ON THE WIRE

National Electricity Market **Capacity Building in the Community Sector** May 2004

This Edition

Project Update

Why be interested in the NEM and the NEM Network?

In the first edition of On the Wire we reported that the Consumer Law Centre Victoria's (CLCV) NEM Project involved the formation of a nework of community groups (NEM Network) and the delivery of seminars about the national electricity market (NEM).We suggested that through participation in seminars about the NEM, NEM Network members could work together to identify and prioritise issues most in need of end-user advocacy. Some stakeholders are now asking why they should be interested in the NEM at all.

The NEM refers to the compulsory financial market for trading of electricity, the inter-connected physical infrastructure necessary for the transfer of electricity across State borders, and the intricate rules that govern both. With the exception of Western Australia and the Northern Territory (that are unlikely to join the NEM largely due to the impracticalities of transporting electricity over large distances) all Australian States are participants, with Tasmania to join on the completion of Basslink in May 2005. Regulation of the generation, transportation and trading of electricity in the NEM, is shared between the Commonwealth and State governments, and independent regulators, in an ad hoc manner, although a more centralised regulatory structure may result from the Council of Australian Governments (COAG) current expansive energy markets reform program.

Although consumer protections in the form of retail and marketing codes, safety net arrangements, and tariff controls are currently State based, all State regulators give considerable weight to the risks facing retailers trading in the NEM. Similarly, regulation of distribution businesses and the prices that they can charge is State based, but focussed around the National Electricity Code. The Australian Competition and Consumer Commission, a national body, regulates the prices charged for use of the transmission networks and inter-connectors, which are vital to the viability of the NEM vision for trading of electricity within and across State borders. However, a new body, the Australian Energy Regulator, is scheduled to regulate wholesale and transmission of electricity as early as the middle of this year, and may assume responsibilty for distribution and retailing (other than pricing) by 2006.

Consumer, welfare and environment NGOs are apprehensive about the dramatic shifts that have already taken place in the electricity industry across Australia. Consumer advocates are concerned with the protections afforded to consumers in a disaggregated and, in some States, privatised electricity market. Welfare agencies are concerned by the fact that their resources are being drained by increased requests for assistance in respect of unaffordable electricity bills. Environmental Organisations are concerned with how to promote private investment into green energy and demand side management technologies where the national regulatory structure does not readily provide for such initiatives. While there has been considerable advocacy around these issues at a State level for many years, there has been little engagement with the complex multi-layered national regulatory structure of the NEM, which ultimately impacts on pricing and sustainability of the electricity industry as a whole. Given that we are moving towards a nationally regulated electricity market, it is important to understand how the State systems currently fit together, differ and are bound by the NEM.

On the Wire and NEM Network seminars will inform members of the State-based issues and national developments that make up and surround the NEM. The NEM Project and the NEM Network are designed to generate community sector discussion and thereby facilitate effective community sector contributions to national and State-based debates on electricity regulation.

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Stakeholder Meetings

In February we reported that stage one of the CLCV NEM Project involved meeting with stakeholders in each of the NEM jurisdictions to ascertain the interest and capacity to participate in the NEM Network and the training that the NEM Project will deliver, facilitate or identify. These meetings are now complete, with meetings having been held with Victorian stakeholders in February and New South Wales stakeholders in March. Community organisations (or individual activists) within the consumer, welfare and environment sectors working on or interested in electricity issues were invited to participate in the meetings.

New South Wales stakeholders have decided to submit ideas for training to the CLCV's NEM Project Coordinator, who will work together with the Public Interest Advocacy Centre's Utility Consumers' Advocacy Program, to formulate a one-day training session. Victorian stakeholders will shortly hold a further roundtable meeting to brainstorm training imperatives.

Training Update

The NEM Project seeks to facilitate the development of training to provide interested stakeholders with a more detailed understanding of the electricity industry, particularly with regard to the operation of the NEM.

With funding from the National Electricity Code Administrator's (NECA) Advocacy Panel, the Tasmanian Council of Social Services (TasCOSS) has developed an Electricity Training Program for domestic consumers in Tasmania. The TasCOSS Electricty Training Program will be held over four one-day sessions during this year. Session one was held on 7 April 2004 in Hobart and included an introduction to electricity, an overview of the Tasmanian electricity supply industry and information on energy consumption in Tasmania. The NEM Project Coordinator presented an overview of the development of the NEM and the wholesale market.

Andrew Nance, of the South Australian Council of Social Service, and Karen Nicholson, of the Australian Capital Territory Council of Social Service, are currently planning the electricity training programs for South Australia and the Australian Capital Territory. New South Wales stakeholders are working on suggestions for the content of a one-day session to be held towards the middle of this year. Updates on training in other States will follow soon. Some of the immediate topics that may take precedence in the training programs include the restructuring of the national electricity regulator, electricity pricing components and demand management initiatives.

Focus Issue

Interval Metering

Many consumers are disinterested in the mechanisms used to meter their use of electricity. Indeed many may not be aware of where their meter is located or what information the meter provides. Why then is the new 'interval metering' technology such an important topic for most Australian and overseas electricity regulators and businesses? What is the new technology being proposed, how can it benefit consumers, and how can we test the proposed benefits?

What are interval meters?

Australian domestic households are generally equipped with accumulation meters that measure electricity usage on a cumulative basis. Meters are generally read manually, usually every three months, determining the usage for the period by subtracting the last read from the current read. Many customers have two or more meters that can record usage of electricity at specific times of the day, such as meters for off peak hot water systems. Interval metering is effectively an extension of this concept, but instead of providing two or three bands over the reading period, interval meters are capable of recording usage for every half hour period of every day, to correspond with the half hourly intervals for trading of electricity in the wholesale electricity market. Because a customer's use of electricity could be determined every half hour, retailers would be able to develop tariffs that vary across time periods within a day and seasonally, and charge the customer according to their usage during these intervals.

Supporters of interval meters argue that the time-of-use tariffs that will be able to be developed with interval meters, will lead to greater efficiency in the market by reducing the premature need for network expansion to cope with demand peaks, enabling retailers to better manage the risk of a volatile wholesale market, and removing cost smearing so that end-users are faced with real costs and

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participate more actively in the market. Some environmentalists argue that interval meters may deter consumers from excessive and thoughtless use of electricity and will therefore lead to a reduction in demand for non-renewable resources.

Reduction of network strain

It is suggested that time-of-use tariffs would provide the necessary pressure on consumers to reduce demand at critical times, so as to alleviate network strain and therefore avoid the costs associated with unnecessary and premature expansion of the poles and wires network. To truly reflect the cost of network expansion, distribution businesses would need to establish a variety of time-of-use tariffs and so pass on more cost reflective distribution tariffs to end-users. The display function of an interval meter will show electricity usage (much like the current accumulation meter) rather than prices or tariffs. The theory is that tariffs, set at a higher price during periods of predicted high demand, would provide a financial incentive to consumers to reduce demand during these times because consumers would be aware of the tariff they were exposed to and adjust their usage accordingly. Essentially the goal is that network costs will be spread across consumers based on their usage so that those using more of the network (such as those consumers with air conditioners) pay proportionately more than those consumers using less of the network.

Consumers have already demonstrated significant inertia in reacting to choice of electricity retailer in fully contestable electricity markets. Many consumers are reluctant to search for a ‘better’ electricity deal, because information is generally either lacking or complex, and savings are relatively minimal. Even if consumers were cognisant of the times when the tariff was higher, would they (or should they) turn off their air-conditioners on a hot day? Some consumers may, however, be willing to turn off discretionary appliances or be motivated to investigate energy efficient use of appliances. But, if the objective is to alleviate network strain, other alternatives such as tariffs that allow retailers to turn off supply (interruptible tariff), or remotely switch off certain appliances at certain times (switchable tariff) may be more effective. Interval meters would enable retailers to more accurately target which customers to interrupt, however these tariffs can and do operate independently of interval metering. Interruptible and switchable tariffs, however, involve consumers reliquishing control in favour of retailers. Automated load control technology that consumers could either control or program appliances to respond to may therefore be a more appropriate alternative.

Reduction of greenhouse gas emissions

From an environmental perspective, although time-of-use tariffs may force peak time electricity users to reconsider their usage, they may not necessarily reduce overall usage and therefore there may be no overall reduction in greenhouse gas emissions. Consumers may simply switch their excess use of electricity, for example using a tumble dryer on a hot afternoon, to the night time when tariffs are lower. Despite the significant efforts of environmental groups, there is still scope for end-user education regarding the link between electricity use and greenhouse gas emissions.

Reflecting wholesale market costs

It is also suggested that time-of-use information and tariffs would enable retailers to better manage their risk of paying high prices in the wholesale electricity market by enabling them to more accurately pass on the volatile market price. However, retailers’ estimation of the cost of purchasing electricity in the wholesale market is complex and not always accurate. The National Electricity Market Management Company, which oversees the trading of wholesale electricity, publishes the half hourly prices on its website, but always after the time the electricity has been used. An analysis of this data indicates that there is not always a correlation between price and demand. To be useful, time-of-use tariffs would need to be based on a best estimate of when demand, or retailer costs, will be high. Time-of-use tariffs based on a best estimate of wholesale costs are no more than an estimate. Dynamic tariffs, on the other hand, more accurately capture the uncertainty of the wholesale market, by invoking contracts that enable retailers to vary prices within constraints. For example, a dynamic tariff may allow a retailer to charge a real-time price, that is, the actual price paid in the wholesale market, but perhaps only between the hours of 5pm and 6pm, and only for 1% of the customer’s total annual load. The downside of this is that consumers may then incur dramatically high prices for the electricity that they use in this designated period. It has not been suggested that retailers would move toward dynamic pricing for businesses or domestic consumers, and there is certainly no indication that domestic consumers would accept this option if they did, although the potential exists with interval meters.

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Ideas for future Focus Issues include:

- How the trading of wholesale electricity works;
- Megawatts – an explanation;
- Regulation of transmission and distribution networks; and
- Customers – demographics, energy used and prices paid.

Please e-mail *natasha@clcv.net.au* to request topics for the Focus Issue.

Accurate settlements in the wholesale market

Interval meters would also enable a more accurate settlement of accounts in the wholesale electricity market. Currently, a differencing settlement process occurs in order to calculate, on a half hourly basis, the electricity usage for each of the retailers buying electricity from the wholesale market. This is done by calculating the aggregate consumption at the boundary of each of the retailers' assigned local areas (the area in which the retailer is obliged to supply), and then subtracting from this the 'average' consumption profile for the half hour of all of the customers in that area that have switched from the local retailer to another retailer. This profiling arrangement allows settlements to occur on a half hour hourly basis even where the consumption is not half hourly metered. This differencing process works while local retailers are dominant but will become less accurate as the number of switched or second tier customers increases.

User-pays - removal of cost smearing

Theoretically, time-of-use tariffs would reflect the 'real' costs of electricity usage and thereby remove cost smearing. That is, the tariff would ensure that the electricity user pays the actual cost of their usage by reflecting both the variable cost of purchasing electricity in the wholesale electricity market and by placing the burden of network expansion on the consumers who are causing the need for that expansion.

Before embarking on a plan to remove cost smearing, however, we need to carefully consider who might be contributing to the costly peaks and, in any event, whether we want to move to a system where we are penalised because of the time at which we consume rather than what or how we consume. Time-of-use tariffs would clearly benefit consumers using energy at low cost times, but would result in increased costs to consumers using energy at high cost times. High cost energy users may include households that are aged or have young children and are not sheltered from high volatile costs by virtue of being absent from the home during the day. The impact on different consumer groups has not yet been fully examined. The social implications of forcing highly reactive consumers like the aged to turn off air-conditioners or heaters at times of high tariffs needs to be considered in a broader social context. Further, time-of use tariffs may negatively impact on energy concession schemes that are geared towards the alleviation of seasonal strains. If we are looking to the welfare sector to meet greater welfare needs that may be created by the removal of cost smearing, we need to recognise that this is our intention and prepare for that scenario.

Costs of introducing interval meters

In addition to questioning the proposed benefits of interval meters, there are also practical questions that need addressing, for example, how much will it cost to introduce interval meters? This is a difficult calculation to make given that the costs and benefits are likely to differ across consumer groups and industry sectors. So far, estimates for the actual cost of a widespread rollout have been confusing, as have the proposals for how installation costs will be met by consumers. We also need to recognise that innovative time-of-use tariffs will only be developed when retailers have processed the vast amount of information generated by the interval meters. In the meantime, the cost of retrieving and collating the data will be passed on to consumers. The type of interval meter to be introduced and the implications of a lack of consistency across jurisdictions also requires consideration and planning, and cynics might consider which technology developer gets chosen to provide the meters! Retailers would be able to collect information on customer usage patterns and target 'appropriate' tariffs to 'appropriate' customers. The issues surrounding how time-of-use information can be used needs careful attention and appropriate consumer protection mechanisms must be developed in advance as there is a potential that the information will be used to discriminate between consumers.

Interval meters have been compulsory for large electricity consumers in Australia for nearly ten years, although there has been minimal use made of them by consumers with relatively small electricity usage. The Essential Services Commission Victoria (ESC) has accelerated the debate by recently announcing a draft decision to commence a full mandatory rollout of interval meters to all electricity consumers, albeit in phases. The ESC's decision is intriguing given that the Ministerial Council on Energy (MCE), which was formed by COAG in 2001 to take leadership on energy issues nationally, published a discussion paper late last month which announced its view that further research into the benefits that interval meters have brought to the business sector

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needs to be investigated before rollout to small customers is mandated. Thought needs to be given to the MCE's suggestion that other, more cost effective options to promote end-user participation may be available to secure the same consumer response, but at a much lower cost.

Natasha Leigh
NEM Project Coordinator
Consumer Law Centre Victoria

Across the Nation

In this edition of On the Wire we look at the effectiveness of retail competition and the safety net in Victoria, electricity pricing tensions in New South Wales, pre-payment meters in Tasmania, the recent distribution pricing review in the Australian Capital Territory, a socially responsible tariff in South Australia, and quality of service issues in Queensland.

Victorian Update

Retail Competition and the Safety Net Arrangements

The Victorian Electricity industry was privatised in 1994 ending 75 years of state owned and provided electricity services. During the privatisation process a number of structures were established to protect domestic households and to help facilitate the orderly move to a competitive electricity market.

Key aspects of the current regulatory regime include the Electricity Industry Act 2000 that gives the Government reserve pricing and other powers. The Government also established the ESC which has responsibility for approving (or disallowing) gazetted tariff changes, establishing a minimum safety net including provisions for 'default' customers, setting mandatory contract terms, fair selling practices, controlling the use of personal information and issuing and administering retail licences.

As part of their licence requirements energy retailers operating in Victoria have to be a member of an approved dispute resolution scheme. All Victorian electricity companies are members of the Energy and Water Industry Ombudsman scheme. This scheme is an industry-based scheme and its function is to receive, investigate and facilitate the resolution of complaints and disputes between consumers of electricity (as well as gas and water) services in Victoria.

One of the major issues confronting domestic energy consumers within Victoria for 2004 is whether the basic terms and conditions of default energy contracts will be negatively impacted by two current reviews being conducted by the ESC, the Review of the Effectiveness of Retail Competition in Gas and Electricity and the Energy Code Review (the Reviews).

Current protections are provided through default safety net pricing, via deemed and standing contracts, and associated terms and conditions that ensure minimum protections for all domestic households. These protections include prescribed billing and collection practices, optional payment arrangements and an obligation on companies to take into account ability to pay when setting optional payment arrangements, referrals to state concessions and financial counselling services.

There is concern that some of the safety net and other protections may be repealed or replaced with a much more targeted and therefore limited protection framework as part of the Reviews. In addition, we are concerned that existing protections will be watered down in the interests of national consistency. An example of this is the possible introduction of late payment fees in Victoria (as proposed in the draft Energy Code) to bring Victoria into line with New South Wales and South Australia. Similarly, the possible introduciton of prepayment metering technologies is also of concern, given that they will have a disproportionate impact on low-income and disadvantaged households.

The Draft Report on the Review of the Effectiveness of Retail Competition in Gas and Electricity was released on 30 March 2004. The ESC concluded that a further review of the effectiveness of energy retail competition should be carried out in 2006 prior to the expiration of the standing offer price arrangements in 2007, and called for submissions on three options for modification to the application of the safety net. The Draft Report can be obtained at *www.esc.vic.gov.au*.

Gavin Dufty
Manager Research and Policy Unit
Society of St Vincent de Paul Victoria

Gavin Duffy has been involved in energy policy since the mid 1980's when the Energy Action Group employed him. Since then he has worked for the Victorian Council of Social Services on issues of income security and taxation and is currently employed by the Society of St Vincent de Paul Victoria as the manager of research and policy. During this time he has produced a number of reports and formal submissions to numerous reviews of utility policy. Recent submissions are available from www.svdp-vic.org.au under the heading social justice.

Gavin is currently a member of the AGL National Customer Council (which takes into account AGL retail across NSW, Vic and SA) a member of CitiPower and Powercor Customer Consultative Committee, Yarra Valley Water Customer Consultative Committee and the Essential Services Commission Customer Consultative Committee.

In 2001 he was awarded a centenary medal for services to the community.

Jim Wellsmore has spent many years as an activist and policy worker in education issues. In 1998 Jim found himself at the Public Interest Advocacy Centre and their Utility Consumers' Advocacy Program (UCAP). Jim had worked on electricity industry issues during a year long stint in the Philippines in 1993 – but this proved little help in dealing with the steep learning curve associated with joining UCAP. Jim's work with UCAP has also included issues with water supply. The project is also responsible for interventions in relation to gas.

New South Wales Update

Rising Tensions – Or Prices?

Residential electricity consumers in NSW continue to face the challenge of increases in the cost of this essential service. Two years after the commencement of full retail competition and following close behind competition reform which was promised to bring economic benefits, the industry continues to find arguments for increasing its prices. Despite ongoing public ownership of the bulk of the industry, NSW residents cannot rely on being sheltered from the 'market' outcomes in Victoria and South Australia.

Retailers have been pushing for a rise in the level of the regulated tariff under which all 'non-market' customers of the incumbent businesses buy their electricity. The 2004 round has seen the Government owned businesses shy away from their past demands for retail headroom to be built into the price caps. Instead, the Government retailers and their private competitors have argued for more 'light handed' regulation and greater discretion in the setting of prices for those households who remain as monopoly cust-omers. Contrary to the available evidence, a number of the retail businesses have claimed that the NSW market is characterised by 'effective competition'. The view persists among some that competition itself is the best form of consumer protection in essential services.

In the distribution sector, the companies have identified air-conditioning as the justification for a massive increase in capital investment. Having greatly exceeded their own forecast for capital expenditure over the last five-year determination, the distributors appear to have convinced the regulator, the Independent Pricing and Regulatory Tribunal (IPART) that still more is needed, an increase on the current high levels of a further $5 billion for the next determination. IPART has proposed that this revenue be provided by a CPI+X increase in the volumetric component of network charges. This will amount to hikes of around 20% over the next five years but on a 'weighted average' basis, meaning that for some customers prices will perhaps decline while others will face more substantial increases.

Generators have seized on the idea of a 'crisis' within the industry (again based on air-conditioning and recent events in South Australia) to argue for significant increases in the regulated tariff. In the case of generation, it is claimed that higher prices are needed to match the greater wholesale energy costs and ensure continued investment in generation capacity. Consumer advocates have noted the numerous claims made elsewhere in the industry about steady or declining wholesale prices. They have also found plenty of evidence to contradict claims about a 'capital strike' in the generation industry.

Increasingly the industry is attempting to win the most favourable elements of regulatory decisions and price outcomes in other jurisdictions. Retailers, for example, have been quick to point to South Australia and Tasmania and the allowances made by their regulators in relation to key elements of the cost of supplying customers. However, it was noted that the price rises permitted in those jurisdictions carried (small) stings in the tail for retailers. For example, it is understood that in South Australia the outrageous price hikes introduced at the beginning of 2003 were accompanied by bans on exit fees for negotiated or 'market' contracts. Clearly, the businesses should not get only one part of the total price package.

Distributors, too, have gazed longingly across the borders. In their case, however, they have had considerable success at arguing for consistency between jurisdictions. A weighted average price cap (WAPC) will apply to distribution prices in the next determination period. This was signalled by IPART in mid-2002. Consumer advocates understand that the largest consideration in the minds of IPART was the fact that Victoria had previously instituted a WAPC approach for its distribution industry.

Consumer advocates in NSW believe that overall the outcomes could have been worse. Importantly, the statutory obligation on IPART (not to mention the corporatised utility businesses) to take account of social equity has provided a strong basis for retention of side constraints on price rises for residential consumers. For example, the IPART has signalled that the distributors will face a limit on increases in the fixed component of network charges of $30 to prevent the businesses from maximising their revenue under the price cap formula. It seems likely that stronger price constraints will be retained for regulated retail tariffs.

However, interest in using price signals to drive energy conservation remains high. Consumer advocates have pointed out that the distribution businesses, in particular, have devoted only the tiniest proportion of their proposed capital expenditure funding to demand management

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projects. This leaves consumers to take up the burden of reducing demand for electricity.

Following this approach, several of the NSW distributors have announced plans to restructure tariffs in ways that could pose significant problems for low-income households. IPART has argued that the provisions of the National Electricity Code and its own role in setting revenue limits means that it cannot intervene in these pricing decisions. While IPART will introduce additional requirements for the distributors to publicise their price setting strategies the businesses remain free to ignore community views over the introduction of such things as inclining block tariffs (IBTs) and seasonal pricing.

Distributors have argued for these tariff structures on the grounds that they will provide consumers with 'signals' for demand reduction. Unfortunately, this ignores both the character of residential energy usage (that is, it is largely price inelastic) and the negative impact these price reforms will have on social equity. In effect, these plans will create two classes of electricity users. Small, wealthier households will be free to consume as much electricity as they like and enjoy relief from hot weather whereas those enduring financial hardship will face a choice between energy bills they cannot afford and not running their air-conditioners on hot summer days.

Most worrying, though not surprising, is that the NSW retailers have jumped on these proposals. However, IPART does have the ability to control the structure of tariffs offered by the incumbent retailers. At this stage it seems unlikely that residential consumers will be hit simultaneously with two sets of IBTs.

Jim Wellsmore
Utility Consumers' Advocacy Program
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Tasmanian Update

Pre-payment meters – have they slipped through cracks?

The Tasmanian Energy Regulator has recently announced a review of Aurora Energy's (Aurora) pre-payment meter (PPM) tariff system, Aurora Pay As You Go (APAYG). This system, introduced as a trial in 1995 and opened up to general use in 1997, has so far remained unregulated. The move to investigate the PPM system was prompted by the fact that the take-up rate has been so high (around 28,000 customers) and that the pricing structure differs so markedly from the standard tariff, not allowing easy comparison between the two. In addition, Aurora has recently introduced a APAYG 'Progress Rate' that allows consumers with PPMs to pay off outstanding debts through an increased per kilowatt-hour charge (1.5c/kWh).

The review will consider prices, terms and conditions, the extent to which APAYG is a 'product of choice', the interaction between APAYG and Aurora's credit policy, and the extent to which regulation may be necessary to protect consumers. It will also look into 'the incidence, duration and impact of self-disconnection' on APAYG. The Regulator is seeking an initial submission from Aurora and will then prepare an issues paper to which the public will be invited to respond.

The community services sector in Tasmania welcomes the investigation since, despite their apparent popularity with consumers, it has a number of concerns about PPMs. One concern is the lack of comparability with the standard tariff, the PPM tariffs are time-of-use tariffs that differ between times of day and between summer and winter periods while the standard tariff is a block tariff that declines with increased use. Both tariffs have a standing daily charge, with the PPM daily charge around 20c higher than that of the standard tariff. Another major concern is that PPMs allow for self-disconnection, resulting in consumer protection measures afforded to consumers on the standard tariff to be unavailable to PPM users. The issue of the lack of affordability of electricity for many, which is highlighted by monitored disconnection rates, is masked by disconnection being privatised and removed from the public gaze.

We are also concerned with the use of PPMs to recover debt. Although seen by many as a 'painless' way to pay off debts, signing up to the APAYG 'Progress Rate' locks consumers into an often long-term payment regime that removes their ability to make decisions about the best use of their money at any given time. It is essential that PPMs are a real choice among a range of other choices, and that certain categories of consumers do not feel forced into this system.

It will be interesting to see what this investigation reveals about PPM use in Tasmania and what kind of regulation, if any, is proposed as a result. If anyone would like more information about the investigation or would like to discuss PPMs, please feel free to contact Kath McLean on *kath@tascoss.org.au*.

Kath McLean
Policy Officer & Electricity Training Project Coordinator, Tas. Council of Social Service

Kath McLean currently works at TasCOSS as a policy officer with responsibility for consumer issues, including electricity. She represents TasCOSS on the ACCC's Consumer Consultative Committee. Kath is also responsible for policy in relation to Medicare and has an informal secretariat role in the Tasmanian Medicare Action Group.

Karen Nicholson is a senior policy officer with ACTCOSS, and works on a wide range of public policy issues that that have the potential to impact on the lives of people living with poverty and disadvantage. Karen has a Master of Public Policy from ANU, and has particular interests in government and institutional accountability, gambling, corrections, utilities, and the role of government in protecting and promoting the human rights of the people of the ACT. Karen also spent many years as a radio journalist, in both commercial media and with the ABC. Karen's out-of-work time is spent participating in a community choir, spending time with her family, volunteering and reading.

Australian Capital Territory Update

Affecting the Distribution Pricing Review

The ACT Council of Social Service (ACTCOSS) and the Consumer Law Centre of the ACT (CLC) are making strides toward improving consumer representation in energy issues, with the ass-istance of the CLCV NEM Project.

In January, the two organisations made a submission to the ACT's utilities regulatory body, the Independent Competition and Regulatory Commission (ICRC), on pricing of electricity distribution services. The current distribution pricing determination, made in 1999, expires at the end of June 2004.

Distribution costs account for around 37% of the average energy bill for retail customers, so it is important that this service, although remote from consumers, is fairly and equitably priced.

The ICRC has embraced two of the major issues raised by the ACTCOSS-CLC Submission, authored by consultant economist Ian McAuley.

First, the ICRC's draft pricing determination in November 2003 proposed that distribution charges be cut by 6.8% with that decrease phased in over the regulatory period of five years. The ACTCOSS-CLC submission called for that decrease to be passed on in one step as this would result in better outcomes for consumers, particularly those on low incomes, whose marginal costs of energy are higher than more affluent customers.

Nearly 9% of Canberrans live in poverty, with a much larger number struggling to make ends meet due to low incomes, ill health and other problems, including the high costs of housing in the ACT and the long, cold winters.

ActewAGL, the ACT's only electricity distributor, also saw merit in the single step reduction. The ICRC accepted this view in its final determination and distribution prices will be cut by 6.8% in July 2004.

The second important issue was that of the Consumer Price Index (CPI) adjustment. After the initial fall in distribution prices, an annual CPI increase will be applied to average revenues. The ACTCOSS-CLC submission made the point that:

> *'While the CPI is a reasonable indicator of movements in the cost of living for an average household, it is not necessarily representative of cost of living movements in poorer households. Over the last 14 years (the period of the present series of the CPI), there have been very high price rises in health care and education, and above average price rises for food. The items that have kept the CPI low include telecommunications, travel, household appliances and entertainment equipment. We would reasonably expect therefore that movements in the cost of living for low-income households are higher than the CPI indicates'.*

The discussion of this issue has led to the unusual step of the ICRC recommending that the ACTCOSS-CLC comments on CPI be taken into account in a review of ACT Government concessions, currently underway. We hasten to add that the ACT Government recognised that full retail contestability would have an adverse effect on low-income households, and allocated additional funds for concessions in its 2003-04 budget.

The ACTCOSS-CLC was recently granted funding from the NECA Advocacy Panel for a project that will deliver training to the community sector on electricity issues and will build on this recognition of consumer interest in energy issues.

Karen Nicholson
Senior Policy Officer
ACT Council of Social Service

Rosalyn Williams is a community development worker for the Low Income Support Program of UnitingCare Wesley Bowden Inc, financial counsellor for UnitingCare Wesley Adelaide Inc, facilitator of WREAG and ACOSS representative at the Origin Energy National Consumer Consultative Council.

Prior to working with Uniting Care Wesley Adelaide and Bowden, Rosalyn worked for UnitingCare Wesley Port Pirie delivering family and accommodation support services on the Northern Yorke Peninsula (approximately 2 hours northwest of Adelaide) for 7 years. Whilst living in the country, she studied by correspondence first through TAFE for an Advanced Certificate in Community Development, completed in 1995, and then through Charles Sturt University for a Bachelor of Social Science (Social Welfare), completed in 2000. Rosalyn has been involved extensively in voluntary roles in the community from school tuck shops to Lifeline telephone counselling and currently participates in a refugee action group.

South Australian Update

A Socially Responsible Tariff

The Western Region Energy Action Group (WREAG) was formed in February 2002 after community workers became concerned that a deregulated electricity market in South Australia, which began on 1 January 2003, would significantly disadvantage low-income house-holds. Membership of WREAG includes welfare and other non-government agencies, social services from all three levels of government, business organisations and other interested individuals and community groups. The target group of WREAG is the western suburbs of Adelaide, but the issues are relevant to the whole of South Australia and other States.

Welfare agencies in the western suburbs of Adelaide have experienced significant increase in demand on their services as a direct result of large increases in electricity bills. Indeed, electricity costs in South Australia have risen by around 60% over 4 years, while the Consumer Price Index (CPI) rose only 15.8% in the same period. For example, at Uniting Care Wesley Bowden Inc, the number of people seeking emergency assistance primarily as a result of electricity bills doubled last year. Approximately 80% sought help due to electricity bills in 2003, up from only 40% the year before. Many households are at risk of late payment fees and disconnection.

WREAG believes that a basic supply of electricity is an essential service to sustain a reasonable standard of living and should be available for all people. The quantity of a basic supply to sustain a reasonable standard of living would need to be researched but would be considerably more than the current 'low tariff' supply of 330 units per quarter. WREAG is concerned that the current pricing structure is shifting the burden of costs to small customers, many of whom are low-income households. To achieve a basic affordable supply for all people, WREAG is challenging government and retailers to provide financial relief for low-income households. In particular, WREAG advocates for a socially responsible tariff structure together with targeted con-cessions for special health and household needs. A socially responsible tariff could be achieved through pricing interventions at each stage from electricity generation to networking, retailing, profit and GST.

First and foremost, a basic supply of electricity should be GST-free. Being an essential service, like a basic food supply, electricity should not incur the GST. Indeed, GST disproportionately taxes low-income households. A 30% increase in tariffs incurs a subsequent 30% increase in GST on the cost of electricity to householders whose fixed wage or pension is only increased according to the CPI. Consequently, less money is left to cover all other expenses. Every household requires an adequate supply at an affordable price to ensure health and wellbeing and this should be GST-free.

In addition, the retailer's profit margin on the basic supply to low-income households should be minimised. The standing tariffs contain a signif-icant margin to provide incentive for retailers to compete in the market as well as a buffer for risk of default or late payment. Consequently, the charging of late payment and reconnection fees is double-dipping on the part of retailers and effectively raises the cost of energy for those who can least afford to pay.

On the other hand, WREAG does not seek efficiencies to the detriment of service to customers. Indeed it advocates for robust hardship policies that are readily accessible by consumers. Unfortunately, hardship policies alone are ineffective if the cost of electricity is so high that accumulation of debt is unavoidable.

Both networking and generation costs together make up around 75% of the cost to the consumer. WREAG is concerned that the high costs of generation and networking are driven by peak demand (namely large residential air-cond-itioners). It appears that the contribution to peak demand by low-income households is minimal. If this perception is verified through further study then WREAG advocates that low-income households could become a buyer group to whom a smaller proportion of networking and gen-eration costs are passed.

If cost reductions for low-income consumers are applied at each stage from electricity generation to networking, retailing, profit and GST then the cost of a basic supply of electricity to low-income households should reduce by at least 25%.

Rosalyn Williams
On behalf of Western Region Energy Action Group

CLCV

Ian Jarratt is a recently retired economist, policy analyst and strategic planner. Retirement has allowed him more time for a lifetime passion, consumer advocacy work, which he undertakes mainly through his membership of the Brisbane Consumers Association. Currently his main consumer advocacy interests are electricity, unit pricing, and the car rental industry. His recent involvements with electricity issues include being a consumer representative on the Energex Retail Community Forum, Consumers Federation of Australia representative on Standards Australia's Power Quality sub-committee, and joint author of a Queensland Consumers' Association submission on electricity quality incentive schemes. Ian finds consumer electricity issues immensely important, challengingly diverse and exceedingly complex and is working hard to ensure that his consumer advocacy work still allows time for his numerous other interests including tennis, swimming, reading, travel, and family history research.

We note that in the February edition of On the Wire the Queensland update contained a typographical error and should have referred to Energex and Ergon as government owned rather than privately owned corporations.

Queensland Update

Service Quality Incentive Scheme

Electricity service quality is very much in the public spotlight in Queensland. In January this year, the call centres of Queensland's only two distribution businesses, Energex in South East Queensland and Ergon in Brisbane, both publicly owned, were to be scrutinised following widespread complaints about their handling of blackouts during storms. Then in February the newly re-elected Beattie Labour Government commissioned an independent review of the overall performance of the distribution businesses following further blackouts during a heat wave that month. The current review will evaluate the reliability of Queensland's electricity distribution system bas-ed on, among other things, the capital and operational expenditure of each of the businesses and the internal planning systems and processes in place. The review will also determine whether communication systems to advise consumers of power interruptions are adequate and, where appropriate, identify any areas for improvement.

Meanwhile, the Queensland Competition Authority (QCA) recently released for public comment a draft decision on a service quality incentive scheme for electricity distribution services in Queensland from 2005 to 2009, placing quality issues in QCA's regulatory arrangements for the first time. The current proposed arrange-ments are less detailed then the service quality incentive scheme proposed by QCA consultants in 2003, which would have involved roughly ten performance indictors for the distributors, an aggregate net reward or penalty capped at 2% of distributor revenue and a paper trial prior to full implementation.

Following consultation around the 2003 prop-osal, the draft decision now better recognises the actual and potential impact of the core regulatory arrangements on many aspects of service quality and adopts a three level approach. Firstly, the annual capital expenditure and operational expenditure amounts included in the revenue caps would seek to at least maintain the present levels of service quality. Secondly, targets would be set for agreed improvements in service quality recommended by the distributors. Thirdly, distributors can present a case for agreed amounts to be allocated to meet specific customer requirements or requests. The second and third stages include incentives and penalties for the distributors. Full details are available from the QCA's web site www.qca.org.au. The draft decision also contains information about service quality arrangements in other jurisdictions.

Service quality is becoming increasingly relevant for consumers as work and home life balances shift and more people work from home and are investing in sensitive technical equipment such as computers. Outages, voltage variations, volt-age surges and momentary interruptions are likely to have greater social and financial impact than in the past. Equitable access to high levels of service quality is increasingly important to Queenslanders, especially those in rural and regional areas.

The Queensland Consumers Association (the Association) has been actively involved in the QCA's review of quality issues in recent years and has provided QCA with a submission which supports, in principle, the inclusion of service quality considerations in the QCA's next regulatory arrangements, and the proposed three level approach. This support is, however, subject to the availability of more details and assessments of the likely consumer impacts.

It expresses concern with the current paucity of publicly available information in Queensland in relation to service standards. The submission calls for further research and the public release of existing information on the current levels of service performance, consumer service quality requirements, priorities, and willingness-to-pay for improvements.

The Association considers that, wherever possible, the new arrangements should include quality parameters other than frequency and duration of outages, for example voltage variation and momentary outages. It also has major reservations about the use of the number of complaints as a measure of service quality performance because of the difficulty with the definition and measurement of complaints, the likelihood that many consumers won't complain (often because they are not aware of the avenue for complaint) and the likely disincentive for distributors to improve customer knowledge of and avenues for complaint. The Association recommends that if the number of complaints is used as an indicator it should have a low weighting in the assessment of trends and the calculation of any distributor incentives or penalties.

Continued over

Each edition of On the Wire focuses on one of our stakeholders, looking at what they do, who their constituents are, and how they engage with electricity issues.

Guaranteed Service Level (GSL) payments to consumers currently exist for a limited number of distributor activities but the Association recommends that GSLs and compensation schemes be included in the service quality regime. Any GSLs in the regime should be on the basis that all breaches result in payments, rather than the current GSL arrangement where payments are only made if a customer requests them. Futher, GSLs should cover important aspects of service quality and be adequately publicised. Measures to monitor quality of service for consumers with the worst service levels should be put in place and consumers who consistently receive a significantly lower quality of service should pay less or receive compensation. Distributors should do much more to help household consumers become aware of, and make well-informed decisions about, the selection and use of equipment for the management of voltage dips, surges and outages, to protect highly sensitive household appliances, and the requirement to provide this information should be incorporated in the regulatory arrangements.

The Association is concerned that, unlike every other state in the NEM, disputes between consumers and the electricity industry in Queensland are handled by a Government office, the Electricity Consumer Protection Office (ECPO). The ECPO does not meet the benchmarks for alternative dispute resolution (ADR) schemes which were developed by the Federal Bureau of Consumer Affairs and applied by electricity Ombudsman schemes in other States and by ADR schemes in most other sectors of the Australian economy. The Association also recommends that the distributors' internal dispute resolution performance be monitored and included in the service quality regime.

The Association's submission is available on the QCA's web site. The Association anticipates further involvement in the development of the QCA service quality regime proposal. We welcome On The Wire readers' comments, ideas and information on the importance of, and experiences with, service quality.

Ian Jarratt
Brisbane Consumers Association

Member Focus

Total Environment Centre (TEC)

TEC, based in Sydney, is an incorporated, non-profit environmental advocacy group. Founded in 1972, TEC quickly became a significant voice in respect of conservation and environmental sustainability.

TEC provides a critical role guiding grass roots environment groups and progressing government policy. TEC has undertaken well over 100 environmentally based projects and regularly leads coalitions of groups and hosts seminars and conferences. Green Capital, TEC's corporate engagement program, has given TEC a unique position to work with business and the community.

TEC has a long history of active work for sustainable energy outcomes, with several major successes over the last two decades, including:

1982 – Proposals to protect solar access in urban areas.

1986 – Establishment of the Community Energy Organisation to assist low-income energy consumers.

1993 – 2000 – Chair and major contributor to Green Games Watch 2000 which canvassed issues relating to green energy and demand management.

1995 – Successful campaign for demand management provisions in new energy utility legislation.

1998 – Release of the '20% by 2010' report calling for 20% of energy supplies to be renewable by 2010.

2001 – Initiation of Green Electricity Watch, the joint environment groups' national survey of green power and demand management schemes.

2002 – Publication of 'Green or Black: Renewable Energy Policy in Australia'.

2003 – Released the Five Point Energy Plan for NSW.

2004 – 'Demand Management and the National Electricity Market' report was released which progressed the establishment of the NSW Demand Management Fund.

TEC will work with the NEM Network in order to further develop capacity to advocate in favour of rigorous demand management incentives and mechanisms to operate effectively in the NEM.

The following two pages list the community agencies that are members of the NEM Network and the regulators, government agencies, consultants and educational institutions have an interest in the NEM Network.

Organisations and individuals that have joined since the last edition of On The Wire are highlighted in red.

The NEM Network

Community Agencies

Tasmania

Anglicare Social Action Research Centre
Kelly Madden, Policy and Research Officer

Anglicare Tasmania Inc, Financial Counselling Service Devonport
Phillip Powell, Financial Counsellor

Consumers' Federation of Australia
Rosemary Cramp, OTTER Customer Consultative Committee Representative

Hobart Community Legal Service
Jane Hutchison, Manger

National Council of Women Tasmania
Catherine Catt, Consumer Affairs Advisor

Tasmanian Council of Social Service
Kath McLean, Policy Officer

Tasmanian Environment Centre
Margaret Steadman, Cool Communities Policy Officer

Australian Capital Territory

ACT Council of Social Service
Karen Nicholson, Senior Policy Officer

Care Inc Financial Counselling and Consumer Law Centre of the ACT
David Tennant, Director
Tim Gough, Principal Solicitor

Environmental Defenders Office
Kath Taplin, Solicitor

South Australia

Aboriginal Legal Rights Movement Inc
Margaret Gipson, Low Income Support Program Co-ordinator

Conservation Council SA
Jess Gilding, Cool Communities Facilitator

Henley & Grange Residents Association
Jim Fitzpatrick, Representative

Lutheran Community Care
Anne Halman, Project Officer

Low Income Support Program
Greg Were, Low Income Services Manager
Jan Bean, Financial Counsellor

South Australian Council of Social Service
Rhonda Turley, Project Officer
Andrew Nance, Coordinator Electricity Project

St Vincent de Paul Society (SA) Inc
Tania Elliot, Training and Development Officer

The Salvation Army
Julie Parr, Manager Arndale Family Support Services

Uniting Care Wesley (Adelaide)
Julie McMahon, Community Development Worker
Rosalyn Williams, Financial Counsellor
Sue Heathcote, Community Development Worker

Uniting Care Wesley (Boden)
Rosalyn Williams, Community Development Worker

Uniting Care Wesley (Port Adelaide)
John Morris, Budget Counsellor, NILS Coordinator

Queensland

Alternative Technology Association
Wendy Miller, Convenor Brisbane

Brisbane Consumers' Association
Ian Jarratt, Member

Centre for Credit and Consumer Law (Griffith University)
Fiona Guthrie, Chair
Nicola Howell, Director

Energy Users' Association of Australia
Josh Hankey, Queensland Development Manager

Homeless Persons' Legal Centre
Michelle Bradfield, Coordinator

Lifeline Brisbane Financial Counselling
Gregory Mowle, Coordinator

Queensland Council of Social Service
John Rochester, Communications and Marketing Manager
Ana Maria Allimont Holas, Multicultural Project Officer

Queensland Conservation Council
Kirsten Macey, Cool Communities Facilitator

Queensland Consumers' Association
Cherie Dalley, President

Queensland Public Interest Law Clearing House
Tony Woodyatt, Coordinator

Tenants Union
Penny Carr, Coordinator

Victoria

Alternative Technology Association
The Policy Managewr (currently vacant)

Australian Conservation Foundation
Julie Taylor Mills, Co-ordinator Climate Change Business Leaders Roundtable

Brotherhood of St Laurence
Professor Paul Smyth, General Manager, Social Action and Research (also University of Melbourne Centre for Public Policy)

Consumer Utility Advocacy Centre
Kerry Connors, Executive Officer

Environmental Defenders Office (Vic)
Su Robertson, Principal Solicitor

Environment Victoria
Darren Gladman, Director Global Warming Campaign

Moreland Energy Foundation Ltd
Esther Abram, CEO

St Vincent de Paul Society Victoria
Gavin Dufty, Policy and Research

Victorian Aboriginal Legal Service
Frank Guivarra, Director
Robin Inglis, Policy Officer

Victorian Council of Social Service
Angela Savage, Policy Analyst

Continued over

The layout and design of On the Wire has been generously provided by Minter Ellison.

MinterEllison LAWYERS

CLCV

New South Wales

Australian Consumers' Association
Charles Britton, Policy Officer IT and Communications

Australian Conservation Foundation
Monica Ricta, Coordinator Sustainability Program

Baptist Community Services
Pam Batkin, General Manager Family and Community Services

Climate Action Network Australia
Julie-Anne Richards, General Co-ordinator

Combined Pensioners and Superannuants Association of NSW Inc
David Skidmore, Policy and Information Officer

Council on the Ageing
Brenda Bailey, Senior Policy Officer

Environmental Defender's Office
Jeff Smith, Director

Financial Counsellor's Association of NSW Inc
Elizabeth Terry, President

Friends of the Earth, Eco-Sydney Campaign
Ted Floyd, Campaigner

Nature Conservation Council
Felicity Calvert, Cool Communities Facilitator

New South Wales Council of Social Service
Michelle Burrell, Deputy Director Policy

Public Interest Advocacy Centre, Utility Consumers' Advocacy Program
Jim Wellsmore, Senior Policy Officer

St Vincent de Paul Society National Council
John Falzon, National Researcher

Tenants Union
Michelle Jones, Executive Officer

The Smith Family
Christina Fica, Project Manager

Total Environment Centre
Jane Castle, Resource Conservation Campaigner

Uniting Care (NSW ACT)
Harry Herbert, Executive Director

Western Sydney Community Forum
Joan Gennery, Transport Development Worker

WWF Australia
Anna Reynolds, Climate Change Manager

Regulators, Government Agencies, Consultants, Educational Institutions

Tasmania

Office of the Tasmanian Energy Regulator
Andrew Reeves, Regulator

Australian Capital Territory

Essential Services Consumer Council
Peter Sutherland, Chairperson

Fair Trading Advisory Committee
Peta Spender, Chair

Independent Competition and Regulatory Commission
Ian Primrose, Chief Executive Officer

Legal Aid ACT
Linda Crebbin, Deputy Director

South Australia

Essential Services Commission of South Australia
Lew Owens, Chairperson

Centre for Labour Research, University of Adelaide
John Spoehr, Executive Director
Kathryn Davidson, Researcher

City of Charles Sturt
Jeff Thomas, Community Development Officer

Northern Adelaide Region Councils
Ann Gibbons, CCP Project Officer

SA State Office, Australian Government Department of Family and Community Services
Keith Crammond, Senior Policy Officer

South Australian Housing Trust
Theresa Walker, Housing Support Co-ordinator, Parks Regional Office

Queensland

Bardak Group
Dr Robert Booth, Managing Director

Queensland Competition Authority
Gary Henry, Director

Office of Energy
Sandra Hosking, Principal Policy Analyst

Victoria

Consumer Affairs Victoria
Marie Murfet, Support Officer Indigenous Consumers Unit

Department of Human Services Concessions Unit
Karen Piper, Manger

Department of Infrastructure, Energy and Security Division
Sally Moxham, Senior Policy Officer

D Nelthorpe Consulting Pty Ltd
Denis Nelthorpe, Director

Energy and Water Ombudsman (Victoria) Ltd
Fiona McLeod, Energy and Water Ombudsman (Victoria)

Essential Services Commission
Wendy Heath, Regulatory Program Manager

Headberry Partners P/L
David Headberry, Principle

Sustainable Energy Authority Victoria
Katrina Woolfe, Functional Leader, Capacity Building

New South Wales

Independent Pricing and Regulatory Tribunal
Fiona Towers, Director Energy

National

Australian Competition and Consumer Commission
Catriona Lowe, Director Consumer Liaison
Sebastian Roberts, General Manger Electricity Branch

Permission to publish names has been provided by all those listed above.