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

No 20 April 2004

ISSN 1443-2633

Vale Trish Benson

Trish Benson lost her last fight early last January when her life was claimed by sudden illness. One of the founding staff members of the Utility Consumers' Advocacy Program (UCAP), Trish had of course won a great many battles during her long career working on behalf of the community. Her loss has been felt keenly by PIAC and her many friends and colleagues. Both Trish's family and her colleagues were very grateful for the support and sympathy received from a great many people in the community sector, the utility industries, regulators and government.

Trish is survived by her daughter, Phoebe.

Department changes

PIAC notes with some regret the departure from the former Ministry of Energy of its Director-General, Mr Brian Steffen. Brian had been a strong supporter of PIAC and its UCAP program. He brought a wealth of industry experience to the Ministry as well as a style of work which emphasised co-operation and consultation with all stakeholders. Brian has opted to pursue other opportunities. PIAC wishes him well for the future.

We also note with pleasure the appointment of Mr David Nemtzow to the position of Director-General of the recently created Department of Energy, Utilities and Sustainability (DEUS). David possesses a strong background in energy conservation programs which will be invaluable to NSW consumers and utility industries faced with pressure to move away from the traditional responses to growing demand. PIAC looks forward to continuing its constructive relationship with the NSW Government through David and his staff at DEUS.

Power prices to rise

The price of household electricity will rise for 'standard' customers in NSW following a recent decision by the Independent Pricing and Regulatory Tribunal (IPART). The decision affects regulated energy prices paid by customers who have not taken up 'market' or competitive supply contracts. Currently, this is estimated to include some 90% of household customers in NSW.

At the time of writing the Tribunal had not released its determination on the voluntary pricing principles (VPPs) which shape prices for residential gas customers. However, a number of the gas companies have proposed only a CPI increase in prices.

While the Tribunal has permitted only modest increases for electricity retail prices PIAC remains concerned about the affordability of this essential service for NSW households. The Tribunal has stressed that NSW prices remain the lowest in Australia. However, PIAC has noted that this situation is the result of price reductions and efficiencies achieved by the NSW industry prior to competition reforms.

In particular, PIAC had pointed out to the Tribunal that this increase in the retail component will be in addition to the expected increase in distribution costs for NSW. This means that the average 3% rise in the retail component of residential prices will be followed by a further increase in a matter of months. The distribution price review is discussed in more detail below.

PIAC was pleased that the Tribunal

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made important conclusions on the poor state of competition in the retail energy industry in NSW. This followed the commitment of the NSW Government to retaining regulated tariffs for low-volume consumers.

PIAC presented strong evidence about retail energy competition in this State and other markets such as the United Kingdom. Given the marketing behaviour of the retailers, the vast bulk of residential consumers will remain vulnerable to price exploitation for the foreseeable future. Retention of capped prices ensures that the incumbent retailers will be prevented from imposing unreasonable price hikes onto consumers locked out of the competitive market.

NSW distribution prices

Electricity distribution prices in NSW are expected to rise under the terms of the industry price determination to be released by the Independent Pricing and Regulatory Tribunal (IPART) in May. The Tribunal's draft determination has forecast increases of as much as 20% in real terms over the five years from 1 July. This should amount to a $45 annual increase for a 'typical residential customer'. However, the rise in distribution costs will hit households on top of the increased retail component of electricity prices and in addition to rises in the cost of other household essentials.

The Tribunal has proposed this increase to meet the claims of the distributors for massive increases in capital spending in the 1999-2004 period. This follows the distributors having greatly exceeded their allowed spending on capital investment under the last determination.

PIAC supported a cautious approach by the Tribunal to future investment in electricity networks. However, PIAC and its community stakeholders are concerned that the distribution businesses have been rewarded too easily for making claims for large increases in capital spending.

PIAC is pleased that the Tribunal has indicated it will require a better mix of capital and operating expenditure by the networks. However, along with a number of other groups we expressed disappointment at the decision of the Tribunal not to link the extra capital investment to a higher level of demand management activity by the networks. This decision will see almost all of the extra revenue go into traditional 'build solutions' for network planning.

Increased capital spending is passed through to prices via a larger 'X factor' in the price formula. With the Tribunal having already decided that prices will be set under a weighted average price cap (WAPC) it is not clear which customers will receive a price increase. There will be a limit on how far prices can rise - in the form of an 'L factor' in the price cap control formula. However, the Tribunal has proposed a generous 'L factor' to allow the distributors to undertake some rebalancing of tariffs. Individual network prices will rise by no more than CPI+6.5% in the first year of the determination (Integral Energy is limited to CPI only in the first year) and no more than CPI+4.5% in the following years. There is to be a $30 limit on annual increases in the fixed component of distribution prices.

Importantly, the distributors are free to pursue restructuring of tariffs such as the introduction of inclining block tariffs. Irrespective of the criticisms of these tariffs from the community sector (and notwithstanding the considered views of its staff) the Tribunal cannot dictate the internal pricing decisions of the networks. PIAC maintains its earlier opposition to inclining block tariffs and the reasons given by the industry for their introduction.

PIAC is very pleased that the Tribunal has signalled it will abolish the current 'account establishment fee'. This reflects consistent arguments from PIAC and the community sector over the past five years about the iniquity of this fee. Distributors will continue to recover the costs associated with changes to customer accounts which occur when customers move between residences from general tariffs.

PIAC has supported the Energy and Water Ombudsman NSW (EWON) in its raising of concerns about the impact on low-income and disadvantaged residential users of the 'reconnection fee'.

Water conservation and price

The possible connection between water prices and demand is being explored by the Tribunal. This follows a request by the NSW Government. Water use in Sydney has been declining or stable on a per capita basis. However, on current trends total consumption will remain far in excess of that which the catchments can sustain over the long term.

The water use restrictions introduced late last year were a partial response to this situation. Although some have questioned the Government's decision not to build a new dam for water supply there remains the question of whether the environment safely can supply more water.

With further restrictions being contemplated the Minister, the Hon. Frank Sartor, has asked the Tribunal to advise the Government on a wider range of strategies. The options under consideration include step pricing (also known as inclining block prices) for retail and wholesale water.

PIAC supports the search for alternatives but we have serious

concerns about the various proposals to use price to control residential demand for water. Any increase in price necessarily makes it more difficult for some households to afford this essential service. There have been suggestions of new social programs or community service obligations being introduced which would address the issue of affordability. However, PIAC is anxious to see the detail of such schemes and the commitment to fund them before it supports any restructuring of price.

There is agreement among several stakeholders about the price inelasticity of demand for water. Studies of indoor use of water by households have shown repeatedly that price changes have almost no effect on consumption. This reflects the essential nature of domestic water supply. Sydney Water data points to outdoor use (for example on gardens and lawns) as the area where further reductions in water use are most likely. Data also shows that particular suburbs in Sydney have a much higher than average consumption of water.

Unfortunately, water meters are crude devices which can only measure total water use. Meters, and hence bills, cannot take account of whether or not a household has a large garden. Likewise, meters cannot measure the number of people living in a residence or the household income and ability to pay higher prices. Differential water prices for different suburbs risks penalising individual residences who consume at or below the Sydney-wide average.

The more fundamental problem with relying on price to send signals about water conservation is that a great number of Sydney residents will never receive such signals. A large number of tenants, including many in public housing, are not separately metered or are not billed directly by Sydney Water. The Tribunal's own research shows that these consumers tend to have higher usage. However, price changes under a step price model may benefit landlords rather than give a signal to tenants whose water use is regarded as the source of the problem.

The Tribunal expects to release a final report in June.

Rebates for SA gas customers

$64 million in rebates have been promised to 'shield' residential consumers in South Australia from the impact of full retail competition in the State's gas industry. FRC in gas is due to commence in South Australia on 28 July.

The SA Minister for Energy, Patrick Conlon, has expressed his concern that many households in the State are 'doing it tough' following the January 2003 commencement of electricity FRC which saw an immediate 25% hike in prices for small volume consumers. Minister Conlon has promised that the SA Government will 'pay the costs of competition' that are expected to add more than 10% to residential gas bills. The rebates will be provided to as many as 345,000 residential customers in the first year of gas FRC.

National energy regulation

The rush to establish the new Australian Energy Regulator (AER) Unfortunately, it remains difficult to determine what impact this development might have for residential consumers of electricity and gas. This largely is due to the Ministerial Council on Energy (MCE) and its Standing Committee making only a minimal effort to engage with community stakeholders.

The AER will have responsibility for by 1 July 2004 continues. key areas of economic regulation of electricity distribution. Licensing and standards for distribution may remain with the various state and territory authorities although governed by uniform national 'principles' established by the respective governments. This process may not benefit all residential energy users depending on whether the AER and the respective governments opt for a 'lowest common denominator' approach. For example, NSW legislation mandates that consideration be given to the social impact of regulation whereas this has been a notable omission from the regulatory arrangements in other jurisdictions.

Many industry participants and other jurisdictions continue to attack the NSW Electricity Tariff Equalisation Fund (ETEF) which has protected NSW households from the price hikes seen elsewhere in the national market. This, too, indicates a preference in some quarters to equalise regulatory outcomes by reducing the protections available to consumers in some jurisdictions.

The Standing Committee have initiated a brief round of public consultations with stakeholders. This included two public forums on 'user participation' focussed on retail pricing, demand management and metering issues. The Committee allowed ten days between the forums and the submission of community views on these questions and insisted that written comments be limited to five pages.

A further round of consultations have been promised for mid-year.

The End-User Advocacy Panel established under the National Electricity Code has sought to support community participation in the AER process by funding a number of groups to attend the forums and prepare written submissions.

State Parliament convinced on REFIT

Strong support for retrofit schemes aimed at low-income residential tenants has come from the NSW Parliament. The Legislative Assembly's Standing Committee on Public Works released the report of its *Inquiry into Energy Conservation in Residential Buildings* in March and included the recommendation that the NSW Government pursue an expansion of programs such as REFIT. This was a pilot retrofitting service aimed at low-income households in the Hunter Region run in 2002 by PIAC, EnergyAustralia, the Sustainable Energy Development Authority (SEDA) and the Newcastle City Council.

The Committee formulated this recommendation following a written submission from PIAC and discussions with representatives of EnergyAustralia. This outcome is especially pleasing for PIAC since REFIT, and particularly its focus on low-income private tenants, had been enthusiastically championed by Trish Benson during her tenure with the UCAP program.

Time-of-use meters

Time-of-use metering for residential users of electricity continues to be an open question in NSW. PIAC has welcomed the draft report of the Joint Jurisdictional Review of metering rules which has proposed that current arrangements in the national market largely be preserved. This means it is unlikely that NSW households will be forced to accept and pay for these new meters in the short term.

The draft recommendations of the Review include that:

- residential customers should retain the choice of whether to install an 'interval ' meter;
- customers should retain the choice of whether to be billed on a time-of-use or an 'average' tariff;
- each jurisdiction will assess costs and benefits before introducing these new meters; and
- the electricity distributors should continue to own any meters installed for household consumption.

However, PIAC has criticised the Review for its poor understanding of the difference between social equity and economic outcomes. Social equity focuses on what is fair and whether poor and disadvantaged consumers can afford the burden of extra costs. PIAC has argued that the final report from the Review should ensure that any changes to metrology rules do not result in negative impacts for poor and disadvantaged consumers.

In its response to the draft report PIAC also stressed the view that questions about the meters used to measure household consumption are a separate matter from the structure of the tariffs which determine final prices. This is important because much of the current debate about metering is focussed on 'efficient metering solutions' and'cost-reflective tariffs. Many Australian households already have seen that this terminology is a code for higher prices for essential services. It remains to be seen whether energy retailers will ever develop time-of-use pricing for residential users.

The Independent Pricing and Regulatory Tribunal (IPART) is the body responsible for setting the metering rules in NSW. It is worth noting, also, that the NSW Government previously has expressed its concern at the assessment undertaken by others of the supposed net benefits to consumers of a widespread implementation of interval metering.

Pre-payment meters

Pre-payment meters will be introduced for NSW electricity consumers following a decision by the Minister, the Hon. Frank Sartor. PIAC and other community groups had argued strongly for a range of protections around PPMs. These include restrictions on disconnections, limitations on the use of these meters to recover outstanding debt, preserving customer access to government concessions and providing a sufficient level of reserve credit to reduce self-disconnection.

The new *Guidelines for the Implementation of Prepayment Metering in NSW* only permit these meters to be offered to customers taking up a 'market' contract - that is, not a 'default' or standard customer. Importantly, retailers are prohibited from coercing a small retail customer to accept a prepayment meter. This is intended to preclude the situation in the United Kingdom of expensive meters being forced onto low-income consumers. Retailers can offer pre-payment meters to customers with an outstanding debt but they first will be required to offer a range of payment plans.

The Market Operation Rule (MOR) which will implement the *Guidelines* currently is being drafted. PIAC has indicated to the Department (DEUS) it is eager to be included in the design of any trials of prepayment meters in NSW which follow the finalisation of the regulatory framework.

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