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THE NEWSLETTER OF THE UTILITY CONSUMERS' ADVOCACY PROGRAM (UCAP) A PROJECT OF THE PUBLIC INTEREST ADVOCACY CENTRE (PIAC)

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The Price of Reform - conference

A major conference examining key issues for residential users of energy and water is to be held on 6 October, 2004 by the Utility Consumers' Advocacy Program (UCAP) of PIAC.

The theme for the conference, **The Price of Reform : Households and Essential Services**, points to a number of emerging challenges to affordability of household energy and water. Among these are current proposals for price reform; the role of demand management; and the future of economic regulation of energy following the establishment of a national regulator. Speakers will include:

- a representative of the Standing Committee of Officials (MCE);
- a member of the IPART Secretariat; and
- the author of a new study on household demand elasticity.

The conference will be open to community sector organisations, industry, regulators, government and individuals. It will be held on 6 October in the Metcalfe Auditorium in the NSW State Library.

Further information and registration details will be distributed shortly.

In the meantime any questions can be directed to Jim Wellsmore or Elissa Freeman at PIAC.

UCAP staff

Elissa Freeman has joined PIAC in the role of UCAP Policy Officer. A welcome addition to our small team, Elissa brings experience with disadvantaged clients as well as formal training in economics. Elissa is already hard at work on a range of issues and has taken on responsibility for our Indigenous Water Project.

REFIT lives on

Low-cost kits delivering energy and water efficiency are being offered to households throughout the Hunter Region. It is estimated that this kit could save households as much as \$150 each year in energy and water bills.

Known as REFIT, the scheme has been established through a partnership of Hunter Water, EnergyAustralia, the Newcastle City Council other Lower Hunter councils. Households are being offered a

kit of simple devices and installation for a cost of \$39. The value of the service is estimated at \$120. The low cost of the service has been achieved by means of a subsidy provided by EnergyAustralia, the lead agency in the scheme, Hunter Water, and local councils.

Following its launch in June this year the scheme aims to achieve 5000 installations in its first twelve months. Information is being sent to households along with regular bills. This will assist the service to keep pace with demand.

Tenants in Department of Housing residences are receiving the kit free of charge under a funding agreement with the Department. REFIT already has been installed in DoH houses in Bolton Point - 236 households received a full kit and a further 64 received a partial kit due to their existing hot water system.

Low-income people in private rental accommodation also have been targeted for free kits. EnergyAustralia will provide the REFIT service free of charge to those households in receipt of vouchers under the Payment Assistance Scheme (PAS) for water and Energy Account Payment Assistance (EAPA) scheme. These operate

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through local welfare agencies. EnergyAustralia has now concluded a formal arrangement with the Salvation Army for the distribution of vouchers.

PIAC warmly welcomes the REFIT initiative as it promises direct benefits for households in the Hunter as well as assisting Hunter Water and EnergyAustralia meet their environmental obligations. Given the current high level of interest in using penalty prices to force consumers to consume less energy and water it is especially pleasing that both these utility companies have found a way to combine positive social and environmental outcomes.

The REFIT scheme borrows from the household retrofit program which Sydney Water has conducted over recent years. It also keeps alive the name of a pilot scheme aimed at low-income tenants in the Hunter Region founded by PIAC in 2002. That program, which brought together the current partners as well as the Sustainable Energy Development Authority (SEDA), had been a particular passion of our late colleague, Trish Benson.

NSW electricity prices disappoint

PIAC has voiced its disappointment with the recent determinations on electricity prices released by the Independent Pricing and Regulatory Tribunal (IPART). The determinations for distribution and regulated retail prices were released jointly on 10 June.

While PIAC understood the reasons behind the Tribunal's decisions we have a number of concerns with the final outcome. These include the:

- cumulative impact on consumers of retail and distribution price rises;
- impact of rises in the cost

of household energy in addition to other increases in the cost of living;

- possibility that these increases may yet be followed by rises in water prices;
- size of the allowance for future wholesale electricity costs;
- massive rise in capital investment by the distributors; and
- the weak nature of the demand management scheme introduced by the Tribunal.

Although the Tribunal has delivered an average price increase of around 5% over the next three years, in fact some customers will see their total electricity costs rise by almost 10% in 2004/05.

Worse, three NSW electricity businesses have or propose to introduce 'inclining block tariffs' (IBTs). The Tribunal took the view that it has no power to determine tariff structures for distributors. Unfortunately, it declined the opportunity to ensure that these structures are excluded from the supposedly 'vanilla' regulated tariff – the price paid by small-volume customers who have not been transferred to a 'competitive' market supply contract. This means some 'small' customers will receive a double whammy of block price increases for both the network and retail components of their bills.

By their design, IBTs impact on high-users which means that large households will suffer the greatest impact from these determinations. The electricity businesses put forward claims about IBTs creating more demand management and efficient pricing but failed to address the criticisms of PIAC and others. They ignored also our concerns about the

impact of these tariffs on the affordability of this essential service.

The Tribunal rightly pointed out that NSW electricity prices will remain among the lowest in Australia. However, while this argument indicates some sensitivity for the impact of these decisions the reality is that it will do little to soften the blow for many NSW families.

While not holding the Tribunal responsible for policies outside its control, we make the point that a 10% increase in power prices is a poor return for the extensive industry reforms of recent times which were promised to bring lower prices.

The largest component of these price rises is a huge increase in the capital spending (CAPEX) of the electricity distributors. PIAC accepts the Tribunal has taken a conservative approach in order to ensure the long-term viability of the electricity system. Nonetheless, this decision was especially disappointing given the range of options canvassed with the Tribunal for deferring or avoiding the construction of large distribution assets - many of these more cost effective than the traditional 'build' approach. PIAC felt this was a critical point given that the proposed growth in CAPEX follows a significant overspending on network assets by the distributors under the previous determination.

PIAC is concerned especially that the distributors have been rewarded for their large claims about future investment and revenues. The potential for 'gaming' of the regulatory regime is clear and we are concerned that this represents the beginning of a pattern of behaviour by regulated businesses.

The Tribunal has sought to provide certain 'incentives' for the distributors to undertake demand management activity. Unfortunately, the decision

on CAPEX simply rewards the businesses for spending ever greater amounts on expanding their networks to meet growth in demand. This presents an enormous bias against demand management.

Better news on gas prices

In contrast with electricity, the Tribunal's decision on the prices of gas for small users brought better news for customers. The voluntary pricing principles to operate in the retail gas industry for the next three years limit price increases to an average of changes in the consumer price index (CPI). This reflects the proposals put to IPART by the gas retailers. In practice, this will mean different groups of customers receiving 'real' increases or reductions in their prices. However, the Tribunal has stipulated that price rises for individual customers must not exceed the greater of CPI + 5% or \$15 per year.

It is worth noting that AGL, the largest gas retailer in NSW, received a 10% 'adjustment' to its retail prices in mid 2003. This was argued by AGL to reflect changes in the long term prices it was paying for wholesale gas. Under these circumstances PIAC would have been disappointed had AGL sought more than the most marginal change in the prices charged to its customers.

The single exception to this decision is for gas customers of Origin Energy in the Murray Valley area of NSW. There the Tribunal has permitted average price rises of CPI + 5%.

The retailers can make separate applications for increases above the 'average CPI' limit within the next three years. Both the Tribunal and PIAC will scrutinise any such proposals.

New electricity network tariffs

As they had foreshadowed during 2003, the network businesses of both EnergyAustralia and Integral Energy have moved to introduce inclining block tariffs (IBTs) for smaller volume customers. This follows the introduction of an IBT for retail customers of EnergyAustralia in July 2003. As described above, IBTs establish a two-part price with consumers paying more for that part of their consumption above a specified threshold.

Both the networks have undertaken their obligatory consultation around their formal proposals. Little time was provided for the community to respond to the proposals. In any event, PIAC found that the businesses relied on the arguments they had advanced during the IPART network price determination. We were disappointed to see that the distributors had failed to address any of our concerns with IBTs such as the:

- lack of evidence about the effect of these tariffs on consumption;
- inability of IBTs to target discreetly particular forms of consumption such as peak air-conditioning use;
- lack of sensitivity in the modelling of these proposals of variations in consumption throughout the year (for example, IBTs will collect higher revenue outside the summer peak demand period);
- assumption that household air-conditioning use at times of peak demand is discretionary and price elastic;
- likelihood that some households with a high total consumption but without air-conditioning will incur higher

prices than households with air-conditioning but lower total consumption; and

- assumption that households with high electricity demand overall are households with air-conditioning.

The major concern with IBTs is that the arguments put forward by the electricity businesses tend to ignore the question of affordability of electricity as an essential service. This relates most particularly to households which contain many individuals with only a small combined income.

Both PIAC and the IPART Secretariat have pointed out that the distributors have access to a number of non-price options (that is, options which do not rely on price as a penalty) for improving consumption and cost recovery with respect to residential consumers. It is a pity that more effort has not been devoted over recent months to examining the potential of measures such as 'interruptible' tariffs.

PIAC has argued that the distributors could achieve lower costs for low-volume customers and provide better price signals for the costs of high usage if they had chosen to re-balance the fixed and volumetric components of tariffs. That is, by reducing the fixed component of bills the distributors could cut bills for small households and give larger users the flexibility to reduce their bills by lowering consumption

However, one of the businesses moving to impose IBTs on its customer has announced it simultaneously will raise the proportion of fixed costs in its tariffs.

Electricity DM Fund

Following on from the Premier's announcement of late last year, the NSW Government recently held a series of consultation forums with industry and community stakeholders to explore the possibility of an Electricity Demand Management Fund. The consultation was undertaken by the inter-agency Energy Demand Management Taskforce, which is responsible for recommending strategies to improve demand management in NSW.

A Demand Management Fund will provide grants for programs and activities which are designed to deliver energy demand management. The recent consultation considered the structure of the proposed Fund, how it will be funded and its priorities.

PIAC supports the principle of a DM Fund. However, we are keen to see that households will be able to directly participate in the activities it supports. In order to achieve this it is important that the Fund, in its rules and the funding of programs, differentiates between different types of activities. Energy efficiency reduces overall consumption of energy while load shifting is aimed at shifting consumption away from expensive periods of peak demand. PIAC also argued it is important that the Fund deal with households in a strategic way to ensure that benefits of demand management are equitably distributed throughout the community.

If the fund promotes effective demand management there is potential for long-term social and environmental benefits through reductions in future greenhouse gas emissions and in capital and operational expenditure.

The Taskforce is expected to make an announcement later this year.

EAPA Seminar

The NSW Government is currently reviewing the Energy Account Payment Assistance (EAPA) scheme. The review has focused on the method of delivery for the scheme and the guidelines used for distributing vouchers to people in need. It is expected that DEUS will release a discussion paper on possible new EAPA guidelines in late July.

PIAC will convene a half-day seminar in mid August to consider a number of issues for EAPA arising from the review. The seminar will focus on the role of EAPA in maintaining household access to energy and the relationship between EAPA and the broader social safety net. Our speakers will be Gavin Dufty (St. Vincent de Paul-Victoria), representatives of DEUS and the financial counsellors' network (FCAN).

For more information about the seminar please contact Elissa Freeman (elissa@piac.asn.au).

Households and water trading

The future of water rights and trading in bulk water have received much media attention following the recent Council of Australian Governments (CoAG) meeting. The impact of water trading on rural Australia also was the subject of a recent report by the House of Representatives Standing Committee on Agriculture, Fisheries and Forestry.

Released in June this year, *Getting Water Right(s) : The future of rural Australia* set out a number of recommendations on issues such as

- resource management, including the re-use of existing water
- water pricing;

- trading and ownership of water rights; and
- the environment.

The Committee also considered the social impact of water reforms and the implications of a market in water for household supply in rural areas. The final report quoted from the PIAC submission the view that '*there is nothing in the current water trading framework which promises that water will continue to be available and affordable for rural households*'.

Unfortunately, the Committee did not believe this issue was of sufficient importance to warrant specific recommendations being included in the final report.

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