

Well Connected

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PARER PROMOTES MARKETS OVER CONSUMERS

The Commonwealth's Energy Market Review released its final report on 20 December 2002. This followed a draft report in mid-November. PIAC had made formal submissions to the Review Panel, chaired by the Hon Warwick Parer, in response to both the draft report and an initial *Issues Paper*.

Responding to the draft report, PIAC described its earlier hope that the Panel might produce recommendations which attempted some balance between the competing interests in the energy market. Instead, PIAC noted, the draft report 'is a doctrinaire document that seems to take into account the views of the big players to the exclusion of any other contrary viewpoint'.

Regrettably, the final report, *Towards a Truly National and Efficient Energy Market*, has failed to address these concerns. Although the Panel has made minor modifications to some recommendations, these appear to be

an acknowledgement of the major political ramifications inherent in the draft report. The overall direction of the final package continues to have the potential to be very detrimental for residential consumers.

Two key examples are calls for a single national energy regulator and the removal of price caps in electricity (although the final report is silent on price caps in gas). The proposed independent national specialist energy regulator is to be established 'under a legislative approach agreed by the Council of Australian Governments'. This change which may give an expanded role to the Australian Competition and Consumer Commission (ACCC), followed public support by the Commission Chair, Alan Fels, and the Federal Resources Minister, Ian Macfarlane.

In addition to the removal of price protection for vulnerable consumers, the Panel has insisted on the need for the abolition of the NSW Electricity Tariff Equalisation Fund (EETF). It is proposed that price

controls such as in NSW be ended within three years but that the EETF be abolished 'as soon as possible'. The Panel's concession on price controls appears to reflect its acceptance of political realities in NSW. Yet, it suggests that the Panel does not understand the operation of the EETF since this is the means by which prices are controlled by shielding the major retailers and their 'standard' customers from market price fluctuations.

Both in written submissions and when meeting face-to-face with the Panel, PIAC had given strong support to the EETF and price controls as these are extremely important in protecting consumers who are not commercially attractive to competing retailers and thus are vulnerable in the market.

The other recommendation of major concern to PIAC is that interval meters be 'rolled out' to all low-volume electricity users. The Panel has echoed the usual claims that the mandating of these new meters will benefit both the market and residential consumers. PIAC remains

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sceptical about the assumptions about the useful life of these meters (20 years is claimed by the Panel) and their low cost. The debate about interval meters is reviewed later in this issue. However, PIAC continues to be amazed that many proponents of a 'free market' are reluctant to permit choice in metering and allow the market to determine whether interval meters are a viable option for retailers and consumers.

PIAC will keep a close eye on whether the recommendations of the report will be implemented in NSW and will oppose their implementation as once again we say that residential consumers will be worse off if these recommendations are implemented.

A good, detailed overview of the final report is available from Allens Arthur Robinson through their website www.aar.com.au. Follow the links under 'Publications' to 'Energy'.

COUNTRY ENERGY LAUNCHES COUNTRY SUPPORT

Country Energy launched a new program on 4 December 2002 called Country Support. Country Support has been introduced by Country Energy to work with their customers to assist them through times of hardship. Country Energy has dedicated a number of staff who will work with individual customers by:

- advising on the best payment solutions available to make payments manageable;
- advising on the relevant concessions available, from pensioner to life support rebates;
- free referral to registered financial support and community organisations on a voluntary basis as required;

- energy consumption information and advice on ways to make cost savings;
- incentives designed to reduce the repayment amount including fee removal and deposit refunds (conditions apply).

Eligibility for Country Support is broad and includes:

- ill health
- loss of a job or income
- separation or other family changes
- low incomes
- disability or death of a family member.

PIAC welcomes the introduction of Country Support as a constructive way to assist customers who are having trouble paying their bills, particularly as Country Energy sees disconnection as a last resort measure. This type of support also encourages a dialogue between the energy retailer and customer.

PIAC would like to see such schemes as Country Support adopted by all energy and water businesses as a means to ensure that customers stay connected to essential services.

SHOALHAVEN GAS PRICES

The Independent Pricing and Regulatory Tribunal (IPART) have negotiated voluntary pricing principles (VPPs) with ActewAGL which is the standard supplier of gas to the local government area of Shoalhaven.

The VPPs started on 1 November 2002 and expire on 30 June 2004. The tariffs allowed for under the VPPs will mean that there will be substantial reductions in prices for these gas consumers, particularly an average gas customer who uses 10.4 gigajoules per annum. The tariff that

new customers will be put on will face an increased standing charge than paid by existing customers.

We must congratulate IPART and ActewAGL for negotiating such a positive outcome for gas residential consumers in the Shoalhaven.

REFIT

As regular readers of *Well Connected* know, EnergyAustralia funded a pilot project to install energy efficient appliances to households on low incomes in the Lower Hunter during 2002. The pilot was called REFIT. The pilot project at its completion in early December 2002 had installed the appliances in over 1,200 households. This was a good result as the pilot was aimed at low-income households living in the private rental market.

The main drawback of the project was that it was administratively expensive to provide because of the arrangements that were put in place. EnergyAustralia has assured PIAC that they will continue the project however there needs to be another way of delivering this service to these vulnerable households.

THE PRICE OF WATER DEMAND

The cost of water and sewerage has been receiving considerable attention of late. A number of important issues have arisen for metropolitan households in New South Wales.

Prices charged by the four metropolitan retail water agencies currently are under review by IPART. The growing population and demand for water within the metropolitan areas inevitably was a major focus for IPART in setting the next price path. However, a more

extensive debate is needed among the many industry stakeholders, including residential users, to identify appropriate strategies for reducing water consumption and their cost implications. Rather than commit the community to a particular strategy before that debate is concluded, IPART has signalled its preference for a shorter, two-year price path.

The likelihood of a shorter term price path has encouraged the four metropolitan providers to defer many critical cost issues. These will be taken up in the next determination process expected in 2004-05. However, the current process might see some changes in prices. Gosford and Wyong councils are both seeking price increases that would be significant for some households. For example, Gosford City Council has proposed a scale of increases which would see as much as a 10% hike for those with the highest consumption.

Hunter Water has sought a small 'average' increase in prices. This would mean some households experiencing a fall in costs while, again, those with a larger volume of consumption would experience higher prices. Hunter Water is particularly keen to extend the 'user pays' approach and place greater emphasis in customer bills on volumetric, consumption-based charges rather than fixed or 'standing' charges.

PIAC was pleased to see IPART indicate a reluctance to address the need for a decreasing demand for water solely by movements in price. In an issues paper released for the current determination process IPART made note of the effect of price inelasticity in demand for water and sewerage services. Indeed, it is

questionable whether price rises would have any significant decrease in demand among the highest users. Setting prices sufficiently high so as to influence the behaviour of wealthier, and thirstier, households clearly poses a significant challenge for social equity.

While acknowledging the pressure for further falls in per capita consumption of water, PIAC has taken the view that stakeholders should use the next two years to develop a more sophisticated strategy for reducing demand for water. Although a future package of measures might require some additional support from residential users through higher prices, it is important that the community examine other more effective components of such a strategy.

Unfortunately, this is not the approach adopted in a report by the Senate Environment, Communications, Information Technology and the Arts Reference Committee. Titled *The Value of Water: Inquiry in Australia's Urban Water Management*, the report focussed on a number of issues including rising demand for water in metropolitan areas. In the area of demand and price, the Committee took received evidence on the effect of price inelasticity which effectively render the price approach ineffective. One submission noted the phenomenon of 'bounce back' whereby the initial effect of a price increase on demand is negated over a short period of time.

Other submissions, including from PIAC, noted the blunt nature of price as a conservation tool and its negative social impact. The Committee noted that rebates and community service obligations are available to ameliorate the worst

impact of price hikes on poor households. Yet, a submission from the Australian Conservation Foundation made the point that such an approach embodies both social and economic costs that may be greater than the benefits in water conservation.

Nevertheless, the Committee opted for what it describes as 'the obvious solution' of calling on the Commonwealth and State authorities to raise retail water prices. It also called for prices to include an additional component for 'environmental externalities' although the point was made that in New South Wales IPART already does seek to include natural resource management costs in final prices paid by consumers.

METERS AND THE MARKET IN ELECTRICITY

While most households would rarely give thought to their electricity meter, the debate over the appropriate technology and its costs continues across the industry. The coming technology is digital 'time-of-use' or interval meters. At least two state-based regulators are examining the terms of a mooted widespread introduction of time-of-use or interval meters. The Commonwealth's Parer review (see page 1 of this newsletter) has called outright for a mass roll-out of the new meters. This has set off a renewed discussion of the purported costs and benefits of interval meters in the newly competitive retail electricity market.

Competitive reform in the electricity industry has brought price volatility. Generators capitalise on changing demand at different times of the day by moving wholesale prices up and down. This brings the possibility of

higher commercial risk for retailers who generally contract with end-users to sell electricity at a fixed or average price.

Time-of-use or interval meters are seen by many as a means for retailers to reduce this risk. For example, they allow more sophisticated billing and the charging of customers with different prices for electricity used at different times. In turn, it is argued, consumers receive an incentive to manage their consumption to avoid higher prices and pressure on the distribution networks.

Other supporters of interval metering point to the digital technology of interval meters and the potential for consumers to gain from other applications. For example, interval meters can be programmed to allow a 'pre-payment' option.

PIAC has not supported a mass rollout of interval meters to all households. This has been based on concerns about the balance of costs and benefits to consumers of the new meters. While the costs of a mandatory rollout would be shared by all households it seems likely the benefits will be concentrated amongst those who are higher volume, often wealthier, users or have the greatest discretion as to when they use electricity.

Some analyses have suggested that retailers would be the greatest direct beneficiaries of the widespread use of interval meters. This suggests that the decision about any rollout, and the funding, should remain a commercial matter for the businesses. The question remains, nevertheless, as to whether household users would see the costs of the new technology reflected in their bills.

The complexity of these issues was recognised in the August 2001

decision of the ACCC not to amend the National Electricity Code to mandate interval meters for household end-users. Instead, the ACCC opted to allow the market to reveal the extent of support for interval meters. The question of whether the retail market might benefit from the introduction of interval meters was left to reviews by state based regulatory authorities. The ACCC required that these reviews be completed by the end of 2003 and include an examination of the various costs and benefits to small-volume users.

The Essential Services Commission (ESC) in Victoria has commenced its review under the Code. In the past, the ESC has been especially keen on the economic impact of interval meters - allowing greater scope for the market to operate and for customers to switch between retailers. The ESC has signalled it might be prepared to force interval meters on households in order to achieve more competition in the retail market. This in spite of what might be only a small net benefit for households.

In New South Wales, IPART which is responsible for developing the rules for electricity metering, is yet to commence its review. However, cautious support for a wider use of interval meters has emerged through IPART's recent work on demand management. Appropriate use of interval meters could have the effect of avoiding some costs of future development of the distribution network. IPART argued for a pilot project using interval meters that would test the extent to which households might change their behaviour if they had real-time information on price movements.

PIAC will continue to monitor developments in the debate. In

particular, we are keen to examine the outcome of the trial suggested by IPART and the distribution of metering benefits and costs between retailers, distributors and households.

DISTRIBUTION NETWORK PRICING

The current distribution network pricing determination made by IPART is due to end at the end of June 2004. This means that IPART has begun to work on what should be contained in the next pricing determination. This is an important issue for residential consumers because distribution charges make up approximately 40% of their bill.

One of the issues that PIAC wants to examine in depth, in the lead-up to the next determination, are the equity implications for households in some of the miscellaneous charges that the monopoly electricity distribution networks are allowed to charge. An example that springs to mind is the account establishment fee which many distributors charge every time a customer moves house which means that this charge disproportionately impacts on low-income people living in the private rental market.

PIAC will be scrutinising all of the distribution miscellaneous charges over the next twelve months to see whether they have equity implications.

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