



## Council of Social Service of New South Wales

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3<sup>rd</sup> May 2007

Mr James Cox  
Chief Executive Officer and Full Time Member  
NSW Electricity Regulated Retail Tariffs and Charges  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
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### **NCOSS Response to IPART Review of Regulated Electricity Tariffs and Charges for Small Customers 2007 to 2010**

Mr Cox,

The Council of Social Service of NSW (NCOSS) is the peak body for the social and community services sector in New South Wales. NCOSS works with its members on behalf of disadvantaged people and communities towards achieving social justice in NSW.

NCOSS provides an independent voice on welfare policy issues and social and economic reforms and is the major coordinator for non-government social and community services in NSW.

NCOSS welcomes the opportunity to comment on any proposed review of Regulated Electricity Tariffs and Charges for Small Customers 2007 to 2010. In making this submission, NCOSS urges the Tribunal to remember that electricity is an essential service necessary for the health and wellbeing of people in NSW. Therefore decisions about prices extend beyond the theoretical considerations of long run marginal costs, notions of effective competition and cost reflective tariffs and impact on the lives of people, particularly low income households.

#### **1. Terms of Reference**

NCOSS remains extremely concerned that the NSW Government has made no requirement for the Tribunal to consider the impact of its determination on customers. NCOSS has previously written to the Minister for Energy to express its concern over this significant omission.

Nevertheless, NCOSS observes that there is some scope within the existing terms of reference for IPART to consider the social impact of its decision for low income small residential consumers. In particular, term of reference 2 (“to facilitate the development of effective retail competition for small retail customers”) should consider instances of market failure with respect to low income consumers, the capacity for the form of regulation and price structure to minimise adverse impacts, and the effectiveness of existing government

programs and regulation in creating a 'safety net' for these consumers. Similarly term of reference 10 ("to ensure that any 'solutions' within the determination are proportionate with the problem") also suggests that the Tribunal evaluate whether the benefits of proposed changes to form of regulation and prices outweigh the potential hardship that these changes will impose on low income households.

## 2. Low Income Electricity Users

Low income earners receive limited disposable income in order to absorb significant increases in charges. Debt and other household expenses can add to financial stress for these households, and limit their ability to meet energy charges. Australia wide data from the Australian Bureau of Statistics data revealed that in one year:

- 59,000 people went without meals.
- 95,000 people were forced to pawn or sell something because they needed cash.
- 36,000 were unable to heat their homes.
- 89,000 sought help from charities and welfare organisations.
- 537,000 were unable to pay their electricity, gas or phone bills on time; and
- 810,000 working families experienced a cash flow problem in the past year.<sup>1</sup>

Although households reliant on government benefits and allowances are particularly at risk of financial hardship, low paid (or "working poor") households may also experience difficulty meeting energy payments. The 2007 joint States and Territories submission to the Australian Fair Pay Commission suggests that:

For the low paid, financial stress is not only limited to unexpected expenses but day to day living. Notably, low-paid workers are far more likely to go without meals, not heat their home or seek financial assistance than other workers (see the full list at the bottom of Table 45). For example, some 22 per cent of low-paid households had experienced two or more episodes of financial hardship since the start of the year (compared with 16 per cent among 'other' households).<sup>2</sup>

Approximately 13% of NSW Households report that they would face difficulty raising \$2000 at short notice.<sup>3</sup>

## 3. Government Pension and Allowance Recipients in NSW

There are approximately 670,000 households in NSW (26.6%) that receive Government pensions and allowances as their main source of income.<sup>4</sup> This translates to approximately 1.48 million people in receipt of a Centrelink pension or benefit in NSW.<sup>5</sup>

Most of these households receive very low levels of weekly income. The maximum paid by Centrelink to a single old age pensioner or disability pensioner is \$262.55 per week. A single unemployed adult receives a maximum of \$212.15 per week in Newstart Allowance.

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<sup>1</sup> Australian Council of Trade Unions (2004) "New Data Fuels 'Working Poor' Fears: 60,000 People Can't Afford Food," [www.actu.asn.au](http://www.actu.asn.au).

<sup>2</sup> Victoria, South Australia, Western Australia, Tasmania, *Australian Capital Territory and the Northern Territory Governments, Joint Labor Governments' for Victoria, South Australia, Western Australia, Tasmania, Australian Capital Territory and the Northern Territory in response to Australian Fair Pay Commission*, 30 March 2007.

<sup>3</sup> Australian Bureau of Statistics. *General Social Survey: Summary Results*. 2002. p22.

<sup>4</sup> Australian Bureau of Statistics, *Household Income and Income Distribution*, Australia, 2003-04.

<sup>5</sup> Australian Bureau of Statistics (2005) *National Regional Profile, 2000-2004 – NSW*.

#### 4. Low Paid / 'Working Poor'

Australia is faced with a relatively new form of social disadvantage - an increasing number of 'working poor' - people whose main source of income is wages. The working poor phenomenon is the result of significant changes in the workforce including an increasing number of part-time and/ or casual employees. The proportion of part-time employees increased from 19.3% of the labour force to 23.4% between 1992 and 2005.<sup>6</sup> Between 1990 and 2000 the proportion of casuals rose from 19% to 27%.<sup>7</sup> This included large increases in industries not traditionally associated with casual labour including manufacturing, communications, finance and insurance.<sup>8</sup>

A recent joint states and territories submission to the Australian Fair Pay Commission found that there were approximately 516,000 households nationally with an employee earning less than \$12.75 per hour.<sup>9</sup> This tallies with NSW figures that there are approximately 135, 000 low income health care card holders who are not recipients of a Centrelink benefit (To be eligible for a low income health care card a single person must earn less than \$420 per week).

#### 5. Competition and Low income Households

Low income consumers face particular disadvantages within a competitive market in negotiating goods and services. These include:

- a reduced ability to access all available information on a product or service;
- lower levels of income to purchase goods 'upfront' at a lower rate or negotiate bulk purchase discounts;
- a limited ability to take risks (low levels of disposable income to offset the costs associated with a 'bad choice').

Although market forces may be able to self-regulate for some consumers, the tendency will be for low income consumers to pay a premium for their involvement in the market as a result of the above factors.<sup>10</sup>

Arguably the most vulnerable members of the NSW community will receive the least benefits from retail competition in electricity. Low income households are perceived to be a greater risk to retailers compared with high income consumers and they tend to use less energy than equivalent size, high income households. Also, low income households are more likely to be in rental accommodation and more frequent movers than owner-occupiers. This means that they are less likely to find a fixed term energy contract attractive compared to those in more stable accommodation. Further, charges for early

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<sup>6</sup> Australian Bureau of Statistics. *Australian Labour Market Statistics: Spotlight on employment Type*. July 2006.

<sup>7</sup> Campbell, I. and Burgess, J. 'A New Estimate of Casual Employment?', *Australian Bulletin of Labour* 27(2) 2001 pp.6-29.

<sup>8</sup> Watson, I., Buchanan, J., Campbell, I. and Briggs, C. (*Fragmented Futures: New Challenges in Working Life*. Federation Press, Sydney, 2003.

<sup>9</sup> Victoria, South Australia, Western Australia, Tasmania, Australian Capital Territory and the Northern Territory Governments, *Joint Labor Governments' for Victoria, South Australia, Western Australia, Tasmania, Australian Capital Territory and the Northern Territory in response to Australian Fair Pay Commission*, 30 March 2007. p87.

<sup>10</sup> Research from the United Kingdom has shown that low income families will pay a "poverty premium" to access essential goods and services that are enjoyed at a cheaper rate by higher income households. See Lucy Ward. "Poor families face 1000 a year 'poverty premium,' say charities." *Guardian*. Monday March 5, 2007.

termination of the contract provide a disincentive for low income households to accept a negotiated contract.

NCOSS asks the Tribunal to consider the effectiveness of competition for low income small retail customers as part of its determination. NCOSS supports the position put forward by the NSW Public Advocacy Centre's submission to this determination, pointing to a lack of evidence base on the existence of effective competition for metropolitan NSW. In this context, NCOSS emphasises our continued concerns about the market's capacity to deliver equitable outcomes for low income consumers.

## **6. Government Energy Rebates.**

The NSW Government currently operates an energy rebate system for pensioners in NSW, and funds a voucher system to assist low income households to pay electricity bills.

Although the concession system offers financial relief to some households, there are a number of drawbacks with the system in NSW, including:

- *Rebates do not extend to the working poor.* The NSW Government does not offer rebates to low income health care card holders (i.e. households earning less than \$38,000 per annum). Victoria, South Australia, Western Australia, Tasmania and the ACT all currently offer this rebate.
- *Rebate levels are not responsive to prices.* There is no automatic mechanism for the rebate level in NSW to increase relative to increases in electricity prices. This means, particularly in an environment of aggressive increases in retail pricing, that the proportional concession level will decrease over time. Rebate levels in NSW are relatively low in comparison to other Australian states and territories.

It is important to note that the existence of the concession system in and of itself does not shield low income consumers from real increases in energy prices.

## **7. Cumulative Effect of Price Changes across IPART Regulated Services**

There is growing evidence that the cost of essential goods and services is growing above the inflation rate. This tendency has been noted in a recent submission by Australian state governments to the Australian Fair Pay Commission:

Together, food and housing comprise of 35 per cent of average expenditure per week for first quintile households. There have been relatively large increases in costs of these items, along with other items featuring significantly in the budgets of low income households (e.g. education and health). In addition, recent increases have occurred in prices of necessity items relative to prices of luxury items. For example, over the period June quarter 2005 to December quarter 2006, the price of necessity items increased 8.4 per cent compared to 2.3 per cent for luxury items. These results indicate a higher than average increase in the cost of living for low income households.<sup>11</sup>

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<sup>11</sup> Victoria, South Australia, Western Australia, Tasmania, Australian Capital Territory and the Northern Territory Governments, *Joint Labor Governments' for Victoria, South Australia, Western Australia, Tasmania, Australian Capital Territory and the Northern Territory in response to Australian Fair Pay Commission*, 30 March 2007.

Substantial above CPI increases in user pricing across transport, energy and water suggest the need to assess the cumulative effect of these price changes on household expenditure. This is of particular importance for low income households, who typically experience higher levels of financial hardship, possessing lower levels of disposable income and a reduced capacity to accommodate significant price changes for essential services. Inability to pay gas or electricity bills or inability to heat one's home as a result of a shortage of money are now included as indicators of hardship by the Australian Bureau of Statistics (ABS).<sup>12</sup>

Given IPART's role as regulator of gas, electricity, water and public transport pricing in NSW, and given the responsibility of the regulator to take into account the social impact of its determinations (as per Section 15 (1) (k) of the *Independent Pricing and Regulatory Tribunal Act 1992*), there is a strong case for IPART a framework that is able to accurately represent the cumulative impacts of its determinations for different households in NSW.

## **8. Form of Regulation**

NCOSS does not support the proposed move from regulating individual tariffs to a Weighted Average Price Cap (WAPC).

The WAPC will provide flexibility for retailers to set their own individual tariff levels, with the average price serving as the only price constraint. In effect, this removes the guarantee that was previously in place on individual customers bills – it is possible some customers will be charged significantly in excess of the average figure used in the determination.

As stated above, low income households do not necessarily have the disposable income to absorb large increases in price. Nor do these households have the same flexibility or resources as other consumers to adjust their usage in response to individual tariff changes, shop around, or purchase energy saving devices to reduce the impact of price increases. A strong increase in pricing during the peak, for example, is likely to disproportionately impact on low income households that consume energy during these periods for non discretionary household tasks. Unless there is a competing retailer who can offer a lower price - note we have no guarantee of this at this stage - these households will either have to budget for increased prices, or refrain from basic household tasks (evening cooking or heating) in order to reduce bills.

NCOSS further notes that the draft determination includes a proposed mechanism to allow retailers to pass through costs to consumers, including environmental regulation and hardship policies, where these costs exceed a threshold level (0.25% of total revenue). NCOSS does not support a mechanism allowing retailers to pass through the costs related to hardship policies: these costs should be treated as a 'cost of doing business.' Further, NCOSS notes that any review mechanism that will potentially pass on costs to consumers should include an opportunity for input by the public and relevant stakeholders representing consumers.

## **9. Energy Purchase Costs**

NCOSS notes with concern that in its draft determination, IPART have indicated an intention to "err on the side of overestimating rather than underestimating the costs of

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<sup>12</sup> See Peter Saunders, "Towards a Credible Framework: From Income Poverty to Deprivation," Social Policy Research Centre, Discussion Paper 131, 2004, p14-5.

electricity purchase.” This will have a flow on effect in terms of higher prices for consumers, and increased hardship for low income households.

Arguably energy retailers are in a better position to absorb short term price volatility than low income households. It is unreasonable for low income consumers to face financial hardship based on an over-estimation in the energy purchase cost price, that the Tribunal more or less concedes will probably deliver a windfall to existing retailers in NSW.<sup>13</sup>

In order to protect low income consumers, NCOSS would prefer the supply price to be set at a rate that seeks to minimise the impact for disadvantaged consumers, while ensuring sustainability for electricity supply.

There was some discussion at the 23<sup>rd</sup> April 2007 public hearing in relation to the ability of retailers to pass through to consumers the supply costs if they exceed the estimation provided by IPART. NCOSS is concerned that such a mechanism could further increase costs for consumers in the future, in a context where it is already proposed that prices move significantly above CPI. The supply costs fluctuations referred to by retailers may be short term in nature, and in the longer term there may be a downward trend in prices once existing supply related issues (e.g. drought) are resolved. NCOSS would be concerned about any decision to further increase the estimation of future supply costs without significant evidence of a long term supply cost trend.

If IPART were to recommend a mechanism for retailers here, NCOSS suggests that any pass through mechanism must be reciprocal (that is, there must be a mechanism for prices to be reduced as a result of an over-estimation in supply costs), and the mechanism must include a process by which consumer advocates would be able to indicate to the Tribunal a need to review supply costs. NCOSS does note however that there is a very significant information deficit for consumer groups in this area that will compromise the fairness of this mechanism - consumers do not easily have access to the agreed costs of supply to retailers, nor an ability to estimate the degree to which revenue changes as a result of fluctuations in supply costs would breach an agreed threshold limit.

## **10. Retail Costs and Margin**

The 2004 determination agreed on a profit margin of 2.0% for standard tariffs. This determination increases the retail margin to 5.0%.

NCOSS would like to note a concern with the way in which costs and margins for standard retail pricing have been estimated. IPART have been instructed to set prices based on a hypothetical “new market entrant,” rather than an established retailer. Customer acquisition costs and margins have also been set assuming a hypothetical retailer, and thus include costs of acquiring and keeping customers that simply won’t apply to existing retailers. This means that estimated costs must include the costs of entering the market, attracting and keeping customers, and a higher profit to cover additional risk.

Thus, in effect, prices are being set at levels higher than is required by current retailers in order to attract new retailers into the market. The effect of this is that customers will be

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<sup>13</sup> IPART acknowledge in their determination that “if the cost is overestimated this will provide standard retailers with a windfall.” Independent Pricing and Regulatory Tribunal, Promoting Retail Competition and Investment in the NSW Electricity Industry: Regulate Electricity Retail Tariffs and Charges for Small Customers 2007 to 2010. April 2007. p55 n51.

paying higher prices for competition, and that it is likely that standard retailers, and existing market competitors, will gain a windfall from the proposed tariffs.

As stated above, low income consumers have not been able to compete effectively in markets in order to lower their individual energy prices. In this sense it is questionable whether the additional customer acquisition costs and increased retail margins low income consumers will be forced to pay will ever provide long term benefits to these consumers.

NCOSS believe these retail margins should be minimised, in particular to protect low income consumers who will face significant hardship from this decision. Further, NCOSS sees no strong argument for customer acquisition costs to be paid for through standard regulated tariffs.

## **11. Security Deposits**

NCOSS would prefer to see electricity security deposits abolished, as they create a financial barrier for low income households accessing an essential service. Deposits create unnecessary hardship for households who may also be attempting to negotiate other bonds for essential services such as rental and telecommunications deposits.

IPART have indicated in the draft determination that security deposits may be levied by the retailer within 12 months of entering a contract, in order to address a concern about people signing into payment plans and the out to avoid paying a deposit.

NCOSS is concerned about potential hardship for people who have difficulty paying on time, and the implications for consumers who default on a negotiated payment plan as a result of financial hardship.

NCOSS believes further evidence is required here to justify the scale of the problem, and would ask IPART to consider a more informed discussion on the potential impacts of a change in the current system.

## **12. Late Payment Fees**

NCOSS believes late payment fees should be abolished.

NCOSS is yet to see evidence that late payment fees act as an incentive for on time payment of energy bills, or cause retailers significant hardship. On the other hand, it is very clear that late payment fees only exacerbate the financial hardship faced by households who have difficulty meeting electricity charges.

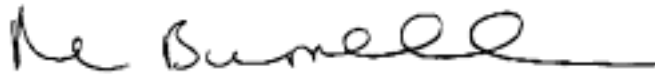
The draft determination proposes a substantial above CPI adjustment to electricity prices, placing many households in NSW in further financial stress, and at risk of paying their bills late. At the same time, electricity retailers stand to gain a substantial windfall as a result of an increase in retail margins and an overestimation in supply costs. In this environment, NCOSS is not clear how late payment fees (or an increase in fees) can be justified.

### 13. Conclusion

NSW faces challenges in relation to balancing long run marginal costs, environmental sustainability considerations, and the long term social impact of changes to electricity pricing. Any change in the way in which electricity pricing is structured should ensure continuity of supply for all households, and minimise financial hardship. NCOSS urges the Tribunal to ensure that low income households are not left out of the picture in the way in which electricity is regulated in the 2007-2010 period.

If you require further information on this submission, please contact Dinesh Wadiwel, Senior Policy Officer, 9211 2599 or email [dinesh@ncoss.org.au](mailto:dinesh@ncoss.org.au).

Yours sincerely

A handwritten signature in black ink, appearing to read "Michelle Burrell", followed by a vertical red line.

Michelle Burrell  
Acting Director