

Well Connected

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REFIT LAUNCH

The REFIT Pilot Project in the Lower Hunter was launched on 23 November 2001 by the Minister for Energy, the Hon Kim Yeadon. Other invited speakers were Paul Broad, the Managing Director of EnergyAustralia and John Tate, the Lord Mayor of Newcastle. Over eighty people attended the launch held in Newcastle including representatives from community organisations in the Lower Hunter, senior Executives from EnergyAustralia and Hunter Water, local members and senior Government officials.

All the speakers acknowledged the importance of the project's twin objectives - to cut greenhouse gas emissions and provide free of charge

to low-income households energy efficiency devices that will cut their energy and water bills. Another outcome of the project noted by the Minister is the unique collaboration between EnergyAustralia, the Sustainable Energy Development Authority (SEDA), Hunter Water and Newcastle City Council. In-kind support to the pilot was provided by PIAC, Sydney Water and Newcastle City. The Minister also acknowledged the role of non-government organisations in the Lower Hunter who will refer clients to the service.

Installation of kits in eligible homes has commenced. At the time of writing over one hundred retrofits had been completed in the Newcastle and Lake Macquarie local government areas.

UNDERGROUNDING

The NSW Government has responded to pressure from the Parliament and moved to consider the feasibility of undergrounding electricity wires in local distribution systems. The issue is to be the subject of detailed advice from both the Independent Pricing and Regulatory Tribunal (IPART) and the Ministry of Energy and Utilities.

The announcement by the Premier that the Government would seriously examine the demands for undergrounding caught a number of stakeholders by surprise. The interest from some in the community is nothing new and has been the subject of limited research by several of the NSW distributors in the recent past. However, on

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GAS REGULATORY IMPACT STATEMENT

balance both the industry and the regulators have been mindful of not only the complexities of costing this kind of reverse engineering but the difficult equity issues it raises.

The decision to obtain advice has not committed the Government to implementing what would be a massive project. While the Ministry is to examine the technical requirements and engineering aspects of any undergrounding program the Tribunal will examine the range of cost implications. It is expected that great interest will be focussed on not only the initial cost but any implications for future electricity prices.

The issue of undergrounding is controversial because to date the issues of visual amenity and property values have confronted demands for social equity in the funding of such projects. Clearly, a wider examination of the costs and benefits to the community would

help to resolve some of these tensions, for example whether the claimed safety advantages of undergrounding are sufficient to justify the expenditure. In addition, any decision to proceed with undergrounding will need to address any perception that wealthier communities will be prioritised over those with a lower capacity to pay.

With a State election to be held in March 2003 it seems reasonable to question the extent to which political factors will influence any final decision.

PIAC intends to take a key role in the process and advocate strongly for the interests of low-income and disadvantaged households. It is anticipated that the Tribunal will once more provide some opportunity for the community to involve itself in the policy debates. A final report should be with the Government by the middle of 2002.

The Ministry of Energy and Utilities released in late November the final pieces of the competitive framework for energy retailing with the draft *Gas Supply (Natural Gas Retail Competition) Regulation 2001* and the regulatory impact statement.

The stated aim had been to produce rules for gas which are as closely aligned as possible to those pertaining to the electricity industry. The *Electricity Supply (General) Regulation 2001* was gazetted in June this year to enable the introduction of retail competition in electricity.

The one major difference between the two industries lies with the trigger for the operation of the 'retailer of last resort' (ROLR) provisions. A ROLR is required



The REFIT Launch, held in Newcastle on 23 November 2001. From Left to Right: John Tate, Lord Mayor of Newcastle; the Hon Kim Yeadon, Minister for Energy, and Paul Broad, Managing Director, Energy Australia.

when an energy retailer no longer is in a position to supply its customers. In electricity the triggers for the retailer of last resort are based on the rules in the unified National Electricity Market. Gas operates with a different set of arrangements and this meant an alternative mechanism had to be devised.

The Regulation defines a last resort supply event as one when:

- the Minister forms the opinion that a supplier has ceased or is likely to cease to supply gas to all, or a group of, its customers or is unable, or has failed, or refused, to operate in the retail market; or
- a supplier's authorisation is cancelled.

When the ROLR mechanism is triggered customers of the retailer in question can be levied a charge of up to \$50 each to meet the costs of their new, last resort retail supplier. PIAC has expressed its support for the proposal in the draft regulation that the level of this charge fee will be the subject of advice from the Independent Pricing and Regulatory Tribunal (IPART) before being approved by the Minister for Energy and Utilities. This should ensure that the fee provides a transparent and fair compensation for the actual costs incurred by the last resort retailers. This provision in the draft Regulation follows discussions between PIAC and the Minister concerning the introduction of a ROLR fee in the earlier electricity Regulation.

GAS PRICING ORDERS

When introducing the *Gas Supply (Retail Competition) Amendment Act* in March 2001, the Hon Kim Yeadon made a commitment the Government to examining the feasibility of introducing gas pricing orders under the provisions of the *Gas Supply Act 1996*. To date the Independent Pricing and Regulatory Tribunal (IPART) when determining tariffs for gas retailers has relied on agreement with retailers for 'voluntary pricing principles' rather than issuing gas pricing orders.

PIAC has supported the introduction of gas pricing orders because of the increased certainty for households with respect to future movements in gas prices. PIAC has been invited to participate in the review process and will continue to report on its progress throughout.

UTILITY OPERATING LICENCES

A Ministerial decision on the operating licence for the Sydney Water Corporation poses important questions for the current review of the licence for Hunter Water. This review comes some ten years after Hunter Water's licence was initially established. The decision by the Minister for Energy and Utilities on recommendations by the Independent Pricing and Regulatory Tribunal (IPART) for the Sydney Water licence is also interesting for its possible implications for the ongoing review of licencing arrangements for the State's electricity and gas industries.

The Tribunal has shown a desire to move beyond simply economic regulation and price setting in relation to the monopoly utility businesses. The link between price and service standards has been explored in a number of consultant reports and issues papers released by the Tribunal. However, to date neither the businesses nor the Minister appear as keen to embrace this model of regulation. The final recommendations to the Minister for Hunter Water will be an important test for the future of utilities regulation in NSW.

The Minister has accepted the recommendation that Sydney Water be given improved standards for continuous supply, water pressure and dry weather sewerage overflows. It seems likely that similar new standards will be introduced for Hunter Water and these should create a steady improvement in performance over coming years. Beyond these, however, there has been a reluctance to introduce new standards or even indicators or performance in areas such as social policy and customer service. In particular, the Minister rejected the recommendation that Sydney Water commence reporting on its performance in relation to customer disconnections.

A number of the proposals made with respect to Sydney Water were submitted to the Tribunal for consideration during the review of the Hunter Water licence. None of these are inconsistent with the broad scope of the licence obligations imposed on the State's electricity industry. PIAC has supported a strong regulatory regime for

businesses operating in the competitive energy markets in order to ensure protection of consumers.. However, the absence of competition in the water industry does not lessen the need for rigorous licence obligations.

SOUTH AFRICAN ACTION ON ELECTRICITY

The effect on low income consumers of restructuring public utility industries has been the subject of discussion between UCAP and the Centre for Applied Legal Studies (CALs) at South Africa's University of the Witwatersrand. CALs has been asked to support the development of a multi-pronged strategy with the Soweto Electricity Crisis Committee (SECC) who are dealing with a newly aggressive approach by the South African national electricity utility, ESKOM, towards unpaid bills.

It is hoped that a combined legal and regulatory approach might be successful in winning improved policies from ESKOM. This is particularly important as the national Government moves to break-up the monopoly business and privatise parts of the distribution system.

The approaching restructure has been identified as the reason for the changed practice toward demanding payment of bills and disconnecting for non-payment. For the poorest consumers, aggressive action has failed to address the basic issue of affordability of this essential service.

Many residents in Soweto and other poor communities in South Africa seek to establish small businesses in their homes with the result that disconnections impose an economic as well as a social hardship.

The issue of affordability is underlined by research undertaken by the SECC showing that ESKOM currently charge significantly higher prices to residents of poor communities than to those in more affluent (predominantly white) areas of greater Johannesburg.

Most recently the community in Soweto has taken its campaign directly to the municipal authorities are responsible for the local distribution systems. Mass gatherings of residents have been physically performing disconnections at the houses of elected local councillors which seems to have brought about a suspension of disconnections for the poor.

PIAC's communication with CALs have centred on current Australian and NSW regulatory models and whether these provide useful options for the SECC in formulating its campaign demands. The South Africans have expressed particular interest in the design of Sydney Water's payments assistance scheme (PAS).

COMMUNITY EDUCATION CAMPAIGN FOR FULL RETAIL COMPETITION

The community education campaign for full retail competition

was launched by the Minister for Energy on 5 December 2001. The theme of the campaign is *Change or Stay, You'll be OK* and initially is delivered through the NSW Government website – www.nsw.gov.au This provides basic consumer information in a 'question and answer' format. Television and radio ads will follow early in 2002 supported by billboards in metropolitan areas and extensive newspaper coverage including in rural and regional newspapers. All NSW households should receive an explanatory brochure currently scheduled by the end of January.

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 Sarah Mitchell at smitchell@piac.asn.au

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