

the debates over reform of the energy market have demanded that the new national arrangements not be based on 'lowest common denominator'.

The three organizations which have made nominations to the SRG will seek to represent the views of a wider range of community and consumer groups as expressed during discussions of the national Consumers Energy Roundtable.

New water supply spending

While sustainability was the theme chosen for the recent UCAP conference its central role in debates about energy and water has been highlighted by a number of recent decisions for the water industry on the NSW Central Coast and the Hunter region.

The NSW Government and the respective water authorities have moved to expand the supply of water in these areas in response to critical imbalance between the availability of water in a time of drought and growing demand from increased populations.

These moves come against a backdrop of recent comments by the likes of the Prime Minister's water tsar, Malcolm Turnbull, that the NSW Government, in particular, has somehow 'failed' the community by not undertaking investment in vital water infrastructure. In truth such comments are either made in ignorance or are deliberately mischievous and intended to further promote a privatisation agenda.

The most significant recent announcement has been that the NSW Government will approve the building of a new dam in the Hunter. This represents a significant change in policy by the Government and involves a considerable financial commitment on behalf of water users (who's prices will fund the new dam) on the Central Coast and the Hunter.

In fact, Gosford and Wyong have been increasingly dependent on water transferred from the Hunter as their own storages are suffering far worse under the current drought. Hunter Water had already signalled its intent to upgrade its own Grahamstown storage to ensure larger volumes of water are available for the Central Coast.

The costs of responding to the drought have been highlighted for residents on the Central Coast where water use has fallen dramatically in response to news about falling storages. Now total bans have been placed on outdoor water use in the region. Yet, the two

councils charged with water supply have responded to falling revenue from sales of water by raising consumer prices.

The decision to increase the capacity of Grahamstown (in order to increase supply to the Central Coast) comes at a time when Hunter residents have yet to respond to the drought in the same way as other water users. Per capita demand for water in the Hunter remains higher than Sydney, for example.

Extreme water restrictions are not required in the Hunter, and on the evidence from the Central Coast they would not necessarily benefit consumers in the short term. On the other hand, improved demand management (backed by mandatory targets) could postpone the need for new spending on Grahamstown. This clearly would benefit residents in both the Hunter and the Central Coast by reducing the costs of new infrastructure.

The other major initiative currently being pursued by the Central Coast council water authority is the introduction of 'mini-desalination' plants. These clearly will be expensive and bring further environmental costs.

The NSW Government also has decided to transform the water authority shared by the Gosford and Wyong Councils into a new statutory corporation for the Central Coast. The new entity will continue to be owned by the two councils. It is to be hoped that the new entity will improve the co-ordination of water supply planning for the Central Coast and provide some better initiatives to balance the costs of supply with the difficult financial circumstances of many Central Coast residents.

PUBLIC
INTEREST
ADVOCACY
CENTRE

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

Well Connected

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

No 29 November 2006

ISSN 1442-2433

Delivering Sustainability

A very successful conference was held by UCAP on 11 October examining the role of consumers in establishing sustainable energy and water industries. The conference was based on a broad view of sustainability – social and environmental as well as economic. Accordingly, a range of different mechanisms were discussed at the conference covering industry regulation, direct participation by consumers in demand management and indirect measures such as price signals.

The conference was opened by the Hon. David Campbell, NSW Minister for Water Utilities. The Minister outlined a number of initiatives introduced by the NSW Government and stressed the commitment of the Government to maintaining affordability for household users. Minister Campbell also unveiled the Government's latest reform to the water industry in the form of an access regime which is intended to allow for competition in water and sewerage services in the Sydney and Hunter regions.

Among the other speakers was Tony Wood from Origin Energy who also brought his expertise from the Business Roundtable on Climate Change. Tony discussed the nature of the sustainability challenge. Tim O'Grady from EnergyAustralia gave his observations on the NSW Greenhouse Gas Abatement Scheme and alternative schemes for reducing the environmental impact of electricity use. One of those alternatives, the Energy and Water Savings Funds, was the subject of a presentation by Yianni Mentis from the Department of Energy, Utilities and Sustainability who described some of the initial successes of projects supported by the Funds.

A number of community representatives spoke about the importance of ensuring that industry and governments continue to take account of social outcomes when designing regulatory or economic measures for sustainability. This message was made especially strong by the presentations from Country Water and the No-Interest-Loans (NILS) Network.

Brian Steffen, General Manager of Country Water, outlined a very successful scheme introduced in Broken Hill where the utility has worked closely with the local community to not only improve water consumption but deliver significant health and environmental outcomes. Graham Smith, from Barnardos at Penrith, described the workings of NILS agencies and relationships with their clients. By recycling small amounts of capital these schemes have assisted many people on very low incomes, including with buying new and more efficient appliances. Both Sydney Water and EnergyAustralia have provided funding to NILS agencies and there was significant interest in this model shown by conference participants.

Copies of many of the presentations made on the day are available on the PIAC website – www.piac.asn.au

Water Industry Competition Bill 2006

With the NSW Government moving to introduce competition to the water and wastewater systems in the Sydney and Hunter regions, PIAC has sought to ensure that no consumer will be worse off. PIAC advocated for a number of key provisions in the new competitive regime which would protect the economic and health interests of consumers. The Water Industry Competition Bill, recently tabled

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

in the NSW Parliament, has incorporated several of PIAC's recommendations.

Most importantly the access regime to be established by the new legislation preserves the integrity of price determinations delivered by the Independent Pricing and Regulatory Tribunal (IPART). Customers who remain with Sydney Water will therefore continue to enjoy a single 'postage-stamp price' for their water services. Where a dispute arises over the access price charged to a new entrant supplier, the Bill makes provisions for the independent arbiter to safeguard existing price determinations, including where that provides for postage stamp prices.

The licencing regime for new entrant supplies of water and wastewater also covers over many of the existing protections for water consumers. Suppliers will be obliged to offer social programs, deliver concessions and become a member of the Energy and Water Ombudsman of New South Wales.

The Bill also increases the penalties for corporations in breach of their licence conditions. While PIAC still would prefer greater powers of compliance and enforcement for IPART, the higher penalty regime reflects the higher risks to the community associated with private sector provision of essential water services.

Yet ultimately Sydneysiders will still rely on an effective and well-funded Sydney Water. Sydney Water will maintain its monopoly for existing network service provision and it will also take on the role of retail supplier of 'last-resort'. That is, where a private company operating in the industry becomes bankrupt or has its licence revoked, Sydney Water will be required to take over the supply obligations.

It remains to be seen whether customers will see lower prices for water and wastewater services obtained from the competitive market. At a minimum, PIAC is confident prices for customers who remain with their incumbent supplier will not rise as a result of competition.

Recycling prices

PIAC has argued for some time that recycled water needs to play a greater role in our water systems. Recent decisions by the NSW Government are, however, sending mixed messages on the role that recycling will play in NSW's water security. The

recent announcement of a new dam for the Hunter region swamps the significance of the Western Sydney Recycled Water Initiative.

Hindering the development of recycling schemes has been a lack of directives about how costs will be allocated and recovered from customers. IPART's final determination on the Pricing Arrangements for Recycled Water and Sewer Mining in Sydney Water, Hunter Water, Gosford and Wyong Councils was delivered in September. The determination deals with the important question of how to provide price protections for residential customers in large-scale, mandatory recycling schemes.

Mandated schemes have been implemented primarily in residential areas. Households with recycled water plumbing don't have a choice about whether or not to connect. If they want to flush the toilet or water the garden then they are required to enter into a contract with the monopoly supplier for 'grey' water for those purposes. As with other essential services, a customer cannot choose to remove themselves from the market.

Given this imbalance, PIAC argued that mandated schemes need separate and strong price regulation.

IPART rejected PIAC's call for full price regulation for mandated schemes, arguing that scheme-by-scheme regulation is likely to delay and hinder progress on negotiations. Instead, IPART developed pricing guidelines for mandated recycling schemes.

A number of key changes were made to the pricing guidelines after PIAC raised concerns with the draft determination. These changes have created an environment that better protects consumers. PIAC still would prefer that large-scale schemes, like those being developed for Western Sydney, receive direct price regulation. However, the Final Determination gives more consideration to the price protections needed by residential customers in the hands of a monopoly supplier of water services.

Unfortunately, the pricing guidelines still do not constitute a formal price determination and therefore IPART does not have standing power to review the resulting prices. IPART has said it will seek powers to make guidelines binding on water agencies. In the absence of these powers IPART's determination will create a second class of customers who have no direct remedy for aberrant prices charged by their monopolist recycled water supplier.

Consumer complaint trends

Some interesting trends have emerged from recent complaints to the Energy and Water Ombudsman of NSW (EWON). The Ombudsman is an independent body established to resolve disputes between NSW consumers and their energy and water suppliers.

Since late 2005 there has been a significant reduction in the number of complaints about disconnection for non-payment. Alongside this has been a reduction in complaints from customers having difficulty arranging deferred payment for their utility bills. Complaints in these areas are important indicators of how well the energy and water suppliers are dealing with issues of capacity to pay on the part of consumers in financial hardship. So the improvement in these complaint numbers is very welcome. It also reflects a collaborative effort by EWON, community groups such as PIAC and the energy and water industries.

The NSW Government also has directed its attention to these issues. The recommendations of a Ministerial working party on electricity hardship are expected to result in changes to the obligations on energy providers and support their efforts to enhance improve customer hardship programs.

PIAC has observed that having effective mechanisms for assisting low-income customers may eventually flow-on to improved complaint numbers in other areas. Country Energy has had a very good record of low rates of disconnection in recent times. In the first quarter of 2006 Country Energy was also able to report that it also had a very low level of EWON complaints. With 25% of NSW energy customers Country Energy had only had a 6% share of total EWON complaints in the first quarter of the year. On a 'per head' basis (complaints per 10,000 customers) Country Energy customers made only one third as many complaints as the customers of their larger industry counterparts.

Another clear trend has been in relation to marketing practices in the competitive energy sector with a much higher level of complaints to EWON during 2006. Much of the spike in 2006 was traced to one particular business but our observation is that complaints about marketing are spread across all retailers.

Already the regulatory authority, IPART, has taken action against one energy retailer and has paid closer scrutiny to marketing practices in general. Whether this will improve the industry's performance remains to

be seen, particularly given that the NSW Government is eager to create greater competition for customers between energy retailers.

National reform on consumer protection

As governments around Australia continue to undertake further reform of the national energy market, through the Ministerial Council on Energy (MCE), attention has turned to a range of measures that affect consumers and their rights around the supply of electricity and gas. Even while the new national regulators work on re-shaping the way prices for these essential services are set, the MCE has established the Retail Policy Working Group (RPWG) to design the new national rules for the supply of energy to 'small' consumers.

The RPWG intends to release 4 consultation papers by the end of January. These will cover a range of issues grouped into:

- retailer obligations including contracts and marketing;
- distributor obligations, particularly around connections and customer services performed for retailers;
- licence conditions; and
- customer transfer and metering rules.

For this stage of reform the MCE has at last committed to a better level of consultation with end-users of energy and household consumers in particular. The RPWG has established a Stakeholder Reference Group (SRG) and three community-based groups have been asked to make nominations. These are PIAC, the Australian Council of Social Service (ACOSS) and the Consumer Utility Advocacy Centre (CUAC) based in Melbourne.

The RPWG has been charged with drafting a single set of arrangements for the national energy market covering all our areas listed above. The energy supply businesses have argued that a uniform approach will mean lower costs for businesses seeking to operate in more than one jurisdiction.

Consumers, on the other hand, have been of the view that all residential users of energy should be afforded the same level of rights and protections when it comes to the supply of these essential services. Community and consumer groups who have been involved in