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ADVOCACY CENTRE LTD

**Meeting the continuing challenge of
affordability:**

**Submission to IPART's Draft Report, *Changes in
regulated electricity retail prices from 1 July 2012***

10 May 2012

Oliver Derum, Policy Officer

Energy + Water Consumers' Advocacy Program

The Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues.

PIAC identifies public interest issues and, where possible and appropriate, works co-operatively with other organisations to advocate for individuals and groups affected. PIAC seeks to:

- expose and redress unjust or unsafe practices, deficient laws or policies;
- promote accountable, transparent and responsive government;
- encourage, influence and inform public debate on issues affecting legal and democratic rights; and
- promote the development of law that reflects the public interest;
- develop and assist community organisations with a public interest focus to pursue the interests of the communities they represent;
- develop models to respond to unmet legal need; and
- maintain an effective and sustainable organisation.

Established in July 1982 as an initiative of the (then) Law Foundation of New South Wales, with support from the NSW Legal Aid Commission, PIAC was the first, and remains the only broadly based public interest legal centre in Australia. Financial support for PIAC comes primarily from the NSW Public Purpose Fund and the Commonwealth and State Community Legal Services Program. PIAC also receives funding from Trade and Investment, Regional Infrastructure and Services NSW for its work on energy and water, and from Allens Arthur Robinson for its Indigenous Justice Program. PIAC also generates income from project and case grants, seminars, consultancy fees, donations and recovery of costs in legal actions.

Energy + Water Consumers' Advocacy Program

This Program was established at PIAC as the Utilities Consumers' Advocacy Program in 1998 with NSW Government funding. The aim of the program is to develop policy and advocate in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to the program from a community-based reference group whose members include:

- Council of Social Service of NSW (NCOSS);
- Combined Pensioners and Superannuants Association of NSW;
- Park and Village Service;
- Ethnic Communities Council NSW;
- Rural and remote consumers;
- Retirement Villages Residents Association;
- the Physical Disability Council NSW; and
- Affiliated Residential Park Residents Association.

1. The current review

PIAC thanks the Independent Pricing and Regulatory Tribunal (IPART) for the opportunity to comment on its Draft Report, *Changes in regulated electricity retail prices from 1 July 2012* (the Draft Report). In March 2010, IPART released a price determination that outlined price rises to come into effect on 1 July 2010. The determination also included estimates of the amounts by which standard electricity retailers would be able to increase their prices from 1 July 2011 and 1 July 2012.¹ The purpose of this review is to use current information to set the revised price increases from 1 July 2012. The Draft Report outlines price increases for the standard retail suppliers in NSW, namely Energy Australia, Integral Energy and Country Energy. The Draft Report notes that prices in Energy Australia's supply area will rise by 19.2%, and Integral Energy and Country Energy customers will face rises of 10.3% and 17.6% respectively.² The average price increase across the three standard retailers of 16.4% can be broken down as follows:

- 8.4% network costs;
- 9% carbon price costs;
- 0.1% other green scheme costs; and
- 1.2% retail costs.³

These increases were partially offset by a 2.3% reduction in the cost of electricity generation.⁴

On 1 March 2011, the state-owned retailers were privatised in a sale process that saw Energy Australia bought by TruEnergy and Integral and Country Energy purchased by Origin Energy.⁵ Under the transitional service agreements of the sale, the retailers undertook to continue to use the existing brands for the following 36 months on average.⁶ Some post-sale corporate materials have been co-branded to show the existing and new owners' logos. For the purposes of this submission, PIAC will refer to the standard retailers by their pre-sale names—in line with the practice of the Draft Report.

2. Introduction

The price increases proposed in the Draft Report are significant, and come on top of repeated large price increases in NSW in recent years. PIAC views the latest increases with concern, given the amount of evidence that earlier price rises have severely impacted the ability of large numbers of vulnerable consumers to stay connected to the essential service of electricity. The trend in affordability is discussed in the next section of this submission. The submission then outlines specific areas where PIAC sees a need for action to address affordability and makes recommendations about how this could be done. These areas are:

¹ IPART, *Changes in regulated electricity retail prices from 1 July 2012: Electricity—Draft report*, (2012), 1.

² Ibid 2.

³ Ibid 3.

⁴ Ibid.

⁵ Department of Trade & Investment, Regional Infrastructure & Service, *Electricity sale and transfer of retail customers* (NSW Government, 2011), <<http://www.industry.nsw.gov.au/energy/customers/electricity-sale-transfer-retail>> at 6 May 2011.

⁶ Peter Achterstraat, NSW Auditor General, *Financial Audit*, (The Audit Office of NSW, vol. 1, 2011), 60.

- issues affecting all consumers, such as the funding of green schemes and the carbon tax; and
- issues related to customer assistance, including changes to, and indexation of, the Life Support Rebate, and a review of all customer assistance measures.

The submission then examines the potential impact of foreshadowed developments in the NSW electricity supply arrangements, namely the introduction of smart meters and the end of price regulation in NSW. Finally, an approach to help place downward pressure on electricity prices is proposed.

PIAC has developed the recommendations in this submission in an attempt to ameliorate the disadvantage that we anticipate will result from the proposed price increase. PIAC understands that it is primarily the NSW Government that has the power to implement what we consider to be the necessary changes, and as such we have addressed our recommendations to it. PIAC would therefore like to urge IPART to consider adopting the recommendations contained in this submission as part of its final report for this determination. In its terms of reference for the current price determination, IPART has been instructed that it ‘should provide advice to the Government regarding the impact of the determination on small consumers’.⁷ Adopting the recommendations of this submission as part of the final report would provide the NSW Government with guidance on how to assist people deal with the impact of the determination. Recommendations from IPART to Government carry significant weight, and are therefore more likely to be adopted as part of efforts to address electricity affordability in NSW.

3. The draft determination and trends in energy affordability

IPART’s draft decision on regulated retail electricity tariffs outlines an average price increase of 16.4% across the three standard supply areas of NSW.⁸ Consumers on a standard retail contract from Energy Australia or Country Energy will experience price rises above the average, at 19.2% and 17.6% respectively, while those customers with a standard contract from Integral Energy will see prices rise by 10.3%.⁹ The size of these price increases poses a significant challenge to vulnerable consumers.

Figures provided by IPART show that the price increase that may come into effect on 1 July 2012 could mean an increasing number of households in Sydney and the surrounding areas would be spending a greater proportion of their disposable income on electricity bills.¹⁰ Most worryingly, the percentage of people in the Country Energy supply area paying 10% or more of disposable income on electricity is projected to rise from 8% in 2011-12 to 11% in 2012-13.¹¹ Spending 10%

⁷ IPART above n 1, 92.

⁸ Ibid 1.

⁹ Ibid 2.

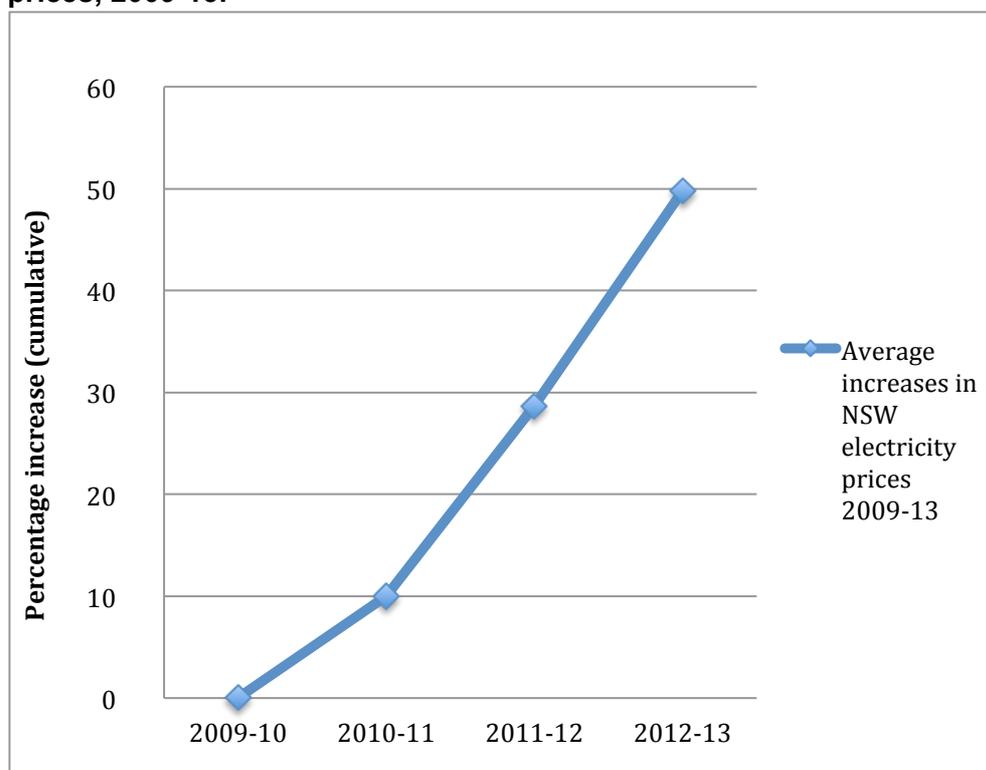
¹⁰ IPART, *Changes in regulated electricity retail prices from 1 July 2011: Electricity—Final report and determination* (2011), 10.

¹¹ Ibid 11; IPART above n 1, 13.

of income on household energy needs is the generally accepted definition of energy poverty¹², meaning that an increasing number of consumers in NSW are suffering from this condition. People who suffer from energy poverty—as well as some who are only approaching that threshold—are forced to make dramatic sacrifices in other areas of consumption in order to stay connected.

PIAC is also concerned about the cumulative effect of recent price rises. The effect of repeated price rises can easily be overshadowed by the headline grabbing nature of an individual increase. The price increases of between 10% and 19% outlined in the current Draft Report come on top of repeated significant increases in the regulated retail price of electricity in recent years, which each year are absorbed to create a higher base price. Residential retail consumers experienced price increases of up to 18% in 2011 and up to 13% in 2010.¹³ As Figure 1 shows, the cumulative effect of these price rises is a 50% increase using 2009 as a base price.

Figure 1: Cumulative impact of average increases in NSW regulated retail electricity prices, 2009-13.



Note: The year 2009-10 is taken as a base year and therefore has an increase of zero.

The effect of these repeated price increases is evident in disconnection rates due to non-payment of bills. Figures from the IPART report, *Electricity retail businesses' performance against customer service indicators in NSW*, show that the number of small residential retail disconnections for non-payment of bills increased by 17.2% from 2009-2010 to 2010-11¹⁴ (the

¹² See, eg, Brenda Boardman, *Fuel poverty: from cold homes to affordable warmth* (Belhaven Press, 1991), 201.

¹³ IPART above n 10, 3.

¹⁴ IPART, *Electricity retail businesses' performance against customer service indicators in NSW* (2012), 8

most recent available data is up to 30 June 2011 and was published in January 2012). Further analysis of this data shows that:

- there were 18,561 small residential disconnections in NSW for non-payment of bills in 2010-11 (this is a sharp rise on the 15,835 such disconnections in 09-10);
- 3,428 small residential customers were receiving energy rebates prior to disconnection, up sharply from 2,245 in 2009-10; and
- 1,495 small residential customers were disconnected more than once at the same address in 2010-11.¹⁵

Given this increase in disconnections occurred before the price rise on 1 July 2011, PIAC anticipates that there will be similar (if not larger) increases in disconnection as a result of both the 2011 and 2012 price rises. The figures cited above show that there has been a concerning increase in the number of people on energy rebates experiencing disconnection, and that a significant number of consumers are experiencing repeated disconnection—a sign of chronic and ongoing struggles with electricity affordability.

4. Addressing the problem of affordability

In light of recent and continuing increases in the price of electricity in NSW, PIAC has a number of recommendations regarding actions that should be taken to help keep electricity affordable. These issues are addressed in three categories: those affecting all electricity consumers; those related to customer assistance measures for vulnerable consumers; and those related to imminent changes within the electricity supply arrangements in NSW.

4.1 Issues affecting all electricity consumers

4.1.1 Green schemes

In recent years, green schemes have come to constitute a notable component of energy bills in NSW. As noted in the Draft Report, non-carbon price green scheme costs have contributed approximately \$140 dollars to the indicative household bill¹⁶ in each distribution area.¹⁷ As a percentage of an indicative bill, the overall non-carbon price green scheme component has declined from between 6.8% and 8% in 2011-12 to between 6.2% and 7.3% in 2012-13.¹⁸ However, in dollar terms, non-carbon green scheme costs remain virtually unchanged at between \$139 and \$158 dollars per year as part of IPART's indicative bill¹⁹—meaning consumers still face significant expense as a result of these initiatives.

PIAC has previously commented to IPART and other bodies about the inequities with existing green scheme funding.²⁰ PIAC believes that the method of funding the Commonwealth

¹⁵ Ibid 11.

¹⁶ IPART uses consumption of 7,000 kW/h per year to calculate an indicative bill.

¹⁷ IPART above n 1, 9.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ See, eg, PIAC, *Complementary modernisation: Options to address the issue of affordability in the Energy White Paper*, (2012) < <http://www.piac.asn.au/publication/2012/03/complementary-modernisation> > at 1 May 2012.

Government's Small-scale Renewable Energy Scheme (SRES) and Large-scale Renewable Energy Target (LRET), as well as the contribution to the NSW Government's Climate Change Fund, are regressive, because all energy consumers pay these costs as a fixed percentage of their electricity bill. As a result, low-income consumers who are paying a higher percentage of their income on electricity are contributing to these schemes at a higher rate. PIAC believes that this arrangement is inequitable and argues that these green schemes should be funded from sources that are progressive such as general government revenue. This funding model is also supported by IPART, which characterises the schemes as 'industry assistance' to the renewable technology sector.²¹

PIAC believes that the introduction of a carbon tax offers the opportunity to re-examine all existing green schemes with a view to removing schemes that duplicate the aims of the carbon price and removing or offsetting regressive funding of the remaining schemes. While PIAC supports action on climate change, we are of the view that electricity prices should not be used to fund green schemes unless suitable compensation counteracts the regressive nature of the funding model. A more equitable method of funding such schemes would be through general government revenue, as Australia's income tax arrangements are progressive in their impact and include a safety net for those on low incomes, in the form of the tax-free threshold.

4.1.2 Carbon tax

PIAC believes that the carbon tax represents a good model for the funding of green schemes in that it provides protection from resulting cost impacts offered to vulnerable consumers. While the carbon tax will increase electricity bills for all consumers, a compensation program has been developed and this targeted specifically at low-income and vulnerable consumers.²² IPART's finding that the carbon tax will increase indicative bills by \$168 to \$171 is almost exactly in line with the estimates made by the Commonwealth Treasury that the carbon tax would increase electricity bills by \$3.30 per week.²³ The household compensation package has been developed based on these estimates and is targeted at low-income consumers, including pensioners and other allowance recipients.²⁴ Combined with income tax reform, it appears that low-income electricity consumers will not be worse off as a result of the carbon tax. PIAC therefore supports the carbon tax model for green schemes and argues all green schemes should include similar consideration of, and compensation for, their impact on low-income consumers.

Recommendation 1

PIAC recommends that all existing green schemes be re-examined in light of the Commonwealth Government's carbon tax. All green schemes that remain in operation following such a review should be modified to include measures to offset price impacts on vulnerable consumers.

4.2 Customer assistance

The recent steep and repeated increases in the cost of electricity have meant that a growing number of consumers require emergency assistance or ongoing income support in order to avoid disconnection. PIAC agrees with IPART that 'improving the effectiveness of customer assistance

²¹ IPART above n 1, 85.

²² Australian Government, *Securing a clean energy future* (2011), vii.

²³ Ibid 45.

²⁴ Ibid 113.

is not necessarily a case of “throwing more money at the problem”.²⁵ Governments face a variety of competing priorities for limited resources and are not in a position to provide unlimited funding—especially in the current fiscal environment. PIAC acknowledges the recent increase in the NSW Government’s energy rebate for low income families, which increased from \$145 per year to \$200 per year on 1 July 2011 and is scheduled to increase to \$215 on 1 July 2012.²⁶ However, in dollar terms this increase has been greatly exceeded by recent price rises of more than \$600 on an indicative bill since 1 July 2011.²⁷

Further, while PIAC welcomes this across the board increase in assistance for vulnerable consumers, we do not believe that a one-size-fits-all approach is the most effective form for customer assistance to take—especially with pricing that is locationally specific producing non-uniform prices. Consumers in the Country Energy standard supply area face an indicative annual bill for 2012-13 that is \$598, or 30%, higher than those in the Integral Energy standard supply area, and \$443, or 21%, higher than those in the Energy Australia standard supply area.²⁸

4.2.1 Country Energy’s supply area and the need for a Rural Energy Rebate

As noted above, IPART has estimated that 11% of households in Country Energy’s supply area are likely to spend more than 10% of their disposable income on electricity if prices rise in line with the draft determination on 1 July 2012.²⁹ With a significant proportion of households in Country Energy’s supply area meeting the definition of energy poverty, there is an urgent need for action to address electricity affordability for these consumers.

PIAC also notes that IPART’s analysis of the impact of the proposed price increase is based on estimates and extrapolations from other data sources. PIAC understands this is because IPART has not had the resources to undertake its Household Survey in this area to date. IPART has repeatedly noted the risk factors that contribute to a household having increased vulnerability to the adverse impacts of price increases. These include:

- a high level of energy use which cannot be easily reduced, for reasons such as large household size, a large detached dwelling, living in an area where temperatures are more extreme, and/or having inefficient fixtures and appliances;
- living in Country Energy’s supply area, due to the impact that higher energy transport costs have on bills; and
- having higher housing costs, due to paying off a mortgage or renting.³⁰

PIAC believes there is a need to better understand how all of these factors interrelate, in order to assess whether consumers in Country Energy’s supply area face disproportionate levels of disadvantage. For this reason, PIAC recommends that IPART be resourced to undertake a Household Survey in the Country Energy supply area, as the first step in developing a strong evidence base about the issues facing consumers in rural, regional and remote areas. PIAC

²⁵ IPART above n 1, 87.

²⁶ Department of Trade and Investment, *Energy Rebates*, (NSW Government 2011), <<http://www.trade.nsw.gov.au/energy/customers/rebates>> as at 1 May 2012.

²⁷ Calculated from IPART above n 10, 3; IPART above n 1, 2.

²⁸ IPART above n 1, 8.

²⁹ Ibid 13.

³⁰ IPART above n 1, 13-14.

believes that such a survey would support the need for customers in the Country Energy supply area to have access to a specific rebate to compensate them for the higher prices they experience simply as a result of where they live.

However, PIAC takes the view that repeated price rises have made the issue of energy affordability particularly urgent in Country Energy's supply area. Vulnerable consumers in this part of the state cannot afford to wait until a Household Survey is complete before having access to additional assistance to meet the price rise from 1 July 2012. PIAC therefore recommends that the NSW Government introduce a modest Rural Energy Rebate effective 1 July 2012, to supplement the existing Low Income Household Rebate.

Recommendation 2

PIAC recommends that IPART undertake a Household Survey of consumers in Country Energy's supply area. This survey should then be used as a tool to refine and further develop the suite of assistance measures administered by the NSW Government.

Recommendation 3

PIAC recommends the NSW Government introduce a Rural Energy Rebate Supplement for eligible customers within the Country Energy supply area, effective 1 July 2012.

4.2.2 Indexation of the Life Support Rebate

PIAC believes that it is important that rising electricity prices do not place additional pressure on the ability of life support recipients to afford the electricity they need to survive and lead dignified lives in accordance with basic minimal standards, such as those set out in the *International Covenant on Economic, Social and Cultural Rights*. PIAC therefore recommends that the rates paid for approved equipment under the Life Support Rebate be urgently reviewed and indexed.

As illustrated in Table 1 below, many of the rates have remained unchanged since 2002, even though NSW electricity prices have more than doubled in this period. In 2002, Energy Australia's regulated retail price for electricity was 10.68 cents per kilowatt-hour; today it is 22.66 cents per kilowatt-hour. At the same time, the rebate rate for an enteral feeding pump remains unchanged since 2002, at a rate of 20 cents per day.

The *Ministerial Direction for Social Programs issued to NSW Electricity Retailers*³¹ (the Direction) provides the framework for delivering the Low Income Household Rebate, the Medical Energy Rebate and the Life Support Rebate. Under the current Direction, both the Low Income Household Rebate and the Medical Energy Rebate increase on 1 July every year until 2014.³² The Direction includes no rate increases or formula for indexation for the Life Support Rebate. With no schedule to increase the Life Support Rebate in place, its value is eroded with every electricity price rise.

The Life Support Rebate is offered to assist eligible consumers with the electricity costs of running essential equipment. These costs are not discretionary and households can do little to reduce them through energy efficiency measures or load shifting to take advantage of off-peak

³¹ Chris Hartcher, MP, Minister for Energy, *Ministerial Direction for Social Programs issued to NSW Electricity Retailers* (NSW Government, 2011), annexure 1 sch 2.

³² *Ibid* 4, 13.

pricing. As such, each electricity price rise must be absorbed by rebate recipients, often requiring significant sacrifices. PIAC and the Physical Disability Council of NSW recently conducted a survey focused on the electricity use of people with a physical disability. The survey results showed that people were most likely to give up heating and cooling in efforts to keep their electricity bill at a level they could afford. This is particularly concerning given that 70% (n-103) of those who returned the survey noted having a physical condition that required them to heat or cool their living space.³³

Table 1 - Regulated retail electricity prices and Life Support Rebate Approved Equipment Rates for the years 2002, 2009, 2010 and 2011.³⁴

Year	2002	2009	2010	2011
Electricity prices \$ per kilowatt hour ³⁵	\$0.1068	\$0.1716	\$0.19085	\$0.2266
Approved equipment	Life Support Rebate rates (cents per day, unless otherwise stated)			
Positive airways pressure device	\$0.13	\$0.16 \$0.32 for 24 hour usage	\$0.16 \$0.32 for 24 hour usage	\$0.16 \$0.32 for 24 hour usage
Enteral feeding pump	\$0.20	\$0.20	\$0.20	\$0.20
Phototherapy equipment	\$1.66	\$1.66	\$1.66	\$1.66
Home dialysis	\$0.50	\$0.69	\$0.69	\$0.69
Ventilators	\$1.66	\$1.66	\$1.66	\$1.66
Oxygen concentrators	\$0.83	\$0.83 for 12 hours \$1.40 for 24 hour usage	\$0.83 \$1.40 for 24 hour usage	\$0.83 \$1.40 for 24 hour usage
Total parenteral nutrition (TPN) pump	n/a	\$0.38	\$0.38	\$0.38
External heart pump	n/a	\$0.05	\$0.05	\$0.05

³³ PIAC, forthcoming occasional paper, including survey results.

³⁴ Department of Energy, Utilities and Sustainability, *Life Support Rebate Scheme: Guidelines for Electricity Retail Suppliers* (2002), 3; Minister for Energy, *Retailer Guidelines: Life Support Rebate* (2009), 9; Paul Lynch MP, Minister for Energy *Ministerial Direction for Social Programs issued to NSW Electricity Retailers* (2010), annexure 1 sch 2; Chris Hartcher MP, Minister for Energy *Ministerial Direction for Social Programs issued to NSW Electricity Retailers* (2011), annexure 1 sch 2.

³⁵ Based on regulated retail electricity prices of Energy Australia. IPART, *Consumer Information – Electricity* (2011), <<http://www.ipart.nsw.gov.au/consumer-information-electricity.asp#Q13>> at 12 August 2011 and Energy Australia, *Residential Customer Price List* (1 July 2011), <http://www.energyaustralia.com.au/State/NSW/Residential/Products-and-services/Electricity/~media/Files/Residential/Pricing/2011/NSW_RES_PL_2011b.ashx> at 12 August 2011.

Recommendation 4

PIAC recommends that the Life Support Rebate be indexed annually and the process for indexing this rebate be publicly recorded in a Ministerial Direction.

4.2.3 Motorised wheelchairs and the Life Support Rebate

PIAC proposes that motorised wheelchairs be added to the list of approved equipment whose users are eligible for the Life Support Rebate. Presently, the Life Support Rebate does not provide any financial assistance for electricity costs associated with keeping motorised wheelchairs charged. The batteries that power motorised wheelchairs must be charged for significant amounts of time. Though it can be argued that motorised wheelchairs are not life support equipment, for many people who use motorised wheelchairs, life without a working wheelchair is a life devoid of mobility.

Motorised wheelchair users on low incomes may be eligible for the \$200 per year Low Income Household Rebate, which helps them meet their energy costs. However, the annual cost of keeping a motorised wheelchair charged could take up over 40% of the Low Income Household Rebate this year.³⁶ In addition, many users have physical conditions that mean they are less able to reduce overall household spending when living costs increase. For example, finding cheaper rental accommodation that is accessible and modified for their needs can be extremely challenging. The Australian Bureau of Statistics estimates that there are 5700 people in NSW who use motorised wheelchairs.³⁷

PIAC contends that the energy used in keeping wheelchairs charged is not discretionary where people rely totally on motorised wheelchairs for their mobility. PIAC recommends that, where a registered medical practitioner verifies a person's total reliance on a motorised wheelchair, the person should be supported through access to the Life Support Rebate. Where people are supported to meet their own needs, they are less reliant on state-funded home and attendant care services. Considering motorised wheelchairs are generally an essential device to their users, a rebate providing financial support for the electricity used to power such devices is a proposal that seeks to address an inequality faced by those who suffer certain physical disabilities.

Recommendation 5

PIAC recommends that the Life Support Rebate Schedule of Approved Equipment be revised to include motorised wheelchairs where it has been verified by a registered medical practitioner that the applicant is totally reliant on a motorised wheelchair for their mobility.

4.2.4 Reform of the Energy Account Payment Assistance (EAPA) program

PIAC recognises the value of EAPA as an emergency assistance measure, as the scheme has the potential to reach consumers who may not be eligible for energy rebates. Nonetheless, PIAC agrees with IPART that the EAPA scheme is in need of reform.³⁸ Anecdotal evidence suggests

³⁶ These costs are based on a motorised wheelchair using 2 x 12V 40AH batteries with energy consumption of .96 KWh per recharge. The GST inclusive regulated retail price of Integral Energy (24.035cents per KWH) was used for the calculation.

³⁷ Australian Bureau of Statistics, *4430 2009 Disability, Ageing and Carers, Australia: State tables for NSW* (2011). Please note: ABS attributes a 25-50% relative standard error to these figures.

³⁸ IPART above n 1, 7.

that although EAPA was set up to provide emergency assistance, there are many cases where people are relying on the scheme to maintain connection to essential energy services. As previously stated, disconnection due to non-payment of bills is increasing in NSW. Alarming, the 2010-2011 financial year saw increasing numbers of energy rebate recipients disconnected.³⁹

The NSW Government's EAPA Advisory Group (EAPA AG), of which PIAC is a member, has delivered a report to the Minister for Energy that PIAC understands is currently being considered. The Terms of Reference for the EAPA AG direct the group to consider, among other things, models for delivering EAPA to customers of exempt suppliers and LPG customers who are presently unable to access the scheme.⁴⁰ PIAC welcomes the Minister's initiative in forming the EAPA AG. PIAC believes it has been a useful forum to consider options to improve accessibility and administration of the EAPA scheme.

The EAPA AG Terms of Reference call on work to improve the EAPA scheme to be done within the existing budget. Additionally, IPART has called for reform of the EAPA scheme in terms of design and administration without recommending any increase to the EAPA budget.⁴¹

PIAC notes that the EAPA budget has not increased since 2010-11—remaining stable at \$14 million in 2011-2012.⁴² The demand on EAPA is likely to increase with each electricity price rise. One community agency told PIAC recently that enquiries about EAPA and referrals to EAPA providers are overwhelming the day-to-day functioning of its service.

In PIAC's view, funding to EAPA should grow along a common trajectory with price rises to ensure these events do not place consumers at an increased risk of disconnection. A 24% increase to the EAPA budget would be appropriate given this figure is equal to the average electricity price increases for 2011-12 and 2012-13, less the impact of the carbon price.⁴³

Recommendation 6

PIAC recommends that the NSW Government increase the budget for the EAPA program by a minimum of 24%, in line with recent electricity price rises in NSW.

4.2.5 Review of assistance measures

PIAC believes that in light of the range of recent developments in the energy sector, including price rises and the introduction of the carbon price, there is a need for a comprehensive review of customer assistance measures in NSW. The review should develop recommendations to ensure that customer assistance measures are well-targeted and make the best use of available resources. PIAC believes that the review should be undertaken by an organisation that is independent of delivering any assistance being reviewed. In PIAC's view, IPART is ideally placed to conduct an independent and rigorous review, which could be undertaken in conjunction with IPART's review of electricity and water use in rural and regional areas. Input would also be required from key stakeholders such as energy retailers and community groups.

³⁹ IPART, above n 14, 11.

⁴⁰ NSW Government, Department of Trade and Investment, Resources and Energy Division, Terms of Reference for advisory group on Energy Accounts Payment Assistance (EAPA) Scheme.

⁴¹ IPART, above n 1, 7.

⁴² NSW Government, *NSW Budget Paper No. 2 2011-12 Budget Statement, (2011) Appendix E Tax Expenditure and Concessional Charges*, 25

⁴³ IPART, above n 1, 3.

Recommendation 7

PIAC recommends that the NSW Government instruct IPART to undertake a comprehensive review of the effectiveness of customer assistance measures in NSW. The review should be undertaken in consultation with key stakeholders such as community organisations and energy retailers.

4.3 Impending developments in the NSW energy market

4.3.1 Smart meters

PIAC agrees with the note of caution struck by IPART in its Draft Report regarding the widespread installation of ‘time-of-use’ and/or ‘smart meters’ in NSW.⁴⁴ PIAC agrees with IPART that ‘the benefits of [such a] deployment must exceed the costs.’ However, PIAC is concerned that the lag between imminent costs and long-term benefits can leave some consumers disadvantaged. Similarly, while costs can often be smeared over a large customer base, benefits are not always so equitably spread—as would be the case for consumers with low levels of discretionary use. For these reasons, PIAC also agrees with IPART that customers should not be forced to have smart meters installed as ‘mandated by their network businesses’.⁴⁵

IPART notes that smart meters pose the clearest benefits to consumers who are motivated and able to shift their consumption away from peak price periods. As such, decisions to install a smart meter and move onto a time-of-use tariff should be taken by consumers. An optimal scenario would see consumers, who are energy literate and aware of how flexible their consumption patterns are, making informed choices about whether these arrangements present them with real value.

PIAC does not believe that third parties, whether government, network or retail, should engage in broad-scale mandatory smart meter roll outs until we have had the opportunity to learn from the real-life case that is currently developing in Victoria. Lessons learned from the experiences in Victoria could assist in developing campaigns to promote consumers’ energy literacy and increase consumers’ capacity to make informed decisions about smart meters and time-of-use tariffs. The roll out of smart/time-of-use meters will impose significant costs on Victorian consumers for installation alone. The Australian Energy Regulator (AER) has approved cost recovery by the five Victorian networks over five years to 2015, with yearly charges rising from between \$91 and \$136 per meter in 2011 to between \$137 and \$220 per meter in 2015.⁴⁶ It is important that NSW learns from this experience so that any costs faced by NSW consumers present them with an outcome that can be proven to be of value.

Recommendation 8

PIAC recommends that any large-scale roll out of time-of-use and/or smart meters in NSW should not proceed until a detailed analysis of their deployment in Victoria has been undertaken.

⁴⁴ Ibid 82.

⁴⁵ Ibid.

⁴⁶ AER, *Victorian Advanced Metering Infrastructure Review 2012–15 budget and charges applications*, (2011) < <http://www.aer.gov.au/content/index.phtml?itemId=743595> > at 4 May 2012.

4.3.2 End of the current price path

With the end of IPART's current terms of reference in June 2013 approaching, PIAC urges the NSW Government to provide consumers with some certainty about the future of retail price regulation. While the Australian Energy Market Commission (AEMC) has been tasked with undertaking a review of the effectiveness of competition in NSW, PIAC understands that this process has not yet commenced and a commencement date has not yet been set. PIAC is concerned about the possibility of such a review not being completed until it is too late for IPART to effectively determine retail prices for 2013-14 or beyond, given the long lead-time that this process requires. Therefore, PIAC recommends that the NSW government give IPART terms of reference to set retail electricity prices for the 2013-14 financial year. This would allow time for the AEMC's review of the effectiveness of competition to be undertaken, and for the NSW government to consider the outcomes of that review as part of deciding whether to continue with retail price regulation in the NSW electricity market.

Additionally, PIAC believes that simultaneous, broad-scale changes in the NSW energy market are not in the best interest of NSW consumers. Continuing to regulate retail prices in the 2013-14 financial year would allow the Government time to assess the impact that policy reforms, including the carbon price and the National Energy Customer Framework (NECF) have had on consumers and the NSW electricity market before moving to bring in other significant change.

If price regulation is continued, even for one year, PIAC recommends that IPART be given the 'suitable degree of discretion in making the determination' that it argues would benefit consumers and facilitate 'a stable and efficient electricity market'.⁴⁷ PIAC notes in particular IPART's assertion that the requirement that price determinations base a retailer's energy purchase cost on the higher of market price and long-run marginal cost has led to customer bills being between 5% and 7.5% higher than would otherwise be the case. PIAC would like to see IPART given discretion regarding issues such as calculating energy purchase costs to prevent such unnecessary price increases.

Recommendation 9

PIAC recommends that the NSW Government provide IPART with terms of reference to determine regulated retail electricity prices for 2013-14.

Recommendation 10

IPART's future terms of reference from the NSW Government regarding electricity price determinations should give IPART discretion in the use of market price versus long-run marginal cost when calculating retailer's energy purchase cost allowances.

5. Finding ways to exert downward pressure on prices

The recommendations contained in this submission relate mainly to assisting people to cope with the upcoming price rises. However, PIAC's ongoing energy advocacy also involves looking for strategies to place downward pressure on the prices of essential services, such as electricity. The electricity cost stack in NSW shows that over 50% of the price paid by consumers comes from

⁴⁷ Ibid 86.

network charges.⁴⁸ As such, any work to make electricity more affordable must involve a thorough assessment of network pricing and ways to reduce network costs. In PIAC's view, there is a need to bring key stakeholders together to investigate creative strategies to make electricity more affordable. To this end, PIAC recommends the Minister for Energy convene a high-level Electricity Affordability Summit with invitees including representatives from electricity retailers, network distribution businesses, consumer advocates, the Energy and Water Ombudsman NSW and representatives from NSW Government, including Treasury.

Recommendation 11

PIAC recommends the Minister for Energy convene a high-level Electricity Affordability Summit with invitees including representatives from electricity retailers, network distribution businesses, consumer advocates, the NSW Energy and Water Ombudsman and representatives from NSW Government, including Treasury.

6. Conclusion

The electricity price rises proposed by IPART to take effect from 1 July 2012 are significant, and come on top of a number of sizeable rises in recent years. These price rises mean that more consumers are vulnerable to disconnection and other negative impacts of energy poverty. This is unacceptable in our modern and prosperous society. Urgent action is needed to address the issue of affordability in the short, medium and longer terms.

PIAC sees room for improvement in areas affecting all electricity consumers, as well as assistance measures for vulnerable consumers and understanding of exactly why consumers in some areas face dramatically higher bills. With a number of impending changes on the horizon in this state's energy market, consumers must be given certainty about the future of price regulation and the information required to effectively participate in the changing market. Strategies to place downward pressure on prices should be examined through an energy affordability summit, convened by the NSW Minister for Energy. PIAC urges IPART to include the recommendations contained in this submission in its final report, as doing so will increase the likelihood of the NSW Government taking the necessary steps to address the issue of affordability. PIAC looks forward to working with all stakeholders to realise the goal of an equitable electricity market and an efficient and effective safety net, which does not exclude consumers from access to an essential service based purely on their ability to pay.

⁴⁸ IPART, *Updating regulated electricity price increases for 1 July 2012*, (Fact Sheet, December 2011).