

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

**PUBLIC FORUM ON CHANGES IN REGULATED RETAIL ELECTRICITY
PRICES FROM 1 JULY 2011**

TRIBUNAL MEMBERS

**MR ROD SIMS - CHAIRMAN
MR JAMES COX
MS SIBYLLE KRIEGER**

**Held at IPART Offices, Level 8, 1 Market Street
Sydney, NSW**

On Monday, 1 May 2011, at 10.05am

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1 OPENING REMARKS

2
3 THE CHAIRMAN: Welcome, everybody. I'm Rod Sims,
4 Chairman of IPART. On my right is Jim Cox, the Chief
5 Executive of IPART and full-time tribunal member. On my
6 left is Sibylle Krieger, part-time member of the tribunal.
7 We also have a couple of members of the secretariat lined
8 up with us: Alexis van der Weyden and Anna Brakey.
9

10 Thank you all very much for coming today. This has been
11 a complex process, in terms of dealing with energy prices,
12 and we appreciate very much everybody's attendance
13 and, frankly, any assistance you can give us with this
14 review.
15

16 As I assume everybody knows, IPART sets the prices for
17 around two-thirds of customers, those are the people who
18 are on regulated contracts, that is, those people who have
19 not opted for a voluntary contract. These are the prices
20 that therefore the standard retailers charge.
21

22 The standard retailers, of course, are
23 EnergyAustralia, Integral Energy and Country Energy. As
24 everyone again knows, they have recently been purchased
25 by TRUenergy and Origin, but that doesn't affect in any way
26 our responsibilities or what we are doing here today. For
27 the purpose of today, and we understand the new owners
28 anyway are continuing to use those names, we will continue
29 to use the names of EnergyAustralia, Integral Energy and
30 Country Energy for the purpose of today's exercise,
31

32 We have been asked to set these regulated electricity
33 tariffs and charges from 2010 to 2013; we were asked to do
34 this a year ago. In accordance with his powers under the
35 Electricity Supply Act 1995, the Minister For Energy
36 provided terms of reference for our determination. These
37 terms of reference specify the matters that we have to take
38 into account and the objectives we should aim to achieve in
39 making the determination, they also set out some
40 requirements related to exactly how we go about making
41 the determination. So these are very much things we need
42 to follow.
43

44 The determination was actually made in March 2010
45 after a nine-month process that included extensive public
46 consultation and analysis, and in March 2010 we made a
47 determination on the amount by which each retailer could

1 increase the regulated prices on 1 July 2010. We also at
2 that time estimated the amount by which prices could
3 increase in 1 July 2011 and 1 July 2012.
4

5 We stated, back in March 2010, that we would conduct
6 annual reviews to update those last two-year price
7 increases and so this is what we are about doing now, we
8 are updating the price increase, particularly for 1 July
9 2011, from our previous determination. So this review is
10 very much an update. We are using the same approach that
11 we described in 2010. We are essentially updating the
12 energy costs, having regard to new information on cost
13 inputs and any policy changes made, and of course what is
14 particularly relevant here is the policy changes made in
15 relation to renewable energy targets.
16

17 So we have now made a draft decision on the increase
18 to apply, a couple of weeks ago we made a draft decision on
19 the increase to apply from 1 July 2011, and we have also
20 provided an estimate of the increase from 1 July 2012.
21

22 Importantly, we also provided advice to the government
23 regarding the impact of the increase on small customers and
24 we made recommendations that we think would actually
25 improve the levels of price affordability in relation to
26 network tariffs, network standards and aspects to do with
27 renewable energy, and we see those sort of
28 recommendations as a key part of our role.
29

30 Turning to the draft report, as I said, our draft report was
31 released on 14 April. We have already received some
32 submissions from stakeholders. As I am sure everybody
33 in the state knows, our draft report and determination set
34 out very significant price increases, in average regulated
35 retail prices of 17.6 per cent in nominal terms to apply
36 from 1 July 2011. Our update essentially confirmed the
37 estimate we made last year, which was around about 11.5
38 per cent, with the exception of additional costs arising
39 from new changes to the Federal Government's Renewable
40 Energy Target.
41

42 Looking at the overall drivers of this 17.6 per cent
43 increase, prices are increasing, firstly, because network
44 costs are increasing and network costs alone add
45 10 percentage points to that 17.6 per cent increase. This
46 is consistent with what we foreshadowed a year ago and
47 essentially reflects a tripling in the allowable network

1 expenditure over two regulatory periods. In addition, the
2 green schemes have emerged as a new price driver. In
3 particular, the most important change was on 1 January 2011,
4 the Federal Government changed its Renewable Energy
5 Target Scheme, splitting large- and small-scale renewable
6 energy. This policy change has essentially added about
7 6 percentage points to the 1 July 2011 prices.
8

9 While we have said that we consider that the policy changes
10 behind some of these cost drivers should be renewed
11 to improve affordability of electricity under our current
12 terms of reference and given the fact that we regulate the
13 retailers, these are costs that really have to be allowed
14 to the retailers to allow them to cover their costs, in
15 particular the network costs which are essentially a
16 pass-through for the retailer and the costs of complying
17 with the legislated green energy schemes.
18

19 As I said earlier, we do recognise that these price
20 increases are significant, we recognise they will place
21 significant financial pressure on some sections of the
22 community, particularly those on lower incomes and with
23 high consumption. In line with our terms of reference, we
24 have reported to government on the impact of these
25 increased prices on customers and, as I mentioned, we have
26 also provided advice on measures to improve affordability,
27 again as I mentioned, in relation to network tariffs and
28 aspects of the renewable energy scheme.
29

30 We are seeking comment on the advice we have presented
31 in the draft report, and I must say it is pleasing to note
32 that the NSW Government has already announced a range
33 of measures that respond to much of what we have said in
34 our report. That is very pleasing, indeed.
35

36 Procedural matters for today's hearing: today's
37 hearing is an opportunity for stakeholders to understand
38 what we have come out with, seek clarification, provide
39 comment on the draft report and determination. This forum
40 is divided into two distinct sessions. Firstly, we will
41 talk about the energy costs allowances, essentially what is
42 driving the price increases, and then the second half of
43 this forum will look at the impact on customers and our
44 recommendations to do with actions that can be taken to
45 improve affordability.
46

47 The way we are going to run this is that there will be

1 a short presentation at the beginning of each of the
2 sessions, the two sessions I just mentioned, which will be
3 made by the members of the IPART secretariat. I will then
4 invite stakeholders around the table to make comments.
5 Following this, I will invite comments from the floor.
6 Each session is meant to last about one to one and a half
7 hours.
8

9 Today's workshop is being transcribed, so when you
10 speak, firstly make sure that your microphone is turned on,
11 if you are sitting at the table. Please introduce
12 yourself, state which organisation you represent, and speak
13 reasonably clearly so that the transcriber can get the gist
14 of us, although he is extremely fast.
15

16 ENERGY COST ALLOWANCES 17

18 THE CHAIRMAN: Issues for discussion here: this is about
19 discussing what has driven the price increases,
20 particularly the energy purchase cost allowance and
21 particularly aspects of the green schemes. I am going to
22 ask Alexis van der Weyden, from the IPART secretariat, to
23 take us through a brief presentation. Then, as I said, I
24 will pass to comments and questions from around the table
25 and then the floor.
26

27 MR VAN DER WEYDEN: Alexis van der Weyden, IPART
28 secretariat. As the Chairman highlighted earlier,
29 regulated prices will increase on average by 18 per cent
30 the following 1 July 2011. In this session, we are going
31 to discuss the first two elements of this illustrative
32 energy supply chain, which is the cost to retailers of
33 purchasing energy, which is known as the energy purchase
34 cost allowance, and the cost to retailers of complying with
35 green energy schemes, such as the Renewable Energy
36 Target. Together, these two components represent around
37 40 to 50 per cent of the final retail bill and, from 1 July, will
38 contribute around 7 percentage points increase in average
39 tariffs.
40

41 The terms of reference require us to set an energy cost
42 allowance including the energy purchase cost allowance,
43 which is the cost of purchasing energy from the national
44 electricity market, the cost of complying with green
45 energy schemes, such as the Renewable Energy Target, the
46 Greenhouse Gas Abatement Scheme and the Energy Savings
47 Scheme, energy losses which occur as energy is transported

1 over the transmission and distribution network, and NEM
2 fees and ancillary services.
3
4 In making the 2010 determination, we estimated each
5 retailer's total energy cost in each year of determination.
6 We also indicated that we would update these allowances in
7 2011 and again in 2012, to manage several uncertainties
8 that could affect the level of these costs over the period.
9 This annual review updates our decisions on these key
10 components of the energy cost allowance.
11
12 Our determination also provides a mechanism for
13 passing through costs associated with regulatory and
14 taxation change events. As part of this price change, we
15 have assessed the retailers' applications to pass through
16 costs associated with changes to the Renewable Energy
17 Target and delay of the CPRS.
18
19 Our draft decision on the Total Energy Cost Allowance for
20 2011-2012 ranges from \$83 to \$88/MWh. To this, we need
21 to add another \$4 to \$5/MWh for the costs associated with
22 changes to the Renewable Energy Target the retailers have
23 incurred from the period 1 January to 30 June 2011. As I
24 said before, these two factors are contributing to the 6 to
25 7 per cent increase in average prices from 1 July.
26
27 In line with our terms of reference, we determined an
28 energy purchase cost allowance for each standard retailer
29 for each year of the 2010 determination period. We asked
30 Frontier to calculate and recommend the efficient energy
31 purchase cost for each standard retailer under two
32 approaches: a long run marginal cost approach which
33 represents the costs of new generation required to meet
34 retailers' regulated loads, as well as a market-based
35 approach which reflects the costs an efficient standard
36 retailer would incur in purchasing energy from the National
37 Electricity Market. We have used a consistent methodology
38 to that used in our 2010 determination and we have updated
39 key input assumptions only. I will discuss these input
40 assumptions in a little more detail in the following slide.
41
42 We then set each retailer's energy purchase cost
43 allowance in line with Frontier's advice, using the higher
44 of the LRMC and the market-based costs in each year, as is
45 required by our terms of reference. The higher of the two
46 estimates in each year is highlighted in bold on this
47 slide.

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1
2 The changes to the LRMC and the market-based estimates
3 from 2010-2011 to 2011-2012 are minimal. Therefore, the
4 energy purchase cost allowance included in retail prices is
5 broadly stable and in nominal terms contributes around a
6 1 per cent increase from 1 July. However, the LRMC is
7 around \$17 to \$20/MWh higher than the market-based
8 allowance in 2011-2012. As a result, customers' bills in
9 2011-2012 are around 8-10 per cent higher than they would
10 be if we had set it in line with the market-based cost. We
11 have made a number of recommendations to government on
12 future terms of reference, which will be discussed in the
13 second session later this morning.
14
15 To update the LRMC in a market-based estimate, we need
16 to update a number of key input assumptions and we made
17 a draft decision to source the majority of these assumptions
18 from the ACIL 2010 report to the Queensland Competition
19 Authority. We thought this report was the most suitable
20 source of data for this review, given that most of the
21 report's assumptions had been updated in a consistent
22 manner to the ACIL 2009 report, which we relied upon in
23 the 2010 determination. Also, it is a publicly-available
24 source of data which, in our view, is intended to reflect
25 the costs of generation in 2011-2012 and the following
26 years, rather than the costs under a range of potential
27 scenarios.
28
29 We also made a draft decision to include a carbon
30 price of zero for 2011-2012 and 2012-2013, that is, we have
31 not assumed the carbon price will start within this
32 determination period. We have also made a draft decision
33 to assume energy demand in the National Electricity Market
34 is consistent with the medium growth case in AEMO's 2010
35 Electricity Statement of Opportunities.
36
37 I want to touch in a little bit more detail on the
38 input assumptions. This slide shows that for the capital
39 cost, the fixed operating and maintenance and the variable
40 operating and maintenance assumptions that we have used
41 as part of this annual review are broadly consistent with
42 those we used as part of the original 2010 determination.
43 The difference is the fuel costs. Gas prices have
44 increased for both base and peaking plants, so that is for
45 CCGT and OCGT plants, and coal prices have increased
46 modestly also. We have not used ACIL's estimate of coal
47 prices given that, in our view, they were not updated in a

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1 consistent manner. Rather, we have updated the 2011
2 estimate by movements in coal mining costs.
3
4 In line with the terms of reference, we also determined
5 a number of costs directly related with purchasing
6 energy in the National Electricity Market. These are the
7 costs of complying with the Renewable Energy Target, which
8 has been split into a large-scale scheme and a small-scale
9 scheme; meeting obligations under the NSW Greenhouse
10 Gas Abatement Scheme and the NSW Energy Savings
11 Scheme. These schemes place obligations on retailers
12 directly. Therefore, these allowances reflect our estimate of
13 the costs an efficient standard retailer would incur in
14 complying with these schemes over the determination period.
15
16 These allowances do not include the costs of any carbon
17 price because, as previously mentioned, we have made
18 a decision not to assume a price on carbon until after the
19 determination period. In making these allowances, we were
20 guided by expert advice from Frontier and we used a
21 methodology consistent with our 2010 determination.
22
23 As you can see on this chart, the two renewable energy
24 target schemes, the large and the small scale, will
25 constitute the majority of complying with green energy
26 schemes. I'm just going to touch on a little bit more
27 detail about these schemes.
28
29 On 1 January, the Federal Government made changes to
30 the Renewable Energy Target, effectively splitting the
31 scheme into two parts. The large-scale scheme, or LRET, is
32 essentially the same as the old RET scheme. However, it
33 has new legislative annual targets which require at least
34 41,000/GWh per year to come from large-scale renewable
35 electricity generation by 2020. Under the LRET, retailers
36 are required to purchase and surrender a certain number of
37 large-scale certificates, each of which represents 1 MWh of
38 renewable generation from large-scale technology, such as
39 wind.
40
41 The cost of complying with the LRET will increase from
42 \$1.80 to \$2.60/MWh in 2011-2012. This increase is driven
43 by the high estimated cost of large-scale certificates
44 relative to those assumed in our 2010 determination and
45 higher obligations on retailers to purchase and surrender
46 certificates.
47

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1 The SRES is a new obligation on retailers subsequent
2 to the 2010 determination. Under this scheme, retailers
3 are required to surrender small-scale certificates from
4 households and small businesses that take up small-scale
5 technology such as solar panels and solar hot water. The
6 number of certificates that retailers must surrender per
7 year is not capped; rather, it depends on the extent to
8 which customers take up small-scale technologies.
9
10 The cost of complying with SRES is significant. The
11 number of small-scale certificates that retailers are
12 required to purchase and surrender is significantly higher
13 than under the old Renewable Energy Target. In 2011,
14 retailers will be required to purchase certificates
15 equivalent to 14.8 per cent of their eligible load. This
16 increases to 16.75 per cent in 2012. Therefore, retailers
17 will be required to surrender certificates for around
18 20 per cent of their eligible load for the combined LRET
19 and SRES schemes.
20
21 This is significantly higher than their obligations
22 under the old RET, which is around 6 per cent of their
23 eligible load in 2011-2011. These changes impose costs on
24 retailers and ultimately on customers. The generous
25 Federal and State Government incentives that have fuelled a
26 rapid uptake in solar panels and solar hot water is to be
27 discussed in the following session this morning.
28
29 We have estimated the annual cost for 2011-2012 of
30 complying with SRES to be \$6/MWh. In addition, retailers
31 have sought to pass through costs incurred from the
32 beginning of 1 January to 30 June this year. We have made
33 a draft decision to allow the retailers to pass through
34 around \$4.50/MWh for the costs they have incurred in the
35 first half of 2011. This reflects an allowance for the
36 delay in passing through these costs to 1 July this year.
37
38 We have also made a draft decision to reject the
39 retailers' applications to pass through costs associated
40 with the delay in the CPRS. So in summary, the total cost
41 for that 18 months to June 2012 is around \$10.50/MWh and
42 \$74 per customer.
43
44 THE CHAIRMAN: Thank you very much, Alexis. As
45 foreshadowed, I will now take questions or comments from
46 those around the table. If you could please state your name
47 and organisation that you are from and also make sure

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1 that the microphone is on. So who would like to go first?
2 Somebody has got to have a question, query or comment.
3 This could end up being an extremely short meeting.
4 Seriously, are there no comments or questions from the
5 people assembled?
6
7 MR O'REILLY: I'll make some observations. My name is
8 Cameron O'Reilly, I'm the Executive Director of the Energy
9 Retailers Association, which represents pretty much all the
10 retailers active in the National Electricity Market on the
11 East Coast.
12
13 Under competition policy law, we do not, inside the
14 association, discuss pricing matters, although obviously it
15 is very relevant to the state of the electricity market and
16 the competition in that market. So I will leave it to my
17 members to comment on the actual components of the price
18 increase, but what I would like to do is support IPART's
19 comments that they have made about some of the
20 components of the price increases.
21
22 We were aware from last year that the network
23 component was a significant factor in the price rises and
24 there have been various comments made about whether we
25 are getting value for money out of that network component.
26 I cannot prejudge the decisions of the Australian Energy
27 Regulator, but there has been some specific look at the
28 prices in NSW and the network component, and given that
29 we are simply, as retailers, the avenue that passes through
30 those costs, we welcome that element of our cost being
31 scrutinised.
32
33 I think the second element is that IPART has done a god
34 job in highlighting the impact of the Small-Scale Renewable
35 Energy Scheme on retail prices in NSW and I think
36 that has obviously brought into question aspects of Federal
37 policy but also the interaction of Federal and State policy
38 with generous feed-in tariffs, notably the solar bonus
39 scheme in NSW, contributing to an abundance of uptake
40 particularly of solar panels. That interaction with
41 Federal multiplier incentives has seen the Small-Scale
42 Renewable Target increase prices in NSW substantially in
43 the year ahead.
44
45 It is unfortunate, the scale of it and the impact that
46 it has on our customers, and we're sorry about that, but
47 obviously it is a genuine pass-through of things that

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1 retailers have no control over and have to comply with. So
2 we appreciate IPART recognising that and the need to pass
3 on those costs.
4
5 Also, we would support what the NSW Government has
6 done to bring aspects of the local policy, notably the solar
7 bonus scheme, under scrutiny because it is a policy in
8 which some consumers benefit and all consumers pay. The
9 egalitarian nature of that has to be questioned, but also
10 I think the question that you appropriately raised, if it
11 is to be justified on the basis of abatement of carbon, it
12 is a very high-cost option to take.
13
14 In broad terms, I would like to say that I think IPART
15 has done a good job of highlighting the issues that the
16 industry retailers are facing and why these prices are
17 going up, and also in highlighting whether there are some
18 public policy issues that need to be addressed.
19
20 The final point I would like to make is that NSW has
21 traditionally been, in retail terms, a less competitive
22 market than Victoria, for instance. But it is important to
23 get that competition, that prices are cost reflective to
24 encourage new entrants into the market and ensure that
25 consumers are getting the benefit of the high levels of
26 retail competition between my members.
27
28 All I say is that I see evidence amongst my members of
29 them showing increasing interest in NSW and pursuing
30 customers in NSW, and pricing is important to encouraging
31 new entrants into the market and overall all consumers
32 benefit from all competition in that market. So there are
33 positive signs of NSW competition increasing more retailers
34 potentially in the market and overall that will help to
35 keep discipline in the market in terms of pricing and see
36 more market contracts offered out there for consumers in
37 NSW, which I think is a positive trend.
38
39 So I would urge IPART, in its philosophy of price
40 making, to continue to focus on encouraging more
41 competition in NSW.
42
43 THE CHAIRMAN: Thanks, Cameron. Any other
44 comments from people at the table?
45
46 MR DODDS: Chris Dodds, senior policy officer at the
47 Energy and Water Ombudsman's Office of NSW. I just want to

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1 make a very quick comment on recommendation 8, which
2 fits into this part of the thing that the NSW Government give
3 IPART more flexibility to determine retailers' efficient
4 costs, if there is to be a further price determination from
5 2013 on, and I know that's up for grabs with the AEMC
6 review of the level of competition.

7
8 But I think it is really important to note, and EWON
9 would endorse the point that IPART has made in the report,
10 that the current terms of reference give a particular
11 structure to how determinations are made, particularly the
12 formulas that are used. In this instance, the example
13 given is the determination of the long run marginal costs
14 of energy and the very significant gap between how that has
15 been set at a certain level and the actual cost of
16 electricity to the retailers purchasing at the moment in
17 the market.

18
19 This is an area where there would be some flexibility
20 to see a reduction in price for consumers, if in fact the
21 determined price reflected more accurately the market cost.
22 EWON understands the difficulty of a fluctuating market,
23 but when I sat here a long time ago, from my first
24 discussion on this, the idea of IPART coming back and
25 having a conversation each year to adjust prices on an
26 annual basis was seen as a radical departure and there is
27 no reason why a regular adjustment process couldn't be
28 devised to ensure that actual market costs were passed
29 through on a regular basis.

30
31 So we would endorse recommendation 8, that the terms
32 of reference given to IPART, if there is to be a future
33 determination, be much more flexible than the current ones.
34 Thank you.

35
36 THE CHAIRMAN: Thank you very much for that. As you
37 mentioned, obviously the market prices are very volatile
38 and over time prices will get to long run marginal costs,
39 but we think that is an important recommendation. Any
40 other comments?

41
42 MR DILLON: Andrew Dillon, from TRUenergy. Just on
43 that point, I would like to highlight, as you have said,
44 market prices can fluctuate quite a bit, even in the forecasts
45 that are in the determination here. The estimates for
46 2012-2013 are driving back up the market costs by around
47 \$12 or \$13/MWh, so I think you have to be very careful

1 about locking into yo-yo sort of prices coming through in
2 our regulated tariffs.

3
4 Related to that is the thinking behind that whole
5 logic of trying to encourage competition, which we
6 absolutely endorse. I think sometimes there can be a bit
7 of speculation that competition is something retailers
8 espouse just for their own benefit. I would like to point
9 everyone to a study that was done recently by St Vincent de
10 Paul Society down in Victoria that said customers can save
11 up to \$500 a year by shopping around for a better gas and
12 electricity deal. So that is a real benefit from entering
13 into the competitive market, once you get competition
14 flourishing.

15
16 THE CHAIRMAN: We take those points. What we are
17 asking for is the flexibility to work these issues out, but we
18 do understand those points and they are very valid points. I
19 don't think anyone wants a yo-yo effect of prices
20 see-sawing around, because these prices are very volatile.
21 Any other comments?

22
23 MR WHISH-WILSON: Patrick Whish-Wilson, from Origin
24 Energy. First, thanks to the tribunal for this opportunity
25 of discussion. Origin is largely comfortable with the
26 decision as it stands and, as you have articulated quite
27 clearly, it is predominantly being driven by the external
28 costs to retailers, which is the network and compliance
29 with green schemes. Origin is largely comfortable with
30 those estimates done by IPART and Frontier.

31
32 Since there has been very little comment, I thought we would
33 bring up one issue, which we would like some comment
34 from Frontier on, their estimate of the GGAS compliance.
35 We recognised last time, with the CPRS inclusion and with
36 the supply and demand of NGAC certificates, that was
37 given a zero value. There have been changes, as in there is
38 no CPRS, but it has been given that value again and there is
39 not much detail in the report to explain it to me. So I
40 would just like some comments about is that being driven
41 by supply and demand or is that again from the carbon
42 price inclusion?

43
44 THE CHAIRMAN: Thanks for that. I'll ask the secretariat,
45 in the first instance, and then Frontier to comment.

46
47 MR VAN DER WEYDEN: The only comment I would
make is that

1 we have used a consistent methodology to the previous
2 determination and the allowance is driven by a range of
3 factors, some of which are a significant overhang of
4 certificates, NGACs, but I will ask Frontier if they want
5 to comment in any more detail.
6
7 MR HARPHAM: Andrew Harpham, from Frontier
8 Economics. I guess the only thing I would like to add that to
9 is that, as Alexis said, the assumption we have made in all
10 of our modelling is that there is no carbon price for the
11 period of the determination. But in order to forecast the
12 costs of these green schemes going forward, we do model
13 out to 2020 and that helps us form a view on the likely cost
14 of certificates and NGACs.
15
16 In that modelling, we are assuming that the carbon
17 scheme starts from 13-14, there is a carbon price from
18 13-14. So certainly that is also a factor and that
19 combined with the fact that there is a significant overhang
20 of NGACs at the moment means that we are now finding
21 that the target gets met even without acquiring a positive
22 cost on trading additional NGACs.
23
24 MS BRAKEY: I will add one extra point to that and that is
25 that you can acquire or use your RECs towards GGAS
26 compliance, and so with the increasing number of
27 renewable energy certificates in the market, a great
28 proportion of your GGAS compliance can be met through
29 your renewable energy certificates.
30
31 MR WHISH-WILSON: Thank you. I wanted some detail.
32 It's just that it's hard to recognise whether there is a market
33 out there for NGAC certificates and it is a positive and
34 not zero.
35
36 MR COX: If I remember correctly, I think our estimate for
37 GGAS certificates is based on long run marginal costs, so
38 it is not a market estimate, it is a cost estimate, and we
39 believe that is at zero at the moment because of the excess
40 supply certificates. That was consistent, the methodology
41 hasn't changed, it wasn't up for discussion.
42
43 THE CHAIRMAN: What you meant was there was no
44 opportunity to review that because it was locked in the
45 determination, not that you cannot discuss it today, but that
46 the methodology was set in the determination and the update
47 is just an update within given methodologies. Any other

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1 questions?
2
3 MR DILLON: Just on that, Jim, to your point, one of our
4 concerns is that whilst the determination of zero was made
5 last year, the Carbon Trading Scheme on the table, or not
6 quite on the table, as may be right now, has certainly
7 changed from then and the numbers in the Federal Parliament
8 have absolutely changed. So whether that same assumption
9 is valid now, I think, should be brought into question.
10
11 Related to that, it is curious that on the
12 market-based costs, the energy costs, we have a higher long
13 run marginal cost on a market base, but then on the green
14 schemes we have a de facto lower role, which places us in
15 an unenviable position where we have to buy certificates in
16 the market, not on a long run model.
17
18 MR COX: Obviously I do recognise the points you made,
19 I think they are valid points, but nonetheless it was
20 something that was decided last year and was decided for
21 the period of the determination. That is the three years,
22 not the one year.
23
24 THE CHAIRMAN: What you are saying is the methodology
25 was decided. When we did the determination, we
26 established the methodology, rightly or wrongly, for doing a
27 range of things and what we have done this year is update
28 the estimate in accordance with that methodology rather
29 than reopen the methodology, which we said we would not
30 reopen the methodology, what we would do is update the
31 estimates in accordance with that set methodology. As I
32 say, rightly or wrongly, there are swings and roundabouts
33 in these things, as you correctly observed anyway.
34
35 Any other comments from the table? Are there any
36 comments from those people behind the round table, any
37 comments people would like to make? If so, again could
38 you please talk reasonably loudly and tell us where you are
39 from. That's fine, people generally at the back are people
40 coming along more to observe than they are to ask
41 questions. Are there absolutely no questions? Okay, thank
42 you. With that, we will now go on to the customer impact
43 and recommendations on actions to improve electricity
44 affordability.
45
46 IMPACTS ON CUSTOMERS AND ACTIONS TO IMPROVE
47 ELECTRICITY AFFORDABILITY

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1
2 THE CHAIRMAN: We will begin this session by getting
3 Anna Brakey to take us through those aspects of the report. I
4 should just emphasise, we regard these aspects of the
5 report as extremely important both in terms of making sure
6 we understand the affordability impacts and I think we have
7 got probably the best data in Australia on the
8 affordability of electricity by various segments.

9
10 We do a lot of work on this, it is very important to
11 us, and as I say we also think it's very important that
12 IPART can shed light on what is driving these increases and
13 what can be done about it, particularly when they are as
14 large as they are.

15
16 MS BRAKEY: As the Chairman highlighted earlier, regulated
17 prices will increase by an average of 18 per cent on 1 July
18 and network charges are a major factor contributing to this
19 price increase and they will increase retail prices by
20 around 10 per cent, with changes to the Federal
21 Government's Renewable Energy Target adding a further
22 6 per cent to retail prices.

23
24 We recognise that an 18 per cent price increase is
25 large and that it comes on the back of previous large price
26 increases as well, with, over the last five years, real
27 electricity prices increasing by 59 per cent in real terms.
28 In this session, we are going to have a look at our
29 analysis of customer impacts and also have a look at the
30 recommendations that we are making to governments to
31 ameliorate the future price increases.

32
33 Bills in the metropolitan area will increase by around
34 \$230 a year on 1 July and bills in the Country Energy area
35 will increase by around \$316. You can see here that the
36 bills in the country areas are higher than in the
37 metropolitan areas and that is because the network charges
38 are higher in the country areas than what they are in the
39 metropolitan areas. So the bills in the country will be
40 about \$450 to \$550 more expensive each year for a typical
41 customer than what they are in metropolitan areas.

42
43 We have done some work to have a look at how customers
44 will be impacted across the states and we can see that
45 electricity usage differs by areas. In this map, the
46 darker green areas are the postcodes that have lower levels
47 of consumption, with the lighter green areas being areas

1 with more average consumption, and then the orange and
2 red areas are areas of high electricity consumption.

3
4 You can see that along the coastal areas, customers
5 are using less electricity than those living west of the
6 Great Dividing Range. That is for a couple of reasons:
7 firstly, it's a milder climate down around the coast and,
8 secondly, those coastal areas tend to have a greater
9 penetration of units rather than houses, and units use less
10 electricity typically than people living in houses.

11
12 We also had a look at the income of customers across
13 the state by postcode. The areas with the dark green are
14 the higher income areas and again the orange and the red
15 are the postcodes with very low incomes, and you can see
16 that the country areas tend to have the lower incomes, with
17 the metropolitan areas having the higher incomes.

18
19 So when you put together the higher usage in the
20 country areas together with the higher prices in the
21 country areas and the lower level of incomes, you can see
22 that customers in country areas are spending a greater
23 proportion of their income on electricity than those in the
24 metropolitan areas. In this map, there are 82 postcodes
25 that are marked in the red or the orange and in those
26 82 post codes, the median amount of income spent on
27 electricity is greater than 5 per cent, and those are
28 customers that are in the inland areas.

29
30 Periodically, IPART undertakes a household survey that
31 captures information on income, electricity usage and
32 bills, amongst other things. So we have been able to have
33 a look at the distribution of income spent on electricity
34 within income bands and this slide shows us that, on
35 average, across the state customers are spending around
36 3 per cent of their disposal income on their electricity
37 bills, and that is shown by the green line.

38
39 However, the dots show within each income band how
40 much the median household is spending on their electricity
41 in terms of their disposable income. For the lower levels
42 of income, those customers are spending more than the
43 NSW average of their disposable income on electricity, but
44 there is a wide variation in those income bands, as
45 demonstrated by the lines. If you look at the customers in
46 the \$13,000 to \$18,000 income band, you can see that more
47 than 10 per cent of those customers are spending more than

1 10 per cent of their disposable income on electricity.
2
3 This analysis suggests that the people that are most
4 vulnerable to the increasing electricity prices are those
5 with low incomes and high levels of consumption. If you
6 add the gas bills, where customers have gas, to the
7 electricity bills to get the total energy bills, you can
8 see that customers are spending an even greater percentage
9 of their income on their energy bills. But, like the
10 expenditure on electricity, the lower incomes are spending
11 a higher amount on electricity and there is greater
12 variation within those income groups about how much they
13 are spending on their energy bills.

14
15 In terms of the percentage of customers spending a lot
16 of money, this slide is showing us Sydney and the
17 surrounding areas and it shows us that a bit over 6 per
18 cent of customers are spending more than 8 per cent of
19 their disposable income on electricity alone, and of that
20 about 3.7 per cent of customers are spending more than
21 10 per cent of their disposable income on electricity.

22
23 Because of the higher bills in the Country Energy
24 area, this situation is worse in country areas, with around
25 15 per cent of customers spending more than 8 per cent of
26 their disposable income on electricity, and of that, 8.4
27 per cent of customers are spending more than 10 per cent of
28 their disposable income on electricity.

29
30 We did a little bit of work to look at the
31 characteristics of these lower income households to see
32 what is driving their electricity bills and we found that
33 having an extra adult in a house adds around \$260 a year to
34 a bill and every extra child adds around \$180 a year to a
35 bill. Every extra bedroom in a house adds around \$50 a
36 year and if the house is a detached dwelling, it adds about
37 \$280 a year to the bill. As we talked about earlier,
38 Country Energy have higher network charges and so the
39 bills in the Country Energy area are around \$450 more
40 expensive than in the metropolitan areas.

41
42 As part of our household survey, we asked customers or
43 households whether they had approached their electricity
44 supplier in the last three years because they were
45 financially unable to pay their bills, and this slide shows
46 us that low income households are the most likely to
47 approach their retailer because they are financially unable

1 to pay their bills; but also, as there are more people in
2 the house, that household is more likely to approach their
3 retailer.

4
5 In terms of home ownership, the customers that are
6 trying to pay off their house are the most likely to
7 approach a retailer with financial difficulty, but within
8 each of those groups, the lower income customers are again
9 the most likely to approach their retailers. So if you are
10 paying off your house, you will find you are more likely to
11 approach a retailer than if you are renting your house, you
12 are the next most likely to approach a retailer, and if you
13 have paid off your house, there are still customers that
14 are in that category that are finding it difficult, finding
15 that they are financially unable to pay their bills.

16
17 The NSW Government has announced increases to its
18 energy rebate. On 1 July, it will increase from \$135 a
19 year to \$200 a year, and it increases each year through
20 until 2014. On 1 July next year, a new family energy
21 rebate will be implemented and it also will increase each
22 year until 2014.

23
24 The analysis that we have done shows us that the most
25 vulnerable customers are those with low incomes and high
26 consumption, and we are willing to help government in any
27 future reviews of customer assistance measures to try and
28 target these customers.

29
30 As you know, IPART sets the regulated retail price and we
31 come at the end of a complex regulatory framework, with
32 a number of policy makers having inputs along the way. We
33 are concerned about some of the policy decisions that are
34 being made up the line and we are making recommendations
35 to the State Government, the Federal Government and the
36 Australian Energy Market Commission that are really
37 focused on the factors that are contributing most to the price
38 increases, being the network costs and the costs of green
39 schemes.

40
41 In terms of the network charges, we are recommending
42 that the AEMC should initiate a review of the economic
43 regulation provisions within the National Electricity
44 Rules, and that is because we think that the rules provide
45 an unusually high burden of proof on the regulator, where
46 it needs to effectively prove that any expenditure claims
47 are not reasonable or do not comply with the rules and, to

1 the extent that they do not comply, they can only make
2 adjustments to the minimum extent possible to make it
3 comply with the rules.

4
5 The National Electricity Law provides an unbalanced
6 appeal process whereby the distributors can effectively
7 cherry-pick issues on a case-by-case basis. We are also
8 concerned that the rules are prescriptive in relation to
9 determining the businesses' returns and, importantly, that
10 the rules force the regulator to include all capital
11 expenditure that is incurred in a regulatory period into
12 the opening asset base in the subsequent regulatory period,
13 whether or not that expenditure was efficient, and we have
14 some concerns with that. We think that that package is
15 actually driving substantial investment in networks.

16
17 We also have recommended that the NSW Government
18 ensure the current standards for network reliability and
19 security, in line with customers' willingness to pay, and
20 this is a recommendation that the NSW Government has
21 already indicated that it will pursue.

22
23 We are concerned that the subsidies provided under a range
24 of State and Federal Government green schemes are too
25 generous and that they have fuelled the uptake of expensive
26 sources of renewable energy. The high costs of these
27 subsidies will need to be recovered through high
28 electricity prices or through taxes. So we have made a
29 range of recommendations aimed at ameliorating the costs
30 of these green schemes and that includes closing the NSW
31 solar bonus scheme to new participants, and I note that on
32 Friday the government announced that it was suspending
33 that scheme pending their solar summit, which is on Friday.

34
35 We also recommended that the government consider
36 requiring the retailers to contribute to the costs of the solar
37 bonus scheme for existing participants. We also
38 recommend that the NSW Government advocate to the
39 Federal Government to eliminate the solar credit multiplier
40 from the RET scheme and that the rules for eligible activities
41 under the energy savings scheme should be reviewed and
42 tightened. Importantly, we recommend that all green
43 schemes should be evaluated to ensure that they remain cost
44 effective and complement any national carbon scheme that
45 is introduced.

46
47 The other recommendation that we have made, that we

1 have already discussed, is that the tribunal have more
2 discretion to set prices on using an appropriate approach
3 rather than using the long run marginal cost or the
4 market-based prices. I think we have touched on that in a
5 previous session.

6
7 So that covers off our customer impact analysis and
8 our recommendations to government.

9
10 THE CHAIRMAN: Thanks, Anna. Again, can I ask people at
11 the table for any comments or questions. Again, state
12 where you are from and try and turn the speaker on.

13
14 MR DODDS: Chris Dodds, senior policy officer, Energy
15 and Water Ombudsman's Office of NSW. I think the work
16 that has been done in this draft determination is really
17 impressive. Clearly, from the lack of questions, everyone
18 around the table understands that there is little or no
19 discretion in terms of the determination, there are
20 requirements to pass through, external costs, and it only
21 makes sense those costs are passed through and that
22 retailers are able to get a profit.

23
24 We know the adverse effect on customers where a
25 retailer isn't capable of maintaining itself in the market,
26 with the experience that EWON had with literally thousands
27 and thousands of customers, and customers we are still
28 helping to this very day over the Jackgreen fiasco. So it
29 is really important that it is understood that these
30 external costs that are passed on to retailers are able to
31 be recovered for the long-term benefit of consumers.

32
33 The approach undertaken in identifying the actual impact
34 and then looking beyond just the pure economics, can
35 we vary the price up or down by 0.05 per cent or whatever,
36 to saying, "Let's look at the fundamentals driving this and
37 see if there can't be some reform," I think is a really
38 welcome approach.

39
40 However, having said that, I do think there are some
41 additional areas where that approach could be built upon
42 and in particular they're about where the impact actually
43 is and what can be done in the short to medium term in the
44 provision of assistance to that 20 per cent or so of the
45 customer base who are going to be really adversely
46 impacted by the increase.

47

1 EWON believes there are a number of things that need to
2 be undertaken and IPART has indicated some of those, but
3 I'll start by making the point that while welcoming the
4 fairly significant increase and restructuring of the low
5 income household rebate, we note that that increase is \$55.
6 We also note that the increase in the costs of electricity
7 varies, depending whether you have gas or not, of around
8 \$200 to \$250. So \$55 in your packet from the rebate, but a
9 five times that, roughly, increase in the cost of
10 electricity, that increase in the rebate isn't going to
11 provide much comfort - although, as I said, it's a really
12 welcome increase.
13
14 We noted in the previous round table and I note that IPART has
15 recommended it to government, not as a numbered
16 recommendation, but our recommendation in passing, that
17 the low-income household rebate be extended to residents of
18 retirement villages who are separately metered so that they
19 are treated the same way as permanent residents in caravan
20 parks, and we think that is really a minor and inexpensive,
21 but equitable, approach that needs to be undertaken.
22
23 We also note that there is significant discussion in
24 the draft determination, both in an appendix and to a
25 certain extent in chapter 7 itself around EAPA, and we
26 recognise that some of our own members, some of the
27 retailers, particularly those from interstate, have some
28 questions about the effectiveness or efficiency of the EAPA
29 scheme, and I'll come back to those questions.
30
31 In the meantime, it is the scheme that is in place and
32 we believe that there needs to be a stronger call by IPART
33 on the government to see that by 1 July, the previous
34 commitments of around \$55 million or thereabouts are
35 actually in place by 1 July so that people who are having
36 difficulty paying their electricity bills can seek and gain
37 a higher level of assistance than they are able to at the
38 moment, so avoiding disconnections due to this particular
39 price increase.
40
41 Two others, one minor and one not so minor.
42 Short-term proposals, we think, would assist customers to
43 deal with it. We believe that there should be almost
44 immediately an introduction of an equivalent concession to
45 one that exists in Victoria and that is a service to
46 property charge rebate so that where consumers have low
47 consumption, they are not carrying the full burden of that

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1 increase in network charges.
2
3 The concession works in Victoria and is applied to low
4 income households who are eligible, so you have to have an
5 eligibility, so that if the cost of electricity use is less
6 than the service charge, then the service charge is reduced
7 to the same cost as the electricity consumed, so that
8 particularly single, low-income pensioners who have made a
9 real effort to reduce their amount of consumption are
10 seeing no benefit as we see the significant increases in
11 the service charges, and we think the approach undertaken
12 in Victoria is suitable.
13
14 The final short-term one - although probably not so
15 short-term or medium-term - is that EWON has in the past
16 advocated and we think that it is time, in the context of
17 this price increase, to use the provisions in the National
18 Electricity Law and the National Electricity Retail Rules
19 that provide appropriate protections for consumers and
20 introduce prepaid meters as a useful budgeting tool for a
21 number of consumers who would significantly benefit from
22 that method of controlling their energy consumption.
23
24 We believe that the appropriate consumer protections are
25 set out in the national framework and can be imported into
26 NSW almost immediately holus-bolus and then it would
27 be up to retailers maybe to make that offer of prepayment
28 meters.
29
30 The final couple of points I wanted to make: having
31 endorsed the approach, we think that it would be really
32 useful if IPART, as well as calling on the AEMC to review
33 the structure around network pricing, and EWON intends to
34 ask the AEMC to do this in a response to their strategic
35 priorities paper, to ask the AEMC to convene a national
36 discussion around affordability because there are a range
37 of affordability issues that need a national discussion,
38 with all stakeholders participating.
39
40 In particular, the sorts of issues that we want seen
41 talked about at that national summit are things like the
42 usefulness or otherwise of an energy affordability
43 benchmark, which they use in the UK, and also to explore at
44 length the value or otherwise in a context of rising energy
45 costs of the establishment of a social tariff for the most
46 disadvantaged - again, something that occurs, in our
47 understanding, in some parts of the United States and

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1 certainly has been one of the obligations placed on
2 retailers in the UK, that they provide access to a social
3 tariff for the most disadvantaged.
4
5 We also have previously called on, and will be calling
6 again, on the AER in the context of network prices driving
7 the bulk to a greater part of the increase, that we would
8 like the AER to investigate with stakeholders the
9 possibility of the networks providing resources to the
10 retailers' hardship programs. EWON's strategic planning
11 process looked at what we thought would be the increase in
12 affordability complaints, which are the core of our
13 clients - billing, credit, et cetera - and our own members,
14 the energy retailers around EWON's council and around
15 EWON's board, said, "Up your figures significantly." Our
16 estimate is that this price rise is going to drive
17 significant problems for the energy industry, the retail
18 part of it, and is going to drive significant increases for
19 EWON.
20
21 We are a last resort body. It is the retailers and their
22 hardship programs that are going to be overwhelmed by
23 customers in the first instance, and given that the network
24 price determination is the one driving the energy costs, we
25 think that it is appropriate that those networks contribute
26 a percentage to the retail hardship programs that are
27 dealing with the impact of that price rise.
28
29 Finally, I'll just conclude by saying there are two
30 other things that we believe need research done around, and
31 that comes back to the EAPA. Across the various
32 jurisdictions in Australia of energy, there are different
33 forms of energy rebates, there are different forms of
34 emergency assistance, and those people most experienced
35 with a particular model say this model is the most
36 effective way. So we see retailers based in Victoria
37 telling EWON and the tribunal that the Victorian model is
38 the most effective and efficient model.
39
40 I am sure there are people with experience in NSW,
41 myself included, who would say that the EAPA model is the
42 most effective and efficient model and what we need is
43 actual research that tries to provide a quantitative base
44 and some qualitative interrogating of those people who
45 need it, what is the most effective and efficient way of
46 providing both rebate assistance and emergency cash
47 assistance to deal with an inability to pay a bill.

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1
2 The other thing that EWON thinks could benefit from
3 some research, there are less now than there were in the
4 past, but there still remain some differences between the
5 rates of disconnection in various jurisdictions. As I
6 understand it, Queensland, I suppose air conditioners drive
7 a fairly high level of consumption, but they have a much
8 better climate than Victoria - Queensland have the highest
9 rate of disconnection, NSW sits somewhere there, and then
10 Victoria is lower.
11
12 We think that there will be some benefit from some
13 research into trying to establish the best practice
14 undertaken by retailers and by regulators that result in
15 the lowest level of disconnection, but the most effective
16 and efficient way of managing debt. Although some of that
17 research has been done at a jurisdictional level, having
18 some national research undertaken on that could be of real
19 benefit, because we know the reality, we know that the
20 AEMC's strategic priorities for energy market development
21 are the NSW Government report, NSW network and prices
22 inquiry, known as the Parry-Duffy report, and Garnaut's
23 climate change update, *transforming the electricity sector*.
24
25 All of those reports, all of those key reports, indicate
26 that energy prices are going to go up, we know that
27 that is a given. What we don't know is how best to aid
28 those customers most adversely impacted by those energy
29 price increases, and we think that some national discussion
30 and some national research will provide a good basis, just
31 as a review of the green schemes and a review of the
32 network pricing structure will also provide in the medium
33 to long term some relief from the ever increasing slope of
34 price increases.
35
36 THE CHAIRMAN: Thanks very much, Chris. Those were
37 extremely valuable points. We very much welcome the fact
38 that the focus really is on what can we do about the
39 drivers of the prices. There is not much we can do about
40 the prices we have got, but what can we do about the
41 drivers in future, but particularly with a focus on the
42 affordability issues and on the fact that we need quite
43 targeted measures, and we hope some of the analysis we
44 have done can help shape those targeted measures. In terms
45 of the other points you made, there are a number of things
46 we can take on board. So thanks very much, Chris, that was
47 extremely valuable. Any other comments?

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1
2 MS HODGE: Good morning, I'm Carolyn Hodge, I'm the
3 senior policy officer with the Public Interest Advocacy Centre.
4 Firstly, I would like to support Chris's point in regards
5 to providing energy rebates for retirement village
6 residents. I think that would be quite a simple step and
7 the administrative procedures that are in place for
8 residential park residents could be easily mirrored in that
9 regard.
10
11 I would like to thank the tribunal for including some
12 customer impact information and analysis with their
13 decision on price rises. It is very good for a range of
14 consumer advocates to have that information at their
15 fingertips and it also shows that the tribunal is very
16 mindful of the impact of their decisions. So thank you.
17
18 Like the tribunal, the Public Interest Advocacy Centre
19 is very interested in working with a range of stakeholders
20 to make sure that the assistance that is given out to low
21 income consumers is very well targeted. I think we need to
22 ensure that the lessons learned from recent reviews, such
23 as the review of EAPA and also from 2009, the customer
24 assistance policy consultation, could inform a way to
25 deliver positive outcomes for consumers.
26
27 One of the things in line with these price rises that
28 could be useful is to assist consumers to purchase more
29 energy efficient appliances. Low income, vulnerable
30 consumers face great difficulties in doing this and I think
31 that some of the information we have heard today,
32 especially with regard to consumers in regional and rural
33 areas, who have high consumption and also are affected by
34 weather conditions, extremes in weather, both cold and
35 heat, could be particularly valuable for those consumers.
36
37 I also encourage research into the impact of price
38 rises for rural and regional consumers. I think that they
39 face a range of different issues and it's probably
40 something that we need to understand a little bit more.
41
42 One of the things that I would like to point out is that
43 we have discussed today low-income consumers with high
44 consumption, but one of the things that I am hearing over
45 and over again is people who are under-consuming. It is
46 not always caught in statistics, but we are talking a lot
47 with consumers who are going through a range of strategies

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1 just to keep their bills affordable.
2
3 What we are hearing is people who are not using adequate
4 lighting, they are going through the television program
5 and picking which programs they can watch because
6 they are thinking about how much energy their television
7 uses. They are not cooking their meals adequately, they're
8 purchasing frozen prepackaged meals, with the thought that
9 microwaving those uses less electricity than starting from
10 scratch and preparing fresh food.
11
12 I guess what I am saying is that there are some
13 physical and social impacts to rising electricity prices
14 and we have to be mindful of understanding a range of
15 consumer experiences so that we can deliver targeted
16 assistance for them.
17
18 We are also very supportive of the investigation of a
19 social tariff. Of course, it is very welcome to see a \$55
20 increase to the energy rebate, but in line with the
21 increases that we are facing, we are of the view that there
22 needs to a real understanding of how perhaps different
23 tariff structures could assist particularly low income and
24 vulnerable consumers.
25
26 Just one other thing. In terms of rebates, I think it
27 is particularly important that the rebates take into
28 account the current prices of electricity. We have a range
29 of consumers who access the life support rebates and these
30 rebates assist people with keeping machines, such as home
31 dialysis machines, going. They are based on a per day
32 price level, and I would be very supportive of that level
33 being reviewed so that these machines take up a certain
34 amount of energy and the price is reflective of the cost of
35 running them.
36
37 Similarly, at present the life support rebate doesn't
38 extend to people who use electric wheelchairs. These
39 people have to keep their chairs on charge 24 hours a day
40 and if they are disconnected, say, or they can't afford
41 their electricity, they are actually immobile. So there
42 are some very substantially negative outcomes faced by
43 these consumers, and I think we need to understand that
44 and probably do some scoping to extend the life support
45 rebate, in view of the price increases that we have
46 heard about today.
47

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1 THE CHAIRMAN: Thanks very much for that. Firstly,
2 thank you for your initial kind remarks in relation to the
3 report. I think you have given some very good examples of
4 how this can affect people in particular circumstances and
5 I think that really does draw out the need for particular
6 targeted measures, so we will take on board what you have
7 had to say. Any other additional comments?

8
9 MR O'REILLY: Cameron O'Reilly, from the Energy Retailers
10 Association. I should say at the outset that it is not
11 unprecedented, but a rare situation, where you would find
12 strong agreement here between the comments of the consumer
13 groups and also from EWON. I would like to endorse many
14 of the comments they made, too, about the value of the
15 demographic analysis and the social analysis you have
16 made of some of the impacts of these price rises.

17
18 When you are faced with an 18 per cent price rise, and
19 we are the bearers of bad news to the consumer, we deliver
20 those bills, but of course in this case, 16 of your
21 18 per cent increase is really to comply with government
22 green schemes and for network charges, which are simple
23 costs and obligations on retailers we have to meet.

24
25 I want to sort of disabuse anyone of the notion that
26 we would consider this good news. Quite the contrary, we
27 would see that we respect the role of IPART in recognising
28 our cost base, but these increases, to the extent they do
29 have an impact on consumers, you would expect that they
30 would. That leads to impacts such as potential problems
31 with payments, meeting obligations, and retailers do
32 recognise there is a shared responsibility where consumers
33 are having trouble meeting their bills and that is
34 particularly where temporary difficulties arise, that we
35 want to help consumers through those tough times.

36
37 We do require the consumer to self-identify that they
38 are having problems and to activate our members' hardship
39 programs, and that is important, that consumers get that
40 message, to come forward if they do need help from their
41 retailer to meet their obligations, because we do not as an
42 industry want bad debts. But to the extent that they rise
43 and obviously it does have an impact on the industry
44 because I can assure you we have to meet our obligations to
45 these green schemes, otherwise we face penalties.

46
47 We have to meet our wholesale purchase, electricity

1 purchase obligations to the market, we have to meet our
2 payments to the networks. So to the extent that there are
3 increases in bad debts, it does impact also on the
4 industry. So it's not a good development, it is something
5 we are concerned about.

6
7 As I said, we do as an industry recognise it is a shared
8 responsibility and do have to help customers, whether
9 it's temporary difficulties. But in the long run, as you
10 identified correctly, rising electricity prices is very much
11 a regressive thing and impacts much more on lower
12 income consumers. To that extent, it really is the role of
13 government and social policy to help them with
14 affordability issues that are long term.

15
16 Finally, I would like to comment on the terms of
17 recommendation in terms of the solar bonus scheme and
18 retailers contributing to that. I do want to make it clear
19 that retailers are run on fairly low margins. You have to
20 be very conscious of any such recommendations of what it
21 might do to the attractiveness of the market and whether it
22 becomes a potential deterrent or barrier to entry at a time
23 when, as I said, there are more retailers looking to come
24 into this market.

25
26 I would make it very clear that we, as an association,
27 did never ever advocate for the solar bonus scheme. We are
28 passing through the implications of it and some retailers
29 do get into the solar industry as such, but we did not
30 create that market, we did not create that scheme, we are
31 paying the costs of it and the impact on consumers does
32 affect us. We would be very concerned that it would be
33 seen in any way that retailers were behind that scheme. We
34 weren't.

35
36 THE CHAIRMAN: No, that's understood. Thank you for that,
37 and I think there is a wide recognition by everybody in the
38 room that the size of the price increases we have just
39 announced are not welcomed by anybody and not welcomed
40 by the retailers either, we understand that.

41
42 Just on your last comment about the contribution,
43 let's be here clear what we are talking about here. As we
44 read the scheme, there is the potential for the retailers
45 to have a small gain in the way the thing is structured.
46 We think that should be looked at to see whether that is in
47 fact the case and, if it is, to address that issue.

1
2 It is not seeking a general contribution from the
3 retailers, so there is some analysis to be done to see
4 whether the retailers do in fact inadvertently benefit by
5 the way the scheme is set up and, if so, if that is the way
6 the analysis comes out, that can be addressed. If the
7 analysis doesn't come out that way, then there is no issue.
8 Can I seek further comments.

9
10 MR DUDGEON: Andrew Dudgeon, from AGL. Just to
11 that point around financial benefit that was discussed in
12 relation to the feed-in tariff, AGL, and I think a number of
13 other retailers, provide a premium or rebate on top of the
14 existing tariff to address that issue of the value
15 associated with that energy and that value that is there
16 for the retailer, so I would highlight that in terms of
17 those schemes.

18
19 Just in terms of a question, the recommendation that
20 we would be tightening the rules around the eligible
21 activities on the ESS, would that be in terms of the types
22 of activities that could be undertaken or is that in
23 relation to the compliance requirements, or what is the
24 thinking?

25
26 MR COX: I might have a go at that one. I think our
27 concern particularly is showerhead programs that involve
28 either sales or door-to-door installations. There have
29 been a large number of showerhead programs in NSW and
30 the scope for any additional activity is likely to
31 be small. So perhaps it is time to phase out that
32 particular activity, I think that is what we have in mind.

33
34 MS DEGABRIELE: Maria Degabriele, from the St Vincent
35 de Paul Society in NSW. Really there is not a lot to add
36 from all the comments, and I endorse all the comments that
37 have been made and especially thank IPART for their really
38 impressive research and analysis. It is going to continue
39 to be valuable, that sort of analysis.

40
41 I just wanted to add - and it's a bit of a broken
42 record - that the charity in the NGO section is really
43 going to feel the repercussions of these increases. As we
44 have seen a massive increase in people experiencing
45 hardship, people often go without other things in order to
46 pay their essential bills, and we are supporting people
47 more and more in helping them pay their bills and also in

1 terms of food, clothing, medical bills, et cetera.

2
3 So the social impact of such a massive increase, and
4 I know we are all acknowledging it, is really going to hit
5 the whole sector.

6
7 THE CHAIRMAN: Thank you for that. The exact reason
8 we did the analysis is the one you are acknowledging.

9
10 MS HOLE: Katharine Hole, Department of Trade and
11 Investment, Regional Infrastructure and Services. The
12 price rises are obviously of great concern to everybody and
13 I think the government's commitments on the low-income
14 household rebate and family energy rebate and the
15 responses to the solar bonus scheme have been well covered
16 this morning.

17
18 There are probably just a couple of other comments I
19 want to add, that I'm not sure people are aware of. The
20 government has also increased the medical energy rebate
21 concurrently with the low income household rebate, so that
22 will be \$200 from 1 July as well. The Premier, in
23 responding to the price increases, made a number of other
24 commitments about reviewing the network regulation and
25 also speaking to the Commonwealth about them
26 contributing to that \$75 price increase associated with the RET.

27
28 I would also like to note that the Australian Energy
29 Regulator has announced that it is also reviewing the
30 regulatory framework, or as much as it can within the
31 confines of its remit, regarding network regulation. There
32 has been a short statement released by them, they are
33 probably the better ones to speak to on what they will be
34 looking at in that review, but they note that one of the
35 key things they will be considering is the balance between
36 consumers and network and how that can be addressed.

37
38 THE CHAIRMAN: Thanks, Katharine. There have been
39 some welcome steps by the government and I think the AER,
40 its review will look at precisely the issues we have
41 identified, so that's pleasing as well.

42
43 MS CROWE: Charmaine Crowe, policy coordinator at
44 Combined Pensioners & Superannuants Association. Most
45 of what I had to say has already been covered, so I won't go
46 on, but just a couple of points.

47

1 We would like the idea of a percentage-based rebate to
2 be explored. I think IPART's excellent evidence showed
3 that people who are living in country NSW and who are
4 probably signed up in Country Energy face much higher bills
5 than their Sydney counterpart, and for that reason I think
6 that a percentage-based rebate would be very helpful to
7 assist those low-income customers who, dare I say, would be
8 falling into that 10 per cent who are paying in excess of
9 10 per cent of their income on energy.

10
11 Just on that note, if you look at IPART's average
12 household energy use and correlate that to the single
13 pensioner and single rate of Newstart allowance, even with
14 the \$200 rebate applied this year, someone in receipt of
15 Newstart and who has signed up with Country Energy is
16 going to be paying about 15 per cent of their income just on
17 electricity alone. So that's quite substantial, even with
18 the reformed rebate, which is very welcomed as well.

19
20 The other point I would like to make, and I appreciate
21 it is outside of IPART's jurisdiction, but we would also
22 like to see consideration of the federal utilities
23 allowance to be indexed in accordance with utility price
24 rises rather than CPI, as is currently the case. I know I
25 have said this on a number of occasions, but we would also
26 like to see it extended to low-income healthcare card
27 holders, not just people in receipt of the aged disability
28 support and carer payment pensions.

29
30 THE CHAIRMAN: Thank you for that. I should mention
31 one thing the analysis has done is to show the problems of
32 the country areas. There are enough problems in the city,
33 but the country areas face particular problems and I think
34 this analysis shows that up very much. So thank you, and
35 we will take those on board as well.

36
37 MR O'REILLY: Can I just make one request. Quite
38 appropriately, you have highlighted the relative percentage
39 of household expenditure on electricity amongst the range
40 of groups, but what is also useful, I think, is to look at
41 the whole overall ABS income survey in totality because
42 particularly when you think about this city, we could have
43 the best rebate scheme, we could start to control
44 electricity price increases, but the reality is when it comes
45 to hardship, housing is a very, very significant component
46 of hardship and poverty. And particularly when
47 you're talking about a city with some of the most expensive

1 housing in the world, we all should see that in context as
2 well.

3
4 THE CHAIRMAN: I understand that. There are many cost
5 pressures, people are suffering. I guess what we have
6 tried to do in our report is highlight - which I think was
7 a surprise to some and I know for a fact a surprise to some
8 in Canberra - just how high the percentages are of people's
9 disposable income being spent on electricity.

10
11 So the focus here is that there are some people for
12 whom this is a particularly difficult thing to bear, just
13 by dint of their circumstances, and we have tried to
14 identify that and that is why I think the focus on many of
15 the targeted measures we have had today is very welcome.
16 But I understand your point. Are there any other comments
17 from people around the table?

18
19 MR MUKHERJEE: Dev Mukherjee, from the Council of
20 Social Services of NSW. I agree with many of my
21 colleagues' statements and I won't go over them, about
22 mitigating the effect of the price rise.

23
24 One point I do want to make is that many of the
25 recommendations in the report, and we have talked about
26 today, are medium to long-term recommendations and apart
27 from the energy rebate going up on 1 July, it is the only
28 mitigating factor that will coincide with the price rise.
29 So I would appreciate some further work around particularly
30 the EAPA scheme and I think in our submission to the
31 tribunal, we will be making some comments about the
32 EAPA scheme, which we are still finalising at this time.

33
34 Although we would agree that, in the medium to long
35 term, we need some commonalities across the jurisdictions
36 in Australia, our emergency assistance and rebates from
37 1 July, the price is going up and I think we need to make
38 some decisions, the government needs to make some
39 decisions, prior to that to mitigate the impact on
40 low-income households, particularly around emergency
41 assistance, because that is the one area that hasn't really
42 been looked at for some time. Despite we have had a
43 review, we haven't seen the result of that.

44
45 We all put in submissions at the end of last year and
46 there was a promise of, I think, \$55 million extra some
47 time ago and we haven't seen any result of that. So it

1 would be good if IPART could perhaps prod the government a
2 little bit to make some decisions in that area.

3
4 THE CHAIRMAN: As has already been mentioned, part of
5 our prodding is doing the analysis and presenting that
6 analysis. So sometimes the precise way to deal with these,
7 we fully support the fact that there needs to be quite
8 targeted measures and there has been a lot mentioned today,
9 I guess determining exactly what those targeted measures
10 are is probably something that needs more of a
11 whole-of-government look than IPART can do. But having
12 said that, we will take on board everything that has been
13 said and give it a lot more thought, so we will certainly
14 be addressing that further.

15
16 Are there any other comments from people at the table?
17 Could I invite any comments from anybody behind the table.
18 Are there any comments there? As I said earlier, I'm
19 conscious most people are here to observe rather than
20 comment, but would anybody like to make a comment or
21 pose a question? No, okay, thank you.

22
23 I will just make some closing remarks. The main
24 closing remark is to thank everybody for their time and
25 their comments. I think the comments showed me that we
26 have got a very good understanding of what the problem is
27 and what the problem isn't, and we hope that the data we
28 have presented can help to have a more focused discussion
29 and targeted discussion on how to assist those most
30 affected and also we can try and deal with some of the
31 drivers of the price increases to reduce those so that the
32 price increases can be ameliorated in future.

33
34 As I think was mentioned by Cameron, but it is an
35 obvious point, these increases aren't welcomed by the
36 retailers any more than they are welcomed by anybody else
37 around the table. So it is in all our interests to see if
38 some policy changes can be made to address them.

39
40 It only remains for me to say that submissions on the
41 draft report are due on 12 May. We would like all
42 submissions, comments and questions to be made directly to
43 IPART, for obvious reasons. Anyone with questions on how
44 to make a decision should contact the IPART secretariat.
45 The next stage for us is we will be considering those
46 submissions in greater detail and then producing our final
47 report in mid-June.

1
2 This is obviously necessary so that the price
3 increases can come into effect on 1 July 2011. Therefore,
4 we really do need your submissions in on time. We cannot
5 guarantee that any submission we receive after 12 May can
6 be properly considered.

7
8 As I mentioned earlier, there will be a transcription
9 of today's proceedings available on IPART's web site. So
10 with that, I will thank you again for your time and very
11 thoughtful comments, and we will no doubt be chatting
12 again in future.

13
14 AT 11.35AM THE TRIBUNAL ADJOURNED
15 ACCORDINGLY

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