



14 June 2012

Mr John O'Dea MLA
Chair
Public Accounts Committee
Parliament House
SYDNEY NSW 2000

Our Ref: PRO12-6021

Your Ref: LAC12/269

Dear Mr O'Dea

Inquiry into the Economics of Energy Generation

Thank you for the opportunity to appear before the Public Accounts Committee (The Committee) on 11 May 2012. I refer to the letter I received from Dr Abigail Groves, Inquiry Manager, dated 16 May 2012, outlining the questions on notice from my appearance. Please find answers to those questions below, along with a discussion of the concept of a social tariff, which I undertook to provide during my appearance before the Committee. One of the Committee's questions refers to PIAC's submission to the Australian Government's Energy White Paper process. As the Energy White Paper has a national focus, I have also attached PIAC's recent submission to the Independent Pricing and Regulatory Tribunal's (IPART) regulated retail electricity price determination. This submission is NSW specific and I believe it will assist the Committee with its current inquiry.

Question on Notice 1: Can you provide the Committee with examples of in-home services or products that are required to run on fixed schedules and thus cannot be easily moved to accommodate the peak electricity price periods?

Advocates of time-of-use (TOU) pricing for electricity argue that it sends a price signal to consumers to shift their use away from peak periods to shoulder or off-peak times when demand on the electricity grid is lower. It is also argued that these price signals encourage consumers to reduce their overall use of electricity. However, there are groups of consumers who may be older, have physical disabilities or medical conditions who are not able to shift their use away from peak periods. These consumers can be divided into two categories: Those who require in-home care services; and those who require the in-home use of life support equipment or air conditioners for medical reasons. PIAC believes that, without adequate protection, there is a very real risk that these consumers would be disadvantaged by the introduction of TOU pricing.

Care recipients

Consumers who require in home assistance with daily living tasks are able to access services under two schemes in NSW. The Home and Community Care (HACC) service is available to frail older people, young people with a disability and their carers. HACC provides assistance for purposes including household tasks, health and personal care, home maintenance and modification.¹ The Attendant Care

¹ NSW Department of Community Services, Aging, Disability and Home Care, *Home and*

Program (ACP) provides assistance for people between the age of 16 and 65 who are able to live in their own home and would be ineligible/not a priority for the HACC scheme. ACP provides recipients with assistance in completing daily living tasks.²

Consumers who receive HACC or ACP services have a limited ability to shift their electricity use in response to TOU pricing. While care providers are able to offer some flexibility in the time they attend the homes of care recipients, levels of demand dictate that some services must be delivered during peak times, which largely coincide with business and daylight hours. The care provided is therefore a product on a mostly fixed schedule, which in many cases cannot be easily moved to accommodate peak electricity price periods. Consumers receiving these services are therefore vulnerable to being worse off under TOU pricing and have an inhibited ability to respond to price signals. In addition, service appointments may be the only time people requiring care can have washing and cleaning done—making these visits times of intense energy use.

Consumers with in-home life support equipment

Some people with certain medical conditions require 24-hour use of life support equipment in their homes. Consumers who use such equipment will necessarily run it during peak periods, as well as shoulder and off-peak. The NSW Government acknowledges the fact that this equipment is in constant use, by offering a specific rate of the Life Support Energy Rebate to those consumers who require such equipment 24 hours per day. Under the *Ministerial direction for social programs issued to NSW electricity retailers*, a rebate for 24-hour use is available to consumers requiring positive airway pressure devices (\$0.32 per day for those requiring usage 24 hours per day) and oxygen concentrators (\$1.40 per day for those requiring usage 24 hours per day).³

The life support rebate is also available for people requiring the use of enteral feeding pumps, phototherapy equipment, home dialysis, ventilators, total parenteral nutrition pumps and external heart pumps. PIAC believes that the schedules to which these devices run are effectively fixed by a consumer's meal times and medical considerations, including the need to use such equipment as required, regardless of the time of day. This means that their use cannot be moved to accommodate the peak electricity price periods and cannot be reduced without negative health impacts.

Use of air conditioners by consumers with certain medical conditions

Consumers with of some medical conditions, including Multiple Sclerosis (MS) or upper spinal chord injuries with associated loss of sympathetic nervous system control, may be unable to effectively self-regulate their body temperature. As a result, they require the use of an air conditioner at times of extreme heat and cold. The use of heating and cooling for medical reasons is one reason highlighted by the Productivity Commission to explain why higher than average electricity costs are a common feature amongst people with a disability.⁴ Around 90% of Australia's 20,000 MS sufferers are sensitive to heat.⁵

Community Care services, <www.adhc.nsw.gov.au/individuals/help_at_home/home_and_community_care_services> at 23 May 2012.

² NSW Department of Community Services, Aging, Disability and Home Care, *Attendant Care Program*, <www.adhc.nsw.gov.au/individuals/support/everyday_living_support/attendant_care_program> at 23 May 2012.

³ Chris Hartcher MP, Minister for Resources and Energy, *Ministerial direction for social programs issued to NSW electricity retailers: Low Income Household Rebate; Life Support Rebate; and Medical Energy Rebate*, (2011), 11.

⁴ Productivity Commission, *Disability Care and Support – Inquiry report, volume 1*, (2011), 235.

⁵ Michael Summers and Rex Simmons, *Keeping cool survey: Air conditioner use by Australian with MS*, (2009), iii.

PIAC and the Physical Disability Council of NSW recently conducted a survey focused on the electricity use of people with a physical disability. The survey showed that people were most likely to give up heating and cooling in efforts to keep their electricity bill at a level they could afford. However, being forced to make such sacrifices is particularly concerning given that 75% (n-103) of those who responded to the relevant question noted having a physical condition that required them to heat or cool their living space.⁶

In this instance, the schedule to which these devices are required to run is dictated by the weather. Conditions of extreme heat generally coincide with peak pricing periods, meaning consumers who require the use of air conditioning for medical reasons would be very exposed to increased electricity bills under TOU pricing arrangements.

The NSW Government's Medical Energy Rebate provides support for people who require the use of heating or cooling for medical reasons. However, eligibility criteria for the Medical Energy Rebate is extremely specific, being open to consumers Health Care, Pensioner Concession or Department of Veterans' Affairs Gold Card, who suffer from both a primary and secondary medical condition that means they are unable to self-regulate body temperature. Eligible consumers must then be certified as meeting these medical criteria by a registered medical practitioner who has been treating them for at least three months.⁷ The need to establish primary and secondary qualifying conditions means the Medical Energy Rebate is available in a very targeted manner. As such, it does not offer assistance to many who have a physical condition that requires them to control the temperature of their living space.

The Medical Energy Rebate is \$200 in 2011-12, increasing to \$215 on 1 July 2012, \$225 on 1 July 2013 and \$235 on 1 July 2014.⁸ While PIAC welcomes these price rises, it should be noted that in relation to the NSW Medical Energy Rebate and its interstate equivalents, the Productivity Commission found that:

It is not clear the extent to which these schemes sufficiently cover the additional costs of electricity arising from the disabilities concerned, particularly when energy costs differ between regions. Nor is it clear whether the eligibility criteria are sufficiently broad for people with disabilities to benefit from these concessions — some of the current schemes appear narrow in their focus, with some employing diagnostic-based eligibility criteria.⁹

PIAC would therefore like the NSW Government to introduce percentage based energy rebates that would increase along with electricity prices in this state. Such rebates would also remove the inconsistency of assistance that results from locationally specific pricing. PIAC would also like the NSW Government to broaden the eligibility criteria for the Medical Energy Rebate to ensure it is accessible to those who are required to heat or cool their living space due to a medical condition.

⁶ PIAC, occasional paper on energy use by people with a physical disability (forthcoming).

⁷ NSW Government Department of Trade and Investment, *Energy Rebates*, <www.trade.nsw.gov.au/energy/customers/rebates>, at 23 May 2012.

⁸ Chris Hartcher, above n 3, 13.

⁹ Productivity Commission, above n 4, 236.

Question on Notice 2: It has been suggested that socio-economically disadvantaged people tend to buy lower-cost whitegoods, which often have higher electricity consumption. Do you recognise this as a problem? If so, do you have any suggestions for State and Federal governments to provide assistance in supporting the purchase of more-efficient whitegoods?

PIAC recognises the problem of low-income and vulnerable consumers purchasing whitegoods with a below average purchase price and less efficient electricity consumption. This means that over the life of the appliance, consumers can end up being considerably worse off with a cheap and inefficient appliance than with a more expensive version that costs less to run.

The key existing program that assists low-income consumers to purchase energy efficient whitegoods is the No Interest Loan Scheme (NILS). NILS schemes exist throughout Australia, and are typically run by charities and community sector organisations. NILS loans can generally only be used to purchase essential appliances, such as refrigerators or washing machines, or to pay for urgent medical or dental treatment. NILS loans cannot be used to pay rent, bond or settle outstanding debts.¹⁰ NILS loans are generally only available to people with a Health Care Card or other Centrelink concession card. The amount loaned is up to \$1200, with the average around \$800.¹¹

In PIAC's view, NILS schemes can be an effective way to help low-income consumers purchase energy efficient whitegoods. The Australian Government has recently provided funds to increase the number of NILS loans specifically for the purchase of energy efficient whitegoods, through the Home Energy Saver Scheme (HESS), part of the Clean Energy Future Package. HESS also provides access to energy efficiency and financial management information, education and support. HESS has been given funding of \$29.9 million over four years until 2014-15.¹²

However, because NILS loans need to be repaid, they will not necessarily overcome the problem of low-income consumers purchasing lower cost but less energy efficient appliances. This problem could be addressed through an augmented NILS program that would provide a grant to low-income consumers to contribute to the purchase an energy efficient appliance. Many consumers explain that they are aware of energy ratings when purchasing larger appliances, yet the higher price for these items is cost prohibitive. By helping to cover the difference in cost between inefficient and efficient appliances, the NSW Government could assist to increase the uptake of energy efficient whitegoods amongst low-income consumers. Such a scheme could be modeled on the NSW Dual Flush Toilet Rebate, which ensures that only efficient toilets are purchased through the program by including a minimum Water Efficiency Labeling and Standards (WELS) rating of four stars in the rebate eligibility criteria.¹³

¹⁰ NSW Department of Fair Trading, *No Interest Loan Scheme*, <www.fairtrading.nsw.gov.au/Consumers/Using_credit/Using_credit_carefully/No_interest_loans_scheme.html> at 23 May 2012

¹¹ Ibid.

¹² Australian Government Department of Families, Housing, Community Services and Indigenous Affairs, *Financial Management Program*, <www.fahcsia.gov.au/sa/communities/progserv/financial_management_program/Pages/default.aspx#5> at 23 May 2012.

¹³ NSW Office of Environment and Heritage, *NSW Dual Flush Toilet Rebate* <<http://www.environment.nsw.gov.au/rebates/ccfdft.htm>> at 14 April 2011.

Question on Notice 3: Is there anything you wish to highlight from your submission to the federal Government's energy white paper that may be relevant to this inquiry?

PIAC's submission to the Australian Government's draft Energy White Paper highlighted a number of issues of concern regarding current and future energy supply arrangements in this country. Some of these issues are relevant to this inquiry and the excerpts from PIAC's submission that address these matters appear below.

Trends in affordability and their impacts

The draft Energy White Paper acknowledges that 'in recent times energy ... has become less affordable for many in society and continued rises will place additional pressure on household cost of living'.¹⁴ PIAC welcomes this acknowledgement, but does not believe affordability receives sufficient attention in the draft Energy White Paper, given the extent of the problem and its impact on vulnerable consumers. For example, the CSIRO has projected home energy price rises of up to 56% in real terms between 2011 and 2025.¹⁵ Recent price growth has already dramatically outpaced rises in energy rebates for vulnerable consumers. The NSW Low Income Household Rebate for Health Care Card and other Concession Card holders (which was known as the Energy Rebate until 1 July 2011¹⁶) rose from \$145 per year to \$200 per year for 2011-12 (and will rise to \$235 per year by 2014), yet average bills for customers in the Essential Energy distribution area of NSW rose by \$316 between 2010-11 and 2011-12.¹⁷ The \$55 rise in the Energy Rebate covered only half of the increase in average bills that stemmed from green scheme costs alone (which was \$111, or 6% of the 17% price increase from 2010-11 to 2011-12). The increase in the Low Income Household Rebate was further surpassed by price rises due to generation costs (1% of the overall increase), network costs (9% of the overall increase) and retail costs (1% of the overall increase).¹⁸

Price increases pose a particular challenge for low-income consumers because, for this group, energy bills represent 4% of household expenditure compared to only 2.6% on average across Australia, according to figures from the Australian Bureau of Statistics for 2009-10 cited in the draft Energy White Paper.¹⁹ A more geographically specific analysis of indicative electricity bills by IPART found that affordability is an even greater issue in some areas of NSW. IPART found that 27% of households in the Essential Energy distribution area are likely to spend more than 6% of their disposable income on their electricity bill, with 8% of households likely to devote more than 10% of their disposable income to this purpose.²⁰

The recent steep increase in the cost of energy has been accompanied by increases in residential disconnections for non-payment of bills. According to the AER, the rate of disconnections due to failure to meet bill repayments is 'a key performance indicator of affordability and access' to energy supplies.²¹ In light of this, PIAC is extremely concerned that small residential retail customers in NSW have experienced sharp increases in disconnection in recent years. A total of 18,561 small residential energy customers were disconnected for non-payment of bills in 2010-11, an extra 2726 disconnections, or an increase of 17.2%, compared to 2009-10.²²

¹⁴ Australian Government, *Draft Energy White Paper*, 2012, 55.

¹⁵ CSIRO, *Cape Paterson Ecovillage: Zero carbon study peer review*, 2011, 10.

¹⁶ NSW Government Department of Trade and Investment, above n 7.

¹⁷ IPART, *Changes in regulated retail electricity prices from 1 July 2011—Final report and determination*, 2011, 4.

¹⁸ *Ibid* 3.

¹⁹ Australian Government, above n 14, 55.

²⁰ IPART, above n 17, 84.

²¹ AER, *State of the Energy Market 2010*, 2010, 103.

²² IPART, *Electricity retail businesses' performance against customer service indicators in NSW*, 2011, 8.

Small non-residential retail customers also experienced an increase in disconnections from 2009-10 to 2010-11, with the number cut off for non-payment of bills jumping by 22.3% to 2050 disconnections.²³ Significantly, 2010-11 was the only year in the last five when the percentage of small non-residential retail customers disconnected for non-payment of bills was higher than for small residential customers.²⁴ Figures from IPART also show that there has been a drop in the number of non-residential customers who are reconnected at the same address, from 44.3% of those disconnected in 2009-10 to 37.3% in 2010-11.²⁵ While PIAC acknowledges that 2050 disconnections of small non-residential customers is not itself overwhelming, the trend is alarming: an increase of 22.3% suggests there may be a growing nexus between small business viability and energy affordability. Regardless of whether customers are residential or non-residential, the decreasing affordability of energy is having broad-ranging deleterious consequences.

PIAC itself also periodically examines the social and economic consequences of residential disconnection through its publication *Cut Off: The experience of utility disconnection* (published in 2005 and 2009 and scheduled to be released again in 2013). Figures from the more recent study show that residents who had their energy supply disconnected experienced a range of negative impacts as a result. In particular, 18% experienced negative health impacts, including being prevented from using a medical device (9%) or falling ill/sustaining an injury (9%).²⁶ There were also notable psychological impacts, with affected people becoming anxious or distressed in 34% of cases (36% for children) and having difficulty caring for infants in 13% of cases.²⁷ In addition, an occupant was unable to attend work or school in 8% of cases and someone in the house became ill in 7% of cases.²⁸ These figures illustrate how the negative impacts of disconnection potentially lead to long term problems with anxiety and increase the burden on the health system through increased incidence of illness. Residential disconnections also pose a challenge to national productivity, through both absenteeism and the negative impacts of stress and illness on work performance. Finally, as a hindrance to education, disconnection can have a long-term effect on productivity through reducing the productive capacity of workers and those seeking employment.

The trend in affordability is also placing an increasing burden on ombudsman services and community welfare organisations. For example, the Energy and Water Ombudsman of NSW (EWON) has reported an increase in complaints related to affordability. From 2009-10 to 2010-11, EWON notes an increase of 1502 complaints from customers facing disconnection (8%) and an increase of 813 complaints from customers who had been disconnected due to non-payment of bills.²⁹ PIAC has received anecdotal evidence that community welfare organisations that administer emergency relief programs such as the NSW Government's Energy Account Payment Assistance scheme are struggling to meet the growing demand for such assistance measures. PIAC contends that it is unrealistic to call on existing social safety nets that support low-income consumers to deal with the impact of future energy costs increases, when these safety nets are already operating close to or beyond capacity.

Towards more effective consumer assistance

Due to the increasingly severe challenges that steep rises in the cost of energy present, as well as the fact that these rises are projected to continue, PIAC believes the issue of energy affordability needs to be more systematically addressed by governments. This need is even

²³ Ibid.

²⁴ Ibid.

²⁵ Ibid 17.

²⁶ PIAC, *Cut off II: The experience of utility disconnection*, 2009, 30.

²⁷ Ibid 31.

²⁸ Ibid.

²⁹ Energy and Water Ombudsman NSW, *Annual Report 2010-11*, (2011), 2.

stronger given that, as the draft Energy White Paper notes, 'Australia's energy markets are entering a period of major transition'.³⁰

As energy regulation in Australia undergoes a radical overhaul through the introduction of the National Energy Consumer Framework (NECF), at the same time as the introduction of a carbon price and increased requirements for the use of renewable energy and energy efficiency, particular attention must be paid to the effectiveness of assistance for energy customers. PIAC believes that there is a need for a modernised system of energy consumer assistance for vulnerable customers to complement the increasingly sophisticated and costly energy market in this country.

PIAC submits that there has not been sufficient consideration by policy makers of the price impacts on vulnerable consumers from new energy initiatives. Such impacts need to be considered as part of the policy development process, with mechanisms to offset them designed at the outset, rather than the issue of compensation or adjusting the safety net for vulnerable consumers being left to other jurisdictions or areas of government as a secondary consideration. PIAC notes that this preferred policy approach was taken in the case of the introduction of a carbon price, where the government recognised that carbon pricing will increase household costs such as energy and developed an assistance package including measures 'specifically targeted towards the needs of low-income groups'.³¹ Conversely, no assistance targeting vulnerable consumers is offered to offset the price impact of the Large-scale Renewable Energy Target (LRET) and Small-scale Renewable Energy Scheme (SRES). PIAC recommends that the model of policy development used for the carbon price be consistently adopted by all jurisdictions as part of any new energy policy that will have price impacts, such as green schemes.

PIAC notes that the draft Energy White Paper proposes a 'regular four-yearly review of national energy policy strategy beginning in 2016'.³² PIAC recommends that the issue of energy affordability for vulnerable consumers be included in the terms of reference for this review.

While the draft Energy White Paper states that it is 'important to recognise the need for energy costs to be taken into account in social policy frameworks',³³ PIAC argues that policy makers must go further and include mechanisms to protect vulnerable consumers as part of energy policy frameworks. In PIAC's opinion, a new forum is required to undertake these deliberations. This would go some way to meeting what the draft Energy White Paper describes as the need to 'ensure that public consultation and engagement in decision-making, program design and other aspects of energy policy is improved'.³⁴

One option for this forum would be a group convened by the Australian Energy Market Commission, which has as a strategic objective 'contributing to energy market policy development as the leading source of advice on energy markets'.³⁵ However, given that energy rebates for vulnerable consumers are available through both the Australian and state and territory governments, PIAC believes that the Standing Committee on Energy and Resources (SCER), under the Council of Australian Governments, would be an appropriate forum for the discussion of these issues as part of the development of broader energy policy. This could occur through an Affordability and Consumer Protection Sub-committee of SCER, with membership including all jurisdictions in the National Energy Market (NEM), energy producers

³⁰ Australian Government, above n 14, 46.

³¹ Ibid.

³² Ibid, xxvii.

³³ Ibid 57.

³⁴ Australian Government, above n 14, 57.

³⁵ AEMC, *Mission and Values*, www.aemc.gov.au/About-Us/Mission-and-Values.html, at 23 may 2012.

and suppliers, consumer advocates and concerned community sector organisations. The sub-committee would report to SCER, which would then review and make decisions regarding its recommendations.

Recommendation 1

PIAC recommends that the issue of affordability of energy and the impact of new energy policies on vulnerable consumers be included by all jurisdictions as part of the policy development process, and that it be included in the terms of reference for the four-yearly review of national energy policy.

Recommendation 2

PIAC recommends that the Standing Committee on Energy and Resources introduce an Affordability and Consumer Protection Sub-committee to help develop a system of consumer protections that complements Australia's increasingly sophisticated and integrated system of energy supply. The sub-committee should include representatives from all jurisdictions in the NEM, energy producers and suppliers, consumer advocates and community sector organisations.

The impact of green schemes

A clear example of failure to adjust consumer protections for the impact of a new energy policy is the effect that green schemes have had on the retail price of electricity. Figures from the AER's *State of the energy market 2011* report show that in 2010-11, green scheme costs accounted for 4% of the cost of an average energy bill in Queensland and Tasmania, 5% in South Australia, 6% in NSW and 8% in the ACT.³⁶ AER figures show that, for example, green schemes cost average energy account holders in South Australia \$125 per year and up to \$153 per year in NSW (for customers in the Essential Energy distribution area).³⁷

The draft Energy White Paper acknowledges that 'increases in household energy costs are generally regressive in their impact'.³⁸ As a result, low-income consumers who pay a higher proportion of their income on energy bills, experience a proportionally greater financial impact from price increases. Green schemes such as the LRET and SRES are funded by consumers, who pay the costs power companies face to comply with mandated minimum levels for the use of renewable energy through higher network charges.³⁹ This means the funding of green schemes is regressive in its impact. In addition, consumers on low incomes are less likely to be able to take advantage of schemes such as the SRES or the NSW Government's Solar Bonus Scheme (which closed to new participants on 1 July 2011⁴⁰) because they cannot afford the initial capital outlay to purchase hardware such as solar panels. Low-income consumers are also more likely to live in rental accommodation, which is a further barrier to receiving the benefits of such schemes as occupants are unlikely to pay to install solar panels in a home where they have little certainty of ongoing occupancy in the medium to long term.

The funding of green schemes via current arrangements therefore places a heavy and unfair burden on low-income consumers and is in urgent need of change. A more equitable method of funding such schemes would be through general government revenue, as Australia's income tax arrangements are progressive in their impact and include a safety net for those on low incomes in the form of the tax-free threshold. However, PIAC recognises that governments in all jurisdictions within the NEM face budgetary constraints that present challenges to adopting such a funding model in the short term. In such an environment, governments must recognise the

³⁶ AER, above n 21, 110.

³⁷ Ibid 110, 114.

³⁸ Australian Government, above n 14, 57.

³⁹ IPART, above n 17, 37.

⁴⁰ IPART, *Solar feed in tariffs: Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW*, (2011), 11.

impact of policies at the time of their development and design appropriate compensation for vulnerable consumers, as happened with the introduction of a carbon price.

Recommendation 3

PIAC recommends that the Australian government consider funding green schemes from a progressive revenue source such as general revenue, rather than the existing regressive method of including the cost as part of network charges in energy bills.

Recommendation 4

PIAC recommends that where green schemes cannot be funded out of general revenue due to budgetary constraints, appropriate compensation be designed to overcome the price impacts of such schemes on vulnerable consumers.

Social tariffs

A social tariff is one mechanism that could work to shield low-income and vulnerable consumers from sharp and regular price increases, by allowing them to purchase electricity at a reduced rate. A social tariff, as it applies in the United Kingdom, is a tariff that is equal to the lowest tariff offered to a customer of the electricity supplier.⁴¹ PIAC would like to see the option of a social tariff explored to test whether electricity could be offered to eligible low-income consumers at a reduced rate in this manner, in order to maintain equitable access to this essential service.

PIAC understands that a range of factors would need to be considered in order to progress this idea. PIAC also acknowledges that other stakeholders, such as former Independent Pricing and Regulatory Tribunal (IPART) Chairman, Rod Sims, have not been publicly supportive of a social tariff—instead stating a preference to keep vulnerable customers on regular tariffs and have governments provide rebates and assistance to reduce electricity costs.⁴²

It should also be noted that a social tariff is not necessarily incompatible with TOU pricing arrangements. A social TOU tariff structure could be developed that charges eligible consumers at a lower rate, but still does so across peak, shoulder and off-peak pricing periods. Such an arrangement would encourage low-income and vulnerable consumers to shift their electricity use away from periods of peak demand, while still alleviating their risk of disconnection from this essential service. Adequate protections for those who cannot shift load would also need to be developed in parallel with this pricing structure.

PIAC has a growing concern that state revenue directed towards bolstering rebates and assistance will struggle to keep in step with double digit energy price rises that have been a feature of this decade, and may continue into the future. As such, PIAC supports the commissioning of independent research to consider options to introduce a social tariff—including a time of use model—and weigh up related costs and benefits.

It is also important to find the most effective and efficient means of assisting consumers facing problems of energy affordability. This may mean moving away from historical methods of providing assistance, toward a suite of contemporary programs that can work holistically and in the context of the modern energy market.

⁴¹ Office of Gas and Electricity Markets (UK), *Monitoring suppliers' social initiatives: Decision Document*, (2008), <www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Monitoring_suppliers_10508.pdf> at 26 August 2011.

⁴² Rod Sims, Chairman of IPART, *Keynote Address* (Speech to the PIAC Competition and Consumers Conference, University of NSW, CBD Campus, 27 June 2011) www.ipart.nsw.gov.au/Home/Quicklinks/Speeches/Speech - PIAC Competition and Consumers Conference - 27 June 2011 - Rod Sims at 23 May 2012.

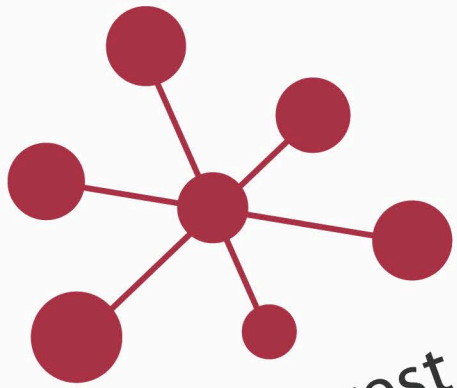
For this reason, PIAC would like to see a comprehensive review of customer assistance measures. The findings of such a review could provide an evidence base that would be invaluable in developing targeted and efficient responses to energy affordability. PIAC believes that the review should be undertaken by an organisation that is independent of delivering any assistance being reviewed. In PIAC's view, IPART is ideally placed to undertake an independent and rigorous review. With rising energy prices placing pressure on existing support measures it is important that this review happens without delay.

Once again, PIAC thanks the Public Accounts Committee for the opportunity to contribute to the inquiry into the Economic of Energy Generation. If you require any further information, please do not hesitate to contact Oliver Derum, Policy Officer, Energy + Water Consumers' Advocacy Program, on 8898 6518, via email at oderum@piac.asn.au, or myself via the details listed below.

Yours sincerely

Edward Santow
Chief Executive Officer
Public Interest Advocacy Centre

Encl: *Meeting the continuing challenge of affordability: PIAC's submission to IPART's Draft Report, 'Changes in regulated electricity retail prices from 1 July 2012'.*



public interest
ADVOCACY CENTRE LTD

**Meeting the continuing challenge of
affordability:**

Submission to IPART's Draft Report, *Changes in
regulated electricity retail prices from 1 July 2012*

10 May 2012

Oliver Derum, Policy Officer

Energy + Water Consumers' Advocacy Program

The Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues.

PIAC identifies public interest issues and, where possible and appropriate, works co-operatively with other organisations to advocate for individuals and groups affected. PIAC seeks to:

- expose and redress unjust or unsafe practices, deficient laws or policies;
- promote accountable, transparent and responsive government;
- encourage, influence and inform public debate on issues affecting legal and democratic rights; and
- promote the development of law that reflects the public interest;
- develop and assist community organisations with a public interest focus to pursue the interests of the communities they represent;
- develop models to respond to unmet legal need; and
- maintain an effective and sustainable organisation.

Established in July 1982 as an initiative of the (then) Law Foundation of New South Wales, with support from the NSW Legal Aid Commission, PIAC was the first, and remains the only broadly based public interest legal centre in Australia. Financial support for PIAC comes primarily from the NSW Public Purpose Fund and the Commonwealth and State Community Legal Services Program. PIAC also receives funding from Trade and Investment, Regional Infrastructure and Services NSW for its work on energy and water, and from Allens Arthur Robinson for its Indigenous Justice Program. PIAC also generates income from project and case grants, seminars, consultancy fees, donations and recovery of costs in legal actions.

Energy + Water Consumers' Advocacy Program

This Program was established at PIAC as the Utilities Consumers' Advocacy Program in 1998 with NSW Government funding. The aim of the program is to develop policy and advocate in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to the program from a community-based reference group whose members include:

- Council of Social Service of NSW (NCOSS);
- Combined Pensioners and Superannuants Association of NSW;
- Park and Village Service;
- Ethnic Communities Council NSW;
- Rural and remote consumers;
- Retirement Villages Residents Association;
- the Physical Disability Council NSW; and
- Affiliated Residential Park Residents Association.

1. The current review

PIAC thanks the Independent Pricing and Regulatory Tribunal (IPART) for the opportunity to comment on its Draft Report, *Changes in regulated electricity retail prices from 1 July 2012* (the Draft Report). In March 2010, IPART released a price determination that outlined price rises to come into effect on 1 July 2010. The determination also included estimates of the amounts by which standard electricity retailers would be able to increase their prices from 1 July 2011 and 1 July 2012.¹ The purpose of this review is to use current information to set the revised price increases from 1 July 2012. The Draft Report outlines price increases for the standard retail suppliers in NSW, namely Energy Australia, Integral Energy and Country Energy. The Draft Report notes that prices in Energy Australia's supply area will rise by 19.2%, and Integral Energy and Country Energy customers will face rises of 10.3% and 17.6% respectively.² The average price increase across the three standard retailers of 16.4% can be broken down as follows:

- 8.4% network costs;
- 9% carbon price costs;
- 0.1% other green scheme costs; and
- 1.2% retail costs.³

These increases were partially offset by a 2.3% reduction in the cost of electricity generation.⁴

On 1 March 2011, the state-owned retailers were privatised in a sale process that saw Energy Australia bought by TruEnergy and Integral and Country Energy purchased by Origin Energy.⁵ Under the transitional service agreements of the sale, the retailers undertook to continue to use the existing brands for the following 36 months on average.⁶ Some post-sale corporate materials have been co-branded to show the existing and new owners' logos. For the purposes of this submission, PIAC will refer to the standard retailers by their pre-sale names—in line with the practice of the Draft Report.

2. Introduction

The price increases proposed in the Draft Report are significant, and come on top of repeated large price increases in NSW in recent years. PIAC views the latest increases with concern, given the amount of evidence that earlier price rises have severely impacted the ability of large numbers of vulnerable consumers to stay connected to the essential service of electricity. The trend in affordability is discussed in the next section of this submission. The submission then outlines specific areas where PIAC sees a need for action to address affordability and makes recommendations about how this could be done. These areas are:

¹ IPART, *Changes in regulated electricity retail prices from 1 July 2012: Electricity—Draft report*, (2012), 1.

² Ibid 2.

³ Ibid 3.

⁴ Ibid.

⁵ Department of Trade & Investment, Regional Infrastructure & Service, *Electricity sale and transfer of retail customers* (NSW Government, 2011), <<http://www.industry.nsw.gov.au/energy/customers/electricity-sale-transfer-retail>> at 6 May 2011.

⁶ Peter Achterstraat, NSW Auditor General, *Financial Audit*, (The Audit Office of NSW, vol. 1, 2011), 60.

- issues affecting all consumers, such as the funding of green schemes and the carbon tax; and
- issues related to customer assistance, including changes to, and indexation of, the Life Support Rebate, and a review of all customer assistance measures.

The submission then examines the potential impact of foreshadowed developments in the NSW electricity supply arrangements, namely the introduction of smart meters and the end of price regulation in NSW. Finally, an approach to help place downward pressure on electricity prices is proposed.

PIAC has developed the recommendations in this submission in an attempt to ameliorate the disadvantage that we anticipate will result from the proposed price increase. PIAC understands that it is primarily the NSW Government that has the power to implement what we consider to be the necessary changes, and as such we have addressed our recommendations to it. PIAC would therefore like to urge IPART to consider adopting the recommendations contained in this submission as part of its final report for this determination. In its terms of reference for the current price determination, IPART has been instructed that it 'should provide advice to the Government regarding the impact of the determination on small consumers'.⁷ Adopting the recommendations of this submission as part of the final report would provide the NSW Government with guidance on how to assist people deal with the impact of the determination. Recommendations from IPART to Government carry significant weight, and are therefore more likely to be adopted as part of efforts to address electricity affordability in NSW.

3. The draft determination and trends in energy affordability

IPART's draft decision on regulated retail electricity tariffs outlines an average price increase of 16.4% across the three standard supply areas of NSW.⁸ Consumers on a standard retail contract from Energy Australia or Country Energy will experience price rises above the average, at 19.2% and 17.6% respectively, while those customers with a standard contract from Integral Energy will see prices rise by 10.3%.⁹ The size of these price increases poses a significant challenge to vulnerable consumers.

Figures provided by IPART show that the price increase that may come into effect on 1 July 2012 could mean an increasing number of households in Sydney and the surrounding areas would be spending a greater proportion of their disposable income on electricity bills.¹⁰ Most worryingly, the percentage of people in the Country Energy supply area paying 10% or more of disposable income on electricity is projected to rise from 8% in 2011-12 to 11% in 2012-13.¹¹ Spending 10%

⁷ IPART above n 1, 92.

⁸ Ibid 1.

⁹ Ibid 2.

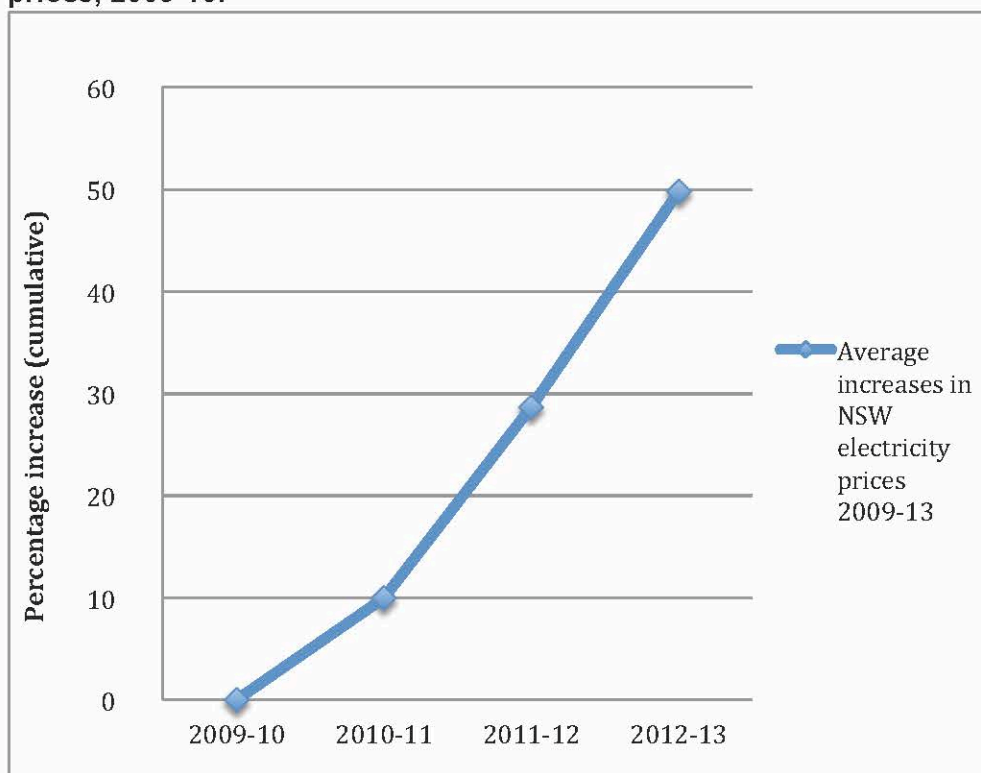
¹⁰ IPART, *Changes in regulated electricity retail prices from 1 July 2011: Electricity—Final report and determination* (2011), 10.

¹¹ Ibid 11; IPART above n 1, 13.

of income on household energy needs is the generally accepted definition of energy poverty¹², meaning that an increasing number of consumers in NSW are suffering from this condition. People who suffer from energy poverty—as well as some who are only approaching that threshold—are forced to make dramatic sacrifices in other areas of consumption in order to stay connected.

PIAC is also concerned about the cumulative effect of recent price rises. The effect of repeated price rises can easily be overshadowed by the headline grabbing nature of an individual increase. The price increases of between 10% and 19% outlined in the current Draft Report come on top of repeated significant increases in the regulated retail price of electricity in recent years, which each year are absorbed to create a higher base price. Residential retail consumers experienced price increases of up to 18% in 2011 and up to 13% in 2010.¹³ As Figure 1 shows, the cumulative effect of these price rises is a 50% increase using 2009 as a base price.

Figure 1: Cumulative impact of average increases in NSW regulated retail electricity prices, 2009-13.



Note: The year 2009-10 is taken as a base year and therefore has an increase of zero.

The effect of these repeated price increases is evident in disconnection rates due to non-payment of bills. Figures from the IPART report, *Electricity retail businesses' performance against customer service indicators in NSW*, show that the number of small residential retail disconnections for non-payment of bills increased by 17.2% from 2009-2010 to 2010-11¹⁴ (the

¹² See, eg, Brenda Boardman, *Fuel poverty: from cold homes to affordable warmth* (Belhaven Press, 1991), 201.

¹³ IPART above n 10, 3.

¹⁴ IPART, *Electricity retail businesses' performance against customer service indicators in NSW* (2012), 8

most recent available data is up to 30 June 2011 and was published in January 2012). Further analysis of this data shows that:

- there were 18,561 small residential disconnections in NSW for non-payment of bills in 2010-11 (this is a sharp rise on the 15,835 such disconnections in 09-10);
- 3,428 small residential customers were receiving energy rebates prior to disconnection, up sharply from 2,245 in 2009-10; and
- 1,495 small residential customers were disconnected more than once at the same address in 2010-11.¹⁵

Given this increase in disconnections occurred before the price rise on 1 July 2011, PIAC anticipates that there will be similar (if not larger) increases in disconnection as a result of both the 2011 and 2012 price rises. The figures cited above show that there has been a concerning increase in the number of people on energy rebates experiencing disconnection, and that a significant number of consumers are experiencing repeated disconnection—a sign of chronic and ongoing struggles with electricity affordability.

4. Addressing the problem of affordability

In light of recent and continuing increases in the price of electricity in NSW, PIAC has a number of recommendations regarding actions that should be taken to help keep electricity affordable. These issues are addressed in three categories: those affecting all electricity consumers; those related to customer assistance measures for vulnerable consumers; and those related to imminent changes within the electricity supply arrangements in NSW.

4.1 Issues affecting all electricity consumers

4.1.1 Green schemes

In recent years, green schemes have come to constitute a notable component of energy bills in NSW. As noted in the Draft Report, non-carbon price green scheme costs have contributed approximately \$140 dollars to the indicative household bill¹⁶ in each distribution area.¹⁷ As a percentage of an indicative bill, the overall non-carbon price green scheme component has declined from between 6.8% and 8% in 2011-12 to between 6.2% and 7.3% in 2012-13.¹⁸ However, in dollar terms, non-carbon green scheme costs remain virtually unchanged at between \$139 and \$158 dollars per year as part of IPART's indicative bill¹⁹—meaning consumers still face significant expense as a result of these initiatives.

PIAC has previously commented to IPART and other bodies about the inequities with existing green scheme funding.²⁰ PIAC believes that the method of funding the Commonwealth

¹⁵ Ibid 11.

¹⁶ IPART uses consumption of 7,000 kW/h per year to calculate an indicative bill.

¹⁷ IPART above n 1, 9.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ See, eg, PIAC, *Complementary modernisation: Options to address the issue of affordability in the Energy White Paper*, (2012) < <http://www.piac.asn.au/publication/2012/03/complementary-modernisation> > at 1 May 2012.

Government's Small-scale Renewable Energy Scheme (SRES) and Large-scale Renewable Energy Target (LRET), as well as the contribution to the NSW Government's Climate Change Fund, are regressive, because all energy consumers pay these costs as a fixed percentage of their electricity bill. As a result, low-income consumers who are paying a higher percentage of their income on electricity are contributing to these schemes at a higher rate. PIAC believes that this arrangement is inequitable and argues that these green schemes should be funded from sources that are progressive such as general government revenue. This funding model is also supported by IPART, which characterises the schemes as 'industry assistance' to the renewable technology sector.²¹

PIAC believes that the introduction of a carbon tax offers the opportunity to re-examine all existing green schemes with a view to removing schemes that duplicate the aims of the carbon price and removing or offsetting regressive funding of the remaining schemes. While PIAC supports action on climate change, we are of the view that electricity prices should not be used to fund green schemes unless suitable compensation counteracts the regressive nature of the funding model. A more equitable method of funding such schemes would be through general government revenue, as Australia's income tax arrangements are progressive in their impact and include a safety net for those on low incomes, in the form of the tax-free threshold.

4.1.2 Carbon tax

PIAC believes that the carbon tax represents a good model for the funding of green schemes in that it provides protection from resulting cost impacts offered to vulnerable consumers. While the carbon tax will increase electricity bills for all consumers, a compensation program has been developed and this targeted specifically at low-income and vulnerable consumers.²² IPART's finding that the carbon tax will increase indicative bills by \$168 to \$171 is almost exactly in line with the estimates made by the Commonwealth Treasury that the carbon tax would increase electricity bills by \$3.30 per week.²³ The household compensation package has been developed based on these estimates and is targeted at low-income consumers, including pensioners and other allowance recipients.²⁴ Combined with income tax reform, it appears that low-income electricity consumers will not be worse off as a result of the carbon tax. PIAC therefore supports the carbon tax model for green schemes and argues all green schemes should include similar consideration of, and compensation for, their impact on low-income consumers.

Recommendation 1

PIAC recommends that all existing green schemes be re-examined in light of the Commonwealth Government's carbon tax. All green schemes that remain in operation following such a review should be modified to include measures to offset price impacts on vulnerable consumers.

4.2 Customer assistance

The recent steep and repeated increases in the cost of electricity have meant that a growing number of consumers require emergency assistance or ongoing income support in order to avoid disconnection. PIAC agrees with IPART that 'improving the effectiveness of customer assistance

²¹ IPART above n 1, 85.

²² Australian Government, *Securing a clean energy future* (2011), vii.

²³ Ibid 45.

²⁴ Ibid 113.

is not necessarily a case of “throwing more money at the problem”.²⁵ Governments face a variety of competing priorities for limited resources and are not in a position to provide unlimited funding—especially in the current fiscal environment. PIAC acknowledges the recent increase in the NSW Government’s energy rebate for low income families, which increased from \$145 per year to \$200 per year on 1 July 2011 and is scheduled to increase to \$215 on 1 July 2012.²⁶ However, in dollar terms this increase has been greatly exceeded by recent price rises of more than \$600 on an indicative bill since 1 July 2011.²⁷

Further, while PIAC welcomes this across the board increase in assistance for vulnerable consumers, we do not believe that a one-size-fits-all approach is the most effective form for customer assistance to take—especially with pricing that is locationally specific producing non-uniform prices. Consumers in the Country Energy standard supply area face an indicative annual bill for 2012-13 that is \$598, or 30%, higher than those in the Integral Energy standard supply area, and \$443, or 21%, higher than those in the Energy Australia standard supply area.²⁸

4.2.1 Country Energy’s supply area and the need for a Rural Energy Rebate

As noted above, IPART has estimated that 11% of households in Country Energy’s supply area are likely to spend more than 10% of their disposable income on electricity if prices rise in line with the draft determination on 1 July 2012.²⁹ With a significant proportion of households in Country Energy’s supply area meeting the definition of energy poverty, there is an urgent need for action to address electricity affordability for these consumers.

PIAC also notes that IPART’s analysis of the impact of the proposed price increase is based on estimates and extrapolations from other data sources. PIAC understands this is because IPART has not had the resources to undertake its Household Survey in this area to date. IPART has repeatedly noted the risk factors that contribute to a household having increased vulnerability to the adverse impacts of price increases. These include:

- a high level of energy use which cannot be easily reduced, for reasons such as large household size, a large detached dwelling, living in an area where temperatures are more extreme, and/or having inefficient fixtures and appliances;
- living in Country Energy’s supply area, due to the impact that higher energy transport costs have on bills; and
- having higher housing costs, due to paying off a mortgage or renting.³⁰

PIAC believes there is a need to better understand how all of these factors interrelate, in order to assess whether consumers in Country Energy’s supply area face disproportionate levels of disadvantage. For this reason, PIAC recommends that IPART be resourced to undertake a Household Survey in the Country Energy supply area, as the first step in developing a strong evidence base about the issues facing consumers in rural, regional and remote areas. PIAC

²⁵ IPART above n 1, 87.

²⁶ Department of Trade and Investment, *Energy Rebates*, (NSW Government 2011), <<http://www.trade.nsw.gov.au/energy/customers/rebates>> as at 1 May 2012.

²⁷ Calculated from IPART above n 10, 3; IPART above n 1, 2.

²⁸ IPART above n 1, 8.

²⁹ Ibid 13.

³⁰ IPART above n 1, 13-14.

believes that such a survey would support the need for customers in the Country Energy supply area to have access to a specific rebate to compensate them for the higher prices they experience simply as a result of where they live.

However, PIAC takes the view that repeated price rises have made the issue of energy affordability particularly urgent in Country Energy's supply area. Vulnerable consumers in this part of the state cannot afford to wait until a Household Survey is complete before having access to additional assistance to meet the price rise from 1 July 2012. PIAC therefore recommends that the NSW Government introduce a modest Rural Energy Rebate effective 1 July 2012, to supplement the existing Low Income Household Rebate.

Recommendation 2

PIAC recommends that IPART undertake a Household Survey of consumers in Country Energy's supply area. This survey should then be used as a tool to refine and further develop the suite of assistance measures administered by the NSW Government.

Recommendation 3

PIAC recommends the NSW Government introduce a Rural Energy Rebate Supplement for eligible customers within the Country Energy supply area, effective 1 July 2012.

4.2.2 Indexation of the Life Support Rebate

PIAC believes that it is important that rising electricity prices do not place additional pressure on the ability of life support recipients to afford the electricity they need to survive and lead dignified lives in accordance with basic minimal standards, such as those set out in the *International Covenant on Economic, Social and Cultural Rights*. PIAC therefore recommends that the rates paid for approved equipment under the Life Support Rebate be urgently reviewed and indexed.

As illustrated in Table 1 below, many of the rates have remained unchanged since 2002, even though NSW electricity prices have more than doubled in this period. In 2002, Energy Australia's regulated retail price for electricity was 10.68 cents per kilowatt-hour; today it is 22.66 cents per kilowatt-hour. At the same time, the rebate rate for an enteral feeding pump remains unchanged since 2002, at a rate of 20 cents per day.

The *Ministerial Direction for Social Programs issued to NSW Electricity Retailers*³¹ (the Direction) provides the framework for delivering the Low Income Household Rebate, the Medical Energy Rebate and the Life Support Rebate. Under the current Direction, both the Low Income Household Rebate and the Medical Energy Rebate increase on 1 July every year until 2014.³² The Direction includes no rate increases or formula for indexation for the Life Support Rebate. With no schedule to increase the Life Support Rebate in place, its value is eroded with every electricity price rise.

The Life Support Rebate is offered to assist eligible consumers with the electricity costs of running essential equipment. These costs are not discretionary and households can do little to reduce them through energy efficiency measures or load shifting to take advantage of off-peak

³¹ Chris Hartcher, MP, Minister for Energy, *Ministerial Direction for Social Programs issued to NSW Electricity Retailers* (NSW Government, 2011), annexure 1 sch 2.

³² *Ibid* 4, 13.

pricing. As such, each electricity price rise must be absorbed by rebate recipients, often requiring significant sacrifices. PIAC and the Physical Disability Council of NSW recently conducted a survey focused on the electricity use of people with a physical disability. The survey results showed that people were most likely to give up heating and cooling in efforts to keep their electricity bill at a level they could afford. This is particularly concerning given that 70% (n-103) of those who returned the survey noted having a physical condition that required them to heat or cool their living space.³³

Table 1 - Regulated retail electricity prices and Life Support Rebate Approved Equipment Rates for the years 2002, 2009, 2010 and 2011.³⁴

Year	2002	2009	2010	2011
Electricity prices \$ per kilowatt hour ³⁵	\$0.1068	\$0.1716	\$0.19085	\$0.2266
Approved equipment	Life Support Rebate rates (cents per day, unless otherwise stated)			
Positive airways pressure device	\$0.13	\$0.16 \$0.32 for 24 hour usage	\$0.16 \$0.32 for 24 hour usage	\$0.16 \$0.32 for 24 hour usage
Enteral feeding pump	\$0.20	\$0.20	\$0.20	\$0.20
Phototherapy equipment	\$1.66	\$1.66	\$1.66	\$1.66
Home dialysis	\$0.50	\$0.69	\$0.69	\$0.69
Ventilators	\$1.66	\$1.66	\$1.66	\$1.66
Oxygen concentrators	\$0.83	\$0.83 for 12 hours \$1.40 for 24 hour usage	\$0.83 \$1.40 for 24 hour usage	\$0.83 \$1.40 for 24 hour usage
Total parenteral nutrition (TPN) pump	n/a	\$0.38	\$0.38	\$0.38
External heart pump	n/a	\$0.05	\$0.05	\$0.05

³³ PIAC, forthcoming occasional paper, including survey results.

³⁴ Department of Energy, Utilities and Sustainability, *Life Support Rebate Scheme: Guidelines for Electricity Retail Suppliers* (2002), 3; Minister for Energy, *Retailer Guidelines: Life Support Rebate* (2009), 9; Paul Lynch MP, Minister for Energy *Ministerial Direction for Social Programs issued to NSW Electricity Retailers* (2010), annexure 1 sch 2; Chris Hartcher MP, Minister for Energy *Ministerial Direction for Social Programs issued to NSW Electricity Retailers* (2011), annexure 1 sch 2.

³⁵ Based on regulated retail electricity prices of Energy Australia. IPART, *Consumer Information – Electricity* (2011), <<http://www.ipart.nsw.gov.au/consumer-information-electricity.asp#Q13>> at 12 August 2011 and Energy Australia, *Residential Customer Price List* (1 July 2011), <http://www.energyaustralia.com.au/State/NSW/Residential/Products-and-services/Electricity/~media/Files/Residential/Pricing/2011/NSW_RES_PL_2011b.ashx> at 12 August 2011.

Recommendation 4

PIAC recommends that the Life Support Rebate be indexed annually and the process for indexing this rebate be publicly recorded in a Ministerial Direction.

4.2.3 Motorised wheelchairs and the Life Support Rebate

PIAC proposes that motorised wheelchairs be added to the list of approved equipment whose users are eligible for the Life Support Rebate. Presently, the Life Support Rebate does not provide any financial assistance for electricity costs associated with keeping motorised wheelchairs charged. The batteries that power motorised wheelchairs must be charged for significant amounts of time. Though it can be argued that motorised wheelchairs are not life support equipment, for many people who use motorised wheelchairs, life without a working wheelchair is a life devoid of mobility.

Motorised wheelchair users on low incomes may be eligible for the \$200 per year Low Income Household Rebate, which helps them meet their energy costs. However, the annual cost of keeping a motorised wheelchair charged could take up over 40% of the Low Income Household Rebate this year.³⁶ In addition, many users have physical conditions that mean they are less able to reduce overall household spending when living costs increase. For example, finding cheaper rental accommodation that is accessible and modified for their needs can be extremely challenging. The Australian Bureau of Statistics estimates that there are 5700 people in NSW who use motorised wheelchairs.³⁷

PIAC contends that the energy used in keeping wheelchairs charged is not discretionary where people rely totally on motorised wheelchairs for their mobility. PIAC recommends that, where a registered medical practitioner verifies a person's total reliance on a motorised wheelchair, the person should be supported through access to the Life Support Rebate. Where people are supported to meet their own needs, they are less reliant on state-funded home and attendant care services. Considering motorised wheelchairs are generally an essential device to their users, a rebate providing financial support for the electricity used to power such devices is a proposal that seeks to address an inequality faced by those who suffer certain physical disabilities.

Recommendation 5

PIAC recommends that the Life Support Rebate Schedule of Approved Equipment be revised to include motorised wheelchairs where it has been verified by a registered medical practitioner that the applicant is totally reliant on a motorised wheelchair for their mobility.

4.2.4 Reform of the Energy Account Payment Assistance (EAPA) program

PIAC recognises the value of EAPA as an emergency assistance measure, as the scheme has the potential to reach consumers who may not be eligible for energy rebates. Nonetheless, PIAC agrees with IPART that the EAPA scheme is in need of reform.³⁸ Anecdotal evidence suggests

³⁶ These costs are based on a motorised wheelchair using 2 x 12V 40AH batteries with energy consumption of .96 KWh per recharge. The GST inclusive regulated retail price of Integral Energy (24.035cents per KWH) was used for the calculation.

³⁷ Australian Bureau of Statistics, *4430 2009 Disability, Ageing and Carers, Australia: State tables for NSW* (2011). Please note: ABS attributes a 25-50% relative standard error to these figures.

³⁸ IPART above n 1, 7.

that although EAPA was set up to provide emergency assistance, there are many cases where people are relying on the scheme to maintain connection to essential energy services. As previously stated, disconnection due to non-payment of bills is increasing in NSW. Alarming, the 2010-2011 financial year saw increasing numbers of energy rebate recipients disconnected.³⁹

The NSW Government's EAPA Advisory Group (EAPA AG), of which PIAC is a member, has delivered a report to the Minister for Energy that PIAC understands is currently being considered. The Terms of Reference for the EAPA AG direct the group to consider, among other things, models for delivering EAPA to customers of exempt suppliers and LPG customers who are presently unable to access the scheme.⁴⁰ PIAC welcomes the Minister's initiative in forming the EAPA AG. PIAC believes it has been a useful forum to consider options to improve accessibility and administration of the EAPA scheme.

The EAPA AG Terms of Reference call on work to improve the EAPA scheme to be done within the existing budget. Additionally, IPART has called for reform of the EAPA scheme in terms of design and administration without recommending any increase to the EAPA budget.⁴¹

PIAC notes that the EAPA budget has not increased since 2010-11—remaining stable at \$14 million in 2011-2012.⁴² The demand on EAPA is likely to increase with each electricity price rise. One community agency told PIAC recently that enquiries about EAPA and referrals to EAPA providers are overwhelming the day-to-day functioning of its service.

In PIAC's view, funding to EAPA should grow along a common trajectory with price rises to ensure these events do not place consumers at an increased risk of disconnection. A 24% increase to the EAPA budget would be appropriate given this figure is equal to the average electricity price increases for 2011-12 and 2012-13, less the impact of the carbon price.⁴³

Recommendation 6

PIAC recommends that the NSW Government increase the budget for the EAPA program by a minimum of 24%, in line with recent electricity price rises in NSW.

4.2.5 Review of assistance measures

PIAC believes that in light of the range of recent developments in the energy sector, including price rises and the introduction of the carbon price, there is a need for a comprehensive review of customer assistance measures in NSW. The review should develop recommendations to ensure that customer assistance measures are well-targeted and make the best use of available resources. PIAC believes that the review should be undertaken by an organisation that is independent of delivering any assistance being reviewed. In PIAC's view, IPART is ideally placed to conduct an independent and rigorous review, which could be undertaken in conjunction with IPART's review of electricity and water use in rural and regional areas. Input would also be required from key stakeholders such as energy retailers and community groups.

³⁹ IPART, above n 14, 11.

⁴⁰ NSW Government, Department of Trade and Investment, Resources and Energy Division, Terms of Reference for advisory group on Energy Accounts Payment Assistance (EAPA) Scheme.

⁴¹ IPART, above n 1, 7.

⁴² NSW Government, *NSW Budget Paper No. 2 2011-12 Budget Statement, (2011) Appendix E Tax Expenditure and Concessional Charges*, 25

⁴³ IPART, above n 1, 3.

Recommendation 7

PIAC recommends that the NSW Government instruct IPART to undertake a comprehensive review of the effectiveness of customer assistance measures in NSW. The review should be undertaken in consultation with key stakeholders such as community organisations and energy retailers.

4.3 Impending developments in the NSW energy market

4.3.1 Smart meters

PIAC agrees with the note of caution struck by IPART in its Draft Report regarding the widespread installation of 'time-of-use' and/or 'smart meters' in NSW.⁴⁴ PIAC agrees with IPART that 'the benefits of [such a] deployment must exceed the costs.' However, PIAC is concerned that the lag between imminent costs and long-term benefits can leave some consumers disadvantaged. Similarly, while costs can often be smeared over a large customer base, benefits are not always so equitably spread—as would be the case for consumers with low levels of discretionary use. For these reasons, PIAC also agrees with IPART that customers should not be forced to have smart meters installed as 'mandated by their network businesses'.⁴⁵

IPART notes that smart meters pose the clearest benefits to consumers who are motivated and able to shift their consumption away from peak price periods. As such, decisions to install a smart meter and move onto a time-of-use tariff should be taken by consumers. An optimal scenario would see consumers, who are energy literate and aware of how flexible their consumption patterns are, making informed choices about whether these arrangements present them with real value.

PIAC does not believe that third parties, whether government, network or retail, should engage in broad-scale mandatory smart meter roll outs until we have had the opportunity to learn from the real-life case that is currently developing in Victoria. Lessons learned from the experiences in Victoria could assist in developing campaigns to promote consumers' energy literacy and increase consumers' capacity to make informed decisions about smart meters and time-of-use tariffs. The roll out of smart/time-of-use meters will impose significant costs on Victorian consumers for installation alone. The Australian Energy Regulator (AER) has approved cost recovery by the five Victorian networks over five years to 2015, with yearly charges rising from between \$91 and \$136 per meter in 2011 to between \$137 and \$220 per meter in 2015.⁴⁶ It is important that NSW learns from this experience so that any costs faced by NSW consumers present them with an outcome that can be proven to be of value.

Recommendation 8

PIAC recommends that any large-scale roll out of time-of-use and/or smart meters in NSW should not proceed until a detailed analysis of their deployment in Victoria has been undertaken.

⁴⁴ Ibid 82.

⁴⁵ Ibid.

⁴⁶ AER, *Victorian Advanced Metering Infrastructure Review 2012–15 budget and charges applications*, (2011) < <http://www.aer.gov.au/content/index.phtml?itemId=743595> > at 4 May 2012.

4.3.2 End of the current price path

With the end of IPART's current terms of reference in June 2013 approaching, PIAC urges the NSW Government to provide consumers with some certainty about the future of retail price regulation. While the Australian Energy Market Commission (AEMC) has been tasked with undertaking a review of the effectiveness of competition in NSW, PIAC understands that this process has not yet commenced and a commencement date has not yet been set. PIAC is concerned about the possibility of such a review not being completed until it is too late for IPART to effectively determine retail prices for 2013-14 or beyond, given the long lead-time that this process requires. Therefore, PIAC recommends that the NSW government give IPART terms of reference to set retail electricity prices for the 2013-14 financial year. This would allow time for the AEMC's review of the effectiveness of competition to be undertaken, and for the NSW government to consider the outcomes of that review as part of deciding whether to continue with retail price regulation in the NSW electricity market.

Additionally, PIAC believes that simultaneous, broad-scale changes in the NSW energy market are not in the best interest of NSW consumers. Continuing to regulate retail prices in the 2013-14 financial year would allow the Government time to assess the impact that policy reforms, including the carbon price and the National Energy Customer Framework (NECF) have had on consumers and the NSW electricity market before moving to bring in other significant change.

If price regulation is continued, even for one year, PIAC recommends that IPART be given the 'suitable degree of discretion in making the determination' that it argues would benefit consumers and facilitate 'a stable and efficient electricity market'.⁴⁷ PIAC notes in particular IPART's assertion that the requirement that price determinations base a retailer's energy purchase cost on the higher of market price and long-run marginal cost has led to customer bills being between 5% and 7.5% higher than would otherwise be the case. PIAC would like to see IPART given discretion regarding issues such as calculating energy purchase costs to prevent such unnecessary price increases.

Recommendation 9

PIAC recommends that the NSW Government provide IPART with terms of reference to determine regulated retail electricity prices for 2013-14.

Recommendation 10

IPART's future terms of reference from the NSW Government regarding electricity price determinations should give IPART discretion in the use of market price versus long-run marginal cost when calculating retailer's energy purchase cost allowances.

5. Finding ways to exert downward pressure on prices

The recommendations contained in this submission relate mainly to assisting people to cope with the upcoming price rises. However, PIAC's ongoing energy advocacy also involves looking for strategies to place downward pressure on the prices of essential services, such as electricity. The electricity cost stack in NSW shows that over 50% of the price paid by consumers comes from

⁴⁷ Ibid 86.

network charges.⁴⁸ As such, any work to make electricity more affordable must involve a thorough assessment of network pricing and ways to reduce network costs. In PIAC's view, there is a need to bring key stakeholders together to investigate creative strategies to make electricity more affordable. To this end, PIAC recommends the Minister for Energy convene a high-level Electricity Affordability Summit with invitees including representatives from electricity retailers, network distribution businesses, consumer advocates, the Energy and Water Ombudsman NSW and representatives from NSW Government, including Treasury.

Recommendation 11

PIAC recommends the Minister for Energy convene a high-level Electricity Affordability Summit with invitees including representatives from electricity retailers, network distribution businesses, consumer advocates, the NSW Energy and Water Ombudsman and representatives from NSW Government, including Treasury.

6. Conclusion

The electricity price rises proposed by IPART to take effect from 1 July 2012 are significant, and come on top of a number of sizeable rises in recent years. These price rises mean that more consumers are vulnerable to disconnection and other negative impacts of energy poverty. This is unacceptable in our modern and prosperous society. Urgent action is needed to address the issue of affordability in the short, medium and longer terms.

PIAC sees room for improvement in areas affecting all electricity consumers, as well as assistance measures for vulnerable consumers and understanding of exactly why consumers in some areas face dramatically higher bills. With a number of impending changes on the horizon in this state's energy market, consumers must be given certainty about the future of price regulation and the information required to effectively participate in the changing market. Strategies to place downward pressure on prices should be examined through an energy affordability summit, convened by the NSW Minister for Energy. PIAC urges IPART to include the recommendations contained in this submission in its final report, as doing so will increase the likelihood of the NSW Government taking the necessary steps to address the issue of affordability. PIAC looks forward to working with all stakeholders to realise the goal of an equitable electricity market and an efficient and effective safety net, which does not exclude consumers from access to an essential service based purely on their ability to pay.

⁴⁸ IPART, *Updating regulated electricity price increases for 1 July 2012*, (Fact Sheet, December 2011).