Combined Pensioners & Superannuants Association OF NEW SOUTH WALES INC

CPSA

Submission to the Independent Pricing and Regulatory Tribunal's Draft Report:

Changes in regulated electricity prices from 1 July 2011

May 2011

Combined Pensioners & Superannuants Association of NSW Inc (CPSA)

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CPSA recommends that:

Recommendation 1:

The NSW Government invest dividend and tax equivalents received from state-owned energy corporations into necessary network upgrades and further assistance measures for low-income households.

Recommendation 2:

Any increase in electricity prices to be applied solely to usage charges so that there is further incentive to reduce consumption where possible and so that bills are more equitable for households with both electricity and gas.

Recommendation 3:

A reformulation of the Low Income Household Rebate be implemented so that it is both adequate and equitable, regardless of location of residence. The rebate would be paid as 100% of electricity and gas supply charges and 15% of electricity consumption per year.

Recommendation 4:

The NSW Government works with the Australian Government and energy retailers to roll-out energy efficiency retrofit programs for pensioner and low-income households. The retrofit program would, but not be limited to, install insulation, replace electric hot water systems with gas or solar, refit or replace energy intensive appliances and undertake other energy efficiency measures, where appropriate.

Recommendation 5:

CPSA calls on the NSW Government to release its finding from the review of the Energy Accounts Payments Assistance (EAPA) scheme.

Recommendation 6:

Electricity prices continue to be independently regulated by the Independent Pricing and Regulatory Tribunal (IPART).

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CPSA was founded in 1931 in response to pension cuts. CPSA is a non-profit, non-party-political membership association which serves pensioners of all ages, superannuants and low-income retirees. The aim of CPSA is to improve the standard of living and well-being of its members and constituents. CPSA has approximately 137 Branches and affiliated organisations with a combined membership of over 31,200 people living in all parts of NSW.

CPSA appreciates the opportunity to comment on the Independent Pricing and Regulatory Tribunal's (IPART) Draft Report *Changes in regulated electricity retail prices from 1 July 2011*. The price increases announced in IPART's draft determination will have a devastating effect on pensioner and other low-income households. Although changes and increases to the Energy Rebate have taken place, in CPSA's view it is critical that the NSW Government enacts further reforms and introduces further energy efficiency measures to ensure that these households will be able to afford the essential service of electricity.

Factors influencing the price rise

The bulk of the price increases are due to increased network costs regulated by the Australian Energy Regulator (AER) and the price of 'green' energy initiatives. While this review reflects cost increases from changes to, and the increased uptake of, green initiatives, the bulk of the increased cost to households is due to the AER increases. This alone will represent a considerable increase to households and will leave many people in 'energy poverty'[1], paying a substantial portion of their income on electricity costs.

CPSA believes that the NSW Government has a responsibility to ensure that households in the state have access to a reliable electricity supply and that pensioners and other low-income earners are protected from unaffordable electricity prices. Over the years, billions of dollars have been paid to the NSW Government by the seven state-owned energy corporations in the form of dividends and tax equivalents. In 2009/2010 dividends and tax equivalents totalled $1.4 billion.[2] Despite the privatisation of the NSW Government's energy retailer arms and part of its generators, it will continue to receive dividends and tax equivalents from the entities it still owns.[3] While the Government will not receive the same amount in dividends due to privatisation, CPSA believes that moneys received should be invested into any necessary network upgrades (of which the Government still has ownership) and put towards assistance measures for low-income householders. It is not socially responsible for Government to reap dividends from electricity when households are faced with unaffordable costs for this essential service.

[1] Energy poverty is derived from the term 'fuel poverty' used in the United Kingdom. 'Fuel poverty' has been defined as paying 10% or more income for fuel (here energy) costs.
[2] Auditor-General's Report 'Financial Audits Volume 4: Electricity Industry Overview' Available at http://www.audit.nsw.gov.au/publications/reports/financial/2010/vol04/pdfs/05_electricity_industry_overview_volume_4_2010.pdf Accessed 6 May 2011.
[3] These are the transmission corporation Transgrid, the generator Macquarie Generation and the two generators through the gentrader agreements Eraring Energy and Delta Electricity.

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CPSA also welcomes IPART's recommendations for further investigations into the necessity of high-cost reliability measures and network costs arising from regulatory decisions. These costs are borne by households to negligible benefit or improvement in reliability of supply.

Recommendation 1:

The NSW Government invest dividend and tax equivalents received from state-owned energy corporations into necessary network upgrades and further assistance measures for low-income households.

Pensioner and other low-income households

The impacts of high electricity prices and staggering price rises over the past four years have been well reported by community and welfare organisations and have been recognised and documented by IPART. The theory that households will reduce their energy consumption when prices increase may work for households on higher incomes that have larger discretionary energy use. Low-income households on the other hand cop unaffordable bills, and can do little to reduce their energy consumption because of their typically low discretionary energy use and inability to afford the cost of significant energy saving measures. High energy prices drive low-income households into 'energy poverty', forcing them to cut back expenditure on other essential goods and services, or risk going into debt, and/or having their power cut-off.

Between March and June 2010, CPSA surveyed its members about energy affordability and their use of energy efficiency measures. It found that while 88% of the 470 respondents made a conscious effort to reduce energy usage, 40% had difficulty in meeting the cost of their electricity and/or gas bill in the past six months.[4] Of this 40%, 93% were on a pension and 72% were on a full-rate pension.

In efforts to reduce energy consumption, respondents stated that they did such things as turning off appliances at the wall, going to bed early, not using the oven, not watching television and not adequately heating or cooling the house. Most of these measures go beyond the point of reducing discretionary usage, having a detrimental effect on people's quality of life. This is the reality already experienced by many low-income householders in NSW. Many do not know how they will cope with the next set of increases.

Electricity price increases for 2011/12

As IPART's draft report shows, prices in 2011/12 are set to rise well in excess of CPI, with the average increase being 18%. Prices will jump again the following year with increases of approximately 10% for Energy Australia and Country Energy and a smaller increase of 2% for Integral Energy.

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[4] It is worth noting that this survey took place before the significant price increases of July 2010, which saw an average increase to electricity prices of 10% for Energy Australia, 7% for Integral Energy and 13% for Country Energy.

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Tables 1 to 3 highlight how price increases will affect households across NSW over the next two years.[5]

Table 1: Energy costs @ 3,000kWh per annum – 30% off-peak – 2010/11, 2011/12, 2012/13

Retailer	Annual Bill 2010/11	Increase 1 July 2011 (%)	Annual Bill 2011/12	Increase 1 July 2012 (%)	Annual Bill 2012/13
Energy Australia	$648.68	17.9	$764.79	10.0	$841.27
Integral Energy	$724.59	16.4	$843.42	1.9	$859.44
Country Energy	$953.80	18.1	$1,126.44	9.2	$1,230.07

Table 2: Energy costs @ 5,600kWh per annum – 30% off-peak – 2010/11, 2011/12, 2012/13

Retailer	Annual Bill 2010/11	Increase 1 July 2011 (%)	Annual Bill 2011/12	Increase 1 July 2012 (%)	Annual Bill 2012/13
Energy Australia	$1,061.23	17.9	$1,251.19	10.0	$1,376.31
Integral Energy	$1,157.69	16.4	$1,347.55	1.9	$1,373.15
Country Energy	$1,468.20	18.1	$1,733.94	9.2	$1,893.46

Table 3: Energy costs @ 7,000kWh per annum – 30% off-peak – 2010/11, 2011/12, 2012/13

Retailer	Annual Bill 2010/11	Increase 1 July 2011 (%)	Annual Bill 2011/12	Increase 1 July 2012 (%)	Annual Bill 2012/13
Energy Australia	$1,283.38	17.9	$1513.11	10.0	$1,664.42
Integral Energy	$1,390.91	16.4	$1,619.0	1.9	$1,649.76
Country Energy	$1,745.20	18.1	$2,061.08	9.2	$2,250.70

It is worth noting that the draft report did not give an exact indication on how the increases will be apportioned between usage and supply charges. Supply charges form a large portion of electricity bills, obviously more so for low-energy use consumers and those who have both an electricity and gas supply. This can create a disincentive to further reduce energy usage as there would be no commensurate reduction in energy bills. It also creates an inequitable situation whereby those who have both an electricity and gas supply can pay more than they otherwise

[5] Collated using energy retailer supply and usage charges for 2010/11 and indicated increases for 2011/12 and 2012/13 from IPART, *Electricity – Draft Report: Changes in regulated electricity retail tariff prices from 1 July 2011*. 2011.

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would had they only an electricity supply. As IPART has noted, 'For most low income households the reduction in energy bills from using mains gas is less than their gas bills'.[6]

Recommendation 2:

Any increase in electricity prices to be applied solely to usage charges so that there is further incentive to reduce consumption where possible and so that bills are more equitable for households with both electricity and gas.

Energy rebate for low-income householders

As Tables 1 to 3 highlight, households will be subject to severe 'price shocks' in the years ahead and low-income householders, particularly those reliant on income support as a main source of income, will have great difficulty affording electricity. IPART's own research highlights the greatly disproportionate effect of high energy costs on low-income householders compared with those on middle- and high-incomes. Single pensioners and allowance recipients are already spending on average 5% of their entire income on electricity. Over 10% of these householders are spending more than 10% of their income on electricity alone. Outside Sydney, IPART's analysis indicates that around 8% of householders spend more than 10% of their income on electricity and a further 6% spend between 8-10% on electricity.[7]

These householders' budgets are stretched at the best of times, and both federal and state income support/concessions have not risen in line with the price hikes that have been felt and will continue to be felt more severely in years to come. For example, a component of the Pension Supplement is the Utilities Allowance. However, the Utilities Allowance is only indexed to CPI and therefore has not maintained pace with utility costs. Furthermore the Pension Supplement is only paid to Age and Disability Support Pensioners and Carer Payment recipients, meaning that Allowance recipients do not receive this form of assistance.

The reformed energy rebate, now called the Low Income Household Rebate (LIHR), will rise to $200 from 1 July this year. This is a welcome increase of $55 per annum. However, it must be recognised that the rebate has not (until 2010) been adequately linked to energy price increases. Tables 4 and 5 show the cost of electricity for Pension and Allowance recipient households as a proportion of their income.[8]

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[6] IPART, 2011. p.66
[7] ibid. pp.9-11.
[8] Collated using Centrelink Pensions and Allowances as at May 2011 and energy bills following IPART 2011, after $200 Low Income Household Rebate

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Table 4: Pension and Allowance recipient households 2011/12
Bills for 3,000kWh usage per annum after LIH Rebate and as proportion of income

	Income (p/w)	Energy Australia		Integral Energy		Country Energy	
		Expenditure (p/w)	Proportion of Income	Expenditure (p/w)	Proportion of Income	Expenditure (p/w)	Proportion of Income
Single Pension	$364.65	$10.82	3.0%	$12.33	3.4%	$17.76	*4.9%*
Couple Pension	$549.70	$10.82	2.0%	$12.33	2.2%	$17.76	3.2%
Single Allowance	$237.45	$10.82	4.6%	$12.33	*5.2%*	$17.76	*7.5%*
Couple Allowance	$428.70	$10.82	2.5%	$12.33	2.9%	$17.76	4.1%

Table 5: Pensioner and Allowance recipient households 2011/12
Bills for 5,600kWh usage per annum after LIH Rebate and as proportion of income

	Income (p/w)	Energy Australia		Integral Energy		Country Energy	
		Expenditure (p/w)	Proportion of Income	Expenditure (p/w)	Proportion of Income	Expenditure (p/w)	Proportion of Income
Single Pensioner	$364.65	$20.15	*5.5%*	$21.99	*6.0%*	$29.40	***8.1%***
Couple Pensioner	$549.70	$20.15	3.7%	$21.99	4.0%	$29.40	*5.3%*
Single Allowee	$237.45	$20.15	***8.5%***	$21.99	***9.3%***	$29.40	***12.4%***
Couple Allowee	$428.70	$20.15	4.7%	$21.99	*5.1%*	$29.40	*6.9%*

Tables 4 and 5 show that many households in receipt of Pensions or Allowances will face 'energy poverty', despite the increase to the rebate. Furthermore, the rebate is not indexed to future electricity price increases and no increase is foreseen after 2014, when the rebate reaches $235 per annum. Table 6 shows the value of the rebate as a proportion of energy bills.

Table 6: LIHR as percentage of annual bill (3,000kWh usage) 2011/12 and 2012/13

Retailer	Annual Bill 2011/12	Rebate 2011/12	Proportion of bill (%)	Annual Bill 2012/13	Rebate 2012/13	Proportion of bill (%)
Energy Australia	$764.79	$200	26.15	$841.27	$215	25.56
Integral Energy	$843.42	$200	23.71	$859.44	$215	25.02
Country Energy	$1,126.44	$200	17.76	$1,230.07	$215	17.48

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Energy Australia and Country Energy customers will see the value of the rebate diminish, whereas Integral Energy customers at this point in time will be somewhat protected because of the smaller increase to energy prices in that area proposed for 2012/13 compared with other retailers. Nonetheless, they will still be paying a higher amount for their electricity than Energy Australia customers.

CPSA is concerned that over time the rebate will not keep up with energy price rises in whichever retailer area as has been the case with past iterations of the energy rebate.

CPSA believes that a much more equitable approach to the rebate is required to smooth over the significant differences felt by customers in the three retailer areas. By considering the figures in Table 6, Country Energy customers will receive a rebate increase of $15 on a bill that has increased by over $100. Meanwhile, the same $15 increase is received by Integral Energy customers for a bill that has increased by $16. As all the tables thus far have highlighted, Country Energy customers already pay substantially more than other electricity customers will pay the largest increase in 2011/12 (both in proportional and real terms) and will face the largest increase in real terms in 2012/13. This is all thanks to the higher network costs in rural and regional NSW which make up the bulk of the electricity price increases.

CPSA proposes that the LIHR be reformulated so that it is paid as a proportion of an eligible household's bill. CPSA believes that the most appropriate form of rebate is the following:

- 100% of electricity and gas supply charges; and
- 15% of electricity consumption.

Such a rebate will have a number of benefits for eligible households. It will firstly dampen the impact of 'price shocks' by increasing in line with electricity prices and supply charges. Importantly, the rebate would have the same proportional value regardless of location, accommodating for regional differences in the cost of providing those services. It will also give an incentive to reduce consumption where possible.

Ian McAuley is an adjunct lecturer in public sector finance at the University of Canberra. He has spoken of the benefit such a tariff structure would bring:

> … provided we could find the revenue from our taxes, we could provide all households with a free connection and the first few KWH free, with no departure from what would occur in an unregulated market. In fact, the 'suppliers' would have the benefit of fewer bad debts and of not having the unpleasant task of disconnecting people's electricity. Disconnection imposes high costs on those least able to bear it – financial costs associated with re-connection, spoilage of food, discomfort and a loss of hygiene, and a loss of dignity. And it imposes transaction costs on the 'suppliers'.[9]

CPSA believes that funding for the proposed Family Energy Rebate – which will go to households on middle and upper incomes also, through eligibility for Family Tax Benefits A and B – should be diverted to provide the additional funding required to properly assist households in receipt of the LIHR under CPSA's proposal.

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[9] McAuley I, 2009. 'Keynote address: Carbon & Consumers by Ian McAuley' in PIAC, *Carbon & Consumers: Report on the 2009 Energy & Water Consumers' Advocacy Program (EWCAP) Conference*, p.29

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Recommendation 3:

A reformulation of the Low Income Household Rebate be implemented so that it is both adequate and equitable, regardless of location of residence. The rebate would be paid as 100% of electricity and gas supply charges and 15% of electricity consumption per year.

Energy inefficiency

Low-income households can be described as low use, high consumption households. A joint research paper by Australian Council of Social Service, CHOICE and the Australian Conservation Foundation, *Energy & Equity: Preparing households for climate change: efficiency, equity, immediacy*[10] found that low-income households generally have inefficient, high energy use appliances because of the high upfront costs required to replace these newer, more efficient models as indicated in Table 7. These households are also less likely to take advantage of government energy efficiency assistance measures for big ticket items such as home insulation, solar hot water systems and solar panels as these generally require unaffordable upfront payments or large co-payments. Despite low discretionary energy usage and in some cases underuse of energy, they have much higher bills than would be the case should efficiency measures be in place and so continue to feel the full force of price increases.

Table 7: CPSA Member Survey 2010. Age of certain appliances (n=457)

	Fridge	Washing Machine	Clothes Dryer
<2 years:	52 (11%)	45 (10%)	13 (3%)
3 to 5 years:	100 (22%)	108 (24%)	43 (9%)
6 to 10 years:	126 (28%)	160 (35%)	73 (16%)
>10 years:	179 (39%)	139 30%)	140 (31%)
Don't own/ no response:	0 (0%)	5 (1%)	187 (41%)

On the other hand, high-income householders who already have the financial capacity to purchase energy efficiency measures could often do so without government assistance, but they will receive it anyway. It is not unreasonable to assume that a larger portion of government expenditure on energy efficiency rebate programs may, or indeed have, largely aid/ed high-income householders to reduce their energy bills, while low-income householders with a reduced capacity to reduce their energy use miss out. CPSA believes that household energy efficiency measures should be means-tested, with savings redirected to assisting low-income householders.

Current federal and state government energy efficiency programs have had a mixed impact. CPSA recognises that some low-income householders have been able to benefit from the Australian Government's insulation program (mainly because it covered the entire cost of the insulation). However, most low-income householders dependent on income support as their sole source of income cannot raise $2,000 in a week in case of an emergency, as demonstrated by

[10] Australian Council of Social Service, CHOICE & the Australian Conservation Foundation, 2008. *Energy & Equity: Preparing households for climate change: efficiency, equity, immediacy* Available at: http://www.choice.com.au/Consumer-Action/Past-campaigns/Sustainability/Climate-change-and-consumers/Page.aspx

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ABS data from 2003/04.[11] These householders generally do not have: a) savings to draw from to take advantage of even 100% rebate offers for energy efficiency measures and b) adequate savings and income to cover the cost of co-payments for energy efficiency offers.

CPSA's survey of its members found that while the uptake of low-cost energy efficiency measures – such as those included in the Home Power Savings Program (HPSP) – were generally quite evenly spread among full-rate pensioner, part-rate pensioner and superannuant/'self-funded' retiree households, the uptake of high-cost measures was skewed towards those with higher incomes. Although the numbers are not large enough to make a definitive judgement, they do give an indication of the difficulty households on low-incomes face in making use of government subsidies.

Table 8: CPSA Member Survey 2010. Energy efficiency measures installed by income type

Measure	Full-Rate Pensioners (% of F-R Pensioners)	Part-Rate Pensioners (% of P-R Pensioners)	Superannuants (% of superannuants)
Shower timers	38 (13%)	16 (12%)	7 (16%)
Tap aerators	86 (31%)	59 (45%)	16 (36%)
Low-flow shower head	193 (68%)	89 (67%)	33 (75%)
CFL bulbs	186 (66%)	89 (67%)	31 (70%)
Draught-excluding door snake/s	162 (58%)	72 (54%)	26 (59%)
Draught-excl window material	59 (21%)	36 (27%)	14 (32%)
Solar/Heat Pump Hot Water	36 (13%)	26 (20%)	11 (25%)
Solar Panel (PV) System	12 (4%)	5 (4%)	6 (14%)

Whilst $63 million has been provided for the rollout of the HPSP,[12] the Solar Bonus Scheme (feed-in tariff) alone has cost $471 million,[13] some of which has been paid by energy customers, and the rest by cutting the Climate Change Fund designed for environmental and other energy efficiency measures. The HPSP assists eligible households in reducing power consumption by up to 20%. However, a 20 per cent cut would only be possible in very high-energy using households where no measures were taken to reduce energy consumption, such as no compact fluorescent lights, etc. [14] Meanwhile, householders able to afford the installation of a 1.5kW solar panel system receive around $7,200 in Renewable Energy Target (RET) certificates; a feed-in tariff of $430 per year (at 20c)[15] and a reduction in electricity consumption of approximately 2,150kWh per year. A householder able to afford the installation of a solar hot water system

[11] The 2003/04 Household Expenditure Survey (Australian Bureau of Statistics) showed that 18.1% of Age Pensioners, 50.9% of Disability Support Pensioners, 67.6% of parenting Payment recipients, and 45.4 % of Newstart Allowance recipients could not raise $2,000 in a week for an emergency.
[12] http://www.savepower.nsw.gov.au/households/home-power-savings-program/about-the-program.aspx
[13] IPART. 2011. p.58
[14] It is worth noting that the CPSA survey of its members was undertaken between March and June 2010, before the expansion of the HPSP to the whole of NSW. The results suggest that there was already a significant uptake of lower cost energy efficiency measures which indicates that the efficiency gains though the HPSP would be dampened in many households.
[15] IPART, 2011. p.111

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receives around $3,580 in rebates and certificates[16] and can reduce their hot water electricity consumption by up to 90%,[17] or approximately 23% of total electricity consumption.[18]

CPSA is not opposed to the use of incentives to drive the uptake of energy efficiency measures. However, it is highly inequitable that low-income householders least able to afford energy efficiency measures have to in some cases fund those measures through energy bills and at the same time cannot take advantage of the measures because of the structure of the subsidy or rebate.

CPSA calls for a coordinated government response to address energy inefficiency in low-income households. This effort must expand beyond current measures (as welcome as they are) such as the HPSP. Although the measures featured in this program are helpful, energy inefficient households need to transfer to more energy efficient appliances and systems such as energy efficient fridges, water heaters (solar or gas), solar panels and insulation. Without such structural reform in low-income homes, the price rises that NSW householders will experience, with or without the Carbon Pollution Reduction Scheme, will make electricity unaffordable for pensioner and low-income householders, where the main source of income is a government payment.

It is in governments' best interest to make these households more energy efficient. Not only does energy efficiency protect low-income householders from unaffordable energy prices and price rises, it reduces carbon emissions and better meets carbon reduction targets; and reduces voter backlash when such price rises take effect.

Recommendation 4:

The NSW Government works with the Australian Government and energy retailers to roll-out energy efficiency retrofit programs for pensioner and low-income households. The retrofit program would, but not be limited to, install insulation, replace electric hot water systems with gas or solar, refit or replace energy intensive appliances and undertake other energy efficiency measures, where appropriate.

Energy Accounts Payments Assistance Scheme

CPSA calls on the NSW Government to release its finding from the review of the Energy Accounts Payments Assistance (EAPA) scheme for which submissions were presented in December 2010.

Recommendation 5:

CPSA calls on the NSW Government to release its finding from the review of the Energy Accounts Payments Assistance (EAPA) scheme.

[16] ibid. p.111
[17] Department of Climate Change and Energy Efficiency. http://www.climatechange.gov.au/what-you-need-to-know/appliances-and-equipment/hot-water-systems/solar.aspx
[18] Based on the household average of energy consumption by hot water being 25% of total energy consumption. Available at http://www.yourhome.gov.au/technical/fs65.html

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Independent regulation of energy prices in NSW

There will always be groups of consumers who will be disadvantaged by deregulation, which is why CPSA opposes the cessation of regulated pricing post 2013 and the sale of electricity retailers. Customers with communication difficulties, poor access to services, and mental illness are just some groups for whom shopping around for a better price is not straightforward. The current complexity of electricity bills means that most customers have trouble reading their bills let alone comparing retailers' prices and offers. CPSA doubts that the market will ensure lower electricity prices, as pricing information will inevitably not reach all customers evenly.

Recommendation 6:

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