Review of the minimum disconnection amount

Draft decision

May 2025

AUSTRALIAN ENERGY REGULATOR

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aerinquiry@aer.gov.au
Tel: 1300 585 165

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1 Overview

This paper is seeking feedback on a proposed increase of the minimum disconnection amount, which is the minimum amount of outstanding debt a customer must have before a retailer can arrange for a customer to be disconnected (as set by the AER).[1]

The minimum disconnection amount applies to both gas and electricity and to all jurisdictions that have adopted the National Energy Retail Law (Retail Law) and National Energy Retail Rules (Retail Rules). Currently, the minimum disconnection amount is set at $300 (including GST).[2] Following extensive consultation and analysis through our Review of payment difficulty protections in the National Energy Customer Framework (NECF), we have decided to increase the amount.

Our review found that increasing the minimum disconnection amount would reduce the risk of disconnection for customers experiencing payment difficulty and better support the principle that disconnection should be a last resort for customers who are struggling to pay their bills. Energy is an important essential service and disconnection can cause significant harm to households. However, the current minimum disconnection amount was first set in 2012 and has not kept pace with inflation and increasing energy costs. We consider an amount of $500 would better reflect the current energy market and economic circumstances, and balance stronger payment difficulty protections for all customers with minimising the risk of unmanageable debt. The proposed amount aligns with retail performance reporting requirements which will simplify monitoring and compliance.

We are seeking stakeholder feedback on our proposal to increase the minimum disconnection amount to $500 (including GST) by Wednesday, 18 June 2025.

Interested parties are invited to make submissions to the AER by close of business Wednesday, 18 June 2025. Submissions should be emailed to ConsumerPolicy@aer.gov.au or mailed to:

General Manager, Policy
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

The AER prefers that all submissions be publicly available to facilitate an informed and transparent consultation process. Submissions will be treated as public documents unless otherwise requested. All non-confidential submissions will be placed on the AER's website. For further information regarding the AER's use and disclosure of information provided to it, see the ACCC/AER Information Policy available on the AER's website. Parties wishing to submit confidential information are requested to clearly identify the information that is the subject of the confidentiality claim and provide a non-confidential version of the submission in a form suitable for publication.

[1] Retail Rules, r 116(1)(g).

[2] All amounts in this paper are GST inclusive, unless noted otherwise.

2 Background

The minimum disconnection amount is one of a range of consumer protections in the NECF to assist customers who may be struggling to pay their energy bills.

Under the Retail Law, a retailer must give effect to the general principle that disconnection of premises of a hardship customer due to inability to pay energy bills should be a last resort option.[3] Part 6 of the Retail Rules sets out the circumstances under which a retailer can arrange for a residential customer to be disconnected. Among other things, a retailer must not arrange for the disconnection of a customer's premises where the customer is a hardship customer or residential customer and is adhering to a payment plan under rule 33 or 72.[4] A retailer also cannot disconnect a customer for non-payment of a bill where the amount outstanding is less than an amount approved by the AER (the minimum disconnection amount) and the customer has agreed with the retailer to repay that amount.[5]

The AER first approved the current minimum disconnection amount of $300 in 2012, following consultation with stakeholders (although it has been used in some jurisdictions from as early as 2008).[6] In 2016–17, we reviewed the minimum disconnection amount and determined that the amount should remain at $300.[7] In October 2022, following further consultation with stakeholders, our Towards energy equity strategy committed to again review the consumer energy debt threshold for disconnection.

We have considered the minimum disconnection amount in our recent Review of payment difficulty protections in the NECF. In our May 2024 issues paper, we consulted on the effectiveness of the minimum disconnection amount in protecting consumers experiencing payment difficulty from disconnection, including how it operates in practice, the appropriateness of the current amount, and any unintended consequences.[8] Based on our consultation and analysis, we determined that there is a need to increase the minimum disconnection amount to strengthen payment difficulty protections for all customers and better support the principle that disconnection should be a last resort for customers experiencing payment difficulty.[9]

This paper builds on the feedback we received through the review and sets out additional analysis we have undertaken to determine the proposed new minimum disconnection amount.

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[3] Retail Law, s 47.

[4] Retail Rules, r 116(1)(d).

[5] National Energy Rules, r 116(1)(g).

[6] AER, AER approval of minimum disconnection amount, 5 April 2012.

[7] AER, Review of the minimum disconnection amount – Final decision, 30 March 2017.

[8] AER, Review of payment difficulty protections in the National Energy Customer Framework: Issues paper, May 2024, pp 42 and 45.

[9] AER, Review of payment difficulty protections in the National Energy Customer Framework: Findings report, March 2025, p 20.

3 Draft decision

We are proposing to increase the minimum disconnection amount to $500 (including GST). In determining this proposed amount, we have considered:

- the long-standing principle that customers should not be disconnected for being one quarterly bill behind
- changes to the broader context of the energy market, including changes to energy costs and current and proposed reform processes
- implementation considerations, including the impact on retailer processes and costs and the ability to monitor for compliance and outcomes.

3.1 The amount should be increased to better align with the current cost of a quarterly bill

A long-standing principle for the minimum disconnection amount since its introduction is that customers should not be disconnected for being one quarterly bill behind. However, our analysis has found that the current amount is no longer reflective of an estimated quarterly bill. To estimate changes to energy costs since the minimum disconnection amount was first introduced, we have looked at the following sources of data:

- The consumer price index (CPI)
- AER annual retail performance reporting on average prices for low-income and average-income households
- Retail pricing and cost stack data from the Australian Competition and Consumer Commission's (ACCC) Inquiry into the National Electricity Market

Unless stated otherwise, these data sources are analysed to June 2024, in line with the financial year. We have focused on electricity data because this is the most common fuel type in relevant jurisdictions and is typically more expensive. Therefore, it is the most important indicator of how well the minimum disconnection amount aligns with a quarterly bill.

The consumer price index is the most common measure of inflation used to understand the changing price of goods. Between June 2012 and June 2024, the consumer price index rose 38%. In real terms, if the current minimum disconnection amount was indexed to inflation, it would be $415.[10] The ABS's index of electricity prices also shows they have increased by 51% between June 2012 and June 2024. A commensurate increase in the minimum disconnection amount would result in an amount of $454. Although these estimates are high-level views across Australia, they highlight that the current amount does not account for inflation and that energy prices have grown faster than many other goods in the economy.

The ACCC's December 2024 Inquiry into the National Electricity Market report analysed retailer pricing information from 1 August 2024 and cost stack data from 2023–24. The analysis of retailer pricing information indicates an average annual electricity bill of around

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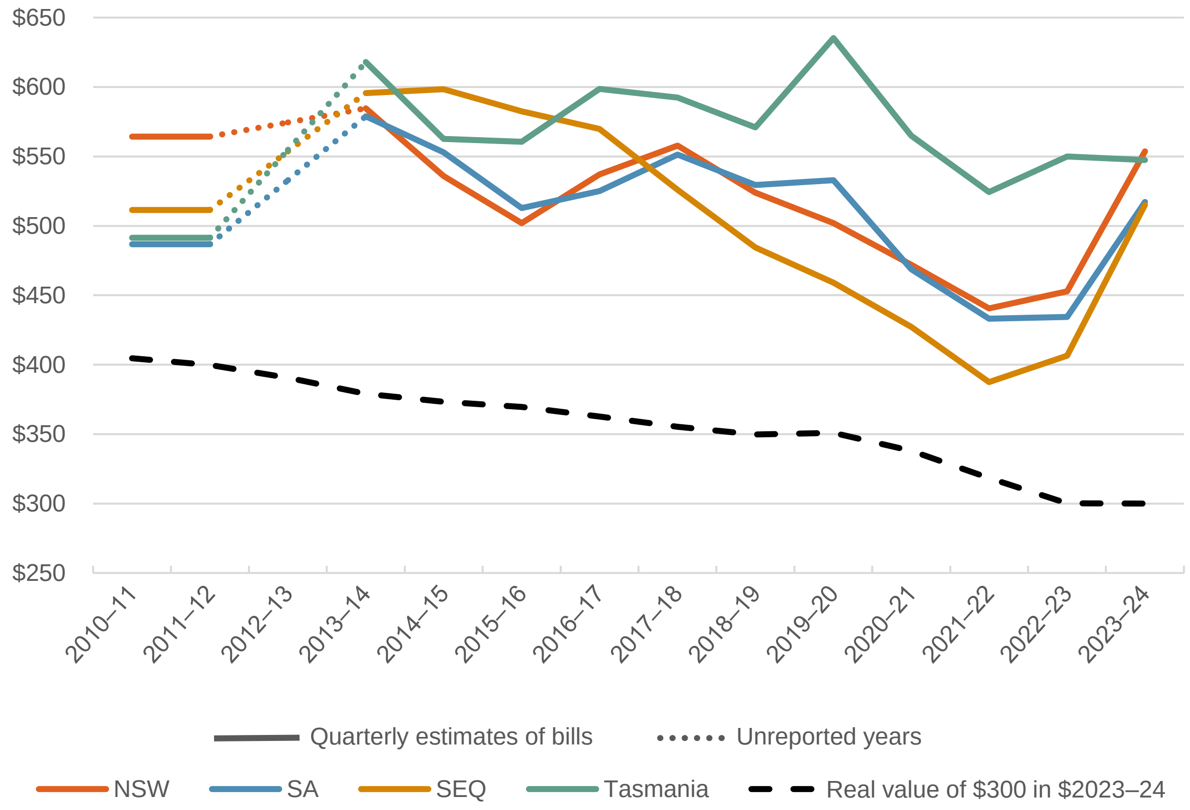
[10] Australian Bureau of Statistics (ABS), Consumer Price Index, Australia, December Quarter 2024.

$1,814 for customers without controlled load and $2,506 for customers with controlled load in 2024 (assuming 100% achievement of conditional discounts).[11] Dividing these estimates by four gives an average quarterly electricity bill of approximately $454 for customers without controlled load and $627 with controlled load.[12]

In addition, our analysis of the ACCC's cost stack data shows that the gap between the real value of the minimum disconnection amount and the average quarterly bill across NECF jurisdictions has increased significantly since 2011. In real terms, if the minimum disconnection amount was introduced in 2010–11 it would have been around $40 less than the estimated average quarterly bill of the cheapest NECF state, and around $100 less than the average quarterly bill of the most expensive state. However, in 2023–24, it is more than $160 lower than the estimated average quarterly bill of the cheapest state, and around $200 lower than the estimated average quarterly bill in the most expensive state.

Figure 1 Estimated average quarterly bill for NECF jurisdictions based on ACCC cost stack data, compared to real value of $300 in 2023–24 dollars



Note: Annual estimates divided by 4 to estimate quarterly bills. Unreported years are calculated using linear estimates. CPI changes are taken from ACCC's CPI table. All figures are GST inclusive.
Source: AER analysis of data in Appendix C – Supplementary spreadsheet with retail pricing data, cost stack data and charts – Inquiry into the National Electricity Market report – December 2024, Sheet: 'NEM $customer'.

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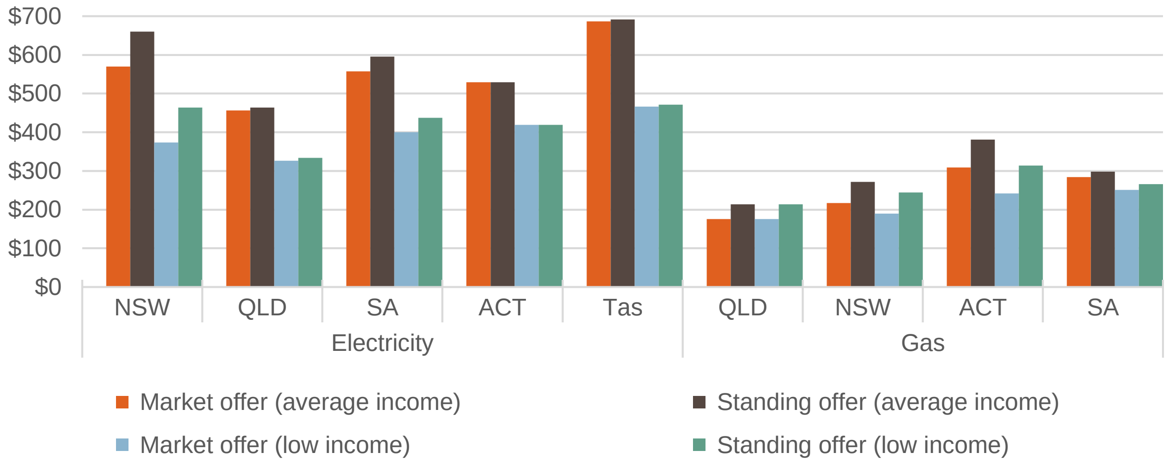
[11] ACCC, Appendix C – Supplementary spreadsheet with retail pricing data, cost stack data and charts – Inquiry into the National Electricity Market report – December 2024, 3 December 2024, Sheet: '1. Residential (conditional)'.

[12] Estimates assume higher usage for customers with controlled load, which is associated with high-usage appliances such as hot water systems, pool pumps or underfloor heating (ACCC, Inquiry into the National Electricity Market – December 2024 report, 3 December 2024, p 16).

This analysis indicates that the minimum disconnection amount is no longer reflective of an estimated quarterly bill, a conclusion that is further supported by the AER's annual retail performance reporting. As shown in Figure 2, the estimated average quarterly electricity costs for average-income households in NECF regions in 2023–24 were between $457 and $550 for market offers and between $464 and $691 for standing offers, while the estimated average quarterly costs for low-income households were between $326 and $466 for market offers and between $333 and $471 for standing offers. In comparison, the estimated average quarterly gas costs for average-income households in NECF regions were estimated at between $175 and $309 for market offers and between $214 and $381 for standing offers.[13]

Figure 2 Estimated average energy costs by fuel type in NECF states



Note: Annual estimates divided by 4 to estimate quarterly bills. Based on offers for residential customers in each jurisdiction using mean of the region. Average household consumption for the year ending June of each period was used in annual bill calculations.
Source: AER, Annual Retail Market Report 2023–24 – Charts and Data, 2 December 2024, Sheet: 'Fig 2.21' (Figure 2.21: Electricity costs for average and low-income households on a median market and standing offer), 'Fig 2.26' (Figure 2.26: Gas costs for average and low–income households on a median market and standing offer). Original data source: Offer data from Energy Made Easy and Victorian Energy Compare. Consumption estimates based on Economic Benchmarking RINs.

The above analyses are based on estimated energy costs, with reference to data on offer prices, retailer costs and average customer usage. However, the ACCC's Inquiry into the National Electricity Market June 2024 report, which was based on real billing data, found that hardship and payment plan customers have higher usage and bills than other customer groups. It also showed that the lowest median quarterly electricity bill in a NECF jurisdiction in Q3 2023 was $390, and the highest was $537.[14]

Based on the above analysis, the minimum disconnection amount is between $115 and $154 lower in real terms than when it was introduced in 2012, due to inflation. It is also no longer

[13] AER, Annual Retail Market Report 2023–24 – Charts and Data, 2 December 2024, Figure 2.23–2.25: Gas costs for low-income and average-income households.

[14] ACCC, Appendix E – Supplementary spreadsheet with billing data and figures – Inquiry into the National Electricity Market report – June 2024, 28 June 2024, Sheet: 'Chapter 3'.

reflective of an estimated quarterly bill, with more current estimates for quarterly electricity bills ranging between approximately $380 at the lowest end and $627 at the highest end.

For gas, the minimum disconnection amount is still within the range of average quarterly costs in NECF states (although it is lower than the average quarterly gas bill for customers on standing offers). However, many more households rely on electricity than gas. In addition, another longstanding principle for the minimum disconnection amount is that it should be consistent for both gas and electricity, which minimises confusion, supports customer awareness of their rights, and simplifies implementation.

Question 1: What are your views on how we have considered evidence on inflation and energy costs?

Question 2: What other evidence or analysis should we consider in making our decision?

3.2 An amount of $500 will support implementation

We consider that the new amount should be simple for both customers and retailer staff to remember. This will better ensure both parties are aware of customers' rights and will simplify implementation and compliance. Behavioural evidence suggests that round numbers are more likely to be perceived and recalled accurately. For example, there is evidence that round numbers are more salient and that people tend to perceive numbers based on the left-most digit.[15] Experimental studies have also shown that using round numbers significantly improves the accuracy of recall and reduces the likelihood of errors.[16] This evidence suggests that using a simple amount (such as $500) would be more effective than using a more precise amount (such as $454, in line with the increase in the electricity price index).

We also note that there are currently no retail performance reporting obligations for retailers in relation to customers who are disconnected with debts below the minimum disconnection amount. However, retailers do have to report the amount of debt a customer has at the point of disconnection. Aligning the minimum disconnection amount with the existing debt at disconnection reporting categories in the Retail Performance Reporting Guidelines will simplify implementation, compliance monitoring and reporting. It may also reduce retailer costs by allowing them to leverage existing systems. Currently, the lowest debt at disconnection category in the Retail Performance Reporting Guidelines is less than $500.

Based on these considerations, we believe it is appropriate to increase the minimum disconnection amount to $500, which reflects a midpoint in the current range of estimated quarterly electricity bills. We consider this amount appropriately balances the interests of customers and the costs and risks faced by retailers (including implementation costs). Our

[15] R Schindler and R, It seems factual, but is it? Effects of using sharp versus round numbers in advertising claims, *Advances in Consumer Research,* 33, 2006, p 586; M Thomas and V Morwitz, Penny wise and pound foolish: The left-digit effect in price cognition, *Journal of Consumer Research*, 32(1), 2005, pp 54–64.

[16] H Nguyen, J Hofman and D Goldstein, Round numbers can sharpen cognition, *CHI '22: Proceedings of the 2022 CHI Conference on Human Factors in Computing Systems*, 2022, p 12.

data shows that there are currently around 107,000 customers repaying debt under $500, and the average level of debt for non-hardship customers (gas and electricity) is $1,395.[17]

We recognise that there is a separately established threshold in Victoria, which is also currently set at $300.[18] This matter is under consideration by the Essential Services Commission of Victoria. We acknowledge the benefits of a nationally consistent minimum disconnection amount for electricity and gas.

Question 3: How does monthly billing impact the minimum disconnection amount?

Question 4: How will aligning the amount with existing performance reporting obligations impact retailers?

Question 5: How long would retailers need to implement the new amount with least cost?

3.3 The risk of unintended consequences can be mitigated through better engagement

In our Review of payment difficulty protections in the NECF, we heard concerns from some stakeholders about the risk of unintended consequences that might arise from increasing the current amount, such as delaying customer engagement which could result in increased debt levels. However, consumer stakeholders advocated strongly for significant increases to the amount and provided feedback that retailers are not engaging with customers experiencing payment difficulty as early or as effectively as they should.

We have recently published a better practice toolkit to provide retailers with practical guidance on how to better identify and engage with customers experiencing vulnerability, including customers experiencing payment difficulty.[19] This toolkit is accompanied by practical resources to support implementation and was developed based on research and stakeholder consultation, including customer journey mapping workshops with retailers and consumer groups. We believe that effectively implementing the principles and practices in the toolkit would significantly reduce the risk of any potential unintended consequences from increasing the minimum disconnection amount, including delayed engagement. We have also identified several opportunities in our payment difficulty review to improve engagement throughout the payment difficulty journey.[20] We believe the stronger engagement obligations proposed by our review would further mitigate any potential risks.

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[17] AER, Schedule 3 – Quarter 2 2024–25 retail performance data, 18 March 2025, Sheets: 'Repaying & Avg Debt Resi', 'Amt & Age of Debt - Resi Elec'.

[18] *Electricity Industry Act 2000* (Vic), s 40SM(1)(b)(i).

[19] AER, Customer engagement toolkit: Better practices for identifying and supporting customers experiencing vulnerability, February 2025.

[20] AER, Review of payment difficulty protections in the National Energy Customer Framework: Findings report, March 2025, p 2.

3.4 The minimum disconnection amount should remain relevant and appropriate over time

It is important that the minimum disconnection amount remains relevant over time to ensure it is providing an appropriate level of protection for customers. We are interested in stakeholder views on the best way to achieve this. For example, a review could be triggered periodically by a set timeframe. Alternatively, the threshold could be indexed in accordance with CPI, changes in energy prices, or something else.

Question 6: How should the AER determine when to review the minimum disconnection amount in future? When responding, please consider the following options and provide feedback on any potential alternatives:

- A review of the minimum disconnection amount could be triggered periodically – in this case, what would be an appropriate timeframe and why?
- A review of the minimum disconnection amount could be triggered through changes to indexation – in this case, what would be the most appropriate approach and why?