

10 May 2012

2012 annual review of regulated electricity retail prices

Independent Pricing and Regulatory Tribunal

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Thank you for the opportunity to comment on the IPART Draft Report *Changes in regulated electricity retail prices from 1 July 2012*.

The Energy & Water Ombudsman NSW (EWON) investigates and resolves complaints from customers of electricity and gas providers in NSW, and some water providers.

The cost increases are significant. An average increase of 16.4% on top of the previous two years increase of 27% will have significant consumer impact. EWON has seen a large increase in customer contacts and complaints related to the impact of energy price increases and affordability, as well as complaints about billing issues.

EWON understands that the terms of reference for this *Draft Report* only cover a review of the 2010 Determination and do not provide IPART with much discretion. EWON also understands the proposed increases are primarily driven by network costs and the introduction of the carbon pricing mechanism. Both of these are outside of the control of retailers and therefore IPART.

Because of this EWON endorses the general direction of the IPART *Draft Report* and specifically the proposals contained within Chapter 7. These proposals attempt to address the issue of energy affordability and clearly identify key areas where change is needed within the regulatory framework and to ensure assistance is targeted to those in need. We have provided comments on some of these proposals.

For ease of reference we have adopted the same numbering as the IPART Draft Report *Changes in regulated electricity retail prices from 1 July 2012*.

7.2.2 Pursuing cost-effective opportunities to deploy time-of-use and/or smart meters

We understand that the mandatory roll out of smart meters in Victoria has been a process that has (in the short term) added to consumer bills and certainly generated significant public debate and concern. The proposed IPART approach of transferring responsibility for the decision to install a smart meter from the network to the customer or the retailer is a new approach and as such deserves consideration.

Smart meter roll out is a national policy and as such requires considerable consultation and detailed policy and decision making processes. EWON recently responded to the Standing Council on Energy and Resources (SCER) *National Smart Meter Consumer Protections and Pricing Draft Policy Paper Two*. EWON's view is that this framework for consumer protection needs to be completed before any significant changes to the current situation concerning smart meters are undertaken.

To date, the single biggest source of customer contacts with EWON concerning smart meters arises from their introduction in the context of solar arrays and their essential relationship to this technology. The key issue arising from this is the lack of retailer flexibility and the compulsory imposition of time of use tariffs rather than a customer choice between a time of use or standard tariff. This lack of flexibility is a retailer responsibility and is not driven by the networks.

7.2.3 Adjusting network reliability standards

This issue was also raised in the context of the IPART Sydney Water Pricing Determination. EWON noted at the IPART roundtable on water pricing that the tradeoff between reliability standards and pricing is a complex issue. The initial response of consumers may well be to seek lower costs given a long period without the experience of outages. However the real costs to consumers from an outage and supply restoration can be considerable, and it is often difficult to gather relevant input on this issue from community consultation.

7.4 Retail price regulation

EWON notes that the scheduled review on the competitiveness of the energy market in NSW has yet to commence. Once that review is completed there needs to be a government decision about the continuation of price regulation. Given the time frames required by this critical process EWON asks IPART if it is possible to extend the current determination period (with more flexible terms of reference as requested by IPART) by one year thus removing the possibility of a rushed implementation. Further a one year extension would provide some stability for consumers given the significant changes arising from the introduction of the National Energy Customer Framework this year.

7.5 Electricity affordability and customer protection

IPART indicates that the purpose of price regulation is “not intended to improve the affordability of electricity or to provide assistance to support vulnerable customers”¹. While this position is clear, a decision to increase prices by an average 16.4% on top of the previous two years unquestionably does have an affect on the affordability of electricity and impacts especially on vulnerable customers. IPART has a responsibility

¹ P87 Changes in regulated electricity retail prices from 1 July 2012 IPART



to draw to the attention of policy makers and Government these consequences of its determination.

Specifically EWON welcomes Chapter 6 of the report which provides analysis of the customer impacts and section 7.5.1 which examines some aspects of the needs of vulnerable customers.

7.5.1 Ensure customer assistance measures are effective, cost-efficient and well targeted

EWON endorses the three priorities indentified by IPART.

More effectively target current measures at the customers most in need of assistance

EWON believes that this could be effectively achieved through the NSW Government commissioning IPART to review the total package of customer assistance measures. Such a review should also identify and review the structure of existing measures in other jurisdictions as well as attempting to identify new and needed measures. For example EWON in its submission to last year's determination called for the implementation of a range of new measures including extension of the energy rebate to retirement village residents, the introduction of a service to property charge rebate and the introduction of prepayment meters as an option for consumers². Given IPART's identification of the fact that customers in rural areas spend a significantly greater proportion of their income on energy supply, their needs could be also considered by such a review.

Reform of Energy Accounts Payment Assistance (EAPA) scheme

This proposal is long overdue. Proposals for improvements to the delivery of the EAPA vouchers and ways the scheme could be enhanced have been canvassed by the EAPA Advisory Group but, as far as we are aware, are yet to be implemented. We understand that EAPA has not been able to keep up with the growing demand from customers struggling to manage their energy accounts.

Equally important is the quantum of assistance provided through EAPA. This has not increased despite the fact that if the current price rise is approved, the total cost of electricity will have risen by 43.4% in the last three years.

Promote retailers' payment plans as first step for customers experiencing payment difficulties

EWON strongly endorses the view of IPART which identifies the critical role retailers play in assisting customers who have difficulty in paying their bills, especially with payment plans and hardship programs. EWON also acknowledges that many customers

² P3 EWON submission to- *Changes in regulated electricity retail prices from 1 July 2011 Electricity — Draft Report.*



do not contact retailers for this assistance and that there is a need to promote what is in fact a regulatory obligation. EWON believes that retailers have a proactive role to play in engaging with their customers and promoting their assistance programs, as there are customers in crisis unaware of the options available.

Appendix H³ notes that retailer incentive payments and energy efficiency advice from retailers play an important role in reducing debt to manageable levels. It is EWON's experience that such actions as part of the hardship programs are the exception rather than the rule in NSW. It is our view that hardship programs could be much more effective with additional funding. EWON believes that there is a role for networks in contributing to hardship customer assistance measures, particularly when it is network costs driving a significant part of the price rises.

Other matters

EWON believes that the issue of energy affordability is a serious social and economic issue which must be addressed on both a state and national level. It needs to be addressed by all stakeholders in the energy area. Retail members of EWON share our concern about the impact of price rises on vulnerable customers and the effect of continuing price rises on affordability. This impact is reflected in growing numbers of customers in hardship programs, a significant number of customers with arrears, and increasing referral of energy debts to debt collection agencies and credit default listing. This is also reflected in the growing numbers of customers contacting EWON.

IPART could take a lead by joining EWON in asking the AEMC to convene a national forum of all stakeholders on energy affordability and what needs to be done to ensure vulnerable consumers can afford energy into the future.

If you would like to discuss this matter further, please contact me or Chris Dodds, Senior Policy Officer on 8218 5250.

Yours sincerely

Clare Petre
Energy & Water Ombudsman NSW

³ P132 Changes in regulated electricity retail prices from 1 July 2012 IPART