

# Well Connected

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

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## PIAC RAISES CONCERNS ABOUT NEW ELECTRICITY REGULATION

*The Electricity Supply Amendment Act 2000 and the Electricity Supply (General) Regulation 2001* provide the framework needed to support the introduction of retail competition in electricity from 1 January 2002. The regulation came into effect on 1 July 2001.

PIAC has been extensively consulted by the Market Implementation Group (MIG) in NSW Treasury about the detailed provisions in the regulation. It came as a shock to see that there was a provision in the regulation to enable the Minister for Energy to impose up to \$50 on residential consumers as a retailer of last resort fee. A retailer of last resort is a retailer that supplies electricity to

customers when their retailer can no longer supply electricity, for example, if the retailer is insolvent.

PIAC immediately wrote to the Treasurer about this fee pointing out that a retailer of last resort would have to publicly provide details of additional costs to justify the imposition of such a fee.

Further, the default tariff as determined by the Independent Pricing and Regulatory Tribunal (IPART) in *Regulated retail prices for electricity to 2004*, December 2000, which came into effect on 1 January 2001 ensures that the tariff recovers reasonable costs, plus the costs of full retail contestability and a retail margin. PIAC has not heard any of the incumbent retailers complain that the default tariff is unreasonable. Any additional costs that are incurred by a retailer of last resort would have to be

extraordinary and should be open to public scrutiny.

One of the other problems with the imposition of this fee in the electricity industry is that the Ministry of Energy and Utilities has proposed that cost recovery for the gas industry (if there are any additional costs not covered by the default tariff) be a matter to be considered by the economic regulator, IPART as part of its role in determining retail tariffs. PIAC would expect to be consulted by IPART in any deliberations on cost recovery in the gas industry.

PIAC requested that the retailer of last resort fee be removed from the regulation and the Minister delegate to IPART the responsibility to determine the additional extraordinary costs that a retailer may incur. PIAC also raised the issue of the impact of such a fee on

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households on low and fixed incomes.

The letter facilitated a meeting between the Minister for Energy and Utilities, the Hon Kim Yeadon and PIAC has just received a written response from the Minister confirming the agreed outcomes of the meeting.

The Minister has given PIAC a number of assurances about the fee which include:

- the fee will be expressly stated in a plan that is required to be prepared by a retailer of last resort;
- the plan will need to be approved by the Minister;
- as the standard supplier will be the retailer of last resort in the first instance, and not subject to competitive tendering, any last resort fee will be subject to independent appraisal.

On this latter point, there will be a requirement that the Retailer of Last Resort:

- demonstrate that it has consulted with customer representatives and that the plans have adequately considered customer interests and concerns; and
- does not charge a last resort fee that exceeds the fee approved by the Minister (maximum of \$50).

The Minister, after full retail competition commences on 1 January 2002 will ask IPART to consider the appropriateness of the fee and, if it is considered appropriate, an alternative fee. As part of their determination IPART will be required to follow its normal

consultative processes.

The Government shares PIAC's concerns about the impact of the fee on low-income households. The Government has attempted to address these by:

- low income households' limited capacity to pay will be addressed in the planned consultation and approval process (IPART will be required to consider the impacts on low-income households in developing its recommendations); and
- there will be no fees applying to customers who were on standard supply immediately before the last resort supply event – this alone will probably ensure almost all low-income customers are protected against having to pay the fee.

PIAC is pleased that the Government accepted PIAC's suggestion that IPART should play a part in considering the appropriateness of the fee and that IPART will employ their normal consultative processes in which PIAC will participate fully.

## **MINISTRY OF ENERGY AND UTILITIES LOSES ITS DIRECTOR-GENERAL**

Jane McAloon who was appointed as the Director-General of the Ministry in late 2000 has announced her resignation from the Ministry to take up an appointment as Deputy Director-General of the NSW Cabinet Office.

Jane has done a fantastic job at the Ministry. Under Jane's leadership, the Ministry has been restructured

and the result has been a much more receptive and consultative organisation that values and acts on the views of external organisations. PIAC wishes Jane well and hopes that we will have the opportunity to work with her after she takes up her new position.

## **REFIT PILOT PROJECT IN THE LOWER HUNTER**

The REFIT Pilot Project in the Lower Hunter is about to commence in the Lower Hunter that includes the local government areas of Newcastle, Maitland, Cessnock, Lake Macquarie and Port Stephens. REFIT will provide energy efficiency devices to low-income households who rent on the private market. The majority of the eligible households will be referred to REFIT by community welfare agencies.

REFIT has been funded by EnergyAustralia, Hunter Water, the Sustainable Energy Development Authority with in-kind support provided by PIAC and Newcastle City Council.

The Minister for Energy and Utilities, the Hon Kim Yeadon has agreed to launch REFIT on 23 November in Newcastle. Other speakers at the launch include Paul Broad, the Managing Director of EnergyAustralia and John Tate, Mayor of Newcastle City Council.

## **OPERATING LICENCE REVIEWED AT HUNTER WATER**

Ten years after its introduction, the Operating Licence for the Hunter Water Corporation is currently

being reviewed by IPART. The licence is an important tool that sets out in great detail the legal obligations of the utility to provide the appropriate level of service to consumers. This review provides an opportunity to establish greater consistency between Hunter and Sydney Water Operating Licences as the review of Sydney Water's Operating License has just been completed.

PIAC has taken the view that common sets of obligations are preferable since both utilities are serving residential consumers in roughly adjacent geographical areas. However, it is recognised that there are important differences between Sydney Water and Hunter Water which means that it is not appropriate simply to transfer one set of licence obligations to the other business.

In a written submission to the Tribunal, PIAC focussed on three main components of the Hunter Water Licence:

- performance standards – minimum service in relation to continuous supply, water pressure and dry weather sewerage overflows; as with Sydney Water these should be structured to provide incentives for future improvements in performance;
- performance indicators – measurement of performance in areas such the numbers of disconnections or restrictions of supply, customer service and repeat incidents of supply interruptions or sewerage overflows;

- environmental performance – introduction of demand management targets and a program to reduce leaks from the distribution system;
- customer contract – providing a better balance of rights and obligations for customers including through regularising the billing cycle and introducing a requirement for a policy for dealing with customer debt and disconnection which is publicly available.

A public workshop to discuss the issues raised in the various submissions is planned for November with a final report to the Minister due early next year.

### **REVISED CUSTOMER CONTRACT AT SYDNEY WATER**

PIAC also made a formal submission to the Tribunal's review of the customer contract created by the Sydney Water Operating Licence. This review was required under the terms of the Licence as it was amended in 1999. Although PIAC felt that the old contract was working well in general there were several issues raised in our submission and during a public workshop held in September.

The most important issue for PIAC was to have the Customer Contract spell out the framework used by Sydney Water to deal with customer debts and how these are progressed towards either debt recovery action or restriction of supply. Considerable debate ensued on this question with concerns about the appropriate balance between transparency and onerous obligations being placed on the

Corporation. Our argument was that some disclosure of the internal practices of Sydney Water is consistent with the legal requirements in the NSW electricity industry and will give customers a better understanding of their rights.

PIAC also commented on the proposals by Sydney Water to leave its arrangements for rebates to customer largely untouched. The view was put to the Tribunal that the current scheme fails to provide adequate compensation to customers affected by incidents such as interruptions to supply and thus fails to provide sufficient incentives to Sydney Water to maintain its level of performance. Although PIAC had argued for a more stringent system of rebates it is possible that the Tribunal will choose to rely on more direct regulatory tools to protect customers in these instances.

### **IPART INQUIRY INTO DEMAND MANAGEMENT**

IPART are currently undertaking an inquiry into demand management that are strategies designed to modify the timing and level of consumer demand for electricity.

The Inquiry requested by the Premier under 12A of the *IPART Act, 1992* will:

- explore the technical and economic potential of a wide range of demand management options (including load management and distributed generation options)
- assess whether greater use of these options is warranted

- assess procedures and identify barriers to demand management in the development of electricity networks and the pricing of network services
- advise on other issues that may impede efficient application of demand management.

IPART produced an Issues Paper, *Inquiry into the Role of Demand Management and Other Options in the Provision of Energy Services*, July 2001. PIAC put in a submission to the Inquiry that mainly focused on the social and environmental benefits of energy efficiency projects, such as REFIT. This was important because the terms of reference for the Inquiry include examining the environment benefits of demand management but do not include the social benefits that energy efficiency projects can deliver. PIAC has also gained much experience over the past eighteen months on how these types of project should be implemented which we hope will be of use to the Inquiry.

The Inquiry has a long timeframe with the final report to the Premier to be presented by June 2002. IPART will release further discussion papers and consult with interested parties before the release of an interim report in January 2002.

## **PEOPLE'S PERSPECTIVES ON WATER**

PIAC was invited last August to participate in a workshop on the planning of a nationwide survey of

community attitudes towards and expectations of their local water supply.

The workshop was convened by the National Co-operative Research Centre on Water Quality and Treatment (CRCWQT). Based in Adelaide, the CRC has as its major stakeholders a number of the largest metropolitan water supply agencies, some of which are privately owned or managed. Much of the work of the Centre is designed for commercial application. However, staff of Sydney Water who have assumed the major responsibility for the People's Perspectives Program had sought a wider representation with invitations being extended not only to PIAC but also the Nature Conservation Council of NSW (NCC) and the Aboriginal and Torres Strait Islander Commission (ATSIC).

It remains debatable whether all industry stakeholders are committed to an understanding of community views or have a preference for a survey that results in positive publicity for their current efforts in water and sewerage services. It is notable that this process appears to have given a number of participants their first significant opportunity to have contact with a community wider than their immediate customers.

For their part, community and other participants in the workshop were keen to see the survey take into account the views of people living outside the metropolitan areas.

The survey will collect information on community attitudes on a range

of attributes of water as supplied by various agencies. As well as physical characteristics of taste and colour these will include various uses for water as well as cost. Considerable discussion took place on such issues as the balance between price and quality. However, participants from outside industry were at pains to make the point that reliable access to water remains a major concern for some communities.

The CRC has remained in contact with participants and it is hoped that further discussions will be held on outstanding issues and the final design of the survey itself.

An electronic version of Well Connected is also available. If you would like to receive Well Connected electronically, in addition to, or in place of, a hard copy, please send an email to Marie Manaena at [piac@piac.asn.au](mailto:piac@piac.asn.au)

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