

WATER

In March, the Independent Pricing and Regulatory Tribunal (IPART) released its draft determination. Much of it was expected, with IPART proposing price increases of 28% over the next four years, with consumers facing a 13% increase in the first year alone. Nearly half of this increase is to pay for the construction and operation of the desalination plant at Kurnell.

However, much of the detail in the determination is unexpected. For instance, whilst PIAC has often questioned the strength of a two-tiered usage tariff (known as an inclining block tariff or IBT)

as a tool to conserve water, it was surprised to discover that IPART's determination has removed IBTs.

IPART's justification for this decision was that it does not consider Sydney to be facing short-term water scarcity, and therefore an IBT is no longer warranted. But this approach misses PIAC's point: given

the nature of the water industry, such as the infrequency of billing and essential nature of water, price is a poor way to reduce consumption.

To accommodate the removal of IBTs, IPART has loaded up the service-charge cost component of consumers' bills. Whilst usage charges will increase by 37% over four years, the fixed service charge will increase by over 80%. This heralds a major shift in the way that water charges are modelled, causing a change in who bears the biggest burden of raising Sydney Water's revenue.

IPART policy has swung from disproportionately charging larger consumers through IBTs to disproportionately charging smaller consumers through higher service charges.

The problem is that reducing consumption means reducing Sydney Water's revenue. Reducing revenue means higher costs for consumers.

One response is that consumers with high discretionary consumption that have driven the need to expand Sydney's supply should pay proportionally more than low consumers.

But who are these large consumers? The average household that consumes more than 500kL/year has 4.7 people in it. 80% of these households have children. Whilst they have a tendency to have more water-intensive appliances in the home (33% had a pool compared to the average of 11%), there is little indication that their larger consumption is used for non-discretionary purposes.

The problem then remains; how do we target consumers with high discretionary consumption without penalising consumers with high non-discretionary consumption?

IPART's proposed pricing structure for 2008 to 2012 does not offer an equitable long-term solution. By removing IBTs, which affected nearly as many low-income people as high-income consumers, low-income consumers with high discretionary consumption will enjoy some relief. However, IPART's price determination offers no reward for consumers that have invested in water-saving devices such as rainwater tanks or water-efficient washing machines.

The biggest mistake would be thinking that with a desalination plant operating and more water in the dams, there is no need to curb water consumption. Such an approach in the long term will lead consumers away from being self sufficient in water, and too soon will consumers be forced to pay increasing costs to build yet another desalination plant.

*Hugh O'Neill, former Policy Officer, EWCAP **

Footnote

* Hugh held this position until April 2008.



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UPDATE ON ELECTRICITY PRIVATISATION

The ALP State Conference supported the partial privatisation of NSW's electricity assets. However there are still major problems in the Government's plan for consumers.

In January, NSW Premier The Hon Morris Iemma established the Consultative Reference Committee, chaired by former Premier The Hon Barrie Unsworth, 'to test the impacts of changes to the State's electricity industry which the NSW Government announced last year.'¹ In setting up the Committee, the 12 criteria for determining support for privatisation of any State-owned assets in the ALP's policy platform became the de facto terms of reference (ToR).

In the Impact Statement submitted to the Government by the Committee on 7 March, the majority of the Committee (the Chair, two ALP MPs, two senior bureaucrats, the Rev, Harry Herbert and Jeff Angel) found that the plan meets the 12 criteria 'overall,' subject to the Government addressing and implementing the recommendations on the transaction strategy, employment, and consumer and environmental protection.

The three union representatives disagreed with this finding and published a dissenting report, which argues that the plan 'does not meet the criteria overall and is therefore not consistent with the NSW ALP policy and should not proceed.'²

PIAC has previously stated its concerns regarding the Government's privatisation plan and has written to Premier Iemma making the following comments.

There is no evidence from the Statement that the Committee considered each of the 12 criteria for impact assessment in turn, as the ToR would seem to require. It therefore appears that the Committee did not seriously discuss whether or not the plan should proceed, but rather took the implementation of the plan as a given and came up with a number of measures designed to minimise negative consumer impacts.

There are certainly some worthwhile initiatives in the Statement, including increased funding for Energy Accounts Payment Assistance (EAPA); an increase in the pensioner rebate from \$112 to \$130 plus future CPI increases; and the urgent adoption of 'a comprehensive energy efficiency plan with ambitious targets' (which PIAC supports as long as low-income households are beneficiaries rather than victims of such a scheme).

The Government's privatisation plan reflects short-term thinking, when the real issue for the NSW electricity industry is how to restructure to face the challenge of a carbon-constrained world. This involves planning for the progressive decommissioning of old coal-fired power stations or their conversion to gas and/or renewable energy generation; encouraging retailers to profit from energy efficiency instead of energy consumption; increasing the availability of natural gas to generators and retail customers in NSW; and considering how to engage and protect consumers in the restructuring process, including greater incentives for household retrofits and embedded generation (such as feed-in tariffs).

*Mark Byrne, former Senior Policy Officer, EWCAP **

Footnote

* Mark held this position until April 2008.

- 1 Consultative Reference Committee website < <http://www.nsw.gov.au/energy/index.aspx?id=21ec7460-2b09-424f-ae65-baff677c3bb9>>
- 2 Unions NSW, Response To The Energy Consultative Committee Terms Of Reference 5 March 2008, 3 at <http://www.nsw.gov.au/energy/docs/APPENDIX_2_Unions_NSW_Report_050308.pdf>



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NATIONAL EMISSIONS TRADING SCHEME

With the help of Professor Ross Garnaut¹, the Federal Government is in the process of designing a national emissions trading scheme (NETS).² It has announced that it will be a 'cap and trade' scheme and will be implemented in 2010. The Government will set a cap for emissions in that year, and the cap will gradually decrease in subsequent years. Emitters will have to buy permits, the price of which will increase as the cap decreases over time.

The introduction of a carbon price will increase the price of energy. The initial price of permits has not yet been set, but at \$10 per tonne of CO₂ (the low end of estimates), this would add about eight per cent to the current retail price of electricity in NSW.

(The increase would be roughly half that figure for natural gas, due to the lower emissions).

This is on top of average price rises of at least five per cent plus CPI per year for the major retailers in NSW, which were granted by the Independent Pricing and Regulatory Tribunal

(IPART) in 2007. With water prices also increasing substantially (see back page), expenditure on these essential services could double from the current average of around four per cent of average household income in well under a decade.

Many families are already suffering from rising interest rates and substantial credit card debt. There is also increasing pressure on consumers to save energy and water, sometimes to the detriment of their health or wellbeing.

Nevertheless, PIAC supports the introduction of a carbon price as an important measure to urgently address the potentially serious impacts of climate change; as long as low-income and other vulnerable consumers are protected from the price shock by being beneficiaries of the revenue raised by the auctioning of emissions permits. The bulk of the revenue should therefore be split between subsidies for low-income households and investment in renewable energy generation.

However, rather than simply providing subsidies or rebates to offset higher bills, the best solution for consumers and the environment is to encourage greater energy efficiency; for instance,

by retrofitting public housing and low-income homes with insulation, and replacing electric hot water systems with solar and/or gas systems or boosters, both at no charge.

Meanwhile, electricity generators have been lobbying the Federal Government to obtain free permits for coal-fired power stations. Garnaut and environmental groups argue that it would be counterproductive to create an emissions trading scheme that gives away permits to the biggest polluters. PIAC concurs, believing that the urgency of the problem requires swift early action, and that well targeted incentives will help to ensure that the scheme does its job without impacting on vulnerable households.

On 30 March 2007 the NSW Department of Water and Energy released a consultation paper on transitional arrangements for the NSW Greenhouse Gas Reduction Scheme. While there are no direct impacts on residential consumers from the proposed arrangements, PIAC was represented on a working group to consider transitional arrangements for Demand Side Abatement (DSA) activities. The best known of these activities is the replacement of incandescent light globes with compact fluorescent bulbs in homes and offices.

Also discussed in the DSA working group was the possible design of a national energy efficiency trading scheme to complement NETS. A state-based scheme will be introduced in Victoria in 2009, which 'sets a target for energy savings, initially in the residential sector, and requires energy retailers to meet their own targets through energy efficiency activities, such as providing householders with energy saving products and services at little or no cost'.³

The NSW Government announced its support for a national scheme as part of its electricity privatisation plan.

Footnote

- ¹ See Garnaut Climate Change Review: <<http://www.garnautreview.org.au>>
- ² See Department of Climate Change: <<http://www.climatechange.gov.au/emissionstrading/index.html>>
- ³ <<http://www.dpi.vic.gov.au/DPI/dpinenergy.nsf/LinkView/F3A72717ED1F21CA2572B2001BF39D866B51F390263BA1CA2572B2001634F9>>

CARBON OFFSET WATCH

What do Qantas, Cascade Brewery, Bendigo Bank, and Origin Energy have in common?

They're all offering customers ways to reduce their ecological footprints by buying carbon offsets or carbon neutral products.

PIAC has joined the Institute for Sustainable Futures (ISF) at the University of Technology, Sydney, the Total Environment Centre (TEC) and CHOICE in a project to produce an online consumer guide to carbon offset products. Modelled on the TEC's Green Electricity Watch guide, Carbon Offset Watch will provide a comparison of the quality of the rapidly burgeoning carbon offset products available to consumers in the Australian market.

PIAC's interest in this project is twofold. One is the ACCC's current review of the carbon offset claims under the Trade Practices Act. In its submission to this review, PIAC emphasised that carbon offsets should be regarded as a third-best response to the need to reduce personal emissions, after reducing consumption and increasing energy efficiency. PIAC also addressed issues such as additionality (whether the offsetting activity would have happened anyway regardless of offset financing), forward counting of offsets (whether the greenhouse emissions reductions associated with the offset have already happened or will occur in the future), terminology, and competing assessment methods and accreditation standards. With such complex issues to consider, it's a potential minefield for consumers.

PIAC's other interest in this project is through its Energy + Water Consumers' Advocacy Program (EWCAP). For some years, energy consumers have been able to buy green energy products to ensure that their consumption is from new (post-1997) renewable energy sources, primarily wind power. Now, retailers are also offering offset

products to try to neutralise the greenhouse emissions associated with non-renewable energy usage and other greenhouse polluting activities such as car and air travel.

Carbon offsets are criticised by some environmentalists as the modern equivalents of Papal indulgences. That is, we can pollute the atmosphere as much as we like without changing our lifestyles, and then absolve ourselves of guilt by buying offsets. Some offset products are inherently problematic. Once emitted, greenhouse gases enter the atmosphere immediately, while, in some cases, the greenhouse emissions reductions from offsets occur over a very long period of time after the emissions have occurred. Additionally, some greenhouse gases can remain in the atmosphere for over a century, so emissions reductions need to be permanent. In the case of tree planting schemes in particular it can be difficult to guarantee that carbon remains locked away permanently over such long time periods. This is why PIAC and environmental groups emphasise the importance of reducing consumption and improving energy efficiency in responding to climate change.

The research, which is being carried out primarily by the ISF, uses a survey approach to rank offsets according to a methodology intended to help consumers choose the right product and providers to improve their products.

The Federal Government has also expressed an interest in regulating the carbon offset market, for instance by establishing a national registry for offsets. This would ensure that providers cannot double count offsets by using multiple accreditation schemes. Interest has also been expressed by various parties in establishing a single national accreditation scheme.

NEW EWCAP STAFF

PIAC is pleased to welcome the new EWCAP team, Mark Ludbrooke, Senior Policy Officer and Joel Pringle, Policy Officer. Mark has extensive experience in the not-for-profit sector working with disadvantaged consumers. Joel has been a youth worker and has a background in reconciliation issues.

Our thanks go to the former team of Mark Byrne and Hugh O'Neil. Mark has taken a position with the Environmental Defenders' Office and Hugh is travelling overseas.



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