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ADVOCACY CENTRE LTD

**Acting to keep the essential affordable:**

**Submission to IPART's Draft Report, *Changes in regulated electricity retail prices from 1 July 2011***

**12 May 2011**

**Carolyn Hodge, Senior 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 the NSW Department of Trade and Investment, Regional Infrastructure and Services 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;
- Institute of Sustainable Futures, University of Technology Sydney;
- and the Physical Disability Council NSW.

# 1. The Current Review

PIAC thanks the Independent Pricing and Regulatory Tribunal (IPART) for the opportunity to comment on the Draft Report, *Changes in regulated electricity retail prices from 1 July 2011* (the Draft Report). In March 2010, IPART released a price determination that outlined price rises to come into effect on 1 July 2010. That determination also included estimates of the amounts standard electricity retailers could increase their prices by on 1 July 2011 and 1 July 2012.<sup>1</sup> The purpose of the review is to use current information to set the price increases from 1 July 2011 and update the estimate of price increases for 1 July 2012. IPART's draft decision 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 17.9%, and Integral Energy and Country Energy customers will face rises of 16.4% and 18.1% respectively.<sup>2</sup> The average price increases can be broken down as follows;

- 1% Generation
- 6% Green Schemes
- 10% Network
- and 1% Retail.<sup>3</sup>

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.<sup>4</sup> Under the transitional service agreements of the sale, the retailers will continue to use the existing brands for the next thirty-six months on average.<sup>5</sup> 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 Draft Report proposes substantial electricity prices to come into effect on 1 July 2011. PIAC does not welcome these price rises, especially given a growing awareness that many low-income and vulnerable consumers are struggling to afford electricity at current prices. In recognition of this, PIAC has used this submission to highlight actions that could be taken now to assist consumers in the short, medium and long-term. PIAC's recommendations have been developed in the recognition that electricity is an essential service that should be accessible to all consumers, regardless of geographic location, income or other circumstances beyond the individual's control.

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<sup>1</sup> Independent Pricing and Regulatory Tribunal, *Changes in regulated electricity retail prices from 1 July 2011: Draft Report* (2011) 1.

<sup>2</sup> Ibid 3.

<sup>3</sup> Ibid 2.

<sup>4</sup> NSW Government, *Electricity sale and transfer of retail customers* (2011) Trade & Investment, Regional Infrastructure & Services <<http://www.industry.nsw.gov.au/energy/customers/electricity-sale-transfer-retail>> at 6 May 2011.

<sup>5</sup> Peter Achterstraat, NSW Auditor General, *Financial Audit*, Volume One 2011, The Audit Office of NSW, 60.

### 3. Network costs

IPART has attributed 10% of the price increases outlined in the Draft Report to network costs. IPART also states that more than 80% of the increases estimated to be passed through during the current regulatory period were due to 'forecast rises in network costs'.<sup>6</sup> While there are a number of factors leading to rising energy costs for consumers, it is clear that network charges are having a significant impact.

PIAC shares IPART's concern that the current regulatory framework is leading to network costs that are higher than necessary.<sup>7</sup> This issue has also been raised recently by Ross Garnaut<sup>8</sup> and in the Final Report of the *NSW Electricity Network and Prices Inquiry*.<sup>9</sup> PIAC is aware that advocates in the community sector share these concerns, however, the ability to influence pricing processes has been restricted, amongst other things, by the technical complexity of the issues and the level of expertise required to make a good case.

PIAC strongly supports IPART's recommendation that the Australian Energy Market Commission (AEMC) initiate a review into the *National Electricity Rules* (NER) to assess whether the NER produce any biases or inefficiencies that may lead to higher network prices.<sup>10</sup> It is unclear that such a review is a current priority of the AEMC; PIAC believes that this issue has not been adequately scoped in the *Strategic Priorities for Energy Market Development Discussion Paper*.<sup>11</sup> If a review of the NER does not occur, the NSW Government may wish to consider using its position on the Ministerial Council on Energy to advocate for this issue to be given priority.

IPART's other recommendation on network pricing relates to the aligning of network reliability and security standards with community expectations; in particular, ensuring that they are consistent with customers' willingness to pay and to also 'ensure that future changes in standards are subject to thorough analysis'.<sup>12</sup> PIAC recommends that IPART add customers' *ability* to pay to this recommendation, given that more rigorous reliability and security standards have significantly added to price increases at a time when a number of other factors are also driving up household electricity costs. At a time when electricity affordability is severely strained for many households, it would be prudent to properly consider the financial and any resultant social impacts of Government electricity policy decisions.

#### **Recommendation**

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*That IPART revise Recommendation 6 to ask the NSW Government to satisfy itself that network licence conditions ensure that the current standards for network reliability and security align with customers' willingness and ability to pay and take steps to ensure that future changes to standards are subject to rigorous cost-benefit analysis.*

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<sup>6</sup> Independent Pricing and Regulatory Tribunal, above n 1, 81.

<sup>7</sup> Ibid 82.

<sup>8</sup> Ross Garnaut, *Climate Change Review Update Paper 8: Transforming the electricity sector* (2011) 39 <<http://www.garnautreview.org.au/update-2011/update-papers/up8-transforming-electricity-sector.pdf>> at 4 May 2011.

<sup>9</sup> NSW Government, Industry & Investment NSW, *NSW Electricity Network and Prices Inquiry: Final Report* (2010) 35.

<sup>10</sup> Ibid.

<sup>11</sup> Australian Energy Market Commission *Strategic Priorities for Energy Market Development: Discussion Paper* (2011).

<sup>12</sup> Independent Pricing and Regulatory Tribunal, above n 1, 82.

## 4. Green Schemes

The Draft Report outlines that 6% of the price rises can be attributed to costs resulting from Green Schemes.<sup>13</sup> These schemes come from both state and federal jurisdictions, with the Greenhouse Gas Abatement Scheme (GGAS) and Energy Savings Schemes (ESS) being NSW programs, while the Large-scale Renewable Energy Target (LRET) and the Small-scale Renewable Energy Scheme (SRES) are Commonwealth programs.

The Draft Report notes that cost allowances for complying with the LRET and SRES schemes have the highest impact on the cost of electricity per megawatt hour (MWh).<sup>14</sup> For the year 2011/12 the average compliance costs associated with LRET will be approximately \$2.65/MWh, and it will be \$6.05/MWh for the SRES.<sup>15</sup> In comparison, cost associated with the ESS will generate average increases of \$1.09/MWh while the GGAS scheme will have no pricing impacts for 2011/2012.<sup>16</sup>

IPART acknowledges that changes to the Renewable Energy Target (RET) scheme, which came into force on 1 January 2011, have impacted on electricity prices. IPART notes that at the time of the 2010 determination there was:

a single Renewable Energy Target (RET) scheme, and a target that 20% of Australia's annual electricity consumption (or 45,000 GWh) would come from renewable sources by 2020.<sup>17</sup>

IPART explains that changes to the RET scheme have placed additional pressure on compliance costs and therefore electricity prices.<sup>18</sup> Changes to the scheme which came into force on 1 January 2011, saw the RET scheme split into the LRET and the SRES.<sup>19</sup> The LRET now has a higher legislated annual target that calls for '41,000 GWh of electricity per year to come from large scale renewable energy by 2020'.<sup>20</sup> LRET is a certificate scheme that essentially turns the generation of renewable energy into currency through the trade of certificates that symbolise 1 MWh of renewable energy.<sup>21</sup>

The SRES scheme is also a certificate scheme that works to incentivise the purchase of small-scale renewable energy systems such as solar panels. The SRES scheme also involves certificates, known as Small-scale Technology Certificates (STCs) that represent 1 MWh of renewable energy generation. The inclusion of a solar credit multiplier works to increase the value of certificates over and above the 1 MWh of renewable energy generated by a factor set by the Federal Government.<sup>22</sup> Additionally, IPART notes:

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<sup>13</sup> Independent Pricing and Regulatory Tribunal (IPART) above n 1, 2.

<sup>14</sup> Ibid 32.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid 33.

<sup>18</sup> Ibid 87.

<sup>19</sup> Ibid 33.

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.

<sup>22</sup> Ibid 33.

The number of STCs that retailers must surrender is not capped – rather it depends on the extent to which customers take up small scale technologies.<sup>23</sup>

Splitting the RET into large and small-scale schemes means that the STCs cannot be used to reach the higher target of 41,000 GWh per year by 2020 because this goal must be achieved through large scale certificates only. This means the large and small-scale schemes are now working simultaneously to produce two cost streams (rather than one as was previously the case) and this will ultimately have an impact on electricity prices. The LRET alone has almost the same target (at 41,000 GWh) that the single RET had at 45,000 GWh.<sup>24</sup> This explains estimates that see LRET compliance cost allowances increasing to \$3.57 in 2012/2013 from an average of \$2.65 as the current Draft decision outlines.<sup>25</sup>

The intersection between the SRES scheme and the NSW Solar Bonus Scheme has produced high costs. Until October 2010, NSW had the most generous Feed In Tariff (FiT) in Australia at 60 cents per kilowatt hour (KWh).<sup>26</sup> The generous FiT combined with the solar credits multiplier provided attractive financial incentives for consumers to purchase the solar PV systems and sign on to the Solar Bonus Scheme as a means of attracting ongoing payments for the electricity generated.

IPART acknowledges the intersection of these schemes as a driver of cost increases related to green schemes.<sup>27</sup> IPART has identified several steps that can be taken to reduce the costs associated with Green Schemes. Recommendation 3 of the Draft Report urges the NSW Government to consider a range of options including:

- closing the NSW Solar Bonus Scheme to new participants;
- requiring electricity retailers to contribute to the costs of the Solar Bonus Scheme for existing participants;
- advocating that the Federal Government eliminate the solar credit multiplier from its Renewable Energy Target Scheme and;
- periodically evaluating all green schemes to ensure they remain cost-effective and complement any national price-based carbon reduction scheme.<sup>28</sup>

PIAC is generally supportive of these aspects of Recommendation 3, but would like more information on how retailers may contribute to the cost of the Solar Bonus Scheme in order to ensure that these costs will not be passed on to consumers through other processes.

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<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

<sup>25</sup> Ibid 32.

<sup>26</sup> NSW Government, *Solar Bonus Scheme for NSW* (29 April 2011) Trade & Investment, Regional Infrastructure & Services <<http://www.industry.nsw.gov.au/energy/sustainable/renewable/solar-scheme>> at 6 May 2011.

<sup>27</sup> IPART above n 1, 86.

<sup>28</sup> Ibid 14.

PIAC notes that on 5 May 2011, subsequent to the release of the Draft Report, the Federal Government announced that as of 1 July 2011 the solar credits multiplier will move from a present factor of five to three.<sup>29</sup> Additionally, on 6 May 2011, the NSW Government held the first meeting of the Solar Summit to consider a range of options for the future of Solar Schemes in NSW.<sup>30</sup> With current and future changes regarding Green Schemes very much part of present debate on energy prices, PIAC would like to take this opportunity to outline principles that we believe should be considered in the design and/or review of Green Schemes. The principles are as follows:

1. Without exception, all green schemes that will impact on the price of electricity should undergo a rigorous cost-benefit analysis.
2. A cost burden to access ratio should be developed to test the equity of the scheme and ensure the risk of regressive cost allocation is minimised.
3. Green Schemes that place upward pressure on electricity prices should not be implemented on the assumption that existing jurisdictional rebates and concessions are adequate to shield low-income and vulnerable consumers from resultant price rises.
4. Where environmental outcomes are the priority of a scheme and the scheme places upward pressure on electricity prices, consumer protections capable of shielding low-income and vulnerable consumers should be built into and costed as part of the scheme.
5. Funding arrangements for all Green Schemes should be publicly and transparently acknowledged especially where schemes are funded by smearing the costs across the customer base.
6. New schemes and scheme reviews should include adequate periods for consultation.
7. Advisory groups set up to consult on Green Schemes should be balanced and open to a range of interests, including a diverse representation of consumers and/or consumer advocates, industry, government and non-government organisations.
8. Advisory Group processes should be publicly minuted for maximum transparency.
9. Where possible, the associated costs of Green Schemes, such as administration and implementation costs, should be attributed to those who benefit from the scheme.
10. The design and review stages of Green Schemes should include the scoping of related programs at all levels of government to ensure that economic modelling takes into account all factors that could produce unforeseen costs.
11. All schemes should be capped so worst-case scenario modelling can be done before any decision to implement a program is made.

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<sup>29</sup> Greg Combet MP, Minister for Climate Change and Energy Efficiency and Mark Dreyfus QC MP Parliamentary Secretary for Climate Change and Energy Efficiency (Cth) 'Solar credits changes to ease electricity prices' (Media Release, 5 May 2011) <<http://www.climatechange.gov.au/minister/greg-combet/2011/media-releases/May/mr20110505.aspx>> at 8 May 2011.

<sup>30</sup> NSW Government, *Solar Bonus Scheme – Frequently Asked Questions* (4 May 2011) Trade & Investment, Regional Infrastructure & Services <<http://www.industry.nsw.gov.au/energy/sustainable/renewable/solar/solar-scheme/faq>> at 10 May 2011.



## 5. Impact of the draft decisions on consumers

Firstly, PIAC would like to thank IPART for including consumer impact information in the Draft Report. Data from the 2010 Household Survey<sup>31</sup> and other reputable sources assist a range of stakeholders to contextualise the upcoming price rises. This context is extremely useful in determining how best to target assistance, as well as providing guidance on how to close gaps in our knowledge of energy consumption by location or in regard to special needs.

In March 2010, IPART announced that as of 1 July 2010, regulated electricity prices would rise by 10% for customers of Energy Australia, 7% for customers of Integral Energy and 13% for Country Energy customers.<sup>32</sup> While the increases have changed in percentage terms, IPART's Draft Decision of 2011 shows that Country Energy customers paying the regulated electricity price will again face the highest increases at 18.1%.<sup>33</sup>

How these two determinations affect electricity bills in each supply area is a useful way of demonstrating how these price rises will be experienced differently across NSW. Using indicative modelling, IPART has estimated annual electricity bills for households using 7000-kilowatt hours (KWh) of electricity in the financial year of 2011/12. Additionally, IPART has calculated how much more customers in Country Energy and Integral Energy supply areas will pay in comparison with the customers in the supply area of Energy Australia. These figures are summarised in the table below.

Regulated Supplier	2011/12 Annual Bill modelled on 7000 kWh usage <sup>34</sup>	Percentage higher than Energy Australia's 2011/12 indicative annual Bill <sup>35</sup>
Energy Australia	\$1513	N/A
Integral Energy	\$1619	7%
Country Energy	\$2063	36.35%

PIAC is cognisant of the fact that location produces different cost drivers in terms of delivering electricity to consumers, especially in regard to distribution.<sup>36</sup> Electricity is widely recognised as an essential service by Australian State Governments including the NSW Government.<sup>37</sup> PIAC takes the view that, although there are different costs in delivering electricity to different areas of NSW, electricity is no less essential for the people living in these areas.

<sup>31</sup> Independent Pricing and Regulatory Tribunal *Residential energy and water use in Sydney, the Blue Mountains and Illawarra: Results from the 2010 household survey* (2010).

<sup>32</sup> Independent Pricing and Regulatory Tribunal *Review of regulated retail tariffs and charges for electricity 2010-2013* (2010) 5.

<sup>33</sup> Independent Pricing and Regulatory Tribunal above n 1, 3.

<sup>34</sup> Ibid 4 (Table 1.2).

<sup>35</sup> Ibid 68.

<sup>36</sup> Ibid 66.

<sup>37</sup> NSW Government *Energy Accounts Payment Assistance* (21 April 2011) Trade & Investment, Regional Infrastructure & Services <<http://www.industry.nsw.gov.au/energy/customers/help>> at 6 May 2011.

With Country Energy customers facing the highest increases, we may be approaching a period where customers in rural and regional areas face higher levels of bill shock and greater challenges remaining connected to energy as an essential service.

Anecdotal evidence suggests that people in rural and remote areas have energy needs beyond those of consumers in urban areas. For some, living at a distance from food retailers means the bulk purchase of food and the need for sizeable cold storage as a matter of food security.

Additionally, rural and regional consumers can have particular difficulties accessing support. PIAC's research into disconnections pointed out that people in rural communities have concerns accessing payment assistance such as Energy Account Payment Assistance (EAPA) vouchers because of the likelihood that the provider will be known to them.<sup>38</sup>

As identified in the case studies, a major barrier to accessing energy or water vouchers in small rural and regional towns is that the community is too small to anonymously access assistance at a local organisation, or to use the vouchers at a local post office. Many people are embarrassed or humiliated to approach a community or welfare organisation and would prefer to deal with the problem on their own.<sup>39</sup>

These issues, in concert with IPART's recognition that customers in Country Energy's area are identified as a group that is likely to be adversely effected by the upcoming price rises,<sup>40</sup> lead PIAC to call upon IPART to replicate its 2010 household survey in Country Energy's supply area. PIAC sees this as an essential first step in developing a strong evidence base for issues facing consumers in rural, regional and remote areas of NSW. This evidence base will be invaluable in designing appropriately targeted assistance and support programs that will work towards access to affordable supplies of electricity.

## ***Recommendation***

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*That IPART undertake a household survey in Country Energy's supply area which can be used as an evidence base in the design of future assistance to rural and regional electricity consumers.*

## **5.1 The impact of current electricity prices**

PIAC is aware that electricity pricing is presently an issue of concern for many consumers. Even without the price rises that are to come, there are people struggling to stay connected to the electricity supply.

There is a body of evidence that supports the assertion that growing numbers of consumers are presently facing difficulties affording electricity. The Annual Report of the Energy and Water

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<sup>38</sup> Jessie Connell and Wesley Hill, *Cut Off II: The Experience of Utility Disconnections* (2009) Public Interest Advocacy Centre 27.

<sup>39</sup> Ibid.

<sup>40</sup> Independent Pricing and Regulatory Tribunal, above n 1, 76.

Ombudsman of NSW (EWON) for 2009/2010 showed that complaints related to high bills or disputed accounts had increased by 58% in comparison to the previous year.<sup>41</sup> While these figures include a range of issues, the Ombudsman's Report noted that affordability was a growing issue:

This year, for the first time, many customers contacted EWON specifically to express anxiety about current and future price increases, particularly in the context of high bill complaints and affordability.<sup>42</sup>

PIAC notes that utility affordability is increasingly being discussed in regard to financial hardship more broadly. The ability to pay utility bills on time was identified as an indicator of financial stress in a report developed by the Wesley Mission in 2009.<sup>43</sup> The report notes that the inability to pay utility bills on time results in negative social outcomes, including adverse effects on family relationships.<sup>44</sup>

The social impact of electricity affordability is not limited to the financial issue of paying the bill. Figures that measure the number of people who contact their electricity supplier to discuss payment difficulties are useful; however, they do little to illustrate what people may be giving up in order to meet their electricity costs. Similarly, these figures are unlikely to demonstrate levels of disadvantage where people prioritise paying their bills by making deep cuts in other essential areas or by taking on a pattern of under-consuming.

Financial counsellors from a regional Lifeline office contacted PIAC recently to report that they are increasingly seeing clients who are struggling to pay their current electricity bills. One client facing a sizeable debt was unable to afford essential medication without emergency financial support from another agency.

PIAC is concerned about the impact electricity prices are having on people's physical and mental wellbeing. PIAC recently convened a focus group with the Physical Disability Council of NSW (PDCN). Participants were drawn from an area with high numbers of people with physical disability in an effort to get a largely representative sample. People at the focus group told us that in an effort to keep money aside to pay electricity bills, they were going without medication and fresh food and they were giving up opportunities for social interaction with friends and family. Focus group participants also told us about the actions they were taking to reduce their electricity bills. One man, who uses a motorised wheelchair full time, told us he was careful not to invite people to his home because he was concerned about the cost of running the heater for them. The same man had already acknowledged that he limits his social outings in order to keep money aside for his bills. The participants in this focus group were active in controlling their costs to the point of under-consuming. Some examples of actions being taken include not using adequate lighting, cooling or heating; and only buying pre-cooked frozen meals to reduce food refrigeration and cooking costs.

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<sup>41</sup> Energy & Water Ombudsman NSW, *Annual Report 09/10* (2010) 3.

<sup>42</sup> Clare Petre, 'Ombudsman's Report' in *Energy & Water Ombudsman NSW Annual Report 09/10* (2010) 3.

<sup>43</sup> Jude Lobo, *Financial Stress: the hidden human cost* (2009) Wesley Mission 7.

<sup>44</sup> Ibid.

PIAC contends that for these people electricity prices are already having an impact on social connectedness and physical health. Yet as active as these people are being to reduce their consumption and costs, their physical conditions can make it extremely difficult to avoid certain electricity-related costs. For example, people in motorised wheelchairs need to have their batteries on charge for significant periods throughout the day. People's physical conditions can also lead them to be more heavily reliant on appliances, such as clothes dryers, to assist them with household duties.

IPART acknowledges that households with 'high non-discretionary electricity use' and 'low disposable incomes' are likely to be most significantly affected by the prices outlined in their draft decision.<sup>45</sup> While PIAC agrees with IPART's assessment, we would argue that these households and the people in them are also being significantly affected now. Without additional and targeted assistance, we have grave concerns for their wellbeing in the face of price rises of between 16.4% and 18.1%.

The Draft Report also includes estimates of price increases to come into force on 1 July 2012. These increases range from between 1.9% and 10%.<sup>46</sup> There is also general acceptance that, at least in the short term, electricity prices are on an upward trajectory.<sup>47</sup> Given that prices before the rise on 1 July 2011 are causing significant concern among consumers, PIAC contends that without sizeable and ongoing injections of funds, energy rebates and emergency financial assistance, (such as payment vouchers) will not provide an adequate safety net for low-income and vulnerable consumers.

This is illustrated by comparing upcoming rebate increases with upcoming increases in electricity prices. On 1 July 2011, the Low Income Household Rebate will be paid at a rate of \$200. This amount represents a \$39 increase on the amount that was to be paid by the NSW Energy Rebate that it replaces. Based on an indicative annual residential bill of 7000 KWh, IPART estimates increases of \$230 in Energy Australia's supply area and \$228 and \$316 for customers in Integral Energy's and Country Energy's supply areas respectively.<sup>48</sup>

PIAC submits that now is the time to start to assess whether current arrangements for pricing electricity work for low-income and vulnerable consumers, especially as it is difficult to see how Government safety nets in the form of rebates and concessions will keep in step with market forces and other factors having an impact on the prices being charged.

PIAC takes this opportunity to call for investigation of how a 'social tariff' could be delivered to shield low-income and vulnerable consumers from sharp and regular price increases. In a basic sense, a social tariff is a means to offer eligible consumers an essential service at a reduced rate. PIAC understands that a range of factors would need to be considered in order to progress this idea. In PIAC's estimation, this assessment should include setting a price for eligible consumers, which recognises modern life requires adequate access to electricity as an essential service. As a

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<sup>45</sup> Ibid 77.

<sup>46</sup> Ibid 11.

<sup>47</sup> Ross Garnaut, above n 8, 2 and Australian Energy Regulator *State of the Energy Market* (2010) 98.

<sup>48</sup> Independent Pricing and Regulatory Tribunal above n 1, 4 (Table 1.2).

respected, experienced and reliable source of research in this area, IPART would be well placed to undertake such a project.

### **Recommendation**

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*That IPART be resourced to undertake a project to investigate options to introduce a 'social tariff' for eligible low-income and vulnerable electricity consumers.*

## **6. Targeted assistance**

PIAC recognises that our preceding recommendations are intended to inform the design of medium to long-term strategies aimed at supporting low-income and vulnerable electricity consumers. The Draft Report sets out price increases of 16.4% to 18.1% to be introduced as of 1 July 2011.<sup>49</sup> PIAC contends that the magnitude and proximity of these price increases requires immediate action to ensure adequate levels of support for low-income and vulnerable consumers are available when these price rises come into effect.

While PIAC understands the reasoning for the price increases set out in the Draft Report, we do not welcome them. The recommendations below represent actions that PIAC would welcome as a first response.

### **6.1 Energy Rebates**

#### **6.1.1 Indexation**

PIAC welcomes the announcement that the Low-Income Household Rebate of \$200 will be available to eligible consumers on 1 July 2011.<sup>50</sup> We note also that this rebate replaces the NSW Energy Rebate that was due to be increased to \$161 on 1 July 2011.

At the time of writing, PIAC was unable to obtain the Ministerial Direction (the Direction) governing eligibility and indexing arrangements for the Low-Income Household Rebate. The Direction governing the former NSW Energy Rebate states that the Energy Rebate was to be

indexed annually from 1 July 2012-2013 based on the Method of CPI Calculation, as advised in writing by I & I NSW ....<sup>51</sup>

Prior to the 2011 NSW election, there was a commitment from the Liberal and National Coalition to increase the Low-Income Household Rebate as follows;

- July 2012, \$215 (an increase of 7.5%)
- July 2013, \$225 (an increase of 4.65%)
- July 2014, \$235 (an increase of 4.44%).<sup>52</sup>

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<sup>49</sup> Ibid 3.

<sup>50</sup> NSW Government *Energy Rebates* (21 April 2011) Trade & Investment, Regional Infrastructure & Services <<http://www.industry.nsw.gov.au/energy/customers/rebates>> at 6 May 2011.

<sup>51</sup> Paul Lynch MP, Minister for Energy *Ministerial Direction for Social Programs issued to NSW Electricity Retailers* (2010) sch 1 s 1 c.

<sup>52</sup> NSW Liberals and Nationals *Plan for an Affordable & Sustainable Energy Industry* (2011) 8.

The Coalition also committed to introduce a Family Energy Rebate of \$75 in July 2012, which will increase to \$150 in July 2014.<sup>53</sup>

While rebates are the main source of assistance for low-income and vulnerable consumers, it is vitally important that those rebates continue to rise in step with electricity prices. Where indexation arrangements have no relationship with price increases the value of the rebate is effectively eroded over time.

The Life Support Rebate assists people with the cost of running approved equipment that is used in their home. Approved equipment includes, but is not limited to, home dialysis machines, external heart pumps and ventilators.<sup>54</sup> The Life Support Rebate is paid on a cents per day amount as per the Direction.<sup>55</sup>

As noted above, the current Direction outlines indexation arrangements for the NSW Energy Rebate. However, while the Direction includes eligibility and payment rates for the Life Support Rebate, no indexation details are included. PIAC understands that a new Direction is being developed to take account of the Low-Income Household Rebate that will be introduced on 1 July 2011. PIAC contends that a new Direction, inclusive of Life Support Rebate indexation arrangements, would be particularly useful in providing surety that these rebates will be annually reviewed.

Those who qualify for this rebate do so on the basis of serious chronic illness that requires the assistance of eligible equipment. It is reasonable to argue that in these circumstances, people have very low levels of discretion to reduce their electricity consumption—especially in regard to this essential equipment.

PIAC submits that it is vitally important that rising electricity prices do not place additional pressure on the ability of Life Support recipients to afford the electricity they need. As such, PIAC recommends that all electricity price increases trigger an indexation process that revises the cents per day amount that is used to calculate the rebate rate. This action will help to ensure that the rebate reflects the current costs of running eligible equipment.

### ***Recommendation***

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*That the indexation of all energy rebates be linked to energy prices rather than CPI or other lower index rates.*

*That the Life Support Rebate be indexed annually and the process for indexing this rebate be publicly recorded in the Ministerial Direction for Social Programs issued to NSW Electricity Retailers.*

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<sup>53</sup> Ibid.

<sup>54</sup> Paul Lynch MP, above n 51, sch 2 Annexure 1.

<sup>55</sup> Ibid.

## 6.1.2 Eligibility

The eligibility criteria for the Low-Income Household Rebate are presently based on the eligibility criteria of the soon-to-be-replaced NSW Energy Rebate. Under these criteria, the rebate is open to customers of retail suppliers who hold an eligible Commonwealth Health Care or Concession Card.<sup>56</sup>

It is usual practice for residents of residential parks to buy their electricity from the park operator. As these, operators are not retail suppliers and the rebate could not be deducted from the retail suppliers bill as is usual practice, an administrative system has been set up to facilitate access to the NSW Energy Rebate.<sup>57</sup>

Unfortunately, no such system has been made available to residents of retirement villages who purchase their electricity from the retirement village operator rather than as a direct account holder of an electricity retail supplier.

PIAC takes the view that retirement village residents, who are otherwise eligible, should not be disadvantaged simply by virtue of the arrangements under which they purchase their electricity. PIAC asserts that the administrative system that facilitates access to the NSW Energy Rebate for long term residents of residential parks could be easily modified to open access to the rebate to eligible retirement village residents who purchase their electricity from the village operator.

### ***Recommendation***

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*That the Low-Income Household Rebate be made available to eligible retirement village residents who do not purchase their electricity from an electricity retail supplier.*

As noted above, the Life Support Rebate assists with the costs of running valuable equipment that is essential to people's lives. 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 throughout the day. 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. 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, that person should be supported through access to the Life Support Rebate. This support will assist people to remain mobile so that they are best able to meet many of their own needs. Where people are supported to meet their own needs they are less reliant on state funded home and attendant care services.

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<sup>56</sup> Ibid sched 1, Definitions s 4.

<sup>57</sup> Paul Lynch MP, Minister for Energy *Retailer Guidelines: Energy Rebate Scheme (2010)* s 8.

## ***Recommendation***

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*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 wheelchairs for their mobility.*

## **6.2 Energy Accounts Payment Assistance**

In November 2010, then Premier Kristina Kenneally announced a review of the Energy Accounts Payment Assistance (EAPA) Scheme. EAPA is the scheme that offers emergency payment assistance through vouchers that can be used to pay electricity bills. Along with many other organisations, PIAC made a submission to the review. The full submission is available on the PIAC website.<sup>58</sup> In summary, PIAC called for an expansion so that residents of residential parks could access the scheme. Additionally, PIAC called upon EAPA administrators, the Department of Trade and Investment, Regional Infrastructure and Services NSW (formerly known as Industry & Investment NSW), to promote the scheme more broadly so that a diverse range of consumers become aware of the availability of this important measure of assistance.

The review closed for submissions on 31 December 2010. The last day of 2010 was also the date that a report on the review was due to Government. At the time of writing, no public announcements regarding the findings of the review have been made, nor have any outcomes or actions in response to the review been made public.

With consumers facing large price rises from 1 July 2011, PIAC contends that a widely accessible and adequately resourced EAPA scheme is vitally important. PIAC eagerly awaits the findings of the EAPA Review in the hope that the EAPA Scheme of the near future will be capable of providing assistance to the people who are likely to struggle to meet electricity costs once these price rises flow through to customers' bills.

## ***Recommendation***

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*That the NSW Government make public the findings of the EAPA Review and outline actions that the Government will take to make the EAPA scheme ready to respond to consumers facing the upcoming price rises.*

## **6.3 Assistance to purchase energy efficient appliances**

PIAC is aware that many low-income and vulnerable consumers struggle to purchase the most efficient appliances because of affordability. The *Report of the Prime Minister's Task Group on Energy Efficiency* notes that the slow turnover of large appliances means decisions taken today will have long-term consequences,<sup>59</sup> which shows the importance of assisting low-income and vulnerable consumers to access energy efficient appliances.

In 2009, the NSW Government released a Draft Customer Assistance Policy.<sup>60</sup> This draft investigated the development of an Energy Grants Scheme to assist consumers purchase energy

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<sup>58</sup> Public Interest Advocacy Centre Open Access: Submission to the Energy Accounts Payment Assistance Scheme Review (2010) <<http://www.piac.asn.au/publication/2011/02/open-access>>.

<sup>59</sup> Australian Government, *Report of the Prime Minister's Task Group on Energy Efficiency* (2010) 101.

<sup>60</sup> Industry & Investment NSW, *Customer Assistance Policy Consultation Draft* (2009) 11



efficient appliances. PIAC understands that the scheme did not go ahead due to budgetary constraints. Accordingly, consumer advocates support greater access to funds through an augmented No Interest Loans Scheme (NILS) to assist people purchase energy efficient appliances.

One of the attractions of NILS is that the funding is recycled back into the scheme as loans are repaid. There are also existing and respected channels within the community that deliver small loans of up to \$1200 to eligible low-income consumers. In NSW, these organisations include Barnardos, Anglicare and local neighbourhood centres.

PIAC is supportive of an augmented NILS program that would provide an initial grant to low-income consumers to purchase an 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. The case for supporting low-income consumers to purchase energy efficient appliances is strong. Reducing the cash outlay for the purchase can reduce the barriers to making the most energy efficient appliance purchase and that appliance can produce long-term savings.

By setting a minimum energy performance standard for appliances financed, the program would ensure only efficient appliances were purchased. In a similar arrangement, the NSW Dual Flush Toilet Rebate 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.<sup>61</sup>

Assisting people on low incomes to access energy efficient appliances could lead to efficiencies and long term savings that would be welcomed in a time of rising energy prices. The opportunity to link the scheme with Fridge Buy Back schemes operating throughout Australia could help to mitigate the risk of people retaining their old and inefficient appliance. The Fridge Buy Back Scheme is supported by the NSW Climate Change Fund.<sup>62</sup> PIAC understands it is due to end on 30 June 2011; however, a new injection of funding could prolong the program.

### ***Recommendation***

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*That a small pilot program be established with an existing NILS provider in order to develop efficient and low risk systems to deliver an augmented NILS scheme that assists eligible people to purchase energy efficient appliances.*

## **7. Conclusion**

An essential service is not an ambiguous concept. The risks associated with pricing electricity beyond the reach of those who are on low incomes or are otherwise vulnerable are not acceptable in our modern society. Making electricity affordable will take firm and consistent

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<[http://www.industry.nsw.gov.au/energy/customers/protection/assistance/info\\_protection\\_customer\\_assistance\\_policy.pdf](http://www.industry.nsw.gov.au/energy/customers/protection/assistance/info_protection_customer_assistance_policy.pdf)> at 15 April 2011.

<sup>61</sup> NSW Office of Environment and Heritage, *NSW Dual Flush Toilet Rebate (web page, 2011)* <<http://www.environment.nsw.gov.au/rebates/ccfdft.htm>> at 14 April 2011.

<sup>62</sup> Fridge Buy Back, Website (2011) <<http://www.fridgebuyback.com.au>> at 14 April 2011.

action. In the short term, action is required to ensure that all assistance and support measures are working as effectively and efficiently as possible and not letting people through the safety net. With estimates noting that further increases are to come, now is the time to gain an understanding of what can be done to limit increases and provide the best support possible for those who are less able to take rising costs in their stride. PIAC looks forward to working with all stakeholders to realise these goals.