



Council of Social Service of New South Wales

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5 October 2006

Dr Michael Keating
Chair
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Dr Keating

Re: Review of Regulated Retail Tariffs and Charges for Electricity 2007 to 2010

Please find attached NCOSS submission to the Review of Regulated Retail Tariffs and Charges for Electricity 2007 to 2010.

If you have any questions in regards to the submission please do not hesitate to contact Dev Mukherjee, Senior Policy Officer, on 9211 2599 ext 130 or dev@ncoss.org.au.

Yours sincerely

Michelle Burrell
A/Director

**Submission to the
Independent Pricing and Regulatory Tribunal
Review of regulated Retails Tariffs and
Charges for Electricity 2007 to 2010**



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

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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 membership is composed of community organisations and interested individuals. Affiliate members include local government councils, business organisations and Government agencies. Through current membership forums, NCOSS represents more than 7,000 community organisations and over 100,000 consumers and individuals. Member organisations are diverse, including unfunded self-help groups, children's services, youth services, emergency relief agencies, chronic illness and community care organisations, family support agencies, housing and homeless services, mental health, alcohol and other drug organisations, local indigenous community organisations, church groups, and a range of population-specific consumer advocacy agencies.

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 2007 to 2010 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.

In making its determination the Tribunal should be aware of the extent of poverty and disadvantage in NSW. There are around 1.48 million people in receipt of a Centrelink pension or benefit in NSW.¹ The maximum paid by Centrelink to a single old age pensioner or disability pensioner is \$256.05 per week. Recipients may also be in receipt of other allowances such as rent assistance. A single unemployed adult receives a maximum of \$210.45 per week in Newstart Allowance (plus rent assistance). In addition, there are around 135,000 low income workers not in receipt of a Centrelink benefit registered for a health care

¹ As at June 2004, Australian Bureau of Statistics (2005) National Regional Profile, 2000-2004 – NSW, (Cat No. 1379.0.55.001)

card in NSW.² To be eligible for a low income health care card a single person must earn less than \$420 per week.

NCOSS has welcomed recent developments in the electricity retailers approaches to hardship and the NSW Government's recent decisions regarding disconnection procedures. However, for many people these developments are insufficient in themselves to alleviate their financial stress.

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. For this reason, NCOSS is extremely concerned that the *Issues Paper* states that there is no requirement for the Tribunal to consider the impact of its determination on customers.

NCOSS has written to the Minister for Energy seeking clarification of his intentions when establishing the Terms of Reference for this review. While NCOSS has not yet received a reply from the Minister, we note media reports that he expects the Tribunal to include mechanisms to protect low income earners. NCOSS urges the Tribunal to fully consider the social impacts of its determination as it has attempted to previously.

In this submission, NCOSS makes some brief comments on some of the questions asked by the Tribunal in the *Issues Paper*, where NCOSS believes it has a contribution to make.

3. POLICY CHANGES THAT AFFECT THE REVIEW

Electricity Tariff Equalisation Fund phase out

The issues paper states that the decision to phase out the Electricity Tariff Equalisation Fund (ETEF) rather than cease it immediately was to allow time for adjustments in the energy trading market. NCOSS believes that an important consideration is the impact of removal of ETEF on retail price tariffs. If the Tribunal decided to set tariffs assuming that ETEF ceased immediately, would this mean that the electricity tariffs would be higher than if the Tribunal were to set tariffs assuming ETEF is phased out? NCOSS believes the Tribunal's decision should consider the impact on consumers, adopt the lowest cost approach and avoid a price shock for consumers.

Retail price regulation and effective 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. NCOSS is disappointed the NSW Government seems to have decided to phase at price regulation without any consideration of establishing whether there is in fact effective retail competition. As yet there is no

² Hockey, J. (2005) *Hansard* 21 June 2005, p.120.

agreement on what constitutes effective competition. There is also doubt as to what extent retail competition can exist in electricity.

NCOSS is concerned that the most vulnerable members of the NSW community will receive the least benefits from retail competition. Low income households are perceived to be a greater risk to retailers compared with high income consumers and they tend to use less energy than equivalent size, high income households. Also, low income households are more likely to be in rental accommodation and more frequent movers than owner-occupiers. This means that they are less likely to find a fixed term energy contract compared to attractive as those in more stable accommodation. Further, charges for early termination of the contract provide a disincentive for low income households to accept a negotiated contract.

For these reasons the Tribunal needs to carefully consider the options for regulation as NSW moves toward the removal of regulated tariffs. NCOSS does not see a strong argument for significant changes to the current framework. That is, where the Tribunal sets a target for total revenue increase as a percentage above inflation, with the constraint of a limit on the change in an individual customer's bill. NCOSS believes that this system has worked well to date and avoided the price shocks experienced by some other jurisdictions while maintaining the viability of the regulated retailers.

4. FORM OF REGULATION AND PRICE CONSTRAINTS

Broad options for the form of regulation

NCOSS believes that in deciding on the form of regulation for the Tribunal needs to consider the impact on consumers and the need for clarity in establishing tariffs. For these reasons NCOSS believes that setting target or maximum tariffs based on the build up of network and retail cost components (the N+R approach) is preferred to the weighted average price cap. NCOSS does not see a strong argument for change in the manner in which tariffs were set for the 2004 to 2007 determination.

NCOSS is also interested in discussing a 'safety net' tariff. NCOSS would be interested in further exploring this so that any benefits of deregulation will be shared more equally across the community.

Price constraints

NCOSS supports price constraints that ensure customers are protected from unacceptable price increases. In particular, NCOSS supports the approach that imposes limits on increases to customer's bills. Again, NCOSS can not see a strong argument for change and it is important to avoid the catastrophic price shocks experienced in some other jurisdictions.

5. MISCELLANEOUS 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 and Energy Accounts Payment Assistance providers indicate that small but significant numbers of people seek assistance to pay these security deposits.

It is the understanding of NCOSS that security deposits can be waived if the consumer accepts a direct debit arrangement or payment instalment plan. While NCOSS 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 plan, particularly if their income is variable.

NCOSS 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 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. We welcomed these initiatives. 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.

Until this occurs NCOSS does not wish to see an increase in late payment fees.

6. Conclusion

While the *Issues Paper* states that the Tribunal does not have to consider the impact of price changes on consumers, NCOSS urges the Tribunal to do so. Particularly, NCOSS urges the Tribunal to consider the impact of significant price rises on low-income households.