

Well Connected

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

No 14 June 2002

ISSN 1442-2433

MID-TERM REVIEW OF RETAIL ELECTRICITY PRICING

The review of price caps for residential and small business electricity customers has been completed by the Independent Pricing and Regulatory Tribunal. The limits on price rises apply to those customers who have not have not switched energy supplier or entered into a negotiated contract with their current supplier. The Tribunal's *Mid-term review of regulated retail prices for electricity to 2004* has:

- ◆ set new target tariffs aimed at further reducing the range of retail prices across the suppliers;
- ◆ introduced a new price-constraint (formerly called a side-constraint) restricting the average rise in prices for regulated customers to the level of inflation;
- ◆ introduced a new price-constraint for those residential customers below the target tariffs below cost reflective levels capping price rises at CPI+2% or \$25;

- ◆ prevented any price rises for those customers already paying tariffs at or above the target level;
- ◆ retained the level of regulated retail (miscellaneous) charges.

The new target tariffs reflect an increased allowance for the costs of retailers from long run changes in energy costs and compliance with Commonwealth environmental requirements. Some additional costs have been allowed for the introduction of full retail competition.

The price-constraints have always been important to protect households from sudden and steep changes in price. Higher target tariffs resulting from higher costs will mean that retailers have a tougher task to match their prices with the target levels. So a relaxation of the price constraints was inevitable as the Tribunal still wants to rationalise the hundreds of different retail prices across NSW. This decision emphasises cost reflective tariffs rather than a more gradual movement in retail prices.

The actual prices charged to

households will still depend on where they are located, particularly since final bills combine both retail and network prices.

PIAC was pleased with the determination given that a number of retailers had argued to the Tribunal that prices should rise in order to encourage competition. This was vehemently opposed by PIAC. The Tribunal has noted that this approach "is not desirable from an economic efficiency perspective" and that "the regulated retail tariffs should be neutral with respect to competition".

PRE-PAID METERS

PIAC has written to the Minister for Energy, the Hon Kim Yeadon requesting that the NSW Government examine the need to regulate pay-as-you-go meters. In the March issue of *Well Connected*, PIAC did an analysis of the trial of pay-as-you-go meters being undertaken by AGL in South Australia. The article which measured the trial against conditions that PIAC believes need to be met before they are introduced in NSW.

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This trial in South Australia and the introduction of these meters in Tasmania has occurred without a regulatory framework that PIAC believes is not satisfactory. There are a number of areas where households could be disadvantaged through the use of these meters that include:

- ◆ paying higher tariffs, than would otherwise be the case;
- ◆ the energy company not providing enough emergency credit;
- ◆ coercive behaviour to take up these meters by energy businesses;
- ◆ disconnections could occur at times of the day that are disallowed by NSW regulations;
- ◆ the energy businesses do not provide accessible points to top-up the cards.

We have pointed out to the Minister in the letter that there may be significant benefits for consumers (and energy businesses) from introducing these meters. PIAC does not oppose their introduction but we do see the need for their regulation.

NEW DIRECTOR-GENERAL FOR THE MINISTRY OF ENERGY AND UTILITIES

Brian Steffen who has been Acting Director-General of the Ministry of Energy and Utilities since August 2001 since Jane McAloon left the position to work at The Cabinet Office, has been appointed the Director-General of the Ministry after a public recruitment process.

Brian has twenty years experience in the energy industry including as Manager of Regulatory Affairs at EnergyAustralia and in the Corporate Regulatory area at AGL. Brian started out working at Prospect County Council and then with Integral Energy

after Illawarra and Prospect Electricity were merged. Immediately prior to being appointed as Acting Director-General, Brian was Executive Director, Strategy at the Ministry.

PIAC has had a long and productive association with Brian that goes back to when he was working with AGL and which continued through his employment at EnergyAustralia and at the Ministry. PIAC wishes Brian well in his new position.

ELECTRICITY DEMAND MANAGEMENT

PIAC has continued to participate in discussions about demand management in the electricity industry, making a formal response to the *Interim Report* released by the Independent Pricing and Regulatory Tribunal (IPART) in April.

One of the major proposals in the report, the establishment of a Demand Management Fund, has been supported by PIAC as a means to establish a more co-ordinated statewide approach to achieve increased energy efficiency and reduce demand. The further suggestion that this Fund could combine water and energy demand management has also been welcomed following PIAC's experience with the combined approach through the REFIT Pilot Project in the Lower Hunter.

The options proposed for funding the Fund are:

- ◆ penalties on retail licence holders for non-compliance;
- ◆ a charge levied on all end-users; and
- ◆ consolidated revenue.

The *Interim Report* suggests that penalties on retail licencees would not fully support the activities of the Fund. However, PIAC has noted that a flat

charge on all end-users would distort social equity through its uneven impact on low income consumers. The option preferred by PIAC is for the Fund to be support directly by the NSW Government. This could be achieved by using part of the annual dividends paid to the Government by the publicly owned electricity and water utilities and supplemented by compliance penalties.

PIAC stressed that the Fund must have a particular emphasis on low-income households, especially those living in private rental accommodation and residents of caravan parks.

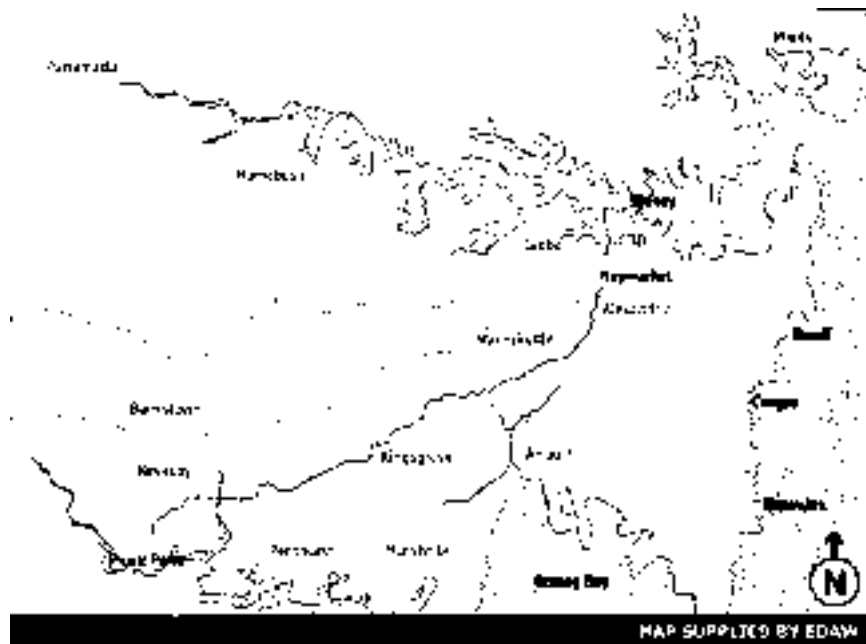
Another proposal in the *Interim Report* was for a large scale pilot of interval or time-of-use meters which are argued to enable households to better manage their consumption during periods of peak demand and high prices. The view of PIAC is that while demand management reduces costs for consumers, the largest beneficiaries of changed consumer behaviour for interval meters are the retailers. Accordingly, pilot programs and future large scale introduction of these new meters must be funded by the industry and not residential users of electricity.

METROGRID AND TRANSGRID'S COMMUNITY LIAISON GROUP

Transgrid, the state owned corporation that provides the cables that carries electricity from the generators to local distribution systems in NSW is upgrading their system to meet the increasing demand for electricity in southern Sydney and the Central Business District.

The project, Metrogrid will install a cable from the Sydney South substation at Picnic Point to a new substation being constructed at Haymarket in the Sydney CBD. The

majority of the cable – 24 kilometres between Picnic Point and Alexandria will be laid in a trench and the last 4 kilometres to the Haymarket will be laid in a specially constructed tunnel. The route for laying the cable is reproduced below.



It is expected that construction will commence in July 2002 and be completed by December 2003.

Transgrid have established a Community Liaison Group (CLG) for the Metrogrid project. PIAC is a member of the CLG that also includes representatives of all the local councils that are affected by the construction work and a representative of the NSW Department of Health. The CLG has an independent Chairperson, Ms Katie Young who has a long history of community representation through voluntary and elected positions on a number of non-government organisations.

The role of the CLG is to:

- ◆ review the range of environmental construction management plans which must be prepared before construction can go ahead;

- ◆ advise on the various conditions where they may have an impact on the community;
- ◆ identify and discuss possible issues associated with construction such as noise control measures, traffic and landscaping;

- ◆ oversee the commitment to community liaison especially notification of property owners.

For more information, Metrogrid has its own website at www.metrogrid.com.au.

PROPOSED CHANGES TO THE ENERGY ACCOUNTS PAYMENTS ASSISTANCE SCHEME (EAPA)

EAPA is a Government provided community service obligation and administered by the Department of Community Services. EAPA is the system whereby paper vouchers are distributed to community welfare agencies which then assists households in financial crisis to pay their electricity bills. There has been a number of concerns expressed about how the EAPA Scheme operates by a number

of organisations over a number of years. One of the concerns is that the vouchers are often rationed by organisations with the net result that the EAPA budget each year is underspent. There is also evidence that the underspending is becoming greater.

DoCS has commissioned PricewaterhouseCoopers to review the EAPA Scheme. The review undertaken by PricewaterhouseCoopers was to compare the costs and benefits of several options for the delivery of EAPA. PricewaterhouseCoopers prepared an Issues Paper and face to face and telephone interviews were conducted with stakeholders.

The recommendation that will be made to DoCS include a pilot scheme be adopted using an integrated approach. It is PIAC's understanding that an integrated approach is a model based on having a program manager which would manage the delivery of EAPA and they would contract community organisations to undertake the assessment of clients who require an EAPA voucher/s. It is expected expressions of interest in a pilot scheme will be called for later this year. The pilot scheme will be trialled for six months.

There would be a number of minimum conditions to be able to be a program manager and these include:

- ◆ standardised assessment procedure and electronic bill payment options;
- ◆ need to be able to report during the trial;
- ◆ evidence of confirmation of arrangements with participants;
- ◆ demonstrate the area of coverage of the proposed distribution network and the mechanics of how EAPA assistance will be delivered including the role of DoCS;
- ◆ demonstrated response to DoCS vision of State Wide Delivery (beyond the timeframe of the Pilot

Scheme) including enhancing accessibility to the scheme by culturally and linguistically diverse communities.

It is proposed that if the pilot scheme is successful that the current method of delivering EAPA would continue for a period of three years.

PIAC welcomes these proposed changes, particularly if coverage would improve access to EAPA as a result of DoCS adopting this integrated approach.

EXTERNAL REVIEW OF UTILITY CONSUMERS ADVOCACY PROGRAM

As UCAP has been funded for the past three and a half years, we decided that it was time to find out whether we are effective. The Ministry agreed to fund half the cost of a consultant to undertake the review, with PIAC contributing the other half. UCAP staff, Bruce Morcombe from the Ministry of Energy and Keith Tarlo, a member of UCAP's Reference Group from the Institute of Sustainable Futures at the University of Technology chose Greg Masters, a management consultant to undertake the Review.

Greg has spoken to UCAP's Reference Group and a number of other stakeholders ranging from staff at IPART, Minister Yeadon's office, the Ministry of Energy and Utilities, as well as staff from the energy and water utilities, as part of the Review.

Greg has provided the UCAP Reference Group with an Issues Paper that now will be rewritten as a Report to the PIAC Board. The Report and an accompanying options paper on funding for UCAP will be publicly released to facilitate discussion on the future of UCAP in September 2002.

SYDNEY WATER PRICING

The Independent Pricing and Regulatory Tribunal (IPART) has commenced its next review of the prices charged by the metropolitan water agencies and the Sydney Catchment Authority. Although a scheduled review, the process commenced close behind media reports and the effect on consumer prices on how the Government accounts for debt at Sydney Water in the NSW Budget Papers.

Much of the media reporting of this issue failed to take into account the complex process by which the Tribunal makes its determinations for the water utilities and all the businesses it regulates.

Borrowings do add to the costs of Sydney Water. However, these capital costs have been a component of previous determinations. The Tribunal generally scrutinises capital spending in order to restrict costs and encourage efficiency.

More importantly to the final determination will be the questions of the total asset base of Sydney Water and the appropriate rate of return it should earn on those assets. Finally, the proposals advanced by the businesses are weighed against the legal requirement for the Tribunal to consider the social equity of its determinations and the impact on consumers of any price changes.

This next determination does pose important questions for the users of water in the Sydney metropolitan area. The Tribunal has released an *Issues Paper* that notes a range of issues that will be considered such as:

- ◆ the link between current water prices and the performance of Sydney Water in meeting its existing water conservation targets;

- ◆ the need to balance consumer demand, the environmental impact and costs of building more dams;
- ◆ whether price or another regulatory response (such as a specific requirement for a fixed level of retrofitting) could be used to align demand with conservation targets; and
- ◆ whether some form of financial penalty is appropriate for when Sydney Water fails to meet water consumption targets.

The Tribunal also will be making determinations for Hunter Water, the Gosford-Wyong councils and the Sydney Catchment Authority.

The agencies are required to make submissions by 30 September and the public are able to submit their views by 15 November.

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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