Well Connected

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

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Disconnections remain an issue

PIAC issued a call in the last issue of *Well Connected* for utility disconnections for families in hardship to be addressed by the NSW Government and the energy and water retailers. This followed the publication of our *Cut Off* research report which showed that ongoing financial hardship is the major cause of people being disconnected (or restricted) from essential services.

To date the industry response has been mixed. PIAC notes that Country Energy already has achieved a major drop in disconnections on the back of the success of its pro-active Country Support program. Some other retailers have introduced changes to their customer hardship programs since the research for the report was undertaken. However, other retailers, especially in energy, seem reluctant still to update their approach to customer debt and hardship. Roughly 20% of customer complaints to the Energy and Water Ombudsman (EWON) come from customers whose retailers have failed to deal effectively with hardship and payment difficulties.

We understand the NSW Government is continuing to consider its response to the research and what actions it might take to address the current level of customer disconnections.

Victoria has seen a more aggressive stance on reducing disconnections. A major public inquiry (reported later in this issue) is considering the financial hardship and whether the existing retailer programs are effective in addressing disconnections for hardship.

Effecting disconnections and reconnections is a relatively expensive exercise. PIAC remains convinced that a more effective approach to financial hardship would benefit both consumers and the energy and water industry.

Watering down the industry

Late last year the NSW Government requested IPART undertake a special review to identify "possible pricing principles and alternative arrangements, including possible private sector involvement, for the delivery of water and wastewater services". The IPART Issues Paper released last month is the first output of this process, but the momentum for change began well before the paper appeared.

In December last year the National Competition Council found that competitive access to the wastewater network should be granted to enable Services Sydney to compete for retail sewage customers (see "*Recycling Public Interest*"). The Government's Metropolitan Water Plan was also released last year, seeking, amongst other things, greater private sector innovation in water efficiency through the Water Savings Fund. Lastly, the NSW Growth Centres Commission has been established and is expected to lead water infrastructure planning in new Greenfield developments in the greater Sydney region.

The result is an Issues Paper that is overtly focussed on how to accommodate these policy-drivers by incorporating greater private sector participation in the water and wastewater industry.

Given the historic public rejection of privatisation of public water and wastewater services, PIAC has argued that the community needs to be confident that the government of the day continues to be publicly accountable for this service provision through transparent ministerial accountability.

Even so, it is an interesting time to be considering the future of the water and wastewater industry in Sydney. The system of incentive regulation in Sydney Water has

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now been working effectively for over 10 years, and many of the promised efficiency reforms have been delivered to households. This has included cost-savings and service-delivery improvements at a price deemed economically efficient by the independent regulator. Water service provision has also included a much higher degree of private management, but not without its costs. The 1997 Adelaide "Big Pong" failure in sewage treatment and the 1998 Sydney water contamination crisis highlight some of the public health risks associated with the greater commercialisation of essential services.

With this in mind, the Issues Paper offers four alternative industry structures and a framework to evaluate the options. For the most part, the options are different ways of achieving more private sector participation in the industry. Yet for a business which has been able to deliver healthy dividends to its shareholder (the NSW Government) and at the same time achieve capital and operational efficiencies, it is difficult to see what benefits the community stands to gain, particularly given the transitional costs involved in restructures of this kind.

PIAC has suggested that an evaluation of these options needs to take place against an enhanced regulatory framework. For example, more could be done to enforce sustainability targets within the current structure. PIAC has further argued that consideration needs to be given to reforms that promote positive inter-generational equity, rather than simply looking for economic efficiencies with limited benefits for consumers.

One of the greatest public interest issues coming out of the review is the challenge to "postage stamp pricing". Postage stamp pricing means that one price system applies to all households in Sydney. This ensures horizontal and geographic equity and keeps essential services affordable by sharing the costs of service provision across households. While some improvements to the sustainable use of resources may recommended over the course of the review, postage stamp pricing remains a core principle from which PIAC believes the community is unwilling to accept any deviation.

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Electricity tariffs get smarter

Consumers are becoming accustomed to industry demands for higher prices for energy and water. While some recent increases were needed for vital infrastructure PIAC and other community groups continue to argue against price rises as a crude tool. However, some electricity distributors are beginning to move beyond broad price hikes to more sophisticated tariff design.

The current fashion is step or 'inclining block' tariffs with time-of-use pricing also starting to become more widespread. These tariffs confuse cost-recovery and conservation – the latter aimed at reducing the costs of supply. The supposed price signal fails because of the delay between consumption and billing, the inability of meters to measure per capita (as opposed to household) use and the fact that some consumers can afford to ignore signalling of demand management.

EnergyAustralia has introduced inclining block tariffs (IBT) for both distribution and retail components of customer bills. The intention is to raise the step between the two blocks in the network tariff – by as much as 30%. EnergyAustralia also is trialling more sophisticated tariff design. New tariffs include a form of 'critical peak' pricing and voluntary off-peak power for pool pumps. The pool pump tariff will operate much as current off-peak hot water prices do and use separate meters.

The 'Alert' tariff combines a low 'standard' price for electricity with a much higher price for electricity during certain peak demand periods. Customers will receive advance notice of these critical peak prices and have the option of shutting down or reducing their use during these times in order to obtain the lowest energy bill possible. The Alert tariff is being trialled with larger energy-users and PIAC has welcomed the initiative. Critical peak pricing has proven very successful in California and has the potential to achieve significant reductions in the cost of supply over the medium term.

Country Energy is also trialling a form of critical peak pricing, using different technology aimed at households.

The Integral Energy inclining block tariff (IBT) retains a relatively small 'step' between the two pricing blocks. Instead Integral is looking at measures such as 'interruptible' technology which would focus more directly on the use of appliances such as air-conditioners during periods of peak demand.

Reduced peak demand can mean lower electricity costs in the future. However, time-of-use prices are not a panacea. Nor can they benefit every customer. For example, low-price periods often are balanced by higher fixed components in tariffs. In addition, regulators mandate a fixed revenue for these businesses which means that for every customer who saves money another must face a larger bill.

PIAC was, however, especially pleased to see the proposal from EnergyAustralia for a 'Basic' tariff. This was designed to provide another option for customers facing difficulty paying their electricity bills. It was intended that retailers would offer this tariff to customers with unpaid bills who, for example, enrolled in a retailer's instalment payment plan. 'Basic' would have no fixed daily charge, meaning customers would get the greatest value by reducing their use of electricity during periods of hardship. At present PIAC understands the 'Basic' tariff has not been finalised by EnergyAustralia.

Victoria launches Inquiry into Financial Hardship of Energy Consumers

The Victorian Government has commenced an inquiry to investigate the level and causes of energy consumer hardship and to recommend improvements to the ways in which consumer hardship can be mitigated. The inquiry is looking at a broad range of issues including accessibility of assistance and how existing programs address energy inefficiency.

The Inquiry also touches on a proposal by Victorian consumer advocates to ban utility disconnections altogether. The same proposition was made in a similar inquiry in the United Kingdom. While energy retailers rallied behind the use of disconnections, that inquiry found that significant improvements in retailers' performance was required if the right to disconnect supplies was to be maintained. The role of utility retailers in managing the energy debts of customers experiencing temporary or ongoing financial hardship is a crucial component of debt and disconnection practices.

The Victorian Government has reinforced this obligation through the introduction of a wrongful disconnection requirement, meaning that retailers are liable for disconnecting households who are experiencing genuine financial hardship.

The Victorian review challenges some of the industry assumptions around credit management practices and assessing hardship. PIAC is keen to see the outcomes of the Inquiry and see how debt and disconnection practices among energy utilities can be improved.

Pain, not gain, in metropolitan water prices

The draft determination on Sydney Water and Hunter Water prices has seen higher than expected price increases. However, it is the change in price structure for Sydney Water Corporation that raises the greatest equity concerns. For the first time, Sydney Water will introduce as a standard feature of their price structure a two-tier tariff for water usage in separately metered residential premises. This first tier price will apply to the first 400kL of water and the second tier will apply to all water consumed above this amount.

The expectation is that households will respond to higher water prices by reducing the amount of water consumed. In fact, the expectation is that households will slice their discretionary water usage by 11% in order to offset the price increase. However Sydney's households have already, on average, reduced their discretionary water usage by 12% in line with water restrictions.

Water restrictions are an equitable response to drought management. They enable the community to isolate particular water-using practices, for both business and residential premises, and very effectively reduce consumption in a short period of time. The problem with using pricing to achieve similar water savings is that the amount of water used by a metered household doesn't reveal the water-efficiency of the household. IPART's own research has shown that residential water use is most closely related to the number of people living in the household. So high water usage in a household could indicate wasteful discretionary use or it could be a result of a large number of residents sustainably using their water resources. A tiered water price cannot differentiate between the two. Even where the tiered water price is set at a level greater than average water use, it cannot be as socially equitable as water restrictions in eliciting reductions in discretionary water use.

Consequently, Sydney Water and IPART have prepared a package of social programs designed to address the equity outcomes of this pricing structure.

The key to making these programs work is a commitment to case-manage households disadvantaged by the reforms and to select the best options to improve the particular household's ability to manage water use and bill increases. The need for case management of these households is further reinforced by their inability to fit the standard mould for welfare assistance. The vast majority of households who are unable to pay their water bills are working-poor families who have an employment related income as their main source of household income. The great challenge for the business implementing the inclining block tariff is to be responsive to the particular hardship faced by these households. Regular reporting and auditing of the social program will be required in order to ensure that customers are receiving appropriate financial and water-conservation assistance.

Recycling public interest

Looming legal action has highlighted some of the key issues around easing Sydney's water supply problems. With high levels of community awareness of the need to better balance supply and demand there has been a lot of focus on the options of recycling and desalination. A private company, Services Sydney, has proposed to undertake recycling of some of the sewage currently treated by Sydney Water. Now this proposal has been taken to the Australian Competition Tribunal, with Services Sydney seeking a ruling which would force Sydney Water and the NSW Government to give the company access to Sydney residents and the existing wastewater system.

PIAC is aware of significant community support for recycling of wastewater. The members of our community-based UCAP Reference Group all favour a greater effort being directed to recycling. There is considerable frustration with Sydney Water having not done more in this area. The argument of the Government that the community will not 'drink effluent' seems at odds with much public opinion.

Very little is known about the Services Sydney proposal. The Tribunal will not be considering the merits of the proposal but the possible public benefits from introducing competition to wastewater treatment. It remains an open question as to whether the Services Sydney proposal will serve the public interest or even increase the level of recycling.

The issues raised by the Services Sydney proposal include:

- impact on social equity since wastewater competition could mean higher prices for those living furthest from the beachside recycling plants;
- costs to be incurred by the Government in order to allow a private company to enter the 'wastewater market'; and
- costs to be incurred by Sydney Water to allow competition for wastewater customers and then passed on to Sydney Water customers.

To date competition has had a patchy record in providing benefits to consumers. Prices have risen, for most households, in essential services such as electricity and gas as a result of competition reforms. The Services Sydney proposal could mean more price rises for many customers of Sydney's sewerage network.

Recycling and desalination each have their pros and cons. Both have costs and negative impacts, including for the environment. While Services Sydney has pitched its service as a 'green' alternative neither a Tribunal ruling nor competition will prevent a future decision by the new entrant to release partially treated sewage into the ocean as Sydney Water currently does.

The NSW Government is moving to commit considerable investment to a desalination plant. Services Sydney is seeking a Tribunal ruling to give the green light to their investment in recycling.

The public interest might be served better by keeping all the options open and having proper consultation with the community.

On the move

PIAC has recently relocated to bigger, brighter, accessible premises. You can now find us at;

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