



Submission: Senate Select Committee on Electricity Prices

Energy & Water Ombudsman NSW

SEPTEMBER 2012

Energy & Water Ombudsman NSW
ABN 21 079 718 915

Freecall 1800 246 545
Admin (02) 8218 5250
Fax (02) 8218 5233

Web ewon.com.au
Email omb@ewon.com.au

Post PO Box K1343
Haymarket NSW 1239



PO Box K1343
Haymarket NSW 1240

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12 September 2012

Committee Secretary
Senate Select Committee on Electricity Prices
PO Box 6100
Parliament House
Canberra ACT 2600

Thank you for the opportunity to comment to the Senate Select Committee on Electricity Prices.

The Energy & Water Ombudsman NSW (EWON) investigates and resolves complaints from customers of electricity and gas providers in NSW, and some water providers.

In response to rapidly rising prices and a significant increase in customer contacts to our service, EWON has recently made a public call for a national discussion on energy affordability issues facing consumers, in particular how we as a community:

- respond to the increasing need for assistance for customers in the context of rising energy prices
- deal with the reality of customers on low incomes who are using more energy than they can afford
- ensure customers on low incomes stay connected to essential services.

The context for this call for action mirrors the context for the Senate Select Committee's Inquiry.

Background

The last 3 years has seen a significant increase in the price of electricity in NSW. In 2012 IPART determined an 18% average increase in regulated prices. This increase was on top of an average 27% increase for the previous two years. That is a total of a 45% increase for residential consumers in three years¹.

A significant driver of these increases has been network charges. The Department of Resources, Energy and Tourism fact sheet on Electricity Prices estimates that for every \$100 in an average Australian electricity bill \$51 is network charges².

The effect of rising network charges can be seen by tracking the Service Availability Charge (SAC) for the regulated tariff in the three network areas in NSW. It is interesting to note that many approaches to affordability focus on reducing the level of a customer's energy consumption. Such an approach, while important, does not acknowledge that the rising SAC, in and of itself, can be a key affordability issue.

For a customer of Country Energy's regulated tariff the SAC before any energy is consumed has increased from \$72.58 a quarter in 2009-10 to \$124.22 in 2012-13. This means that a residential customer is currently paying \$207 a year more before consuming a single unit of energy. For an EnergyAustralia customer the increase over the same period is \$94 a year and for an Integral Energy customer there was a \$83.72 a year increase.

When we then take into account the increased cost of consumption it is clear that many customers who are financially vulnerable are facing serious difficulty in coping with their energy bills.

Table 1 NSW Regulated tariff increases 2009 to 2012

| YEAR | EnergyAustralia | | Integral Energy | | Country Energy | |
|------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
| | SAC cents per day | Cents per kWh | SAC cents per day | Cents per kWh | SAC cents per day | Cents per kWh |
| 2009 | 42.9 | 17.16 | 52.8 | 19.52 | 80.64 | 21.58 |
| 2010 | 47.3 | 19.08 | 57.2 | 20.82 | 90.92 | 24.33 |
| 2011 | 52.8 | 22.66 | 65.83 | 24.03 | 107.80 | 28.85 |
| 2012 | 69.08 | 26.84 | 76.05 | 26.67 | 138.02 | 34.41 |

Source: These figures were drawn from the published Tariffs of each retailer for the relevant years.

¹ [IPART Fact Sheet Changes in regulated electricity prices from 1 July 2012](#)

² [DRET Fact Sheet Electricity Prices](#)

Electricity Prices and the Future

Regulation

Over the last few years increased attention has focused on network costs as a driver of electricity prices.

EWON has welcomed the range of proposals from the Australian Energy Regulator (AER) for the forthcoming NSW Network Price Determination which will bring closer scrutiny and control to the pricing determination process. Equally we welcome proposed rule changes and the review of network reliability standards which may address some of the concerns about network over-expenditure.

However, EWON notes that network security and supply without interruption are also valued highly by consumers. Any overreaction in response to concerns about 'gold-plating' may result in future price shock if there is an under spending in needed capital expenditure to ensure essential energy security.

Even with the proposed reforms under consideration in both the proposed framework and in the proposed rule changes, network pricing appears likely to remain the main driver of increasing electricity price rises.

Peak Demand

It is clear that one of the key factors driving network expenditure is the necessity of ensuring supply at peak demand times. This requirement has in the past been met through the construction of more infrastructure, but alternative approaches are becoming more feasible as technology develops. New technology such as smart meters and smart grids is enabling an approach that is more focussed on demand control. The recent discussion paper "The Power of Choice" published by the Australian Energy Market Commission (AEMC) identifies a range of possible energy products that will provide consumers with a power of choice and potentially address peak demand issues.

It must be noted however that these alternative approaches are not necessarily cheaper in the short to medium term. Smart meter technology alone comes at a significant cost to consumers. A smart grid with capacity to deal with significant distributed generation would require significant re-engineering of the current networks but would provide significant savings in the long term. Such a change to networks would require substantial capital expenditure as a transition from current arrangements was undertaken.

Affordability

As energy prices have risen, so too have the demands on the current customer assistance programs. These important programs include government funded programs such as rebates and emergency assistance. They also include the retailer customer assistance programs commonly referred to as hardship programs.

From EWON's experience of customer complaints we have found that the group of vulnerable consumers most affected are those on low incomes whose consumption is more than they can afford. Disconnections because of inability to pay are of critical concern and the NSW electricity and gas disconnection rates remain too high.

EWON believes that the Government, in partnership with the retail and network businesses, regulators, energy ombudsmen schemes and consumer organisations, needs to consider the regulatory and technological frameworks related to electricity prices and impacts on vulnerable customers to develop better ways of assisting these customers into the future. EWON has been contributing to these debates and will continue to do so.

Discussion and debate around the issues of affordability are crucial in the context of the Federal Government's White Paper and the AEMC's Strategic Directions Paper, as well as this Inquiry.

To provide a way forward on the issue of affordability EWON has proposed that a National Roundtable on energy affordability issues be convened by the Federal Government. The first roundtable meeting could include discussion of:

- industry, regulator, community, Ombudsman perspectives on energy affordability and suggestions for addressing this issue
- fuel stress benchmarking
- Australian and overseas options for undertaking research to identify the most effective pricing structure and combination of rebates and emergency assistance for customers on low incomes including:
 - consideration of tariff measures
 - the most effective way to deliver emergency relief to energy customers
 - the adequacy of the current customer assistance measures
 - long term and short term financial hardship.

The Roundtable would not consider the reasons for the energy price rises, as these are well known. Instead, this meeting would focus on practical responses to the impact of rising energy prices on low income and vulnerable consumers. It would aim to share information, experience and proposals for ways to assist low income and vulnerable consumers manage their energy bills and avoid disconnection.

Over the last five years EWON has made a number of specific proposals to begin to address the affordability issue. These include:

- Networks to make a contribution in 'cash or kind', eg a contribution to the retailers' hardship programs; free electrical service to eligible customers who face high bills because of faulty residential infrastructure but who cannot afford a private electrician; energy saving advice for customers
- The introduction of pre-payment meters on a voluntary basis where they suit a customer's needs and appropriate consumer protection policy is in place
- Consideration of a move to monthly billing to reduce 'bill shock' often caused by the current (and outdated) quarterly billing in arrears
- An independent review of all state based customer assistance measures to identify the most effective assistance for customers in financial hardship and/or facing disconnection of their essential services.

EWON believes that these ideas need the framework of a national discussion of all stakeholders to be debated and progressed.

As we move to a national and more competitive market it is critical that consideration be given to the issue of energy affordability and the need for all Australians to remain connected to essential services.

The regulatory framework and the technological changes within the energy industry have been the focus of analysis and debate. However EWON suggests that it is just as important for affordability and the associated issues to be considered.

Yours sincerely

Clare Petre
Energy & Water Ombudsman NSW