

Well Connected

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

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NORTHPOWER REFUSES TO SUPPORT (IN THE SHORT-TERM) THE COMMUNITY HOME ENERGY EFFICIENCY PARTNERSHIP

PIAC has approached a number of the NSW electricity distributors to financially support the retrofit project, the Community Home Energy Efficiency Partnership (CHEEP) that PIAC and a number of other organisations have developed over the past year. As reported in the last UCAP newsletter, EnergyAustralia have committed funds to CHEEP for an energy retrofit for people on low incomes who rent privately. NorthPower, the electricity distributor that services the north coast and north west of NSW has, at this time, refused to financially support CHEEP.

In a letter to PIAC, Paul Topfer, NorthPower's, General Manager, Regulatory Strategy said [NorthPower] "are currently pursuing other measures for demand management, which we believe offer greater environmental, social and commercial benefits".

This decision is extremely disappointing, especially when EnergyAustralia has played such a leading role in financially supporting CHEEP.

There is one benefit of CHEEP that cannot be measured in any of the standard measures that can be used to evaluate programs like CHEEP, and this is the community support that programs like CHEEP generate. This benefit cannot be measured but nevertheless is important as the electricity market is opened up to retail competition

for residential consumers from 1 January 2002.

However, NorthPower have not completely closed the door on CHEEP. The letter goes on to say "NorthPower remains committed to utilising demand management strategies to reduce network investment and environmental impacts in a cost effective and responsible manner. We would appreciate your organisation keeping us informed of the progress of your venture, in terms of reduced consumption/emissions, costs of retrofitting, number of installations and the socio-economic benefits derived by various customer groups".

PIAC will undoubtedly keep NorthPower informed of the progress of CHEEP and try and convince them that CHEEP is an extremely worthwhile investment in their residential customers and the environment.

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PUBLIC BENEFITS

The Electricity Association of NSW has provided funding to PIAC to develop a paper on public benefits. This project was refused funding by NSW Treasury when PIAC proposed that the project be jointly funded by the Department of Community Services, the Market Implementation Group and the Ministry of Energy and Utilities.

The paper will be published as the third in UCAP's Occasional Policy Paper series over the next couple of weeks. The paper was written by Craig Johnston, a social policy consultant.

PIAC wants to express our sincerest thanks to the Electricity Association of NSW for financially supporting this project.

AGL'S ACCESS ARRANGEMENT

After a protracted process, the Independent Pricing and Regulatory Tribunal (IPART) has approved AGL Gas Networks Company's (AGLGN) Access Arrangement. This process began in January 1999 and after IPART's final decision on 21 July 2000, AGL had to make 46 amendments to their Access Arrangement before it could be approved by the Tribunal.

After an independent audit commissioned by IPART of AGLGN's pricing and cost allocation model, the Tribunal has finally been satisfied that the 46 amendments required by them in the Final Decision have been made by AGL.

For the tariff market that is customers that include the majority of residential consumers, IPART has imposed a CPI-1 price cap on

tariff network prices. Network costs make up approximately 60% of a residential customer's gas bill. This is despite AGLGN arguing that there should be a CPI+X price cap would have meant that residential consumers would have borne real price increases on the network component of their bill.

The approved access arrangement came into force on 1 October 2000.

PRICE REGULATION FOR RESIDENTIAL ELECTRICITY CONSUMERS

As regular readers of *Well Connected* will be aware, full retail contestability in gas and electricity, now due for introduction from September 2001 and January 2002 respectively, could see many residential users exposed to price exploitation. PIAC and consumer groups as well as the Independent Pricing and Regulatory Tribunal (IPART) have called repeatedly for a system of default tariffs to protect those households who will be locked out of competition. At the UCAP conference held last June the Minister for Energy and Utilities, the Hon Kim Yeadon, committed the Government to introducing a system of default pricing. Advice has now been sought by the Premier, the Hon Bob Carr from IPART on what mechanisms might be appropriate for the setting of a capped default price.

PIAC has made several submissions to the Tribunal's investigation. As discussed in the second of our *UCAP Occasional Policy Papers*, high prices for default customers are seen by many stakeholders as an important component of competition. This was borne out in the many submissions received by the Tribunal from incumbent and

prospective retailers. The term 'retail headroom' is the latest bit of jargon and it is used to justify high prices.

The terms of reference set by the Government for the Tribunal's investigation require consideration to be given to future changes in the costs of power generation. A report prepared by the Tribunal's consultants indicates that a 'generation allowance' could have significant impact on household energy bills - forcing these up by 30% or more.

In addition, considerable support has been generated for the option of permitting the retailers room to 're-balance' their existing tariffs. This is argued as necessary to remove cross subsidies between different residential users. Households who are more expensive to supply, perhaps because of their location, could see a further rise in their electricity bills.

The lack of an established mechanism for default prices has been highlighted in policy debates concerning a number of the arrangements for full retail contestability. The final decision by the Government, based on recommendations from the Tribunal, will have implications for the nature of the protections given to consumers in relation to energy contracts; for the complexity of the systems for transferring customers between retailers; and for decisions about the introduction of new technology 'time-of-use' meters.

The Government has directed the Tribunal to report by 31 October and the report will be made publicly available.

SECURITY DEPOSITS IN THE NSW ELECTRICITY INDUSTRY

As part of IPART's examination of default tariff pricing (see the article on page 2 of this newsletter), IPART requested a range of information from the NSW electricity retailers including the number of security deposits levied or held for urban residential, rural residential and non-residential customers for 1999 and 2000 (this information has been made publicly available). We thought it would be of interest if a percentage of number of security deposits compared with customer numbers in each category was done.

'DISCOMFORT' FOR ELECTRICITY USERS

Price caps in the competitive energy market cannot be set at a level which is 'comfortable' for consumers - this was the consensus amongst energy retailers revealed at a roundtable discussion on 7 September. The roundtable was convened by the Independent Pricing and Regulatory Tribunal (IPART) as part of its investigation of default electricity prices. PIAC was joined in the discussion by the NSW Council of Social Service (NCOSS) and the Smith Family as well as representatives of the Government and a dozen energy retailers.

Default prices will be charged to those residential users who do not take up one of the new competitive packages offered by energy retailers. This group will predominantly consist of low-income and disadvantaged consumers.

WIN ON WATER PRICING

Residential customers of Sydney Water have received some good news on prices with the recent determination issued by the Independent Pricing and Regulatory Tribunal (IPART) covering prices of the Corporation for 2000/1 - 2003/4. PIAC has welcomed the decision and is very

| | Number of Customers | | Number of Security Deposits | | Percentage | |
|--------------------------------|---------------------|-----------|-----------------------------|---------|------------|------|
| | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 |
| Energy Australia | | | | | | |
| Urban residential | 1,227,163 | 1,247,596 | 191,997 | 191,997 | 16.4 | 15.3 |
| Rural residential | 11,372 | 11,558 | - | - | - | - |
| Non-residential | 140,394 | 135,517 | 10,105 | 10,105 | 7.1 | 7.4 |
| Integral | | | | | | |
| Urban residential | 672,386 | 671,295 | 121,089 | 134,129 | 18 | 19.9 |
| Rural residential | 1,557 | 1,833 | 181 | 179 | 11.6 | 9.7 |
| Non-residential | 66,395 | 63,716 | 19,628 | 20,458 | 29.5 | 32.1 |
| GSE¹ | | | | | | |
| Urban residential | 149,168 | 151,639 | N/A ² | 14,344 | - | 9.4 |
| Rural residential | 44,046 | 44,829 | | 4,285 | - | 9.5 |
| Non-residential | 32,974 | 33,047 | | 1,139 | - | 3.4 |
| Advance³ | | | | | | |
| Urban residential | 75,807 | 76,938 | 13,228 | 14,067 | 17.4 | 18.2 |
| Rural residential | 23,466 | 23,725 | 338 | 393 | 1.4 | 1.6 |
| Non-residential | 20,040 | 20,141 | 1,734 | 1,841 | 8.6 | 9.1 |
| NorthPower | | | | | | |
| Urban residential | 259,394 | 266,180 | 54,962 | 54,807 | 21.1 | 20.5 |
| Rural residential ⁴ | - | - | 11,504 | 11,471 | - | - |
| Non-residential | 96,776 | 97,002 | 11,178 | 11,161 | 11.5 | 11.5 |
| Aust Inland | | | | | | |
| Urban residential | 12,379 | 12,273 | 7,600 | 7,488 | 61.4 | 61 |
| Rural residential | 3,210 | 3,198 | 600 | 559 | 18.7 | 17.5 |
| Non-residential | 3,320 | 3,417 | 950 | 890 | 28.6 | 26 |

¹ GSE does not levy security deposits anymore, so the number for their security deposits is the number they hold.

² GSE do not have the data for 1999 so have not reported numbers for 1999.

³ The number of security deposits held or levied by Advance Energy was not included in the original IPART information but was subsequently e-mailed to PIAC.

⁴ NorthPower do not differentiate their rural tariffs by business and domestic customers.

gratified to see that our main arguments were reflected in the final determination.

Sydney Water originally had sought approval for price increases for residential customers of more than 6% over the period of the new determination. The Tribunal have set prices by a formula based on CPI-2% with the CPI figure calculated exclusive of the effects of the GST. While the exact impact on prices is not clear at this stage it is expected that any increases will be far less than sought by Sydney Water. Some customers with low-consumption will see their total water bills fall at least over the next year.

The Tribunal also has attempted to re-balance costs between large and small volume users. The water service charge, a fixed 'connection' cost, has been reduced for the entire determination period. It is envisaged this will shift the Corporation's revenue away from fixed charges to actual consumption. However, some customers in areas of Western Sydney are to have their sewerage charges raised to the same level as other Sydney Water customers.

The main arguments advanced by PIAC against the Sydney Water proposal on water prices were:

- the Corporation has been pursuing major cost reductions, including staff redundancies, which should eliminate the need for price increases;
- the projected falls in per capita demand for the Corporation's water and sewerage services should produce price falls rather than price increases.

POLICY CHOICES FOR ENERGY COMPETITION

Retail competition in energy will require significant reform to existing legislative arrangements in NSW. PIAC has pursued opportunities to shape the final legislative outcome. Apart from price, many other facets of the competitive energy market could have serious implications, especially for low-income and disadvantaged consumers. The NSW Government's industry based advisory group, the Market Implementation Group (MIG), has over recent months convened a series of working groups. In August they finally released a number of key discussion papers. PIAC has been a keen participant in the working groups. Formal responses have been made to six of the papers released by the MIG. These have covered issues related to, among others, the rights of consumers to take up a choice between retailers; the contractual obligations on energy retailers and consumers; and the content and application of a retail marketing code of conduct. It is understood the Government still intends to have the proposed legislation tabled in Parliament before the end of this year.

PIAC has also responded to a Discussion Paper released by the Ministry of Energy and Utilities on consumer protection issues in a competitive gas market.

ADVANCE EASY PAY

Advance Easy Pay allows customers to pay their electricity bill in even regular instalments:

- monthly
- fortnightly
- weekly

The instalments are the same for each period regardless of the amount of the customer's electricity

bill. The instalments are deducted automatically from the customer's bank or credit union at a previously agreed amount and credited to their electricity account.

The instalments are worked out by the computer system summarising usage over the past 12 months. Existing overdues where applicable are added into this calculation to arrive at the required deductions.

Accounts are reviewed periodically to ascertain whether deductions are adequate in relation to usage.

Providing all deductions are honoured the account does not generate reminders while the Easy Pay Plan is in place.

Features of the Easy Pay Plan are:

- Customers joining the plan are not required to pay a bond, presently set at \$180
- An existing customer having paid a bond previously can have the bond credited to the account on joining the plan reducing the amount overdue by \$180
- Should the account be in credit at the end of 12 months a refund can be requested
- The same amount is paid on a regular basis
- Instalments come directly from the customer's account
- Paying in instalments means amounts are smaller and more manageable
- Electricity bills show the regular deductions
- The overall plan assists in the customer being able to budget more effectively
- The worry of the supply being disconnected is reduced due to overdue notices not being sent.

Advance expects that Easy Pay will impact on disconnection rates and the usage of EAPA vouchers.