

Well Connected

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

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NSW BUDGET DELIVERS MUCH NEEDED CHANGES TO ENERGY REBATES

Energy Rebates

The changes to electricity and gas rebates in the NSW State Budget are an important initiative and will provide a more equitable system of energy concessions. Up until the Budget, electricity rebates to pensioners were provided at different rates depending on which electricity retailer provided the service. Gas rebates were provided, again at different rates, but were not a community service obligation, unlike electricity. The changes have been necessitated by the fact that all NSW households will be able to choose their energy supplier from 1 January 2002.

From 1 January 2002 the new rebate will be set at \$107 per annum and will be a rebate provided on a household's electricity bill. The Budget papers have

estimated this change will cost an additional \$12.4m per annum.

The Government could have taken the opportunity to make energy rebates more equitable by extending eligibility to people who have a Health Care Card. While there are cost implications of widening the eligibility criteria, there was also an opportunity to cut costs by making the rebate proportional to peoples' bills. This would make the rebates even more equitable because a flat rebate is worth more to households who have low energy usage.

From a policy point of view, the changes to the energy rebates system will make it much more difficult to make the system more equitable because there will be households with low usage who will now have even more to lose if a proportional rebate is introduced.

Administration of the rebates is to be

moved from the NSW Department of Community Services to the Ministry of Energy and Utilities.

Household Income Limit

One of the eligibility criteria for the electricity rebates was that pensioners could not receive it if there was another family member earning an income. The Government has removed this limit. This is not going to have an enormous financial impact as many electricity retailers ignored this provision and pensioners also found ways of getting around it. Whether this makes the rebate system more equitable is a moot point and it depends how income is distributed within families.

Community Education Campaign

The Government has allocated \$3m for a communication campaign for households on full retail competition. This funding is welcomed because residential consumers are going to need

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information to make an 'informed' choice about their energy supplier.

Energy Accounts Payments Assistance (EAPA) Scheme

EAPA is a voucher that is given out by non-government organisations to people who are in financial crisis and need assistance with paying their electricity bills. There has been no increase to EAPA in the budget although this does not prohibit increased spending because EAPA is a protected item, that is, the funding is commensurate with demand.

It is not clear from the Budget Papers whether the Government intends to extend EAPA vouchers to enable people to pay their gas bills – again, an equity issue that needs addressing.

Funding for the Utility Consumer's Advocacy Program (UCAP)

PIAC submitted to the NSW Treasurer for funding for another two years for UCAP. This has been granted with increased funding over the next two years. UCAP is an important voice in debates around utility service provision and this additional funding will ensure that this continues.

The administration of UCAP's funding is to be transferred from the Department of Fair Trading to the Ministry of Energy and Utilities which is more appropriate given the work that UCAP undertakes.

PIAC and UCAP staff want to thank the many organisations that wrote to the Hon Michael Egan in support of UCAP's continued funding.

END-USER ADVOCACY IN THE NATIONAL ELECTRICITY MARKET (NEM)

Over the past year, UCAP has included in its newsletter the progress of

attempts by some groups to secure funding for research/advocacy on issues regarding the NEM. The National Electricity Code Administrator (NECA) has requested authorisation from the Australian Competition and Consumer Commission (ACCC) to make changes to the National Electricity Code to allow end-user participation in the NEM. The ACCC have issued a Draft Determination accepting the model put up by NECA.

PIAC has never opposed participation by residential consumers in the decision-making processes of the NEM. There are two important points to be made here:

- there is a lack of resources made available to small residential customers to ensure that this participation occurs;
- much of the language and written material that is made available through the NEM is incomprehensible unless you happen to be an engineer or an economist.

PIAC however is opposed to the NECA model endorsed in the ACCC Draft Determination.

The NECA model is an Advocacy Panel established by NECA that will be comprised of:

- an independent Chairperson appointed by NECA for three years;
- two representatives of end users (one business and one residential end use customer);
- two representatives of market participants (one generator and one retailer representative).

The representatives on the Advocacy Panel will be selected by NECA's 'independent' Chairperson. The lack of transparency in these processes is breathtaking.

The Advocacy Panel and the research and advocacy that they fund (this funding will also be available to large

business users and their representative organisations) will be funded through a levy on market participants. Some states will pass these costs through to households. PIAC has consistently argued that large users should be able to fund their own advocacy and research without imposing a levy on market participants. If large business users, which include international companies will not fund their own advocacy and research, it should not be done. This would be their loss.

Another major problem with the model, besides the lack of transparency with the selection of Advocacy panel members, is that there are no safeguards against residential consumers paying for the research and advocacy of large business. This is extremely problematic and not acceptable.

Electricity is the only industry where such a model is contemplated – PIAC believes both NECA and the ACCC appear to have been 'captured' by large users that ultimately will be to the detriment of residential consumers.

Great Southern Energy (which was merged with NorthPower and Advance Energy to become Country Energy on 1 July 2001) have requested that an ACCC Pre-Determination Conference on this issue and this is to be held on 19 July 2001. PIAC has requested that we be given an opportunity to speak at the conference.

RETAILER OF LAST RESORT FOR THE NSW GAS INDUSTRY

At present there is a vexing issue in the NSW gas industry and that is what is the mechanism that should trigger a retailer of last resort (ROLR) scheme. A ROLR is required when full retail competition in gas commences on 1 January 2001 because residential consumers will need to have a retailer if their retailer becomes unable to meet its debts. The Ministry of Energy and

Utilities have determined that the incumbent NSW gas retailers will be the ROLR and these are Country Energy in Wagga Wagga, Origin Energy in Albury and AGL in Sydney, Newcastle, Wollongong and the central west of NSW.

In electricity the National Electricity Market Management Company (NEMMCO) will resolve this issue because they can suspend or revoke the right of the retailer to obtain electricity from the market. For the NSW gas market a mechanism needs to be considered and agreed upon by stakeholders, including PIAC.

UCAP has written to the Ministry of Energy and Utilities suggesting that there needs to be a set of principles that underpin the criteria used to invoke the operation of a ROLR scheme including:

- households should not be without gas at any time – service delivery must be maintained at all costs;
- the criteria used to invoke a ROLR scheme should be as simple as possible;
- the criteria must be based on a public action, for example, official notification to a regulator and/or, cessation of a suppliers' authorisation (licence). It has been proposed that the industry will know if a retailer is unable to meet its obligations, however industry knowledge does not necessarily mean that the industry will do something about a retailer's potential insolvency or the information may be incorrect. In both the HIH and One Tel collapses, it was widely known that these companies were experiencing difficulties in meeting their obligations, but little was done. One possibility is when an administrator is appointed to the retailer and if the retailer cannot trade its way out of its difficulties (which the administrator has to determine), the Gas Retail Market

Company or the Minister initiate the transfer of the customers to the ROLR;

- there needs to be steps outlined as to how the public is kept informed, that is, the arrangements need to be transparent so that consumers do not panic and are aware of their rights and obligations. For example, Ofgem, the British electricity and gas regulator advised customers of Independent Energy (which had just appointed a receiver) in September 2000 to read their meters to check against their bills to help with transfer to a new supplier.

There has also been a suggestion that as it is more likely that a new entrant be unable to meet its obligations that they should be able to sell their customer data as this will be the only asset that they have. If this is allowed to occur, the practice should meet all the relevant privacy requirements.

METERING

PIAC has been vocal in the debate over the use of meters in the national electricity market. The proposal had been made that the National Electricity Code should be amended to require residential consumers to acquire interval meters with the advent of full retail competition. The last issue of *Well Connected* included a brief outline of the major concerns of cost and the lack of benefits for households from a mandated approach.

We were pleased to be able to participate in a Pre-Determination Conference convened by the (ACCC) prior to a final decision being made on the proposed Code amendments. This conference, held in Canberra on 29 May, drew together representatives of consumers, distributors, meter manufacturers, regulators and the governments of New South Wales and Victoria. Our views on behalf of low-income residential consumers were put to the conference and supported by a

number of other stakeholders. In reply the Commission discussed the scope for imposing any particular solution on the individual states and territories. Although the Commission has not yet released its final decision PIAC believes there is every reason to be confident about the outcome.

REFIT

The REFIT Pilot Project that is to provide energy and water saving devices to low income private tenants in the lower Hunter will hopefully commence in the next couple of months. EnergyAustralia have generously provided the bulk of the funding for this project.

It is anticipated that the pilot project will commence in mid-August. Contracts for the project are expected to be completed by mid-July. These which will formalise the relationships between the Sustainable Energy Development Authority (who are also providing funding towards the project), the Installer and SEDA and the organisation who will provide the program management services for the project. It is expected that this will be Newcastle City Council.

PUBLIC TRANSPORT PRICES

A determination on fares for State owned public transport in the Sydney metropolitan area and Newcastle was released on 26 June by the Independent Pricing and Regulatory Tribunal (IPART). PIAC had taken a minor role in the determination process following earlier discussions with the NSW Council of Social Service (NCOSS) which continues to take responsibility for articulating community sector views on these matters.

Initially, our role has been to support NCOSS using the expertise we have gained in the regulation of utility industries while developing our

understanding of the regulatory issues concerning public transport. Having provided some input to NCOSS in the preparation of their submission this year, PIAC envisages gradually moving towards supplementing the community sector's efforts with submissions of our own in the coming years.

The media gave extensive coverage to the content of this determination. The effect on prices will be average fare rises of between 3% and 6% for buses, trains and ferries although real increases are capped at 20 cents in many cases although higher for some ferries and rising to 40 cents for some bus routes. The determination applies also to public buses in Newcastle. The Tribunal has described these increases as 'modest' and certainly in the case of buses and ferries they are well below those sought by State Transit.

In discussions with the Tribunal and its staff it has become clear that there remain a number of issues to be resolved in the next year or two. These include the exact nature of asset replacement and fleet renewals planned by the agencies; improved measures of reliability and service provision; an appropriate level of 'cost recovery'; and the need for better data on the needs of public transport users.

IPART SEEKS VIEWS ON THE ELECTRICITY AND GAS LICENSING REGIMES

The Minister for Energy, The Hon Kim Yeadon has asked IPART ('the Tribunal') to review the electricity and gas licensing regimes in NSW and recommend how to improve licence and authorisation holders' compliance with Government policies.

The terms of reference for the review request the Tribunal to:

- a) review the licensing regimes with regard to improved compliance with existing Government policy

for electricity distributors and retail suppliers, natural gas reticulators and retail suppliers, and other gas distributors in NSW, and

- b) recommend to the Minister for Energy any changes to the administrative arrangements, or licence conditions, required to ensure improved compliance with existing Government policy objectives.

The Tribunal's recommendations are to be consistent with

- i) existing Government policy and objectives of the licensing regimes and regulation of energy businesses
- ii) the introduction of full retail competition on gas and electricity markets
- iii) the regulation of national electricity and gas markets, and
- iv) minimising compliance costs.

This review is in response to the Tribunal's December 2000 report on electricity businesses' compliance with their licence conditions. The Tribunal reported that a number of electricity licensees had not complied with some licence conditions, and cited some problems with the electricity regime identified by the former Licence Compliance Advisory Board (the LCAB).

The Tribunal has produced an Issues Paper, *Review of Electricity and Gas Licensing Regimes in NSW* that calls for submissions on issues raised in the paper by 10 August 2001. Copies of the Issues Paper are available from IPART on (02) 9290-8400 (p) or from their website: www.ipart.nsw.gov.au.

THE SENATE AND URBAN WATER RESOURCES

The environmental sustainability of urban water resources is under examination by the Senate Standing Committee on the Environment, Communications, Information Technology and the Arts. This follows a successful move by Australian

Democrats in the Senate. The terms of reference for the inquiry focus on not only the management of urban water resources but also on the scope for improving water use efficiency. This appears to be aimed at water conservation and the use of financial and 'market' mechanisms.

PIAC has made a formal submission to the Committee. This concentrates on the merits of regulation in achieving improved water use efficiency. We cite the experiences of both Sydney Water and Hunter Water with their varying approaches to price and mandated demand management targets. While both have achieved demand reductions, the success of Sydney Water's demand management strategy, and PIAC's experience with the REFIT pilot in energy and water, indicates that the most effective approach is likely to be based on regulation rather than the imposition of price hikes for residential consumers.

The submission relies on a range of evidence to demonstrate that households generally are price inelastic in their use of utility services, such as water. Overall consumption tends to increase with income, not least because these consumers can afford larger bills. On the other hand, households with less income and lower use obviously have far less discretion. As a result, the price changes which might induce changes at higher income levels become punitive for households on low or fixed incomes.

In addition, many consumers already have experienced price rises resulting from price restructuring flowing from competition reforms. Yet, the true costs of water and other utility services remains hidden inside the 'black box' of asset valuation models. Given that many such utilities presently are achieving increased levels of 'profit', we conclude that residential consumers are unlikely to support any move to raise prices further. Copies of the submission are available from PIAC.