

Well Connected

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

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APPOINTMENT OF THE MARKET IMPLEMENTATION GROUP (MIG)

PIAC has received a letter from the NSW Treasurer, the Hon. Michael Egan addressing the issues that we raised with him about the need for the MIG to consult with residential consumers.

The MIG is headed up by Professor Don Anderson, formerly of the Department of Commerce at the University of Queensland who has been appointed as Director, Energy Reform. The MIG is to be resourced by Treasury staff and consultants from Frontier Economics.

One of the important issues that the MIG will address is the introduction of retail competition in electricity. The Treasurer has assured PIAC that "the Government recognises the particular interest that PIAC has in this area through the Utility Consumers' Advocacy Program and the insight and

expertise that PIAC can contribute".

One of the MIG's first tasks will be to establish the project framework, including the consultative processes necessary for the project's success. The Treasurer has also assured PIAC that "the Government is concerned to deliver the best outcomes for residential customers through its reforms, so please be assured that PIAC will be included in consultation that the MIG undertakes".

PIAC is expecting to be contacted by the MIG early in the New Year.

IPART DRAFT DETERMINATION ON AGL'S GAS NETWORKS ACCESS ARRANGEMENT

The Independent Pricing and Regulatory Tribunal (IPART) has released a Draft Decision on AGL's Access Arrangement. PIAC put in another submission to IPART on

their Draft Decision. Briefly the submission provided the following comments to IPART:

- urged the Tribunal to release information that AGL had submitted to IPART as confidential. PIAC is of the view that AGL Networks is a monopoly service provider and as such, it does not have any competitors. There should be no information that AGL treats as commercial in confidence.
- the rate of return for AGL has been determined at 7.75 per cent. This is at the upper end of PIAC's original recommendation but in line with Victoria's Office of the Regulator-General's decision on the Victorian gas industry.
- the asset valuation that has been used for AGL's network is the Depreciated Optimised Replacement Cost or DORC. PIAC was disappointed with

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this method of valuing assets as it tends to over inflate the asset base and this is reflected in higher prices for residential consumers.

- AGL's operating costs have been significantly reduced. This strikes a balance between AGL's proposed operating costs which were excessive and the need for AGL to be more efficient.
- AGL originally proposed to boost revenue from the residential market by applying a real price cap increase which was always unacceptable to PIAC. AGL contended that residential consumers could absorb these costs but this contention did not take into account the needs of people on low or fixed incomes. The Tribunal states in the Draft Determination that there was no supporting information provided by AGL to indicate that the price increase is necessary to achieve better cost reflectivity.
- PIAC suggested that if a more appropriate asset valuation methodology was employed the price cap on distribution pricing could be maintained at CPI-1.5 and not the CPI-1 which is proposed in the Draft Determination.
- AGL claimed that there was a cross-subsidy from large users to small residential consumers which PIAC disputed. The Tribunal has supported this view because AGL has not estimated the incremental cost of providing gas to small residential consumers.

Apart from the asset valuation methodology that AGL has used, PIAC is generally pleased with the Draft Determination. IPART has gone some way to balance the interests of AGL and its shareholders, large and residential consumers of gas.

VICTORIAN OFFICE OF THE REGULATOR-GENERAL (ORG) AND ITS PRICING REVIEW

UCAP was invited to give a paper at a Victorian *Power Price Changes: What it means* conference held in Melbourne on 9 and 10 December 1999. The conference was organised by the Customer Energy Coalition which is made up of the Energy Action group, Energy Users Group of Australia, Consumer Law Centre of Victoria, Australian Gas Users Group, Victorian Council of Social Service and the Australian Cogeneration Association.

The conference was organised because the Victorian Regulator-General (the Victorian regulator) is conducting an electricity distribution pricing review. There are number of differences between the Office of the Regulator-General (ORG) and IPART. The main ones are that the ORG has responsibility for technical, as well as economic regulation of the electricity industry and environmental outcomes are not included in ORG's charter.

The ORG has just begun its pricing review so the conference was timely as the Victorian distribution businesses have just completed their submissions to the review and all the companies gave an overview of their submissions to the conference.

One of the more interesting papers given over the two days

was by the new Minister for Energy, the Hon. Candy Broad. The Minister said that the industry needed to use plain English (a point on which PIAC totally agrees), that if ORG did not get the pricing review right (in the Government's view) that they would pass legislation overturning the ORG Determination and that retail competition has to benefit residential consumers. This included the seamless provision of community service obligations, such as rebates on peoples' bills.

STEERING COMMITTEE TO SUPPORT THE INTRODUCTION OF RETAIL COMPETITION IN GAS

The allocation of costs to introduce retail competition in gas to the 1-10 TJ market (small to medium-sized businesses) which occurred on 1 October 1999 has finally been completed by AGL and accepted by the Steering Committee. These costs will not be paid for by residential consumers, although there was a suggestion that they should be if it could be demonstrated that the systems that were to be put in place could be used when residential consumers are able to choose their gas supplier from 1 July 2000. When AGL did their costings for the 1 – 10 TJ market, it became obvious that very little of the systems that were put in place would be used for the residential sector.

The Steering Committee is currently investigating a draft policy framework for full retail competition.

Costs and benefits in electricity

The NSW Government is convinced that residential consumers will benefit from

competition in the electricity industry and is pursuing 'full retail contestability' - allowing people to 'choose' their electricity supplier. The real issue for consumers is the level of cost involved in becoming contestable and whether these costs will swallow the lower prices which contestability is supposed to deliver.

NSW Treasury has begun to examine how the Government will make full contestability a reality. Recently it released a *Research and Information Paper* which focuses the discussion on three broad options.

The cost of electricity varies according to the time at which it is consumed. For residential consumers, an important component of contestability and lower prices is measuring how much electricity is consumed at what times of the day. This will require contestable consumers to look at obtaining new and complex meters.

Similarly, to enable consumers to be contestable, to 'shop around' between competing retailers, a system will need to be established which facilitates customer transfers. There are many facets to such a system, not least investment in information technology.

The crucial question raised, but not answered, by the Treasury paper is how these costs should be met. Spreading the total cost amongst all consumers will reduce the outlay for each household which chooses to become contestable. On the other hand, overseas experience and careful analysis of costs and benefits suggests that only a minority of residential consumers will receive any real benefit from full contestability. This raises the possibility of low-income

consumers seeing their electricity costs remain static while subsidising the price falls enjoyed by wealthier households.

PIAC has made a formal response to Treasury on the options raised in their paper. With full contestability for electricity due to commence on 1 January 2001 we are looking to the Treasury and its Market Implementation Group (MIG) to hold meaningful consultations on these and other issues.

Consumers and choice in gas

Based on the assumption of consumer benefit, the NSW Government has been pursuing retail contestability in the State's gas market. As a result of the efforts of UCAP's Trish Benson, the Ministry agreed to produce an *Issues Paper* as the basis for wider consultation with residential and low-income consumers on matters of the design of a contestable market.

The real value of the document was that it marked the first concerted effort to distribute to consumers more broadly information on the range of options being considered. The questions taken up included rules relating to transfer; the protection of customer information held by gas retailers; and the need for a retailer of last resort for residential gas consumers.

The deadline for responses was early December. Copies of PIAC's response are available on request.

PIAC has been keen to promote the consultative process undertaken by the Ministry with respect to gas as a valuable model for the planning of retail contestability in the NSW electricity market. It is to be hoped that those responsible for the electricity arrangements will follow the lead

of the Gas Steering Committee.

PIAC is pleased that consumer and community organisations have been given an opportunity to learn about the issues associated with contestability. This is vital given that the new arrangements for gas need to be operating by 1 July 2000.

New energy source

An exciting development in renewable energy is the recent announcement by a team at the Australian National University of a solar system which can provide electricity round the clock.

The Solar Thermal Group at ANU's Centre for Sustainable Energy Systems have devised technology which can harvest solar energy and store it for later re-use. Heat is used to separate an ammonia mixture into hydrogen and nitrogen. Later, electricity can be produced by re-combining the two liquids. This is like charging and using a battery. The by-product in this case is ammonia which, in a closed-loop system, is the basis of the initial chemical reaction.

Larger scale tests are to follow. More information can be obtained at www.anu.edu.au

Prices for water

A key concern for consumers with regard to any utility service is the cost of consumption. However, price is not the sole concern. This is particularly since price is arrived at through an aggregation of complex issues.

IPART has commenced a review of the broad scope of pricing issues in relation to the supply of water and sewerage services by the four NSW metropolitan agencies. These four are Sydney Water, Hunter Water, Gosford City Council and Wyong Shire Council. The

Tribunal will accept public submissions until a deadline of 4 February 2000 and public hearings are planned for March.

The Tribunal has released an *Issues Paper* covering many of the questions which will need to be considered in a determination of prices to be paid by consumers. In addition, each agency will make its own written submission to the Tribunal (due by 20 December) and these will be available on the website at www.ipart.nsw.gov.au.

The various stakeholders in metropolitan water and sewerage have begun wrestling with the pricing of ancillary services or miscellaneous charges. The Tribunal established a broad working group to make recommendations on the many different charges levied by each of the organisations. These will centre on a rationalisation of these charges, standardising the process for levying the charges (that is, what services will incur a fee) and establishing a common methodology for the level of the charges. PIAC has participated in this working group (along with the NSW Council of Social Service and the newly titled Energy and Water Ombudsman of NSW).

PIAC will make a formal written submission to the Tribunal. Particular emphasis will be placed on:

- the form of price regulation (for example, price cap versus revenue cap);
- price structure (including water allowances and the funding of pensioner rebates);
- the social impact of price;
- asset valuations for each of the agencies; and
- costs and efficiency.

Many people are aware that Sydney Water intends to request a significant increase in the level of its prices for water supply. Yet, the Corporation recently confirmed it will implement hundreds of voluntary redundancies amongst its staff. As a result there is sure to be considerable interest in the connection between prices and the reliability and quality of service delivered by these important utilities.

One option raised in the Issues Paper which has caused a good deal of comment is for the water agencies to bill landlords for access charges and separately bill tenants for consumption. This would replace the present system whereby most tenants are invoiced by the landlord for water consumption or have a premium built into their rental payments to account for this cost.

PIAC is mindful of the possible benefits of giving tenants a more direct relationship with their water utility. However, even though landlords would see a real reduction in their costs we are doubtful as to whether this new allocation of charges to tenants would be reflected in reduced rents.

UCAP Conference

UCAP is planning to hold a state wide conference in either May or June next year. One of the major themes of the conference will be competition in the retail gas and electricity industries and how this will impact on residential consumers.

For more details, stay tuned to Well Connected.

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@fcl.fl.asn.au

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