



Council of Social Service of New South Wales

66 Albion St, Surry Hills NSW 2010
phone 02 9211 2599 **fax** 02 9281 1968
email info@ncoss.org.au **web** www.ncoss.org.au

abn 85001 797 137

11th May 2007

Mr James Cox
Chief Executive Officer and Full Time Member
NSW Electricity Regulated Retail Tariffs and Charges
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

NCOSS Response to IPART 2007 Gas Retail Review

Dear Mr Cox,

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.

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

NCOSS welcomes the opportunity to comment on Draft Voluntary Transitional Pricing Arrangements (VTPAs) for gas retailers in NSW as part of the 2007 Gas Retail Review.

NCOSS would like to raise the following issues for consideration by the Tribunal:

1. Low Income Gas Users

Affordability is a key concern in the delivery of essential services. Low income earners receive limited disposable income in order to absorb significant increases in essential service charges. Debt and other household expenses can add to financial stress for these households, and limit their ability to meet energy charges.

Although households reliant on government benefits and allowances are particularly at risk of financial hardship, low paid (or “working poor”) households may also experience difficulty meeting energy payments. The 2007 joint States and Territories submission to the Australian Fair Pay Commission suggests that:

For the low paid, financial stress is not only limited to unexpected expenses but day to day living. Notably, low-paid workers are far more likely to go without meals, not heat their home or seek financial assistance than other workers (see the full list at

the bottom of Table 45). For example, some 22 per cent of low-paid households had experienced two or more episodes of financial hardship since the start of the year (compared with 16 per cent among 'other' households).¹

Approximately 13% of NSW Households report that they would face difficulty raising \$2000 at short notice.²

Low income consumers face particular disadvantages within a competitive market in negotiating goods and services. These include:

- a reduced ability to access all available information on a product or service;
- lower levels of income to purchase goods 'upfront' at a lower rate or negotiate bulk purchase discounts;
- a limited ability to take risks (low levels of disposable income to offset the costs associated with a 'bad choice').

Although market forces may be able to self-regulate for some consumers, the tendency will be for low income consumers to pay a premium for their involvement in the market as a result of the above factors.³

2. Proposed VTPA Weighted Average Price Cap (WAPC)

The Tribunal has proposed a modified WAPC within the draft VTPAs, removing the side constraint specifying a maximum growth in individual customer bills that exists in the current determination.

Side constraints provide an important consumer protection against substantial price increases as a result of individual tariff readjustment. Although the proposed CPI level WAPC will act as an overall constraint, there is no guarantee that some consumers won't face a significant above CPI increase in their gas bill.

As stated above, low income households are in a particularly vulnerable position in relation to dramatic price increases for essential services. These households have limited disposable income to absorb price shocks, and limited capacity to purchase new energy saving devices to offset supply cost increases.

NCOSS also notes that gas enables largely non discretionary basic household tasks such as cooking, heating and showering. For many low income households, non discretionary consumption will account for a larger proportion of supply charges, and therefore these households will be more sensitive to changes in some tariff charges; for example, there will be a limited capacity to alter usage in response to an increase in peak pricing.

NCOSS further notes that despite the restraint in average gas prices since 2004 (relative to CPI), the 10 year trend in NSW has been a substantial above CPI adjustment to prices. This would have impacted the long term affordability of gas for low income households.

¹ Victoria, South Australia, Western Australia, Tasmania, *Australian Capital Territory and the Northern Territory Governments, Joint Labor Governments' for Victoria, South Australia, Western Australia, Tasmania, Australian Capital Territory and the Northern Territory in response to Australian Fair Pay Commission*, 30 March 2007.

² Australian Bureau of Statistics. *General Social Survey: Summary Results*. 2002. p22.

³ Research from the United Kingdom has shown that low income families will pay a "poverty premium" to access essential goods and services that are enjoyed at a cheaper rate by higher income households. See Lucy Ward. "Poor families face 1000 a year 'poverty premium,' say charities." *Guardian*. Monday March 5, 2007.

NCOSS urges the Tribunal to include adequate side constraints within the proposed WAPC form of regulation to protect consumers from radical upward pricing of individual tariffs.

3. Murray Valley

The Tribunal are proposing a CPI + 2% WAPC annual increase for Murray valley residents that are supplied by Origin Energy. NCOSS has concerns about this draft proposal in relation to affordability for affected consumers. NCOSS also notes that historically these consumers have faced aggressive price increases: CPI +5% applies annually in the determination that is about to expire. Although the Tribunal cites issues with cost reflexivity for these residents, no data has been supplied to justify the proposed increases.

Given the history of above CPI pricing for these consumers, NCOSS would urge the Tribunal to constrain the WAPC to CPI or below, unless very strong evidence is available to suggest both that the existing proposal does address a cost shortfall, and that the increases are affordable to consumers.

4. Miscellaneous Charges

There was discussion at the public hearing for the 2007 Gas Retail Review on consistency in miscellaneous charges that are currently levied by retailers.

NCOSS has significant concerns on the potential barriers miscellaneous charges present to low income consumers in access and affordability of essential services, in particular in relation to the application of security deposits and late payment fees. NCOSS shares the concerns raised by the NSW Energy and Water Ombudsman in the public hearing on inconsistency in the use of these charges in the gas area, and the potential for alignment of principles across regulated utilities.

NCOSS urges the Tribunal to consider further a further opportunity for review of this issue as part of this determination process in order to establish consistency and fairness for consumers in this area.

5. Other Issues

a) Availability of Data

NCOSS raises the concern that has been inadequate data presented by the Tribunal on the reasons proposed changes are being made, existing costs facing retailers and the number and characteristics of existing residential users. This makes assessment of the proposed retail changes, and potential social impacts difficult for consumer advocates.

Improving information has the benefit of more informed decision making by the Tribunal. NCOSS is concerned that there has been a lost opportunity for consumers to draw attention to relevant issues that may be otherwise missed in this determination.

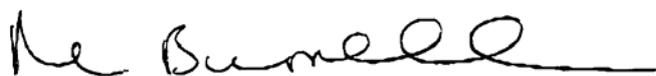
NCOSS urges the Tribunal to improve information in this area in order to make its price determinations more accountable and transparent for all stakeholders.

b) Cumulative Effect of Price Changes across IPART Regulated Services

NCOSS has continuing concerns over increased pressure on low income households as a result of above CPI pricing for essential services. NCOSS has written separately to the Tribunal on how it could progress on this issue.

Careful essential service pricing is an important opportunity to ensure that long term economic, environmental and social sustainability goals can be met. NCOSS is keen to continue to work with the Tribunal towards responsible price regulation for these services.

Yours sincerely

A handwritten signature in black ink, appearing to read "Michelle Burrell". The signature is fluid and cursive, with a long horizontal line extending to the right.

Michelle Burrell
Acting Director