Well Connected

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

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Minister moves on disconnection following PIAC Report

An inter-agency working group has been established by the NSW Minister for Utilities, the Hon. Carl Scully, to develop recommendations for measures to reduce the number of households in hardship being cut off from electricity. PIAC welcomes this initiative as it reflected the proposals we had presented to the NSW Government and the energy industry following the release of our *Cut Off* report into disconnections earlier this year.

Recent media reports have highlighted again the number of households who face disconnection. A 25% increase in the last financial year was a large factor in the decision of the Minister. The retailers have varied records in this area. It has been reported that one retailer is responsible for the bulk of the increase. PIAC has argued for a more comprehensive and industry-wide approach to reducing disconnection of people in financial difficulties.

The major issues thrown up by our research included:

- Some 70% of electricity customers in hardship who were disconnected had attempted to make an arrangement with the retailer and still were cut off;
- Those customers in hardship often were not offered reasonable arrangements and repeat disconnections affected around one third of these households.

PIAC is confident the working group will provide the Minister with reasonable proposals for addressing the rate of disconnection. A report was due to be given to the Minister by the end of November.

The working group is comprised of representatives of PIAC, the Council of Social Service of NSW (NCOSS), the Energy and Water Ombudsman (EWON), the Independent Pricing and Regulatory Tribunal (IPART), the Energy Retailers' Association (ERAA) and the NSW Government.

Desalination decision at what cost?

The NSW Government has announced it will invest in a 125 megalitre capacity desalination plant to 'drought-proof' Sydney. PIAC has previously highlighted community support for more extensive water recycling options. The many unknown factors associated with desalination have raised concerns about the costs at which this infrastructure will be delivered.

Recent media reporting suggests that Sydney Water's internal analysis places recycling ahead of desalination on energy efficiency and cost. PIAC has called on the NSW Government to release the planning studies on which the decision was based. Given that the NSW Government will be funding the investment through Sydney Water, rather than using heavily criticised public-private partnerships, there is an opportunity now to achieve greater transparency in the decision-making process.

A 125 megalitre desalination plant is a massive investment and, while solutions to the drought are required, the community needs to be assured desalination is the best option. Residents will pay for this desalination plant with higher water prices, so they should be confident that they are getting the most sustainable response to manage Sydney's water supply into the future.

Earlier this year, the NSW Auditor-General criticised the Government's Metropolitan Water Plan, which included desalination, citing concerns at the lack of

PUBLIC INTEREST ADVOCACY CENTRE

Utility Consumers' Advocacy Program

Public Interest Advocacy Centre Ltd

Jim Wellsmore, Senior Policy Officer & Elissa Freeman, Policy Officer

email: jwellsmore@piac.asn.au email: efreeman@piac.asn.au

Level 9, 299 Elizabeth Street, Sydney NSW 2000

phone: 02 8898 6500 fax: 02 8898 6555

ABN 77 002 773 524

robust contingency planning. The desalination plant is a costly investment and one which is already ballooning from budget estimates. Consumers should be informed of the additional financial commitment they will be expected to contribute to the desalination plant now and in the future.

Better water services in regional New South Wales

PIAC's latest social research examines how changes to water pricing have impacted on vulnerable consumers, water consumption and utility service provision in three case study communities in rural and regional NSW. The research has been conducted a year after the NSW Government introduced its *Best Practice Guidelines* for Local Water Utilities (LWUs). The report's findings suggest that there is room for some refinement of these Guidelines and PIAC now will seek a review.

PIAC commissioned the Institute for Sustainable Futures to undertake the research which was funding from the Government's grant for the UCAP project.

LWUs are under considerable pressure to comply with the Guidelines. Local councils that fail to comply are not eligible for NSW Government financial assistance for infrastructure investment (via the Country Towns Water and Sewage Scheme), nor to seek a dividend from a profitable water business. PIAC was concerned that the Guidelines do not adequately address the social equity aspects of water pricing and was keen to explore the experiences of communities with different population, natural resource and water management profiles.

After consultation with stakeholders Kempsey, Albury and Broken Hill were chosen for the case studies. Primary research was undertaken with stakeholders who work with local residents in these communities, and some of their comments are highlighted here.

Price structure

"people do not understand the price structure at all"

"Albury Water has received over 1500 calls on water billing issues since December 2004"

"people are having difficulty interpreting the bill and forgetting the level of entitlement already used"

The Guidelines require LWUs to shift water prices to a two-tiered volumetric charge, with the bulk of the revenue delivered from volumetric rather than fixed charges. The research suggests that households need greater support through this process and a simplified billing structure.

Demand Management

"those people on good incomes, who have large gardens are not really affected by any price increase, no matter how big you make it... some large users have actually gone up"

"a free audit of any property can help to identify leaks, inefficiencies or wastage ...but it is mostly taken up by non-residential customers because its not really worthwhile for residential customers"

"Many of [St David Uniting Care] clients would not have a good understanding of how to reduce their water usage"

Demand management is a core aim of the Best Practice Guidelines. The research suggests, however, that demand management programs could be better targeted towards households in need. For example, Sydney Water's demand management programs includes a rebate program for water-efficient appliances in low-income households and provides a retro-fitting service free to pensioners. The demand management programs implemented in the case study communities generally were limited to information provision and in certain instances were not getting through consumers such as tenants or Indigenous residents.

Hardship and assistance

"affordability of water was a significant issue for people in the area , where there is a high level of unemployment. Large households, tenants and other low-income households were most at risk"

"the numbers of people in financial difficulty are increasing. Uniting Care has opened 400 new files already this year"

The communities surveyed are representative of many across regional New South Wales and two included highly disadvantaged residents. The report finds that while the general level of affordability is not a problem, specific segments of the community can be placed in particular hardship. For this reason the report recommends that 'incidence analysis' is undertaken prior to price changes, as well as targeted payment assistance programs.

Pace of change

"the main outcome from the [Customer Reference Group] was a recommendation that changes be phased in for the non-residential sector, and a cap be placed on the increase for these customers, in order that the impact would not be so dramatic"

Lastly, the report suggests that some boundaries need to put in place to limit potential price shocks in the community and to allow the communities to trend towards the Best Practice pricing requirements.

The research report *NSW Water Pricing Guidelines and Country Town Communities: Assisting vulnerable residents* is available on PIAC's website or by emailing elissa@piac.asn.au

Equitable regulation? — Sydney water prices

In September 2005, the Independent Pricing and Regulatory Tribunal (IPART) released its final determination for the prices of water supply, wastewater and stormwater services in the Sydney, Illawarra and Hunter regions.

IPART's price determination provided an opportunity for PIAC to challenge the water business' predicted expenditure, the regulated rate of return they can earn and the structure of retail prices.

It was the level and structure of retail water prices proposed for the Sydney Water Corporation that attracted the greatest public debate. The drought and the Government's Metropolitan Water Plan have brought pressure for higher prices. Sydney Water also had proposed significant tariff reform designed to drive reduced water usage.

Tariff reforms inevitably result in segmented social inequity, and in this case it was tenants and large, low-income households who stood to be disadvantaged by the reforms. In advance of the recent price increases Sydney Water had tried to mitigate the impact on people in hardship by extending its Payment Assistance Scheme for tenants. Sydney Water also has moved to make a contribution to No Interest Loan Schemes (NILS).

PIAC was especially interested in the demand management programs Sydney Water could use to mitigate the impact of price rises on low-income households. Sydney Water has made some important developments to its demand management program with the offer of free household retro-fitting to pensioners and households experiencing financial hardship.

Nonetheless PIAC has some serious concerns with the determination made by the regulator.

The IPART final report demonstrated a willingness to introduce changes to tariffs to achieve specific environmental goals. Yet, the Tribunal resisted calls to make similar moves aimed at social goals. The choice of price to drive water conservation was particularly disappointing given that most in the water industry have accepted that a larger suite of measures is needed to reduce household consumption.

Indeed, it appeared the Tribunal had discounted advice from its own consultant about the effectiveness of using higher prices to fund household retrofits in order to reduce water use.

It was disappointing that the determination did not draw on the wealth of household consumption data gathered by the Tribunal's own research. This pointed to specific problems for certain types of households faced with higher water prices.

The Tribunal proposed to deal with the negative social impacts of the new prices with an administratively complex and narrowly targeted tariff rebate. It suggested that the rebate should be funded by the State Government rather than Sydney Water's hefty revenue. PIAC argued that where tariff reform generates social inequality, the remedy should come from the business itself.

PIAC had responded to the concern about the impact of the new tariffs by proposing a new 'social tariff' aimed at large, low-income households with a limited capacity to reduce non-discretionary water use. This mirrored a proposal from the monopoly electricity distributor EnergyAustralia for a 'Basic Tariff' for customers

PUBLIC INTEREST ADVOCACY CENTRE

Public Interest Advocacy Centre Ltd.
Level 9, 299 Elizabeth St,
Sydney, NSW 2000
ACN 002 773 524

experiencing financial hardship. In that case, and given the lighter-handed approach by IPART to prices, tariff innovation had aimed to alleviate utility-related debt.

More proposals for national energy regulation

Further proposals for reforms to the regulation of energy distribution and retail activities have emerged from the Ministerial Council on Energy (MCE). These come more than a year since its first round of consultations. The sweeping nature of many of the new proposals suggests that the energy Ministers need more regular consultation. Unfortunately, the slipping of the reform timetable may now result in fewer opportunities for residential end-users to have their views heard.

As if to reinforce that fear, the MCE also released a proposed 'framework document' which suggests a specific carve-up of regulatory functions between the existing state-based regulators and the new national bodies. Responses to this set of proposals were required within only a few weeks - well ahead of the deadline for the consultation paper.

Some of the proposals would lead to a consolidation of current regulatory approaches. This may have merit. For example, the proposed principles for the regulation of revenue for the energy distributors would extend to the national rules the present approach used in some jurisdictions. On the other hand, the question of whether energy users benefit from the present approach is another issue.

Consumer protection, however, would be seriously undermined by the approach proposed by the MCE's consultants. Their view of existing rules aimed at limiting consumer disadvantage is limited to the costs they impose on energy businesses, especially retailers. There is no doubt reducing the regulation of energy retailers would lower their costs. Yet, the consultants have not sought to explain how this would benefit household users of energy. Indeed, similar proposals were aired in Victoria in 2004 and roundly condemned by community and consumer groups before being largely rejected by the regulator in that State.

PIAC is preparing a detailed response to the consultation paper. In addition, a national roundtable of community and consumer groups was held in late November to discuss these latest propsals from the MCE.

Queensland gets competition

Retail competition in energy is to be extended to 'small' consumers in Queensland. The decision by the Queensland Government reverses its earlier stance which it described as ensuring household consumers had access to affordable energy. Some have explained the decision by pointing to the extra competition payments the State now becomes eligible to receive.

The consultant's report on which the Queensland Government claimed to base its decision has been reviewed by PIAC. We believe many of the claims made by the consultants are questionable.

It is to be hoped the Queensland Government can learn from the experiences with full retail competition (FRC) in other parts of Australia. So far this appears doubtful with the Government repeating the promises made in the southern states that competition would result in lower prices. The Government has indicated that price benefits will be concentrated in a minority of households – those with the highest consumption. Yet, as has been the case elsewhere, the cost of delivering those benefits is to be shouldered by all Queensland residents.

One stark difference between Queensland and the FRC experience in NSW is that the Government in this state chose to move to competition while funding an independent community group to provide a voice on behalf of residential consumers. PIAC has been the recipient of this funding. To date, no such support for our counterparts in Queensland has been forthcoming from that Government.

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