



# **GAS PERFORMANCE REPORT**

## **DISCONNECTIONS FOR NON-PAYMENT 1982-1998**

**28 July 1999**

## PREFACE

This report provides historical data on gas disconnections for non-payment of accounts. This report is being published as a stand-alone document in response to requests for the data from customer representatives.

The Office's Customer Consultative Committee has requested that the Office publicly release statistics relating to gas disconnections for non-payment of unpaid accounts ahead of the inaugural comparative gas industry performance report later this year. The Office has taken the decision to release this report publicly as the first in a series of comprehensive gas industry performance reports.

Since commencing the regulation of the gas industry in December 1997, the Office has been systematically drafting several regulatory instruments, and developing a regime to monitor and enforce compliance with them. One of the key achievements was the development and implementation of the *Gas Customer Service Code* and *Benchmark Customer Charter*. In 1998, Energy21, Kinetik Energy and IKON Energy had their customer charters approved by the Office and all customers will now have received copies of these charters.

In August 1999, the Office expects to advertise draft *Gas Industry Guideline No.5: Victorian Gas Distribution and Retail Businesses Performance Information Specification* inviting public submissions. This Guideline will provide detailed specifications of approximately 30 Key Performance Indicators (KPIs) which the Office will require the retail licensees to report against. Once the Guideline is finalised, the Office intends to publicly release regular comparative gas industry performance reports commencing in late 1999. The comparative performance reports will contain a section on affordability which will include KPIs on disconnections for non-payment, reconnections, refundable advances and instalment plans.

Please direct any questions about the report to either Philip Norman, Acting Director, Gas Water and Ports on telephone 9651 0247, or, Rob Burns, Project Officer on 9651 3906.

**John C. Tamblyn**  
**Regulator-General**

**28 July 1999**

## CONTENTS

	<b>Page</b>
<b>PREFACE</b>	<b>i</b>
<b>CONTENTS</b>	<b>ii</b>
<b>1. Purpose</b>	<b>1</b>
<b>2. History of Gas Reform in Victoria</b>	<b>1</b>
<b>3. Affordability</b>	<b>1</b>
<b>4. Sources of Data for Disconnections for Non-Payment, 1982-98</b>	<b>2</b>
<b>5. Disconnections for Non-Payment 1982-1998 – Analysis</b>	<b>3</b>
<b>6. Monthly Disconnection Data – July 1997 to December 1998</b>	<b>5</b>
<b>7. Future Reporting of Disconnections and Reconnections</b>	<b>7</b>
<b>TABLES – BASE DATA</b>	<b>8</b>

**REPORT ON GAS DISCONNECTION FOR NON-PAYMENT 1982-1998**

File Ref: RPGAS/0012

# REPORT ON GAS DISCONNECTION FOR NON-PAYMENT 1982-1998

## 1. Purpose

The purpose of this report is to provide historical data on disconnections for the gas industry. This report primarily analyses the quantum level and rate of disconnections for non-payment in the gas industry for the period covering calendar years 1982 to 1998. This information will then be updated in the comparative gas performance report in a section dealing with affordability. This stand-alone report is being published in response to requests for the data from customer representatives.

## 2. History of Gas Reform in Victoria

The Gas and Fuel Corporation of Victoria (GFCV) was established by the Victorian Government in 1950 with the principal goal of developing a brown coal gasification plant at Morwell. When natural gas was first produced by Esso/BHPP in 1967, GFCV expanded the gas distribution network in the 1970s and 1980s to supply natural gas to Victorian consumers via the main transmission pipeline from Longford to Dandenong.

In 1991, the Government commissioned a study by Cresap<sup>1</sup> aimed at improving the performance of the GFCV. As a result of that study, GFCV was restructured into discrete business units such as corporate, transmission, distribution, retail and Heatane Gas. A new regional structure was also implemented. In 1993, the Government privatised Heatane Gas (LPG supply) deeming it to be a non-core business. Heatane Gas was sold to Elgas, a Sydney based supplier of LPG.

In 1994, GFCV was further restructured into the Gas Transmission Corporation (GTC) and GASCOR, which continued to trade as Gas and Fuel. The *Gas Industry Act 1994* was introduced to enable the complete corporatisation and privatisation of the former GFCV. A Gas Services Business was also created, with the responsibility for the provision of related services such as the customer call centre, fault investigation, calibration and measurement and appliance testing.

In March 1997 the Government announced the decision to further disaggregate GASCOR into three principal entities, each comprising a distributor owning pipes in a defined geographical area, with a related or “stapled” retailer. The three gas distributors are Stratus Networks, Multinet and Westar. The three retailers are Energy21, IKON Energy and Kinetik Energy.

The new gas distribution and retail businesses commenced operations as divisions of GASCOR on 1 July 1997, were fully corporatised in December 1997, and then sold to the private sector in the first half of 1999.

The Office has regulated the gas industry since December 11 1997.

## 3. Affordability

The level of disconnections is a significant indicator of the affordability of gas services together with indicators such as instalment plans, refundable advances and Community Service Obligations.

The affordability of gas services is influenced by:

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<sup>1</sup> Cresap, October 1991, Strategic and Organisational Review Final Report for the Gas and Fuel Corporation of Victoria.

- the size of customers' bills which is the product of prices and customers' level of consumption;
- customers' income and suitability of the payment options available to them; and
- the availability of payment assistance to customers experiencing payment difficulties;

The issue of customer affordability may also be influenced by whether a gas retailer uses disconnection against customers who are experiencing payment difficulties.

A gas retailer cannot disconnect a customer who is experiencing payment difficulties unless the procedures outlined in the *Gas Customer Service Code* have been followed. These procedures require the licensee to:

- observe the minimum periods of notice and requirement for reminder notices as specified in *Gas Industry Guideline No.1: Accounts Collection Cycle*;
- offer an instalment plan;
- offer an extended payment period; and
- provide information about Government concessions, rebates and grants.

#### **4. Sources of Data on Disconnections for Non-Payment 1982-98**

##### ***1982-96***

From 1982 –1996 data was supplied on a monthly basis from the customer disconnection records of the Gas and Fuel Corporation of Victoria. This information details total disconnections for unpaid debt, which includes domestic and business customers. No separate information for domestic and business customers is available for this period ie. there is no distinction between these groups of customers. This information was provided to the Office via the Department of Treasury and Finance (DTF). The validation of this older data provided to the Office cannot be totally assured but has a high probability of accuracy.

##### ***1997-98***

For 1997 and 1998 the data has been collected in part by DTF from information supplied by the three gas retailers, IKON Energy, Kinetik Energy and Energy 21<sup>2</sup>. The management of each gas retailer provided this information to DTF as part of its regular monthly reporting.

##### ***Comments – Retail Businesses***

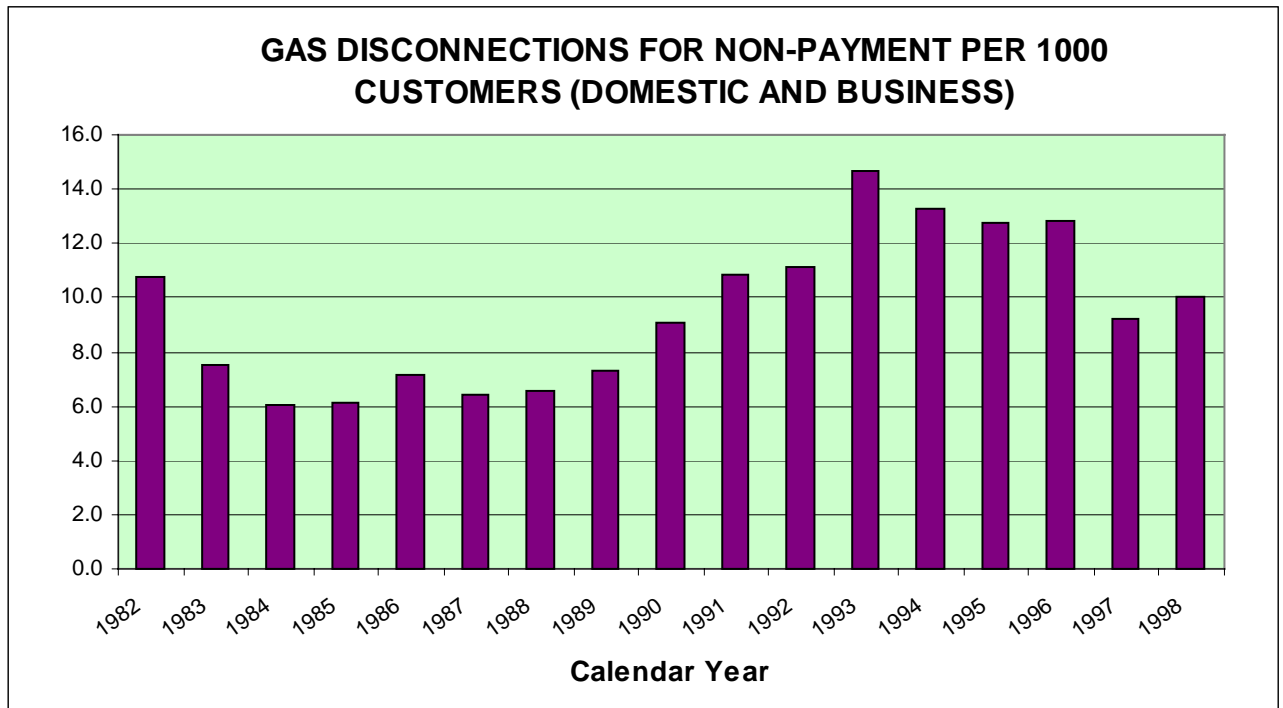
Energy21 has stated that prior to disaggregation of GFCV, the Customer Relations Department who compiled the disconnection statistics within the GFCV had no responsibility for credit and collection in country areas. Therefore, Energy21 suggests that early disconnection statistics may have been for the Melbourne metropolitan area only.

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<sup>2</sup> The Office has been advised by gas retailers that during the reporting period GASCOR and subsequent disaggregated gas retailers may have included instances of disconnections arising from a policy of continued supply to a customer's premises during a change of ownership or tenancy, and then disconnected supply if the occupier did not respond to the gas business's written requests within a certain period. This type of disconnection may have been included in the data provided to DTF.

5. Disconnections for Non-Payment 1982-1998 - Analysis

Graph 1



Source: GFCV, GASCOR, Kinetik Energy, Energy21 and IKON Energy

Overall, gas disconnections were relatively high during the economic recessions of 1981/82 and 1990/92. The rate of disconnections per 1000 customers declined from 10.7 in 1982 to 6.1 in 1984 in line with improving economic conditions. By 1993, the rate of disconnections per 1000 customers had increased from 10.8 in 1991 to a peak of 14.7 and remained high for the following three years despite a general improvement in economic conditions.

In 1997 the rate of disconnections per 1000 customers fell from a peak of 14.7 in 1993 to 9.2 returning to a level similar to that of 1990. In 1998, the rate increased slightly to 10.1 but the trend appears relatively stable. However, disconnection rates were relatively high compared to disconnection rates in the mid to late 1980s.

A range of factors may explain the fluctuations in disconnection rates including:

- the cycle of economic activity;
- change in business practices and credit management policies;
- change in gas consumption over the seasonal cycle; and
- changes in tariffs.

*Comments – Retail Businesses*

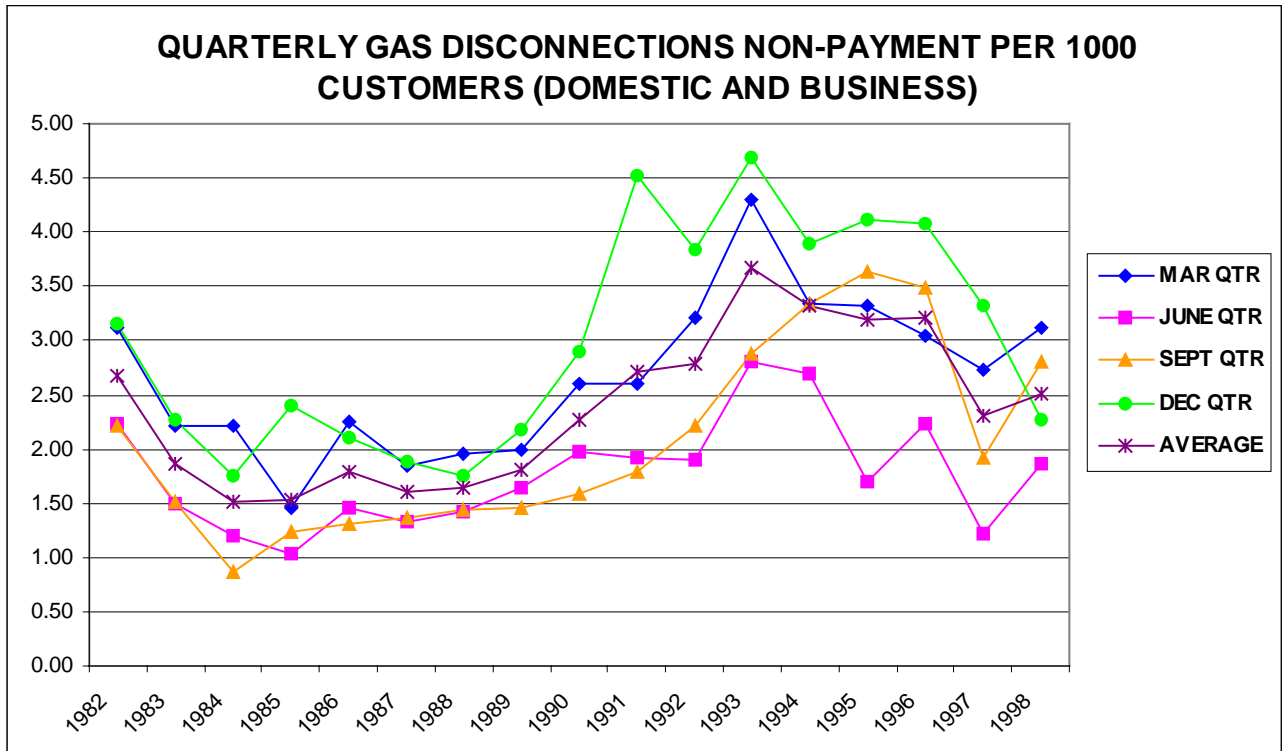
IKON Energy, Energy21 and Kinetik Energy suggested that the following factors would also influence historical disconnection rates:

- changes in gas customer demographics, as more customers were connected to gas;
- changes in gas consumption, as gas appliances became more common place;
- the commencement of instalment plans (Easyway payment schemes) in the early 1980's;

**REPORT ON GAS DISCONNECTION FOR NON-PAYMENT 1982-1998**

- changes to the security deposit policy in the early 1980s that limited GFCV to collect deposits from commercial/industrial customers and customers who had been disconnected for debt.; and
- the 92/93 establishment of independent regions and specific bad debt KPIs.

**Graph 2**



Source: GFCV, GASCOR, Kinetik Energy, Energy21 and IKON Energy

The quarterly data shows a marked seasonal pattern peaking in the December quarter. Given that most gas consumption by domestic and small to medium commercial/industrial customers would occur over the period from May to September, the Office sought further explanation from the gas retail businesses regarding the typically high level of disconnections for the December quarter.

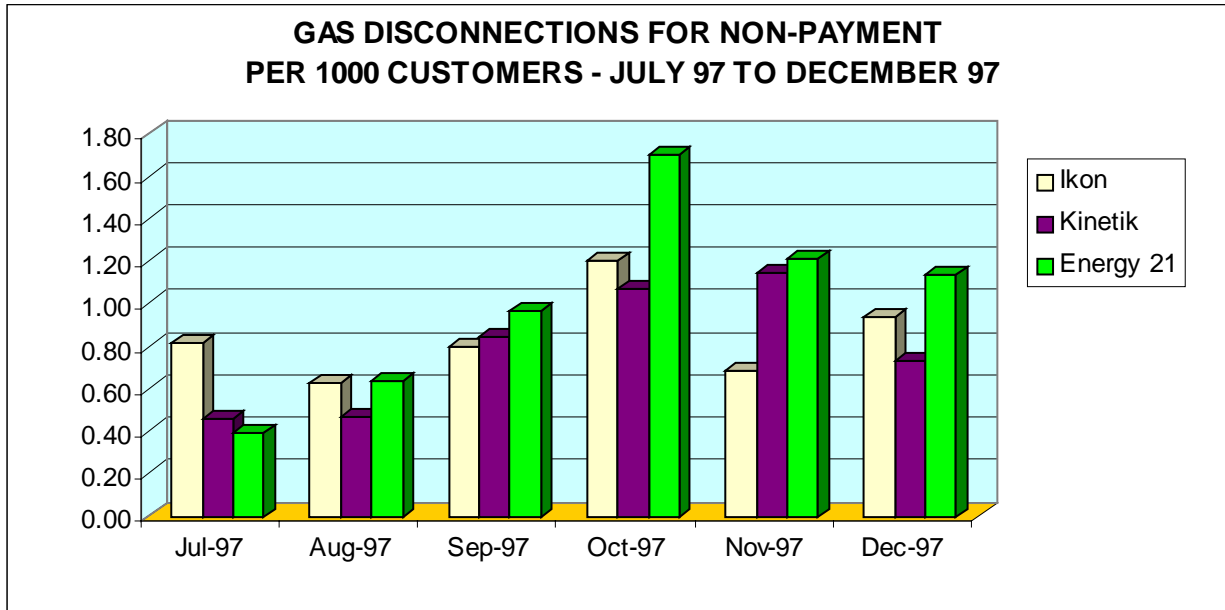
*Comments – Retail Businesses*

IKON Energy, Energy21 and Kinetik Energy made the following comments regarding high disconnection rates over the December quarter:

- whilst more gas is used over the winter months, this usage is billed two months after it is consumed due to the sixty day cycle;
- the collection of these larger accounts is often delayed through payment extensions and Easyway arrangements, culminating in a general increase in disconnection activity over the December quarter;
- customers with consecutive high bills will have more difficulty meeting their commitments as winter progresses and arrears increase; and
- customers on instalment plans and extended pay periods may be disconnected over this period for payment default.

6. Monthly Disconnections Data – July 1997 to December 1998

Graph 3

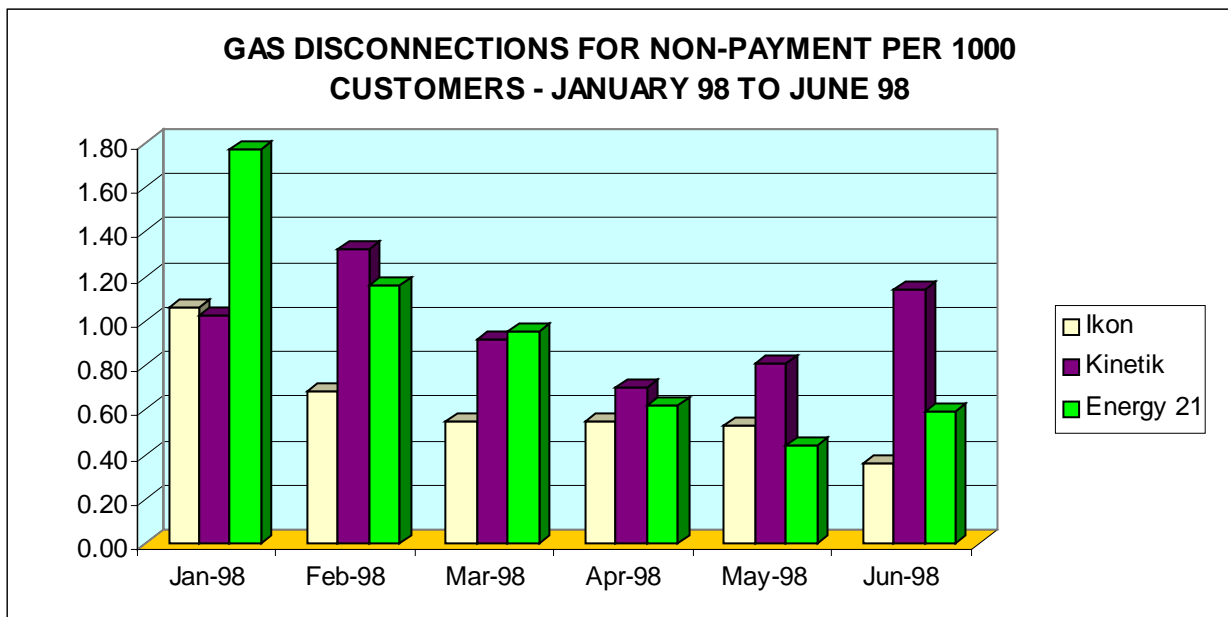


Source: Kinetik Energy, Energy21 and IKON Energy

The availability of monthly disconnection data from the beginning of 1982 onwards has enabled further analysis. Further, following the disaggregation of GASCOR, separate information has become available for each of the three retail businesses. The rate of gas disconnections peak in October/November. It should be emphasised that total gas disconnection rates decreased substantially in 1997 compared to the rate in 1996 (a decrease of 27%).

Over July-December 1997, Kinetik Energy mostly recorded the lowest rate of disconnections with the exception of September and November 1997 in which IKON Energy recorded the lowest rate of disconnections for unpaid accounts and July 1997 when Energy21 recorded the lowest rate.

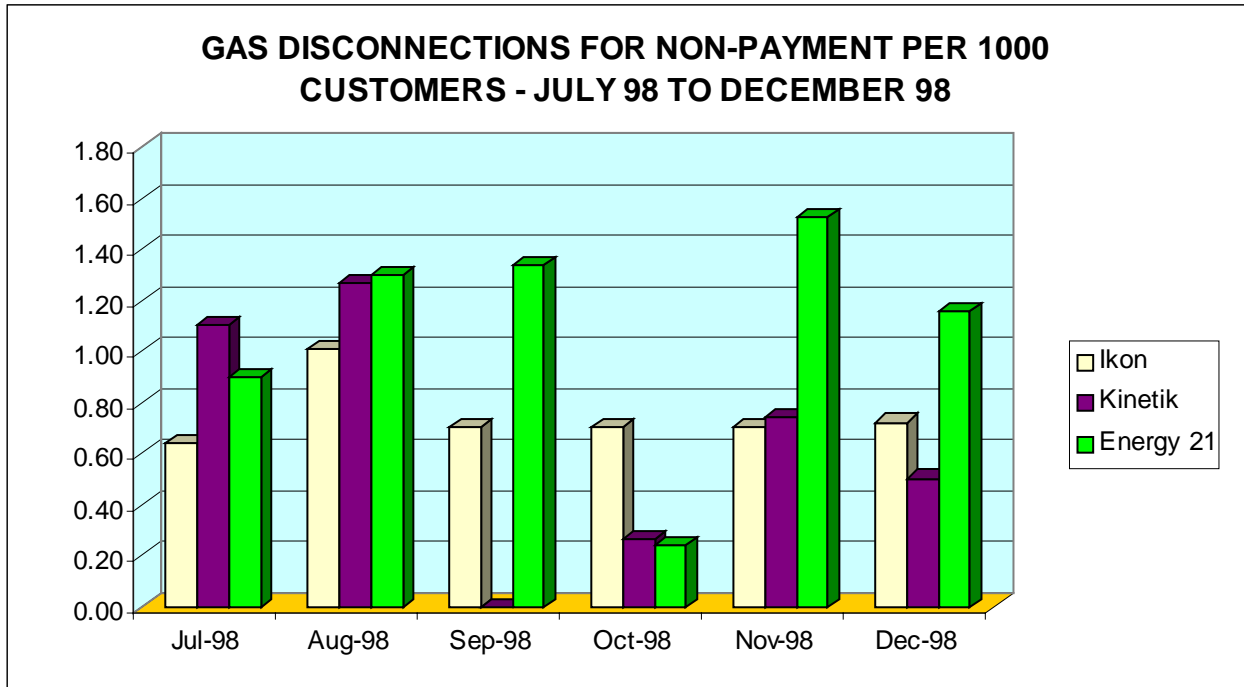
Graph 4



Source: Kinetik Energy, Energy21, IKON Energy

In the first half of 1998 disconnections peaked in January and steadily declined to a relatively low rate in May. IKON Energy consistently recorded the lowest rate of disconnections per 1000 customers with the exception of January 1998 (Kinetik Energy) and May 1998 (Energy21) whilst Kinetik Energy generally recorded the highest rate with the exception of January (Energy21) and March (Energy21). In the first three months of 1998, Kinetik Energy and Energy21 recorded significantly higher rates of disconnection than IKON Energy.

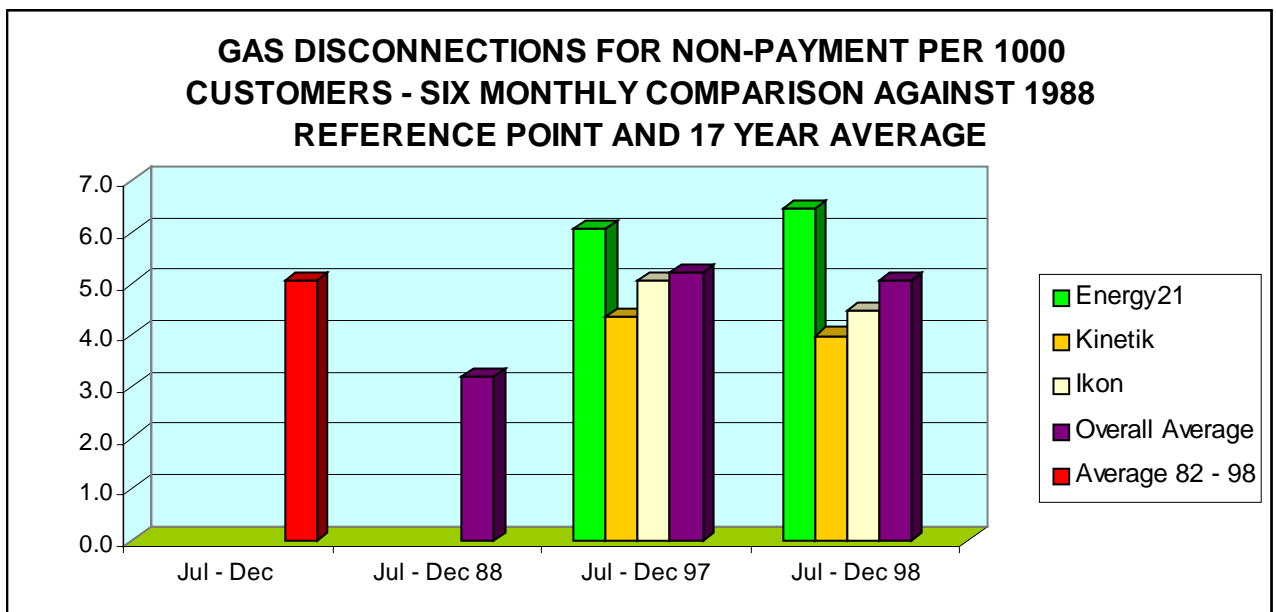
Graph 5



Source: Kinetik Energy, Energy21 and IKON Energy

In the second half of 1998 there is no consistent pattern of disconnections. Energy21 recorded the highest level of monthly disconnections with the exception of July (Kinetik Energy recorded the highest rate) and October (IKON Energy recorded the highest rate).

Graph 6



Source: GFCV, Kinetik Energy, Energy21 and IKON Energy

The above graph makes a comparison between the six months from July to December 1997 with the six month period from July to December 1998, and compares both periods to 1988 and the average over the 17 year period. A base year of 1988 has been used by the Office because it followed Victorian Government policy changes adopted by GFCV as new credit management policies. In 1983, the GFCV refunded all security deposits to domestic customers and did not collect these deposits except in special circumstances. Further, the GFCV also introduced mandatory procedures before a customer was disconnected such as offering instalment plans. Whilst the Office acknowledges there may be differences between business practices of the GFCV in 1988 and retail gas businesses in 1998, the reference point should serve as a medium to long term objective.

In the second 6 months of 1998, IKON Energy displayed a relatively low rate of disconnections whilst Energy21 displayed the highest rate. For the six months from July 1998 to December 1998, compared to the same six-month period in 1997, Energy21's number of disconnections increased by 9.1%. By contrast, IKON Energy disconnections decreased by 9.7% compared to Kinetik Energy who experienced a 6.8% reduction in disconnections over the same period.

#### *Comments – Gas Retailers*

On the subject of 1998 data, IKON Energy and Energy21 noted that the October, November and December 98 statistics do not reflect a normal situation, due to the Longford gas explosion understandably changing collection activity.

IKON Energy, Energy21 and Kinetik Energy suggested that a five year or 10 year rolling average would be a preferable benchmark to the selected 1988 benchmark and would have a more sound statistical basis. They indicated that the selection of 1988 has no sound basis particularly as this benchmark immediately preceded restructuring of GFCV in the early 1990s.

Energy21 advised that various factors influence disconnections in their franchise area including variable socio-economic conditions and a higher rate of disconnections in country areas.

Further, Energy21 comments that the 9.1% increase in Energy21 disconnections over the July-December 1998 six month period is due to the introduction of a policy deferring disconnection action in July 1997. This resulted in an increase in debt for unpaid accounts to less manageable levels causing a further change in policy in January 1998.

## **7. Future Reporting of Disconnections and Reconnections**

The Office is in the process of finalising the key performance indicators (KPIs) that will form the basis of the periodic performance reporting regime for gas distribution and retail licensees. This will be the subject of further consultation with the Office's Customer Consultative Committee and public consultation generally.

This is intended for the second half of this year. It is the Office's intention to publicly release regular comparative performance reports with the first expected later in 1999. These reports will compare the performance of gas distributors and retailers in many key areas and have a particular focus on customer service standards. The comparative reports will contain information about gas disconnections and reconnections.

Historically Gas & Fuel did not collect information relating to reconnections and therefore this information is not available.

**REPORT ON GAS DISCONNECTION FOR NON-PAYMENT 1982-1998**

**TABLES – BASE DATA**

**TOTAL GAS DISCONNECTIONS FOR UNPAID ACCOUNTS**

YEAR	QUARTERLY				ANNUAL	CUSTOMER NUMBERS	
	MAR QTR	JUNE QTR	SEPT QTR	DEC QTR			AVERAGE
1982	2844	2033	2012	2875	2441	9764	909,571
1983	2082	1405	1428	2132	1762	7047	941,427
1984	2157	1162	844	1710	1468	5873	975,435
1985	1479	1042	1245	2426	1548	6192	1,013,259
1986	2375	1532	1370	2218	1874	7495	1,051,881
1987	1999	1442	1476	2049	1742	6966	1,087,120
1988	2186	1590	1606	1964	1837	7346	1,119,787
1989	2297	1900	1681	2501	2095	8379	1,152,891
1990	3094	2335	1889	3438	2689	10756	1,186,805
1991	3162	2326	2183	5495	3292	13166	1,216,553
1992	3986	2359	2760	4766	3468	13871	1,243,154
1993	5456	3561	3669	5953	4660	18639	1,271,000
1994	4344	3505	4359	5074	4321	17282	1,301,738
1995	4414	2274	4854	5477	4255	17019	1,332,561
1996	4145	3042	4754	5556	4374	17497	1,364,215
1997	3801	1701	2683	4624	3202	12809	1,392,340
1998	4,422	2,632	3,971	3,220	3561	14245	1,418,005

Source: Gas and Fuel Corporation of Victoria, GASCOR, Energy21, Ikon Energy and Kinetik Energy

**TOTAL GAS DISCONNECTIONS PER 1000 CUSTOMERS FOR UNPAID ACCOUNTS**

YEAR	QUARTERLY				ANNUAL	
	MAR QTR	JUNE QTR	SEPT QTR	DEC QTR		AVERAGE
1982	3.13	2.24	2.21	3.16	2.68	10.73
1983	2.21	1.49	1.52	2.26	1.87	7.49
1984	2.21	1.19	0.87	1.75	1.51	6.02
1985	1.46	1.03	1.23	2.39	1.53	6.11
1986	2.26	1.46	1.30	2.11	1.78	7.13
1987	1.84	1.33	1.36	1.88	1.60	6.41
1988	1.95	1.42	1.43	1.75	1.64	6.56
1989	1.99	1.65	1.46	2.17	1.82	7.27
1990	2.61	1.97	1.59	2.90	2.27	9.06
1991	2.60	1.91	1.79	4.52	2.71	10.82
1992	3.21	1.90	2.22	3.83	2.79	11.16
1993	4.29	2.80	2.89	4.68	3.67	14.66
1994	3.34	2.69	3.35	3.90	3.32	13.28
1995	3.31	1.71	3.64	4.11	3.19	12.77
1996	3.04	2.23	3.48	4.07	3.21	12.83
1997	2.73	1.22	1.93	3.32	2.30	9.20
1998	3.12	1.86	2.80	2.27	2.51	10.05

Source: Gas and Fuel Corporation of Victoria, GASCOR, Energy21, Ikon Energy and Kinetik Energy

**MONTHLY GAS DISCONNECTIONS FOR UNPAID ACCOUNTS: 1996-1998**

Month	GASCOR	Ikon	Kinetik	Energy 21	Total	Customers
Jan-96	1489				1489	1364215
Feb-96	1565				1565	1364215
Mar-96	1091				1091	1364215
Apr-96	840				840	1364215
May-96	1045				1045	1364215
Jun-96	1157				1157	1364215
Jul-96	1229				1229	1366995
Aug-96	1588				1588	1369843
Sep-96	1937				1937	
Oct-96	2396				2396	
Nov-96	1807				1807	
Dec-96	1353				1353	
Jan-97	1422				1422	
Feb-97	1543				1543	
Mar-97	836				836	
Apr-97	733				733	
May-97	541				541	
Jun-97	427				427	
Jul-97		406	178	198	782	1,392,340
Aug-97		312	181	325	818	1,394,459
Sep-97		398	330	493	1,221	1,396,876
Oct-97		597	419	866	1,882	1,398,930
Nov-97		339	448	617	1,404	1,400,954
Dec-97		468	287	583	1,338	1,403,552
Jan-98		533	402	906	1,841	1,405,256
Feb-98		343	522	595	1,460	1,407,061
Mar-98		274	361	486	1,121	1,407,644
Apr-98		278	276	321	875	1,414,874
May-98		269	321	227	817	1,414,704
Jun-98		182	453	305	940	1,418,005
Jul-98		324	438	465	1,227	1,419,550
Aug-98		510	506	674	1,690	1,422,400
Sep-98		357	0	697	1,054	1,425,746
Oct-98		358	106	125	588	1,427,336
Nov-98		358	296	800	1,454	1,430,828
Dec-98		369	202	607	1,178	1,434,352

Source: GASCOR, Kinetik Energy, Energy21 and Ikon Energy

**REPORT ON GAS DISCONNECTION FOR NON-PAYMENT 1982-1998**

**TABLES – BASE DATA (Continued)**

**TOTAL GAS DISCONNECTIONS FOR UNPAID ACCOUNTS PER 1000 CUSTOMERS**

<b>Month</b>	<b>Ikon</b>	<b>Customers</b>	<b>Kinetik</b>	<b>Customers</b>	<b>Energy 21</b>	<b>Customers</b>
Jul-97	0.82	496,417	0.46	389,433	0.39	506,490
Aug-97	0.63	497,044	0.46	389,973	0.64	507,442
Sep-97	0.80	497,771	0.84	390,647	0.97	508,458
Oct-97	1.20	498,474	1.07	391,138	1.70	509,318
Nov-97	0.68	499,134	1.14	391,688	1.21	510,132
Dec-97	0.94	500,144	0.73	392,030	1.14	511,378
Jan-98	1.06	500,520	1.02	392,772	1.77	511,964
Feb-98	0.68	501,025	1.33	393,388	1.16	512,648
Mar-98	0.55	501,753	0.92	393,927	0.95	511,964
Apr-98	0.55	502,615	0.70	394,857	0.62	517,402
May-98	0.53	503,415	0.81	395,534	0.44	515,755
Jun-98	0.36	504,440	1.14	396,386	0.59	517,179
Jul-98	0.64	505,349	1.10	397,138	0.90	517,063
Aug-98	1.01	506,206	1.27	397,909	1.30	518,285
Sep-98	0.70	506,934	0.00	398,507	1.34	520,305
Oct-98	0.70	508,271	0.27	399,000	0.24	520,065
Nov-98	0.70	508,271	0.74	399,567	1.53	522,990
Dec-98	0.72	509,607	0.50	400,351	1.16	524,394