

Well Connected

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

No 17 March 2003

ISSN 1442-2422

PRE-PAYMENT ELECTRICITY METERING (PPM)

As foreshadowed in the The Ministry of Energy and Utilities' Consultation Paper: *Proposed amendments to NSW electricity and gas regulations and market operation rules* in late 2002, they have produced a draft Market Operation Rule (MOR) for the operation of prepayments metering in NSW. Prepayment metering would not have been allowed under the existing regulations.

PIAC was so concerned about the proposed MOR that we convened a roundtable discussion with community/consumer organisations, the Ministry, both the distribution and retail energy businesses and regulators to discuss the issues as outlined in the MOR. The roundtable was successful in raising a number of concerns that were shared by community/consumer organisations that attended the roundtable, as well as clarifying the capabilities of the technology.

In PIAC's subsequent submission to the Ministry, we raised again our major concerns that included:

- that the Ministry consider adopting a policy whereby PPM is not able to collect past debt which would go some way to addressing our concerns about coercion;
- that caravan park residents be excluded from any trials of PPM;
- if the electricity businesses want to implement PPM after a trial that they should have to justify their costs;
- that research needs to be undertaken by social scientists of any trials that are conducted and this research needs to be publicly available;
- that PPM technology has to accommodate the existing consumer protection mechanisms that prohibit disconnection on weekends and public holidays - these provisions must not be eroded;
- the proposal to have a \$25 reserve credit limit is supported by PIAC because we were concerned with those households that have above average usage;
- the MOR does not include provision for PPM to load limit, that is, provide a minimal supply of energy which combined with the reserve credit limit would

be an important consumer protection mechanism.

The MOR also states that if households choose PPM and they are eligible for pensioner rebates and EAPA vouchers that access to these community service obligations must be available through PPM which PIAC wholeheartedly supports.

Country Energy has publicly said that they want to conduct a trial of PPM in Bathurst. PIAC would only support such a trial if the current consumer protection mechanisms are not eroded to expedite a trial.

MID-TERM REVIEW OF AGL'S RETAIL TARIFFS

In February 2001 the Independent Pricing and Regulatory Tribunal (IPART) determined Voluntary Pricing Principles (VPPs) for the delivered price of gas to small customers served from the AGL Gas Network in NSW. Essentially the VPPs regulate the price of gas to AGL's small business and residential customers.

The VPPs provide for:

- annual variation to AGL's default tariffs;
- pass through to customers of the costs associated with the

PUBLIC
INTEREST
ADVOCACY
CENTRE

Utility Consumers' Advocacy Program Public Interest Advocacy Centre Ltd

Level 1, 46-48 York Street, Sydney NSW 2000
phone: 02 9299 7833 fax: 02 9299 7855
ABN 77 002 773 524

introduction of full retail contestability after a review by IPART;

- a mid term review to consider specific matters or at the request of IPART or AGL in the event of significant changes in market circumstances.

AGL has submitted a proposal for price increases to IPART as part of the mid-term review that commenced in October 2002.

The AGL proposal to IPART is that:

- the default gas prices be based on the indicative prices for 2003/04 included in the VPPs and adjusted to:
 - reflect changes to AGL's gas supply costs compared to the assumptions used in the VPPs;
 - include specific operating costs identified as part of the review of costs of full retail

contestability such as AGL's licence fees and the costs of the Gas Retail Market Company that were set aside for consideration during the mid term review;

- an after hours reconnection fee (\$110 inclusive of GST) be included and that a number of existing external charges be formalised as part of the VPPs;
- a retailer of last resort (ROLR) fee of \$44 per customer be established as required under the regulations.

The price increase that is sought by AGL is a total increase of 9.6% on average across the regulated market. Also these price increases are to be applied to the energy charge and not the supply fee which is a fixed charge.

AGL's customer impact analysis of

these price increases are outlined in the table below.

The major justification by AGL for these price increases is that over the past year the costs of gas have increased. AGL has secured a variation to their contract with the Cooper Basin producers whose gas reserves are declining and new contracts for gas have been sourced from the Cooper Basin (both South Australia and South West Queensland), the Gippsland Basin and the Surat Basin.

The problem is that these contracts are confidential. IPART has requested an external verification of the gas costs provided by AGL by an audit. PIAC is of the view that without the results of this audit we cannot make a judgement as to whether these price increases are justified.

Bill per quarter	Current	Proposed \$	Change \$	Change %
Residential - small	54	59	5	9.9
Residential - medium	111	122	11	10.2
Residential - large	179	197	18	9.9
Residential - medium	715	777	62	8.7
Market Average				9.6

ENERGY ISSUES FOR PARK RESIDENTS

A forum on electricity supply in residential (or caravan) parks was convened by the Energy and Water Ombudsman of NSW (EWON) in late February. A number of issues and difficulties were discussed, particularly in relation to long-term residents. These included the quality of supply available and the costs imposed on residents.

The forum was convened because there has been a number of complaints to EWON by park residents. As the Ombudsman, Clare Petre, noted EWON 'is uniquely placed to bring the major parties together'. Participants at the forum included a number of representatives of residents, including the Park and Village Service (PAVS); other community groups, including PIAC; park operators; electricity providers; IPART; and the NSW Government (the Ministry of Energy and the

Department of Community Services).

A major topic of discussion was the current practice of operators levying a 'standing availability charge' on each long-term resident. Also discussed was the lack of access by residents to the Government's Energy Accounts Payment Assistance (EAPA) scheme. On this last topic the Government representatives undertook to have the problems considered within a current review of

EAPA and concessions policies generally.

Of more immediate impact was the consensus amongst participants that the current regulation of electricity supply to park residents does not permit operators who opt to take a 'green energy' product to pass on any added cost to their tenants.

While the forum was successful in opening a dialogue between all interested parties there was no intention to achieve a consensus on individual issues. Nor did the forum have any decision-making powers. Further discussions and work will be required to resolve the concerns and difficulties raised by the participants and park residents generally.

DISTRIBUTION NETWORK PRICING

As discussed in past issues of *Well Connected*, the next determination of electricity distribution revenues is currently being examined by (IPART). The distribution businesses publicly presented their proposals for the forthcoming determination period at a forum held on 11 April 2003.

PIAC has not had time to examine the distributors' pricing proposals in detail, however the table below

outlines the average price increases that the distributors are seeking from IPART.

Pressures for demand management activities have shaped the claims of the distribution businesses in this determination. In order to encourage lower or more appropriate consumption of electricity by households the distributors could turn to a number of options. These include special tariffs for 'block tariffs' and /or seasonal pricing, which apply higher prices to households using airconditioners or with high consumption.

As in the past, the emphasis of the businesses is expected on such components as asset valuations and the rate of return to be permitted by the Tribunal. These issues are of interest to PIAC because of the impact they can have on the final costs passed through to residential users. However, there are a number of other issues which PIAC will argue have negative price impacts including side constraints and miscellaneous charges.

Side constraints have become more important with the decision of the Tribunal to allow the distribution businesses to earn revenue calculated by a weighted average price to customers. The distribution

businesses have a preference for maximum autonomy in setting individual prices arguing this is in keeping with their charter as state owned corporations. However, side constraints impose limits on the rate of increase in any individual tariff or the price charged to individual customers. As such, side constraints are a key protection for consumers who remain monopoly customers of the distributors and have limited opportunity to respond to the 'economic signals' of price changes.

Miscellaneous charges are an issue of long standing concern for PIAC. These are 'service' fees charged in addition to the consumption related costs on the normal electricity bill. These charges are regulated by the Tribunal and can be applied in such circumstances as a customer moving house or a disconnection for non-payment of a bill. A number of miscellaneous charges fall disproportionately onto lower income households with the result that energy becomes more expensive for those with the least capacity to bear such supposed costs. In addition, none of the businesses have been able to provide evidence that the level of these charges accurately reflects the real costs of undertaking these extra activities.

Distributon	2004/0	2005/06	2006/07	2007/08	2008/09
EnergyAustralia	CPI +3%	CPI	CPI	CPI	CPI
Integral Energy	CPI + 11.6%	CPI +1%	CPI +1%	CPI + 1%	CPI + 1%
Country Energy	CPI + 4%	CPI + 2%	CPI + 2%	CPI + 2%	CPI + 2%
Australian Inland*	CPI + 6.9	CPI + 2%	CPI + 2%	CPI + 2%	CPI + 2%

* This is Australian Inland's preferred option for a price path over the next 5 years.

When the Tribunal was considering its revenue determination for the current term PIAC had argued for the abolition of several of these charges. It is expected that PIAC once again will press the Tribunal to reduce the number of miscellaneous charges.

The UCAP Reference Group, established by PIAC to provide input to our utilities policy from a broad range of community groups, will have an important role in shaping PIAC's submission to the Tribunal which is due in July 2003.

NSW ELECTION

The ALP in their environmental policy, *Protecting our future, Labor's plan for a healthy environment*, have committed to "distribute \$300,000 to 1,500 low-income homes in the Illawarra to fit energy and water efficiency devices. If this trial program proves to be successful, we will extend the scheme to other areas". PIAC welcomes this commitment as it follows the successful trial of REFIT in the Lower Hunter. What the policy does not address is which government department will have the responsibility for implementing such a trial.

We were sorry to see the Hon Kim Yeadon, the former Minister for Energy lose his position in the NSW Cabinet because of a Ministerial reshuffle. Kim was a very accessible Minister who had a strong interest in the issues that affect residential consumers of energy and water services. PIAC wishes him well for the future.

We also welcome our new Minister, the Hon Frank Sartor, who is Minister for Energy and Utilities Minister for Science and Medical Research, Minister assisting the Minister for Health (Cancer) and

Minister assisting the Premier on the Arts. We look forward to working closely with the new Minister.

AGL's ACCESS ARRANGEMENT

AGL have proposed to IPART that they delay submitting information on their distribution access arrangement by 6 months from 1 July 2003 to 1 January 2004. AGL's reason for the delay is that the findings of a review of the National Third Part Access for Natural Gas Pipeline Systems (the Code) will be known.

PIAC provided cautious support for the delay except that we were concerned that neither the policy nor the legislative intent of the review of the Code would be known over the next 6 months. If this is indeed the case PIAC would not countenance a further 6 months delay to 1 July 2004 for AGL to provide access information.

CoAG WATER TRADING

The Council of Australian Governments (CoAG) have long since determined to introduce an active market in the trading of water entitlements. Late last year CoAG undertook a process of public consultation on the trading system. This consultation was in response to a document drafted for CoAG by the 'Water CEO's Group'. This canvassed a range of options for the design of an effective system for the commercial buying and selling of rights to extract and use water.

PIAC made a formal submission to the Water CEO's paper. This addressed the need to broaden the scope of interests beyond those directly involved in specific commercial transactions. The lack of any framework for considering the

native title interests of indigenous people was noted. This followed the work undertaken last year by the Lingiari Foundation and the Aboriginal and Torres Strait Islander Commission on native title over water.

PIAC also raised the potential impact of trading on future urban developments and the needs of residential users. Our submission made reference to the mechanism in one United States trading regime that allows 'third party' interests to object to proposed trades which would have deleterious impacts.

The CEO's document also addressed the issue of the increasing claims being made by current right's holders for compensation. These have arisen with the likelihood that some will lose a portion of historic entitlements to take and use water in order that appropriate environmental flows can be protected in rivers and streams. PIAC strongly supported the contention in the CoAG document that compensation in such circumstances is neither required nor appropriate.

A joint response to the Water CEO's document was also made by the Nature Conservation Council of NSW (NCC) and the Inland Rivers Network (IRN).

A final report is to be submitted for consideration to the April meeting of CoAG.

Public Interest
Advocacy Centre Ltd
Level 1, 46-48 York St
Sydney NSW 2000
ACN 002 773 524
www.piac.asn.au

