

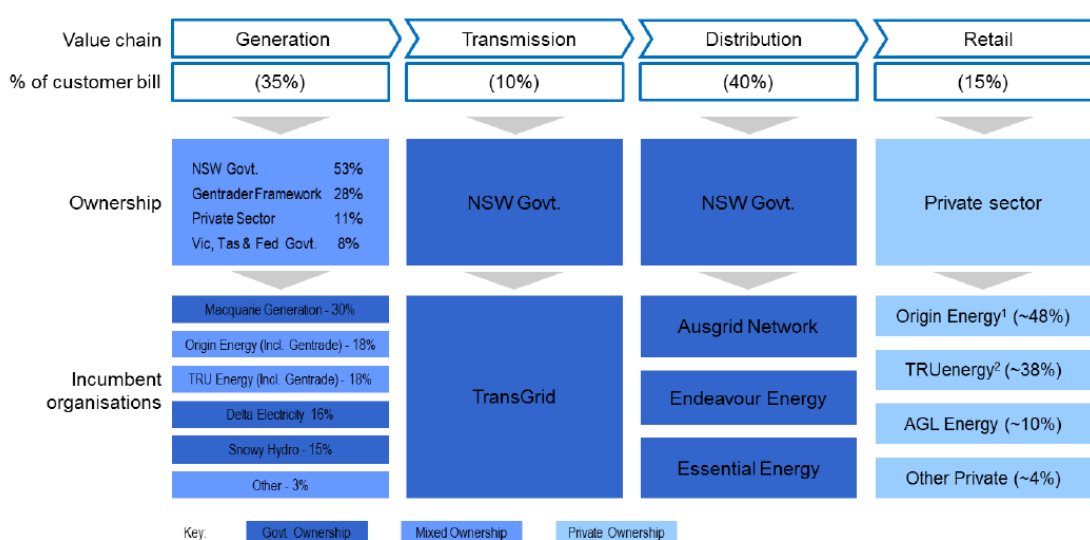
## 1. Background

Unions NSW makes this submission on behalf of its affiliated unions including those with members in the electricity sector, including; ETU, APESMA, USU, CFMEU, PSA, the AIMEMI and the AMWU.

## 2. Terms of reference response

### A. Key drivers of electricity price rises over recent years and key future drivers

In terms of NSW electricity prices, the structure of the NSW industry is set out in Chart 1 below.<sup>1</sup>



<sup>1</sup> Origin Energy acquired both retail arms of Country Energy and Integral Energy Australia on 1 March 2011.  
<sup>2</sup> TRUenergy acquired the retail arm of Energy Australia on 1 March 2011.

As can be seen, the NSW transmission and distribution network (*"The Polls and Wires Network"*) account for around 50% of the customer bill. The remaining 50% is spilt between generation and retail. As has been well documented elsewhere, the NSW retail and generation sector has been subjected to a range of reforms aimed at enhancing the benefits of competition.

At the same time successive Governments have been challenged by the competition argument because in NSW *the Polls and Wires Network* represents a natural monopoly. On this background and given that electricity is an essential service for NSW households, NSW Government policy has been that it is sensible social and economic policy for the NSW Government to maintain ownership of the polls and wires.

According to the NSW Commission of Audit report on Expenditure rising prices are the result of changes to the network.<sup>2</sup> Rising network charges have resulted from an expansion of network,

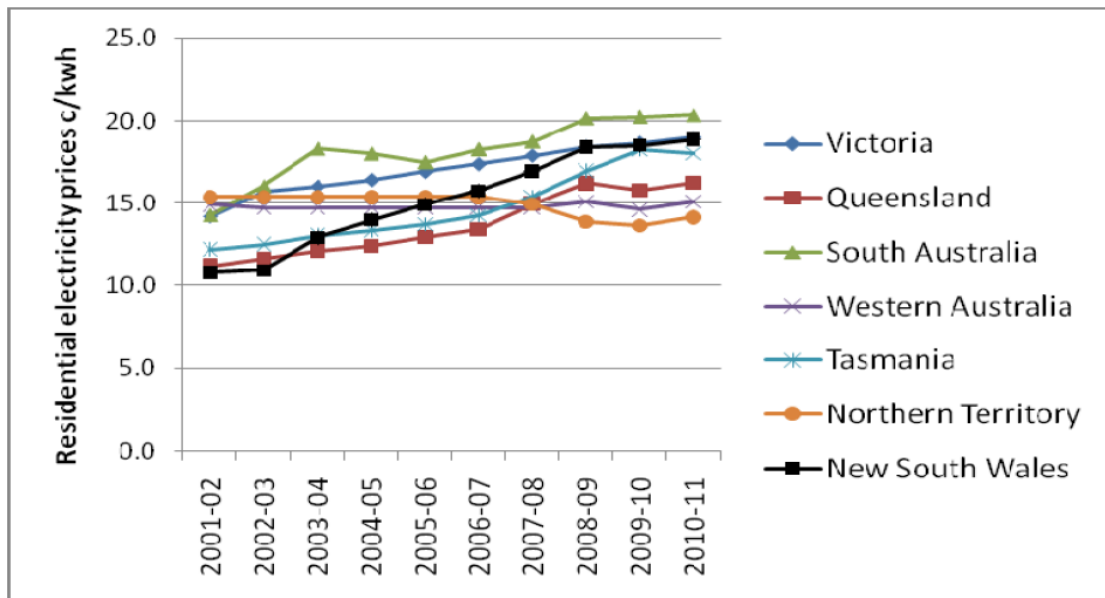
<sup>1</sup> Schott Report, NSW Commission of Audit Final Report: Expenditure, p 188

<sup>2</sup> *ibid*, p 197.

upgrading capacity, the replacement of aging assets, the need to meet higher reliability standards and also include high borrowing costs.

Whilst NSW electricity prices have risen sharply over the past few years the point needs to be made that NSW prices are cheaper than or equal to the privatised networks in South Australia and Victoria as can be seen from the chart below.<sup>3</sup>

**Figure 2.2 Comparison of electricity prices by jurisdiction (c/kwh)**



Source: Derived from KPMG Forecast spreadsheets 31 August 2010, accessed at <http://www.aemo.com.au/planning/esoo2010.html>. Note: Residential electricity prices in WA and the NT are not fully cost-reflective.

A point in passing when reflecting on this chart is that as South Australia remains the most expensive jurisdiction for the provision of power in Australia; state comparisons of power prices provide no argument for the privatisation of the NSW network.

It must be acknowledged that the nature of electricity use, that is large peaks and troughs, is by far one of the major drivers behind the need for infrastructure investment, placing up-ward pressure on retail prices.

**B. Legislative and regulatory arrangements in relation to network transmission and distribution investment decision making and consequent impacts on electricity bill, and the long term interests of consumers.**

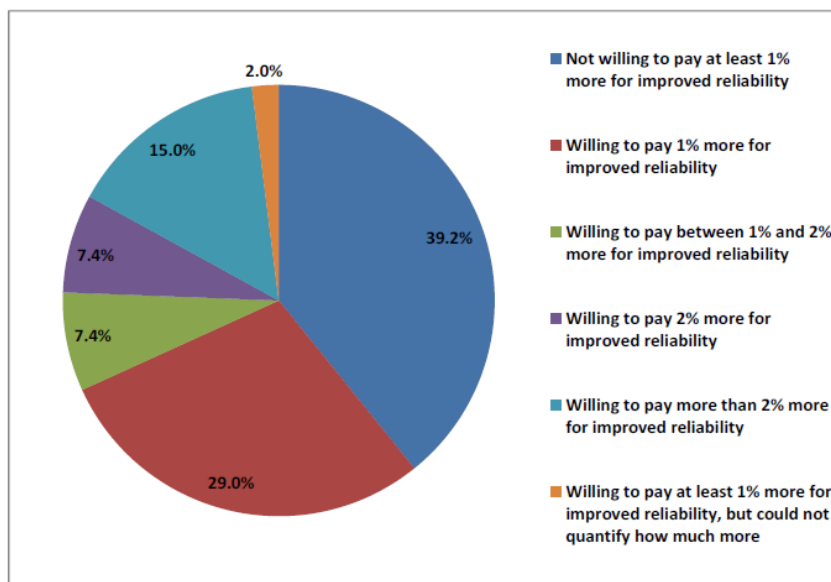
It is unquestionable that the role of Government in the management of the electricity sector is to review and set the “right balance” between reliability and consumer prices. Of course the very term “right balance” must first be defined and agreed on.

Unions NSW notes the extensive survey work undertaken by the Australian Energy Market Commission (AEMC) who surveyed more than 1200 NSW customers about their attitudes towards reliability versus prices. Their findings are surprising and significant in two areas.

<sup>3</sup> Ibid. p, 196

First the AEMC found that NSW customers are willing to pay more for increased reliability. Figure 2 below shows that while 39.2% of customers were unwilling to pay for improved reliability, a little over 60% were willing to pay more.

**Figure 2: Willingness to pay for 60 minutes less outages a year**



**Figure 2** shows that 60.8% of those surveyed said they would be willing to pay at least 1% more for improved reliability, with 22% willing to pay 2% or more.

This is challenging in that the solution to increasing prices that is often put forward is about reducing reliability standards. The research by the AEMC suggests that increased reliability is an important factor for energy consumers and one that most are willing to pay for.

The second finding of the research of the AEMC is that even if the Government were to shift its focus and reduce the standard of the reliability of the network, the savings for the customer would be minimal at around \$15.

Further should customers experience extended period with loss of supply the potential for loss (including the use of alternate energy sources, requirement to seek alternate accommodation or the spoiling of food) would far outweigh any small gain achieved through reliability reductions.

***Striving to improve network reliability while getting the balance right.***

Unions NSW submits that we should adopt a key principle that Governments and communities should always strive to improve services and this includes our electricity network and its reliability. However, this needs to be managed in a balanced and sensible way.

Improvements to services including investment and reliability improvements should not be constrained by unrealistic and artificial timeframes (i.e. the regulatory period which for NSW is five year periods with the current period concluding in 2014) and should be implemented over more manageable timeframes – this approach would flatten out price increases.

A more realistic timeframe for service reliability improvements would seek to strike a balance between the higher levels of network reliability standards and the rising electricity bills that the people of NSW are currently receiving.

In our opinion, a better approach would be to implement a rolling 10 or 20 year improvement program which would flatten price increases faced by NSW customers while achieving a better balance. This approach is also in line with the customer desire for a high standard of network reliability.

***The NSW electricity transmission and distributors network should remain as a Government owned assets.***

The sale of the NSW electricity transmission and distribution network is often proposed as a panacea to deal with rising household electricity bills.

However, little social economic or good governance evidence is offered to support this assertion and it should not be accepted.

The Australian Government's Draft Energy White Paper talks about how the Federal Government wants to stimulate the energy market through, among other things, "promotion of greater competition and business efficiencies, including through further asset privatisation."

This White Paper was developed with no community, consumer advocate or union input. Its main consultative source appears to be the industry players who are seeking to buy privatised energy assets or would benefit from a privatisation agenda.

The fact is that unlike the generators, or the retail arms of the electricity sector, the network is a natural monopoly, there is no second set of poles and wires. The private ownership of a natural monopoly or an essential service like the electricity distribution sector will not increase competition as there will only ever be one set of transmission and distribution wires for the electricity to run down. Whoever owns this infrastructure cannot be subject to competition.

Arguments for increased privatisation of monopoly assets like the poles and wires then turn to how this monopoly problem can be overcome through regulation.

However, this as a form of social policy is flawed in that what is created once a monopoly essential asset is privatised is an imperative for interests to pursue the "deregulation" of the sector and the removal of the much maligned Government red tape.

Once achieved, a deregulated monopoly is then free to charge substantial amounts and hold electricity consumers to ransom, which is exactly what happened in California when Enron got hold of the electricity network only a few years ago.

Privatisation is not in the public interest. The Australian Government's White Paper took no account of broader community views nor it seems sensible Government policy and is clearly at odds with the public interest.

When electricity assets are owned by government, the government and therefore the people enjoy a much greater ability to place downward pressure on retail prices by balancing priorities than if the

network was owned by private enterprise, whose sole purpose is to maximise profit for shareholders.

The NSW electricity transmission and distributors network should remain as a Government owned assets.

### **Government Dividends**

Successive NSW Governments have used the network as a source of revenue to support other Government services.

In principle we support this approach however, the NSW Government must adopt a balanced approach to its revenue strategy on the one hand and the experience by consumers of rising power bills. We believe that the Government needs to continue to take a dividend but must reduce the current levels in order to moderate prices.

Electricity dividends, income tax equivalents and interest on treasury loans generated \$2.19 billion for the NSW Government in 2010/11. This revenue was not wasted but was used to fund other important public services. The challenge for government owners is to strike the right balance between government revenue and the impact on consumer prices.

The table below shows the impact of NSW Government dividends and tax equivalents over the past ten years by dollar amount per electricity customer.

<b>Year</b>	<b>Essential Energy Area</b>	<b>Ausgrid Area</b>	<b>Endeavour Energy Area</b>
2001	\$156.32	\$251.59	\$245.72
2001/2002	\$64.91	\$92.56	\$178.23
2002/2003	\$71.99	\$271.58	\$127.38
2003/2004	\$148.16	\$185.44	\$225.32
2004/2005	\$144.84	\$141.13	\$251.96
2005/2006	\$152.57	\$223.08	\$231.53
2006/2007	\$189.32	\$211.43	\$263.38
2007/2008	\$103.17	\$211.30	\$252.96
2008/2009	\$173.28	\$224.17	\$247.77
2009/2010	\$185.41	\$321.06	\$306.97
2010/2011	\$148.78	\$304.08	\$371.48

These figures are sourced from the annual reports of Essential Energy, Ausgrid, Endeavour Energy and Transgrid between 2001–2011 and combine the dividend and income tax equivalent paid to the NSW Government. Total government revenue is divided by the number of customers serviced by each distributor to provide a per customer cost in each franchise area.

### **Options to reduce peak demand and mechanisms that could assist households and businesses to reduce their energy bills.**

#### **Smart Meters and Time of Use Tariffs.**

Unions NSW is concerned about proposals to introduce Smart Meters and ultimately Time Of Use (TOU) Tariffs.

The introduction of Smart Meters and TOU tariffs have the potential to increase the cost of electricity for a large number of electricity consumers. Furthermore, the cost and installation of a Smart Meter and in home display device is passed onto the consumer.

Given recent electricity price rises in New South Wales, it would seem an inopportune time to introduce Smart Meters and TOU tariffs which would involve additional costs for all households and will result in additional price rises for consumers.

Before any decision is made the Government must first undertake significant consultation with consumers, consumer advocates, social welfare agencies and other community organisations. In addition to this, protection mechanisms must also be investigated in order to protect the most vulnerable from unavoidable electricity price increases.

Unless these two very important steps are undertaken it is highly likely that the general public will strongly oppose such changes.

Should the Government elect to proceed down this path, they must learn from the Victorian experience. Significant changes to the way an essential service such as electricity is delivered and priced to consumers must be explained and understood by everyone from consumers to industry.

Unions NSW believe that it is essential that the single rate tariff is maintained as an option for all consumers. Consumers should be provided with the option of shifting to TOU tariffs, with the single rate tariff maintained for all who seek to continue under this tariff structure.

If industry estimates are accurate and around 70% of consumers stand to benefit from the TOU tariffs then it would be expected that uptake would be significant. However for the remaining 30% of consumers who are at risk of facing price increases, and can generally least afford to meet additional payments, these people should be able to continue under the single rate tariff structure.

To support this view, the Victorian Auditor General's report into the Victorian Smart Meter rollout recommended that single rate tariffs be retained, this recommendation has been adopted by the Victorian Government.

### **In home displays must also form part of any Smart Meter rollout.**

The purpose of Smart Meters is to provide real time information to consumers about their electricity consumption. This information can only be provided to consumers through in home displays.

The vast majority of Smart Meters are installed in external locations meaning that a consumer cannot see what their consumption rate is, thus eliminating a consumer's ability to monitor and change consumption patterns.

The farcical arrangements in the Victorian Smart Meter rollout where Smart Meters were installed without in home displays must never be repeated. Any Smart Meter that is installed must be accompanied by an in home display device which will provide consumers with real time information.

Furthermore all Smart Meters and associated in home displays must be installed by qualified and licenced tradespeople to guarantee public safety.

### **Compensation to Reduce Peak Energy Consumption.**

Industry and Business Groups have recently been heard promoting the concept of compensating large energy consumers in order to reduce peak energy consumption.

Unions NSW does not support the use of tax dollars to compensate businesses in reducing energy consumption. Instead we believe that any financial incentive should first be offered to residential energy consumers in order to provide an incentive to not only reduce energy consumption but also help relieve recent price increases.

Further it is our view that large commercial energy consumers should be encouraged, through regulation or pricing mechanisms, to invest in alternate energy sources or adopt more efficient production methods that result in more energy efficient technologies being used.

### **3. Further contact**

Should the committee require further information or clarification Unions NSW and our affiliates are happy to make ourselves available to meet with any member of the committee or the committee as a whole.