulties and payment plans, disconnection of supply, complaint mechanisms and the rights and

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responsibilities of customers. Among the regulations and Code conditions are many customer protection measures – such as regulations that limit disconnection of electricity supply to certain hours and days of the week (eg not after 2pm on a business day and not at all on Fridays, weekends or public holidays).

These regulations do not apply to APAYG and electricity supply with APAYG meters is subject to conditions determined by Aurora and set out in Aurora Pay As You Go - Application of Product (also known as terms and conditions).

Aurora recently introduced a feature that allows debts to be paid off through APAYG meters with a system called APAYG Progress Rate. Customers with outstanding debt have their meters re-calibrated so that the daily standing charge is increased by 50c per day. In this way, re-payments of about \$182 are made over a 12 month period. In general, Aurora limits the use of Progress Rate to those with debts under \$300, but the company is willing to negotiate for those with higher debts to also use the system.

Both APAYG and standard tariff customers are eligible to apply for the government provided pensioner discount and Health Care Card holders winter quarters discount (48.4 c per day).

### Why APAYG is popular

APAYG was first introduced as a trial in 1995 and has been heavily promoted by Aurora in recent years. As mentioned above, about 15% of Tasmanian households now have electricity supplied through pre-payment meters. It is promoted as a budgeting tool that allows people control over their electricity spending. It also allows people to know how much they are using and what it is costing.

Aurora uses the slogans *No More Power Bills* and *No More Surprises* to promote the system. This obviously strikes a chord with consumers, many of whom have found electricity bills difficult to manage in the past. A system that permanently eliminates bills and the uncertainty of costs incurred under the credit system is obviously attractive to some. It doesn't, of course, eliminate electricity costs, it simply allows for those costs to be paid in advance.

Some consumers value the privacy that the APAYG system provides – they need have no communication at all with Aurora and no 'interference' in their electricity supply and usage or in their financial management style, including choices about how they spend their money.

Many consumers like the time of use tariff provided by APAYG and are able to vary their usage to take advantage of periods when power is cheaper (at night, for instance).

The APAYG Progress Rate is attractive to some consumers with an outstanding electricity debt since it allows them to pay off the debt in small regular amounts over time, while they pay for the electricity they're continuing to use. It is perceived by some as a 'painless' way to deal with their debt.

### Problems with APAYG for people living on low incomes

Aurora itself states clearly that APAYG is not the appropriate system for people in financial hardship. In so doing, Aurora is acknowledging that there are potential problems with the absence of consumer protection measures for APAYG customers. While the company cannot deny consumers without debts access to APAYG, it does claim to limit use of the system to people with debts under \$300.

#### Self-disconnection

The major concern with APAYG for people living on low incomes and others with financial problems is self-disconnection. With a pre-payment meter, people who do not have available cash to have their cards re-charged, simply cannot have electricity in their homes until they can get the money to pay for their electricity in advance. When people self-disconnect, no-one knows. There is no mechanism on the meters used in Tasmania to record disconnections or to alert Aurora to the fact that someone has disconnected or how long they remain without power. Therefore no help can be offered until it is asked for by the person concerned and, as a community, we do not know the extent of hardship and poverty in relation to electricity use.

People may self-disconnect when money is needed for other purposes. Many think that they will go without electricity for a period and will save money,

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but this isn't necessarily the case. While people are disconnected from APAYG meters, the daily standing charges continue to accumulate (at a rate of 86.12c per day, \$1.36 for those on Progress Rate and 37.72c per day for pensioners) and are re-paid when the card is re-charged and electricity is re-connected. There is no re-connection fee for APAYG as there is under standard tariff conditions (\$51).

With standard tariffs, disconnections are carried out by Aurora staff, but not until the company has met its obligations under the regulations, including giving the customer notice in a form approved by the Regulator (by two notices posted to the customer's address and a telephone call). Aurora also has a field officer personally visit the customer to discuss alternatives to disconnection. Customers who then either pay their accounts or enter into a payment plan with Aurora do not have their power disconnected. As mentioned above, disconnections cannot be made after 2pm on a weekday or any time on a Friday, weekend or public holiday. With APAYG the only limitation is that power is not disconnected between 8pm and 8am (or 9pm and 9am during Daylight Savings).

### High winter costs

People living on low incomes with APAYG meters, like all other APAYG customers, are required to pay for their electricity in advance. In the winter when most Tasmanians use more power to keep warm, those on APAYG will need to pay more for electricity than at other times of the year. This puts pressure on those with low incomes, and money must be found to cover increased usage.

### Limited access to credit

APAYG, unlike standard tariff arrangements, does not allow access to credit above the \$10 emergency credit programmed into the meter. When standard tariff customers have periods of financial difficulty, they are still able to maintain their electricity supply through the credit arrangements provided to all standard tariff customers. The regulations detail the account and credit requirements for tariff customers and spell out conditions such as, obligatory reminder notices and set intervals between issuing accounts and due dates.

### Limited payment options

In addition, APAYG customers may have no option

but to pay cash for their electricity since POS agents are not required (by Aurora) to offer either credit card or EFTPOS facilities. In addition, there is the obvious cost involved for customers in physically getting to a POS agency. Tariff customers on the other hand, have many payment options including credit card, cash and EFTPOS, and may pay in person at Post Offices, Service Tasmania centres, some supermarkets and RACT branches or by direct debit, CentrePay, internet or telephone.

### Problems with comparing costs

A major difficulty for consumers who are trying to decide whether or not they would be better off financially on APAYG or the standard tariff is comparing the rates. Because the rates are so different and are based on different systems (time of use and block tariffs), it is extremely difficult to compare costs. Even if you know how many kilowatt hours of electricity you use each year, in order to compare costs, you would need to know what time of day you use electricity and your consumption in both the summer and winter periods.

The standing daily charges with APAYG are higher (reflecting, we are told, the cost of the meters) but some of the per kilowatt hours charges are less than those of the standard tariff.

It is almost impossible to tell whether APAYG will be a cheaper option or not – the best way to tell is to try it for a few quarters (a full year would be best) and keep track of all expenditure to compare with your previous spending on the standard tariff (but you must also take into account tariff increases and any major variations in electricity use – eg a particularly cold winter, absence from home, having guests stay, etc). The problem with this is that you would have to pay for installation of a pre-payment meter (\$57) and for reversion back to a black meter (another \$57) if you decided against keeping APAYG. Customers can revert to a standard meter free of charge only if they do so either within three months of changing to APAYG or within 28 days of an APAYG rate rise.

### Soft Start – variation in time blocks

Many customers are not aware that the different time and tariff blocks in APAYG – that is, when one rate period ends and another starts – are not exact. This is called soft start and means that the system is set up

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to start some meters shortly before the appointed hour of change and some shortly after to avoid a peak demand exactly on the hour when, say, power costs become lower. Customers who seek to save money by using power in cheaper periods on APAYG need to be aware that the cheaper period may start 15 minutes either side of the hour.

### Card charge

Each household connected to an APAYG meter is entitled to one smart card only at a fee of \$20. If a card is lost or damaged, a \$20 fee is charged for a replacement card. Many people have found that sharing a single card within one household is inconvenient, especially if the emergency credit runs out while the card is with someone who isn't home at the time. The APAYG system does not permit the use of multiple cards on a single meter.

### Better options for low income people

#### EasyPay

A better option for those with low incomes is a payment system that avoids having to pay more at certain times of the year and provides access to credit. Aurora has a system called EasyPay that allows consumers to split their bills evenly across the year and to make regular payments to cover their usage, large and small.

Aurora staff will, on request, look at your past usage and estimate your average annual power costs. This is then divided by either 52 for weekly payments, 26 for fortnightly or 12 for monthly payments. Consumers can arrange to pay equal amounts at regular intervals throughout the year in a number of ways (direct debit, CentrePay, in person at the Post Office and so on). This system is based on previous average use and can result in consumers having either a small surplus or shortfall at the end of the year which can be either credited or debited to the ongoing account.

EasyPay is a very good option for people living on low incomes since it provides certainty, makes possible regular equal payments and doesn't generally result in accumulated debt (unless your usage increases greatly during the year). There is no need to find extra money in the winter when usage increases – high winter usage costs are spread evenly throughout the year.

#### CentrePay

A good option for people whose major source of income is Centrelink payments is regular deduction of a selected amount through CentrePay. Centrelink makes payments directly to Aurora from your Centrelink entitlement.

EasyPay combined with a CentrePay arrangement is probably the best option for people receiving income support through Centrelink.

#### PrePay

Customers can register with Aurora for a pre-pay card that is linked to their Aurora account by a barcode. With the card, customers can make payments of \$15 or more on their accounts at any Post Office, PO agency or Service Tasmania centre. Payments made are credited to your Aurora account and when your quarterly account arrives, these payments appear as credits against your electricity charges for the quarter.

This is a good system for people who want to make extra payments when they have the cash to do so, and who don't want to be committed to making regular payments. Like EasyPay, the PrePay option can result in a surplus or deficit on the account that follows. Surpluses are obviously carried over to the next account while deficits must be paid under the same conditions of any normal quarterly account.

#### For further information

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