Well Connected

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ENERGYAUSTRALIA RETAIL TARIFFS FOR 2003/2004

On 1 June every year the electricity retailers have to submit to the Tribunal their tariff proposals for the coming financial year. The Tribunal must determine that the increases in tariffs comply with side constraints.

The side constraints were determined by the Tribunal in 2002 for residential consumers with the same pattern and volume of consumption and are as follows:

(i) Average prices across all residential customers must not increase by more than the percentage change in CPI $^{-GST}$

(ii) The annual bill for any residential customer must not increase by more than the greater of $25 or the percentage change in CPI $^{-GST.}$

EnergyAustralia put a proposal to the Tribunal and PIAC indicating that they wanted to introduce a block tariff. This block tariff was originally going to cut in for households that used more than 5 MWh per annum (this is somewhat below what the average NSW household uses). The rationale for this proposal was that that they wanted to charge those households who use airconditioning so that these customers can modify their behaviour and are not subsidised by other customers. This proposal would have met the side constraints imposed by the Tribunal.

To their credit, EnergyAustralia proposed to introduce new and continue existing social initiatives for households who are in receipt of low or fixed incomes, as well as the proposal to introduce an inclining block tariffs. They undertook to:

- establish a case management approach to work with customers unable to pay their energy bills;
- expand the REFIT project;
- conduct research to better understand links between high energy consumption and inability to pay;
- aim to conduct a gas fired airconditioning project;
- expand their participation in the No Interest Loans Scheme.

While PIAC welcomed these initiatives, we had to make the point in our response to both the Tribunal and EnergyAustralia that these initiatives were not likely to be in place by 1 July 2003 which is when the inclining block tariff came into effect.

PIAC decided to oppose this restructuring of EnergyAustralia's residential tariffs. PIAC's concerns were two pronged: there was a process issue as to whether any retailer should be able to restructure their tariffs outside the Tribunal Determination process and that this proposal was done without the requisite public debate which would have occurred during the Tribunal Determination process.

The policy concerns expressed to both the Tribunal and EnergyAustralia were that:

- it is highly contentious as to whether block tariffs would address EnergyAustralia's periods of peak demand;
- the threshold of Energy-Australia's proposal was too low, in that, it would affect

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large users of energy but do not have any discretionary usage, that is, they do not have airconditioning (there is also a question as to whether on an extremely hot day and you live away from the eastern seaboard whether airconditioning use is discretionary).

Despite our concerns and because the proposal met the side constraints determined by the Tribunal, EnergyAustralia has decided to introduce an inclining block residential tariff as from 1 July 2003. However they have changed their proposal and increased the threshold from 5,000 MWh p.a. to 7,000 MWh p.a. For the first block up to 7,000 MWh p.a., the tariff will be 9.95 c/kwh and over this threshold, the remaining tariff will 10.32 c/kwh. This will mean that for usage up to 7,000 MWh p.a., there will be a 2.7% increase to an electricity bill (this is marginally less than inflation). If households use 7,000 MWh p.a., the annual bill is $784. For usage above this amount, the increases in bills is more than the inflation rate. Approximately 71.3% of Energy-Australia's customers use less than 7,000 MWh p.a.

As the Tribunal will conduct a major retail tariff review to come into effect on 1 July 2004, EnergyAustralia's inclining block tariff will again come under scrutiny. This process will be public and there may well be additional information as to how the inclining block tariff has affected households which could form the basis of comment on this type of pricing structure. Another issue is that PIAC believes that retailers should not be able propose to radically restructure their tariffs except during a Tribunal Determination process. PIAC wants this regulatory loophole closed.

CORRECTION: INTEGRAL ENERGY

In the March issue of *Well Connected* in the article on distribution network pricing, PIAC provided a table that outlined the average price increases proposed by the distributors. In the case of Integral Energy the table indicated that the proposed increase for 2004/05 was CPI + 11.6%. This was an error as this price increase did not include a retail component whereas the average price increase quoted for the other distributors did. This had the effect of making Integral's price increase higher than the other distributors. For the purposes of clarification, Integral's price increase including a retail component is CPI + 1.3% p.a. on average over the five years of the next regulatory period. This is based on certain assumptions, including consumption of 7,500 KWh p.a., maintenance of the current tariff structure, a DUOS price increase of CPI + 11.6% (in 2004/05) and CPI + 1% thereafter, along with no real increase in TUOS and the retail margin components of the bill. We apologise to Integral Energy for this error.

TRIBUNAL REVIEW OF AGL'S GAS RETAIL PRICES

As reported in the March issue of Well Connected, AGL Retail, as part of the annual review of their tariffs by the Tribunal, submitted for an average increase in their tariffs of 9.6% because they said the costs contained in their new gas supply contracts had risen substantially. As this increase also included small business, it effectively masked a 10% average increase for residential customers. PIAC submitted to the Tribunal that such a large increase was unwarranted, especially as there is now retail competition and there is an expectation that with the introduction of competition policy, that prices should fall.

The upshot of the deliberations by the Tribunal is that they have granted AGL an 8.8% increase in the tariffs from 1 July 2003. The Tribunal did require a report from AGL's external auditor and obtained expert advice from an independent consultant to inform the Tribunal of its analysis of AGL's gas costs. Unfortunately, except for a letter from AGL's external auditors, this information has not been made public.

The change in dollars per quarterly bill for a small residential customer (using 5 gigajoule of gas per annum) is $5.05; medium, residential customer (using 23 GJ of gas per annum) is $10.40; and, for a large residential customer (using 45 GJ of gas per annum) is $15.90. As a percentage this is a 9.4%, 9.35% and 8.86% rise respectively.

AGL also sought permission from the Tribunal to impose four new miscellaneous charges: an after hours connection fee, meter testing charges, special meter, network disconnection charges and an administration fee applied to these charges.

The Tribunal allowed the above three miscellaneous charges however they did not allow the administrative fee to be charged. As PIAC noted in their submission, to allow the pass through of the administrative charge (which is basically the supposed cost for the retailer to talk to the network to organise these three services) would set a dangerous precedent for the electricity and water industries. We are pleased that the Tribunal agreed with us on the imposition of this charge and that it was disallowed.

There is a need to standardise the miscellaneous charges between the electricity and gas industries. There has been agreement between PIAC and AGL that this needs to occur. As both gas and electricity pricing are to be reviewed later this year this provides an ideal opportunity.

PIAC can only hope that as AGL's retail tariffs are up for review over the next twelve months and as they do have long-term contracts in place, that they will not be fronting up to the Tribunal suggesting they get another large price increase. PIAC would expect a proposal for a CPI increase as the maximum.

MEU RESTRUCTURE

On 2 April, the NSW Government announced that two branches of the former Department of Land and Water Conservation were to be transferred to the Ministry of Energy and Utilities (MEU). As a result, the MEU has announced a restructure.

There is an interim structure at the level of Executive Director - diagram below. It is PIAC's understanding that this interim structure will remain in place until October 2003.

MEU AND EAPA

PIAC has been advocating for the past twelve months for the administration of the EAPA Scheme to be transferred from the NSW Department of Community Services to the MEU. EAPA vouchers are distributed by non-government organisations to households who cannot pay their energy bills.

On 1 July 2003 the transfer finally occurred. PIAC had argued that the administration of EAPA was not a core function of the Department of Community Services and the Scheme would be better placed if it was administered by the Ministry, along with other community service obligations, for example, energy rebates.

PIAC welcomes this move by the NSW Government as the Scheme may be given the policy oversight that it needs. We look forward to working with the Ministry to improve the delivery of EAPA.

IPART AND DISTRIBUTION PRICING

The March issue of *Well Connected* outlined briefly the major proposals from the NSW electricity distributors for the next revenue cap determination to be made by the Independent Pricing and Regulatory Tribunal (IPART). Other stakeholders have since had the opportunity to give their written submissions to the Tribunal.

The main issues addressed in PIAC's submission included:

- the proposal for inclining block tariffs for network charges;
- side constraints;
- demand management; and
- miscellaneous charges.

PIAC has stressed that it accepts the necessity of increases in network prices from time-to-time in order that the reliability and quality of supply are maintained. However, the size of the increases which the distributors are seeking for the next determination is a matter of concern. In particular, PIAC has opposed the proposal from two distributors for the introduction of an 'inclining block tariff'.

An inclining block tariff would establish two prices for the network component of household electricity bills. The first price would be paid by every customer with the second, high price applying only to the amount of electricity consumed in excess of a pre-determined threshold. The distribution businesses have argued that this higher band of consumption is designed to capture households with airconditioning. As these customers tend to use their airconditioning simultaneously they cause high demand at crucial times and so have the effect of lifting average prices.

PIAC has argued that block tariffs in fact will not target airconditioning use. Instead the higher price would apply to all consumption above a fixed limit. One of the assumptions underpinning the proposal for block tariffs is that high-use households are wealthy and use airconditioners. However, by tying higher prices to a band of consumption and not the timing of consumption block tariffs could see households without airconditioning but large electricity usage facing higher bills than small households that do use airconditioning. A particular concern arises with respect to large low-income households.

The block tariff question has highlighted the seemingly low priority given by the distributors to demand management. In the view of PIAC and other stakeholders, the businesses need to devise more innovative measures to assist consumers, and households especially, to reduce their total consumption of electricity.

PIAC has expressed its strong support for the continued use by the Tribunal of side constraints. These limit the total increase in prices paid by individual customers. As such, we believe they have become more important now that the distributors are to be regulated according to the weighted average of the prices they charge to customers.

Miscellaneous charges are applied by the distributors to certain activities associated with the supply of electricity. These include fees for disconnections, late payment and account establishment fees. PIAC long has argued against many of these charges since the businesses have been unable to fully substantiate the costs which underlie these charges. In addition, we believe they can fall disproportionately on low-income people and those in private rental accommodation.

The 'account establishment fee' is a fee which can be levied each time the holder of an electricity account moves home. Private renters, often people on lower incomes, have less discretion over moving house and thus can find themselves paying this fee far more frequently than other customers.

Some of these issues will be re-visited with the Tribunal in the coming months. Further submissions are to be made on the broader proposals from the distributors as well as other key issues such as the appropriate level of capital investment and a study on options for 'congestion pricing'.

METRO WATER PRICES

The price of water for metropolitan households over the next two years has now been set by the Independent Pricing and Regulatory Tribunal. In a series of determinations released in May 2003 the Tribunal has set the maximum prices for water and sewerage for Illawarra, Sydney, the Central Coast and the Hunter Valley.

The Tribunal has allowed for prices of water and sewerage to increase by no more than the rate of CPI. What is of interest is that the Tribunal has chosen to shift the emphasis in prices slightly in favour of the level of consumption by individual customers. That is to say, in each case the Tribunal has imposed a slight decrease (of 1% over the two years) on the fixed component of customers bills - the standing or service charge. This has been balanced by a corresponding increase in the charges arising from the actual volume of water consumed.

This shift begins to place greater emphasis on the behaviour of consumers as users of water services. It needs to be seen in the context of the Tribunal warning each of the four regulated water supply agencies that the next determination will place a stronger focus onto their activities in demand management and reducing the per capita use of water across the wider Sydney metropolitan region.

This determination took effect for two years from 1 July 2003.

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MINISTRY OF ENERGY AND UTILITIES
NEW SOUTH WALES GOVERNMENT

Interim Structure

Brian Steffen
Director-General

Executive Support Unit

- Executive Support
- Ministerial Liaison & correspondence
- Inter Agency Liaison

Act. ED Ro Coroneos
Energy Policy & Markets

Energy Policy

- Energy distribution and Retail contestability
- Policy reviews
- Consumer protection

Energy Markets
- Intergovernmental Strategy
  - Ministerial Council on Energy - National Electricity
  - Market Ministers Forum (NEMMF)
- NSW strategy
- Greenhouse and sustainable development
- Data reporting and analysis
- Forecasting and modelling
- Energy generation/ production and transmission
- Government energy management Plan

Act. ED Garry Hodson
Strategic Corporate Development

Customer Programmes

- Social Programmes
- Customer liaison

Communications

Business Planning Performance
- Performance measurement & management
- Human resources
- Risk Management
- Corporate planning, policies and processes

I&CT
- Information & communication technology
- Records management

Finance
- Financial management
- Procurement
- Financial Compliance (Including Grants & Funding)

Act. ED Maurice Overy
Industry Regulation & Performance

Electricity, Gas, Pipelines & Water Networks

- Safety, reliability, quality and security
- Performance improvement & reporting
- Emergency management
  - Electricity
  - Gas
  - Petroleum
- Cathodic protection
- Gas pipeline approvals (Licencing)
- Contestable electricity works
- Local Water Utilities Performance Benchmarking

Legal

Legal Services

- Legislative and regulatory reform
- Legal risk management
- General legal advice

Act. ED Charles Essery
Water Policy & Reform

- Country Towns Water Supply and Sewerage Grants Program Approvals
- Utility Regulation under Local Government Act and Water Management Act
- Fish River Water Supply & Cobar Water Board
- Urban water Policy
- Storm Water Policy

ED Abel Immaraj
State Water

- Bulk Water Operations
- Asset Management
- Bulk Water Delivery
- Performance Improvement
- Business Development
- Human Resources
- Occupational Health & Safety
- Dam & Weir Operations
- Finance