



**Submission to the
Independent Pricing and Regulatory Tribunal
Review of regulated Retails Tariffs and
Charges for Electricity 2010 to 2013**



July 2009

Council of Social Service of NSW (NCOSS)
66 Albion Street, Surry Hills, 2010

Ph: 02 9211 2599, Fax: 9281 1968, email: info@ncoss.org.au

1. ABOUT NCOSS

The Council of Social Service of NSW (NCOSS) is the peak body for the social and community services sector in New South Wales. NCOSS works with its members on behalf of disadvantaged people and communities towards achieving social justice in NSW. It was established in 1935 and is part of a national network of Councils of Social Service, which operate in each State and Territory and at the Commonwealth level.

NCOSS provides an independent voice on welfare policy issues and social and economic reforms. It is the major coordinator for non-government social and community services in NSW.

2. INTRODUCTION

NCOSS welcomes the opportunity to comment on the review of regulated electricity tariffs for the 2010 to 2013 period. In making this submission, NCOSS urges the Tribunal to remember that electricity is an essential service necessary for the health and wellbeing of people in NSW. Therefore decisions about prices extend beyond the theoretical considerations of long run marginal costs, notions of effective competition and cost reflective tariffs and impact on the lives of people, particularly low income households.

NCOSS has welcomed recent announcements by the NSW Government regarding the Consumer Protection Package including the draft Customer Assistance Policy in response to the significant price rise on 1 July 2009. However, further large price rises may reverse the benefits of these developments.

While electricity prices remain a relatively small proportion of household expenditure, people on low incomes suffer the most when prices rise. NCOSS is aware that there are likely to be significant increases in regulated retail tariffs over the period of this determination. Hence, in this submission, NCOSS focuses on Chapter 8 of the *Issues Paper* as government customer assistance measures mostly affect low income households. This submission also makes some brief comments on the effectiveness of retail competition and non-tariff fees and charges.

3. EFFECTIVENESS OF RETAIL COMPETITION

NCOSS understands that the Council of Australian Governments has decided to phase out the regulation of retail electricity tariffs where 'effective competition' can be demonstrated. As yet there is no agreement on what constitutes effective competition. Clear criteria to identify effective competition need to be developed and widely accepted before the proposed Australian Energy Market Commission's (AEMC) review of the effectiveness of competition in NSW in 2011. Both the South Australian and Victorian reviews of the effectiveness of retail competition lacked wide endorsement, so much so that the South Australian Government did not accept the AEMC's recommendation.

The *Issues Paper* suggests that the proportion of small retailer customers on regulated tariffs has remained relatively steady from 2006/2007 to 2008/2009, and increased slightly in the EnergyAustralia standard supply area. This can be attributed to the unwillingness of customers to switch retailers when there is only a small increase in benefit.

NCOSS is concerned that, in order to increase the benefit of switching retailers, some will argue that the regulated tariff will need to rise substantially to provide for a higher retail margin so that a greater discount can be offered on a contract. NCROSS rejects the argument. There is no point in increasing the regulated tariff so that retailers may offer a discount. This disadvantages the majority of small retail customers who do not take up a market contract, while benefiting the minority who choose to take up a market contract.

4. NON-TARIFF FEES AND CHARGES

Security deposits

NCOSS is concerned that many people are placed in some financial difficulty when asked to pay an electricity security deposit. Anecdotal evidence from Emergency Relief providers indicate that small but significant numbers of people seek assistance to pay these security deposits.

It is the understanding of NCROSS that security deposits can be waived if the consumer accepts a direct debit arrangement or payment instalment plan. While NCROSS has been supportive of payment instalment plans, we have some concerns that retailers requiring a security deposit places pressure on low-income households to accept a payment instalment plan. It may not always be in the best interest of low-income households to accept payment instalment plans, particularly if their income is variable.

NCROSS would prefer to see electricity security deposits abolished. If the Tribunal maintains the security deposits a cap should be placed on the amount as currently exists. Retailers should be encouraged to waive the security deposit for

low-income households who for may have good reasons not to accept a payment instalment plan.

Late payment fees

NCOSS is concerned that late payment fees place further pressure on low-income households who are already having difficulty paying their electricity account. NCOSS understands that the retailers usually waive the fee if they consider the customer to be in hardship. NCOSS strongly supports this approach. However, NCOSS would like to see the retailer's policies and procedures regarding waving late payment fees more firmly established. We seek further discussion on how best this might be achieved.

NCOSS does not believe an increase in late payment fees is justifiable. Any increase would run counter to the objectives of the Customer Assistance Policy.

5. CUSTOMER IMPACTS

NCOSS understands that IPART is undertaking research, including commissioning NATSEM, to reach a better understanding of the social impact of IPART's pricing decisions. NCOSS looks forward to seeing this research and hopes that it will lead to better decision making by the NSW Government, energy retailers, consumer advocates and IPART regarding low income consumers.

Energy bills remain a relatively small proportion of household expenditure even for people on low incomes. However, low income households spend a greater proportion of their household budget on energy than high income households. The Australian Council of Social Service, using Australian Bureau of Statistics data, has calculated that energy costs constitute around 4.0% of a low income household's budget compared to 2.1% of a high income household (ACOSS 2008). This is despite the fact that low income households use less energy than high income households (IPART 2008).

These averages mask a more complex situation where some households spend a significantly greater proportion of their household budget on energy. Low income households which spend high proportions of household budgets on energy are most affected by increases in electricity tariffs. Reasons for this include a lack of knowledge about energy consumption, poor housing quality, inefficient appliances and various medical conditions.

Commonwealth Government assistance

The Commonwealth Government provides a utilities allowance \$518.80 to a range of households dependent on Centrelink benefits. However, NCOSS is concerned that households dependent on Newstart Allowance, Parenting

Payment and other Centrelink benefits are not entitled to this allowance. NCOSS considers this to be a significant gap.

NCOSS notes that the Commonwealth Government has committed to addressing the impact of the Carbon Pollution Reduction Scheme on energy prices for low and middle income households. NCOSS supports appropriate measures to reduce the impact on low income households.

The Commonwealth Government is also funding the installation of ceiling insulation through the Homeowner Insulation Program and the Low Emission Assistance Plan for Renters. NCOSS notes that these programs are not means tested.

Energy Rebates

NCOSS has welcomed the increase in the energy rebate to \$130 per annum and the extension of the rebate to include recipients of Carers Allowances (child under 16), Sickness Allowances and Special Benefits. NCOSS notes that this rebate does not cover Newstart Allowance or other low income households in possession of a health care card. NCOSS considers this to be a significant gap in the rebate scheme. NCOSS recommends that the extension of the NSW energy rebate scheme to all health care card holders.

NCOSS has also welcomed the proposal to index this rebate to the Consumer Price Index (CPI). However, NCOSS is concerned that the value of the rebate will be eroded in comparison to the increase in energy prices (above CPI) likely to occur as part of this determination. NCOSS recommends that the energy rebates be indexed in line with regulated electricity tariffs rather than the CPI.

Low Income Household Refits

NCOSS has welcomed the NSW Government's Low Income Household Refit Program. This program has the potential to provide a small, but significant reduction in energy bills for low income households. NCOSS believes that this program could eventually be expanded to increase the target from 220,000 low income households. This program should be linked to the Commonwealth Government ceiling insulation programs.

NCOSS is aware that NSW Housing is seeking to improve its stock of public housing in terms of energy efficiency including the installation of ceiling insulation and solar hot water systems. NCOSS welcomes these initiatives and urges the NSW Government to enhance and accelerate this work. Similar energy efficiency programs should be extended to community housing providers.

Customer Assistance Policy

The NSW Government has recently issued a draft Customer Assistance Policy for consultation and has sought stakeholder views on the package of policy and program measures designed to assist customers experiencing difficulties paying their energy bills and staying connected to energy services. The draft policy includes:

1. Additional support for financial counselling services;
2. Targeted financial assistance;
 - a. An Energy Grants Scheme for energy efficient appliances
 - b. A Medical Cooling Rebate
 - c. Service Availability Charge Rebate
3. Enhancement to the Energy Accounts Payment Assistance (EAPA) scheme;
4. Better information for customers and the community about the energy market and available financial assistance; and
5. Strengthening the framework for energy retailers' customer hardship charters and payment plans.

NCOSS has responded to the draft Customer Assistance Policy with a submission (available on the NCOSS website). In summary, NCOSS has supported most of the elements of the policy. NCOSS believes that the bulk of the available resources should be allocated to financial counselling services and the Energy Grants Scheme as these can be well targeted and used to assist households in financial hardship. Strengthening the retailers' customer hardship charters and payment plans is also strongly supported.

Gaps in Customer Assistance

From the above, the largest gap in customer assistance for low income households are those households dependent on Newstart Allowance, Parenting Payment and other Centrelink benefits which are not entitled to a Utilities Allowance. Newstart and some Parenting Payment recipients are not entitled to the NSW Government's Energy Rebates.

Further, low income households which are not dependent on any Centrelink benefits do not receive either the Utilities Allowance or Energy Rebates. However, low income households with a low income health care card are entitled to the Low Income Household Refit Program.

Improving the energy efficiency of the low income households through refit programs and energy efficient appliances has the potential to significantly mitigate high energy prices for low income households. The NSW Government needs to ensure that suite of these programs are appropriately coordinated and extend to as many low income households as possible

6. CONCLUSION

In considering the appropriate level of regulated tariffs from 2010 to 2013, IPART should not include calculations increasing the retail margin so that a greater discount can be offered on retail contracts.

IPART should abolish security deposits and late payment fees.

Significant rises in the regulated electricity tariff requires significant action from governments to mitigate the impact on low income consumers. NCOSS believes that IPART should recommend that the NSW Government should:

- extend energy rebates to all health care card holders as well as pension concession card holders;
- index the energy rebate to changes in regulated energy tariffs; and
- improve coordination of the various energy efficiency measures to maximise benefits to low income households.

REFERENCES

Australian Council of Social Service (2008) *ACOSS Response to Carbon Pollution Reduction Scheme Green Paper*, ACOSS, Sydney NSW.

Independent Pricing and Regulatory Tribunal (2008) *Residential energy and water use in the Hunter, Gosford and Wyong*, IPART, Sydney NSW.