

Well Connected

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

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UCAP Conference "The Price of Reform: Households and Essential Services"

Another successful UCAP conference was held on Wednesday 6th October. The conference brought together representatives from the community sector, industry customer councils, NSW gas, water and electricity businesses, the Energy & Water Ombudsman and NSW Government.

We were pleased to welcome Mr David Nemtzw, Director-General of the Department of Energy, Utilities and Sustainability to address the conference on the NSW Government's policies for households and essential services. David pointed to the increasing environmental pressures on water and energy markets in NSW and outlined the Government's primary policy objectives. These included improving market mechanisms, particularly demand-side participation, and actively reducing demand pressures through demand management activities. We look forward to working with the Department in these areas.

Russell Skelton, currently Principal Advisor to NSW Treasury, addressed the conference about the national energy market reforms and the need to create an appropriate environment for electricity generation investment. The industry's much-revered 'load duration curve' made an appearance, as the conference considered the role of peak electricity demand on infrastructure expenditure. The presentation gave an insight into how generators are looking to energy market reforms to improve their ability to signal investment expenditure and what this may mean for households.

Shaz Rind from PIAC's Indigenous Justice Project presented an overview of PIAC's Indigenous Water Project, which is being undertaken with UCAP. The project will be seeking to advocate for improved water services in rural and remote

discreet Indigenous communities. Focussing again on water issues, Adrian Kemp from the Independent Pricing and Regulatory Tribunal (IPART) presented the Tribunal's research on household water consumption in the Sydney, Illawarra and Blue Mountains regions. The research found that there was a strong correlation between household size and whether or not the household pays directly for water usage. Adrian presented some of the results of the project that PIAC has been undertaking with IPART to identify water consumption profiles of low-income and vulnerable households.

The impact on households of recent price reforms was explored further by Maree Langmore (Victorian Department of Human Services) and Kathryn Davidson (University of Adelaide). Maree presented her research on elasticities of demand in energy markets and the impact of pricing and market structures on household choices. The research confirmed some important issues, including the high-priority assigned to household electricity bills, additional burdens on low-income households, the low levels of price-responsiveness and the role of cross-subsidies in pricing structures. Kathryn's research focusses on how to measure electricity affordability in terms of both consumption and income behaviour. Her research suggested public reporting on the uptake of hardship plans/payment extensions, spending by welfare agencies in financial assistance on electricity bills, the proportion of households spending more than 6% of income on fuel and the proportion of households unable to adequately heat/cool their home.

Jim Wellsmore of PIAC consolidated a number of issues raised during the conference proceedings about the price of reform. Jim asked conference participants to consider whether market reforms were promoting socially equitable outcomes and suggested that a socially responsible tariff should provide continuous access to affordable, reliable and safe supply in recognition that energy and water are essential services for the community. The conference

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concluded with a panel discussion about how to recruit households into demand management with discussion from Chris Riedy (Institute for Sustainable Futures), David Neville (Integral Energy) and Robert Smith (Energy Australia).

We would like to thank all speakers and participants of the conference for their contributions. The conference has prompted further discussion around achieving socially sustainable outcomes in energy and water markets

Power prices in NSW

The NSW electricity distribution businesses recently released their proposed 'price strategies' in accordance with the obligations imposed by the Independent Pricing and Regulatory Tribunal (IPART). Businesses are now required to inform the community of how pricing decisions are reached, in exchange for greater control over how they determine prices. Distribution costs account for more than 40% of average household electricity bills.

PIAC has previously expressed concerns about the approach being taken by some of the NSW distributors to investment and resultant price increases. The strategy documents contain little new information given that the businesses previously signalled their intended tariff reforms during the recent IPART price review. The IPART determination of last June detailed the extent of price rises customers will face in the coming years.

However, PIAC has welcomed the opportunity to engage further with the distribution businesses. Despite price rises having been sanctioned by the Tribunal we continue to believe that 'non-price' approaches need to be considered by the networks in dealing with problems of growing demand for energy. Further, tariff reform needs to be innovative in relying on more than the 'stick' of price penalties to address this issue.

It is pleasing that some of the proposed strategies have raised options such as 'voluntary load shedding' which could be offered to households with airconditioning. PIAC has expressed the view that development of these options would have been appropriate prior to the introduction of price rises.

NSW water strategy

Concerns about the impact on low-income families has PIAC and other community advocates casting a careful eye over the water strategy recently released by the NSW Government. Of particular concern has been the limited extent of community consultation undertaken by the Government in devising its response to the water problems facing Sydney.

The limited capacity of the environment to support demand for water by Sydney's ever growing population and industry is a major public interest issue. A range of options will need to be combined to deal with the challenges and it is likely that prices paid by consumers will rise in order to fund a number of these responses. PIAC continues to warn, however, against simplistic answers which rely on higher prices to provide added motivation for residential users to reduce their water consumption.

Expanded programs of retrofitting water and energy efficient devices into Sydney homes should be a priority. In particular, PIAC believes that public housing should be targeted for these programs which are cost-effective and produce measurable falls in water use.

The capacity of households to reduce their water consumption, including those with large families and low-incomes, has been the subject of study by PIAC using data collected last year by the Independent Pricing and Regulatory Tribunal (IPART). The findings of this research are expected to be published shortly.

PIAC is also interested to pursue more legislative and regulatory solutions to the problem of water supply. In addition to causing more landlords to install water saving devices such initiatives could focus on compulsory re-use for some activities such as public parks and gardens as well as some industrial applications.

A number of stakeholders have been using the public processes of the Tribunal to air their concerns and some possible solutions. What has emerged is a broad interest in changing the way water is priced. Inclining block tariffs which have the effect of penalising larger water users are favoured by the Tribunal, the NSW Government and other groups. PIAC is grateful the NSW Premier has signalled a commitment to protect large families with low-incomes from the negative impact of such changes.

It should be noted that many areas of NSW outside the Sydney region are currently facing much more severe water shortages. This suggests that relying on price to change behaviour is not a sufficient response. It also points to the fact that the environment may not be able to yield much additional water despite innovative scheme to tap new sources. Again, this underscores the need for programs which will reduce usage by householders and others.

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National energy reforms

The Ministerial Council on Energy has released its long-awaited Issues Paper on possible changes to the regulation of electricity distribution and retail activities in the national market. The paper takes a 'first principles' look at options for the new Australian Energy Regulator. The Issues Paper examines current differences between jurisdictions and what degree of uniformity might be possible under future arrangements.

The range of issues considered in the Issues Paper include:

- The principles and methods used for setting prices for distribution (around 40% of customer bills);
- The options for a national system of licences for energy distributors and retailers (imposing a set of obligations as part of the authority to operate in the market);
- Whether there is scope for a national approach to consumer protection and community service obligations (such as rebates and vouchers for people facing hardship in paying their bills); and
- Which other functions might be transferred from jurisdictional regulators to the AER.

UCAP has attended briefing sessions conducted on behalf of the MCE and a national roundtable of community and consumer advocates. A formal response will be made to the Issues Paper and is available on our website.

Broader goals needed for energy law

Calls for the national energy markets to take account of social and environmental impacts have come from community and 'green' groups around Australia. More than a dozen groups in several jurisdictions have proposed that the goals of these markets be extended beyond a narrow economic definition of 'consumer benefit'.

One of the first steps in the current reform process has been the drafting of a new National Energy Law. This will replace the existing legislative arrangements in electricity and bring gas into a wider 'energy' framework. Unfortunately, negotiations between the respective governments precluded wider community input. They also led to a repeat of some of the mistakes of the original legislation in limiting the goals of market design to narrow economic concepts.

With the National Electricity Market not yet six years old

it is clear that the focus on creating an efficient market has given space for a number of undesirable (and presumably unintended) outcomes for customers and the environment. In particular, lower-income households in many cases are struggling under the extra costs brought about through the market design. The market rules are also heavily weighted against investment and supply which is more environmentally sustainable.

The community and 'green' groups who supported the package of proposals will now seek to have their concerns taken up in the discussions about future regulation of the energy industry in distribution and retail activities.

Pre-payment reviewed in Tasmania

The impact on vulnerable customers of the introduction of pre-payment metering is being examined by the Tasmanian regulator – the Office of the Tasmanian Energy Regulator (OTTER). This follows a number of concerns being raised by community groups about the use of this technology. Tasmania has the only significant number of customers in Australia using pre-payment meters following a concerted push by the incumbent energy retailer, Aurora.

The NSW Government released its guidelines for pre-payment metres in this State late in 2003. At this point further developments are waiting the release of a new Market Operation Rule, which will provide the rules under which local retailers can offer these new meters.

The OTTER review began with a number of important concerns about the Aurora pre-payment meter program including that:

- It is very difficult for consumers to understand the pricing arrangements they are offered which means people can end up paying more for their electricity depending on the pattern of consumption;
- Aurora has built in barriers to people reverting back to standard electricity meters;
- Paper bills provide more information readily to customers about their consumption;
- Pre-payment meters can provide fewer payment options than paper bills; and
- Customers using pre-payment meters have higher 'fixed' components in their electricity prices.

OTTER found that more than 11% of pre-payment meter customers had experienced a 'self-disconnection' for

reasons including lack of funds to re-charge their meter, difficulty accessing a 're-charge' point and forgetting to re-charge their meter.

Community organisations have made input to the review and pointed to problems around:

- Self-disconnection;
- Recovery of past debt through pre-payment meter tariffs;
- Problems of replacement of lost or damaged pre-payment meter re-charge cards (the basis of the Aurora technology); and
- Variable levels of provision of re-charge points and the standards of service (for example, vendors permitting different 'minimum' amounts of re-charging).

These are all concerns which have been raised by community groups including PIAC prior to the introduction of pre-payment metering in NSW. We await with interest the final report from the Tasmanian regulator.

Energy Accounts Payment Assistance – reforms for 2005

The major scheme in NSW which ensures households in short-term crisis can afford their energy needs is the Government funded Energy Account Payment Assistance (EAPA) scheme. The Department of Energy Utilities and Sustainability (DEUS) has been reviewing the scheme over recent months. UCAP had assisted with wider public debate about EAPA with a seminar in August to look at the policy intent of the scheme and comparable programs in other states. The seminar was an opportunity for stakeholders to discuss some of the higher level issues around EAPA in advance of DEUS releasing its proposed new guidelines.

Both the guidelines for community welfare organisations (who distribute the vouchers) and the energy retailers have now been redrafted. UCAP has been supportive of the review of the EAPA program and the need for clearer, more transparent and equitable guidelines. These will ensure this important program continues to provide crucial support for people in financial difficulty. An important innovation to the scheme will be the establishment of a clear link between EAPA and the obligations already imposed on retailers to assist customers to manage their energy-related debts.

Other outcomes will be the creation of a web-based listing of participating community welfare groups, and their target clients as well as establishing better communication

between the community groups and retailers.

Households and energy saving

The capacity of residential users to control their consumption of electricity is the subject of a major study which will be published in the coming weeks. The research project was undertaken by the Institute for Sustainable Futures (at the University of Technology, Sydney) and the Melbourne-based energy efficiency group the Moreland Energy Foundation. Following formal publication of the report, Moreland Energy Foundation and the Institute will undertake a round of briefings with electricity industry stakeholders.

The research involved a literature review followed by an extensive series of workshops which drew participants from a range of community groups in three jurisdictions. Given the current importance of these issues in Australia, considerable effort was devoted to developing the most appropriate methodology for this project.

Some critical findings have emerged from the research. These focussed especially on the willingness of households to change their consumption patterns and the means they felt appropriate to encourage this shift. The workshops dealt with a range of measures from consumer education to price reform and programs which assist people to obtain more energy efficient appliances.

Funding for the research came from the National Electricity Market Advocacy Panel.

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