

MEDIA RELEASE

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REGULATOR PULLS THE PLUG ON ENERGY FAT CATS - BUT APPEAL LOOMS

Consumer Action Law Centre supports today's announcement that Victorian households will be protected from the huge price increases the state's electricity distributors were seeking to impose over the next five years.

Janine Rayner, Consumer Action's Senior Policy Officer (Energy) said that instead of prices going up by an estimated 14% as requested by the distributors, today's decision by the Australian Energy Regulator meant consumers would see much more modest increases that would average out to around \$12 per year from 2012 to 2015.

"Distribution costs account for around 40% of the total cost of household electricity bills," Ms Rayner said. "With the increasing financial burden on Victorian households as a result of the spiralling cost of utilities, the regulator has a legislative obligation to protect the interests of consumers by closely monitoring distributors' actual spending as opposed to their forecasts in order to properly evaluate any future price increases."

"The problem is that the distributors are now likely to pursue a more favourable commercial outcome by challenging various aspects of the regulator's decision in the Australian Competition Tribunal and, if they're successful, consumers can expect to pay much higher than expected price rises."

"This system isn't fair to consumers because the distributors can pick and choose which bits of the regulator's decision to appeal, while consumers who get to have say in the regulator's decision are then effectively locked out of the Tribunal's review of that decision."

"Past experience shows these highly profitable distribution businesses often provide forecasts to the regulator that far exceed their actual expenditure and consumers end up paying much more than necessary as a result," Ms Rayner said.

"Consumer Action research provided to the regulator showed that between 2001 and 2007, distributors asked the regulator to increase prices based on forecasts that exceeded actual spend by almost \$600M. That meant each of Victoria's 2.2 million electricity customers paid almost \$270 more during that period than necessary."

"There are obvious benefits for the distributors to inflate their estimated future costs and underestimate their future income. Fortunately, the regulator now appears to have taken this into account and is trying to do the right thing by Victorian consumers by sending a clear message to distributors that their forecasts will face great scrutiny going forward," Ms Rayner said. "In this case, distributors were only allowed a 45% increase in capital expenditure – well down on the 70% they originally asked for."

"Unfortunately, we expect that the distributors will not give up on their attempt to squeeze more profits out of Victorian consumers by trying out the same arguments again, this time the Tribunal."

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