

Electricity Retail Market Review Draft Recommendations Report

Review of Electricity Tariff Arrangements



wacoss

Western Australian
Council of Social Service Inc

*Ways to make
a difference*

***WA Council of Social Service Response to the
Office of Energy Report to the Minister for
Energy***

May 2008

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WACOSS

The Western Australian Council of Social Service Incorporated (WACOSS) is the peak organisation for the community service sector within Western Australia. Since 1956, WACOSS has been developing and strengthening the non-government community services sector's capacity to assist all Western Australians. With over 280 members, WACOSS has strong relationships with the social services sector and seeks to represent their interests, and those of the disadvantaged individuals and families they assist at a service level. Given this relationship, WACOSS is in a unique position to comment on issues in our society that socially impact upon disadvantaged members of the community.

WACOSS is respected within both government and non-government arenas as being an authoritative voice for consumers with regard to energy market reform in Western Australia. WACOSS has developed a strong network with utility policy workers across Australia, as a part of the National Energy Consumers Roundtable, which provides us with information and expert opinion on these issues.

In January 2005, WACOSS commenced the Consumer Utilities Project. Building upon the utility and essential service policy work WACOSS had undertaken over the previous four years, the Consumer Utilities Project continues to work with consumers and representative organisations to achieve better outcomes in the provision of essential services such as energy and water.

In identifying the needs of consumers, WACOSS has direct access to the issues of disadvantaged consumers who are living on low incomes through our Consumer Reference Group, which includes representatives from the Emergency Relief sector, Unions, Tenant's Advocates, Financial Counsellors and Community Legal Centres. These agencies provide us with policy information and direction in relation to our work and look to us to represent the interests of their clients with regard to utility issues.

WACOSS, through the Consumer Utilities Project has had to adopt the role of advocating in regards to essential service provision in Western Australia. This has been due to the level and severity of the utility issues being raised by community agencies and the absence of any other resourced body in Western Australia representing these consumer issues.

WACOSS is pleased to submit its response to the Office of Energy's Electricity Retail Market Review Issues Paper – Review of Electricity Tariff Arrangements (hereafter, the Issues Paper). As the first paper in a series of three, addressing tariff arrangements, smart metering and full retail competition in Western Australia, WACOSS acknowledges the importance of this process in the reform of the WA electricity market and the considerable, potential impact that such reform may have on consumers.

EXECUTIVE SUMMARY

The current Office of Energy Draft Recommendations Report – Review of Electricity Tariff Arrangements (The *Office's Report*) forms part of the third – and final – phase of the current Office of Energy Electricity Market Review process. As a part of this final phase, Draft Recommendations will also be released for public consultation regarding issues such as Full Retail Contestability in the WA electricity market and the introduction of 'Smart' Meters within Western Australia.

WACOSS continues to believe that in the presence of necessary increases to the prices charged to residential consumers and charitable organisations for the provision of electricity services, equity should remain a primary policy objective. In serving this objective, WACOSS also believes that, further to the Minister for Energy's recent announcements regarding electricity price increases for the 2009/10 financial year, price increases should be introduced gradually, over a period of several years.

As concerns regarding social and substantive equity should remain at the forefront of planning and decision-making regarding electricity tariff regimes, WACOSS also recommends further investigation, research and modelling of the impact of Energy Pricing Principles, as more fully explored by Mr. Gavin Dufty of the St. Vincent de Paul Society. Such principles are intended to result in the adoption of Inclining Block Tariffs for electricity and limit the extent of pass-through costs to consumers within the first, essential electricity use block. Information and data that would assist WACOSS and other consumer advocates in fully assessing the potential benefits of Energy Pricing Principles have not been made publicly available.

WACOSS continues to be concerned regarding the potential impacts of Time of Use (TOU) tariff regimes on households experiencing relative social and financial disadvantage. The apportionment of costs associated with 'Smart' Meters, which would allow such a tariff regime also remains an issue to be more fully explored, as the cost implications for consumers remain significant.

Further to our most recent submission to the Electricity Market Review (see attached), WACOSS continues to strongly oppose the discontinuation of tariffs applying to charitable organisations. As is the case for TOU tariffs, WACOSS continues to support the right of consumers to choose as to whether they are subject to certain tariff regimes, including those provided for by market competition for larger users.

In its form, the following submission addresses individual recommendations made by the Office of Energy in its Report. Discussion regarding individual recommendations is then followed by responses, in the form of recommendations, by WACOSS. Absence of comment on any section of the *Office's Report* should not be taken as support for, or opposition to any proposal by the Office of Energy.

For further information regarding this submission, please contact Aden Barker, Senior Policy Officer – Consumer Utilities Project on 9420 7222.

WACOSS RECOMMENDATIONS

WACOSS RECOMMENDATION 1

That additional principles be considered and researched for use in the determination of electricity pricing. Such Energy Pricing Principles are described in detail within the attached Document #2.

WACOSS RECOMMENDATION 2

That additional energy policy objectives be adopted by the Office of Energy. These policy objectives should include the affordable and accessible supply of energy services to residential, small users.

WACOSS RECOMMENDATION 3

That the Office of Energy formally adopt the policy of gradually implementing any required tariff increases for residential small users of electricity over a period of several years, this policy already having been implied by the Minister for Energy.

WACOSS RECOMMENDATION 4

That additional costs attributed to Mandatory Renewable Energy targets or a future National Emissions Trading Scheme be only passed-through to consumers in such a fashion that does not create an increase in price disproportionate to preceding or future price increases.

WACOSS RECOMMENDATION 5

That, in order to ensure that future MRETS and NETS pass-through costs do not create sharp increases in electricity tariffs, such pass-through costs may be spread over multiple years, with other cost increases being deferred until the pass-through of MRETS and NETS costs is achieved.

WACOSS RECOMMENDATION 6

That further to WACOSS's expressed support for investigating Energy Pricing Principles as described in attached document #2, MRETS and NETS pass-through costs should not be equally attributed to all consumption classes of residential customer, but instead, may be allocated according to a system of inclining block tariffs.

WACOSS RECOMMENDATION 7

That the implementation of an Inclining Block Tariff regime for electricity be considered prior to the event of cost reflectivity in electricity pricing.

WACOSS RECOMMENDATION 8

That an Inclining Block tariff Regime incorporate Energy pricing Principles as discussed in attached document #2.

WACOSS RECOMMENDATION 9

That, in the public interest, the Office of Energy ensure the appropriate disclosure of information relevant to ongoing policy debates, to all relevant stakeholders. In the context of the current review, such information would include disaggregated electricity consumer data including the proportion of electricity consumers in particular consumption blocks and the relationship between income and electricity consumption.

WACOSS RECOMMENDATION 10

That, in cases where Time Of Use tariffs are available, consumers should also be provided with the choice of opting for alternative, regulated tariffs. These tariffs may include any future regulated Inclining Block Tariffs.

WACOSS RECOMMENDATION 11

That there be an overall increase in the level and extent of financial assistance provided under the proposed Energy Rebate, adequate to the task of reducing the incidence of electricity consumer hardship.

WACOSS RECOMMENDATION 12

That instead of the proposed Energy Rebate being arbitrarily equal to the Supply Charge, the level of the rebate should be calculated as a proportion of essential, non-discretionary household electricity use.

WACOSS RECOMMENDATION 13

That the option of accessing subsidies through the C1/C2 and D1/D2 tariff arrangements remain for all eligible charitable organisations.

WACOSS RECOMMENDATION 14

That in addition to retaining the option of accessing C1/C2 and D1/D2 tariffs, organisations with consumption of over 50 MWh per annum also have the option of seeking supply contracts with alternative electricity suppliers.

WACOSS RECOMMENDATION 15

That further, publicly available research take place to assess the potential impact that the removal of the C1/C2 and D1/D2 tariffs would have on organisations which would then be required to either adopt the R1 tariff or seek a market contract.

WACOSS RECOMMENDATION 16

That the Office of Energy carry-out further research and additional consultation regarding the potential impacts of abolishing tariffs currently available to charitable organisations

WACOSS RECOMMENDATION 17

That the funding of the tariff equalisation policy take place through the provision of Community Service Obligation payments on the condition that this does not negatively impact on the extent and quality of essential service provision in areas outside of the SWIS.

WACOSS RECOMMENDATION 18

That the ERA adopt an increased role in electricity price determination and that the relevant Minister retain the authority to set prices to ensure that other policy objectives, such as social equity and electricity affordability, are met.

WACOSS RECOMMENDATION 19

That distinct electricity consumer cohorts – including people living on lower incomes or who have low-level electricity consumption – should be taken into account in determining price. Additionally, that the process for setting prices in electricity be transparent and relevant data be publicly available.

WACOSS RECOMMENDATION 20

That in the event of Network costs being passed-through to consumers through electricity tariffs, such pass-through costs be mediated by a glide path for price increases, in order to promote social equity and assist consumer adjustment to higher prices.

WACOSS RECOMMENDATION 21

That NETS and MRETS costs should only be passed-on to higher-consumption consumers, falling outside of the first, 'lifeline' tariff block in an IBT regime and that additional assistance, in the form of subsidies should be available to higher-occupancy households.

WACOSS RECOMMENDATION 22

That if, following further research, it is shown that consumers with low levels of use, or lower average incomes are responsible for proportionately less greenhouse gas emissions, then this should be reflected in the way pass-through costs associated with MRETS and NETS are apportioned to consumers through tariffs.

OFFICE OF ENERGY RECOMMENDATION 1

Full Cost Recovery & The Essentiality of Energy Services

Within Recommendation 1 the Office of Energy has, in accordance with advice from Frontier Economics, proposed a path for increasing electricity tariffs for tariffs A1/A2/B1, L1/L2, R1 and K1/K2. The proposed path for tariff increases is intended, following the 2011/2012 period, to result in full cost reflectivity for service provision to customers under those tariff arrangements. Given the essentiality of electricity as a service that is necessary for the maintenance of an acceptable quality of life and the current role of Verve, Synergy Energy and Horizon Power as fully state-owned enterprises, WACOSS queries the necessity of full cost reflectivity in the provision of what is – for non-discretionary electricity use – an essential, public good.

Electricity, as a form of energy, is an essential service. Continued access to electricity is a fundamental determinant in the quality of life given its end use in maintaining personal hygiene¹, accessing education and employment opportunities and maintaining social inclusion within the community. WACOSS firmly believes that affordability and access for consumers must always be a prime consideration of policy makers as being without energy in the form of electricity, even for a short period of time, can have severe social and economic ramifications on individuals, families and communities².

The essentiality of services, including electricity is now well-recognised at a government level. In 2004, the Senate Poverty Inquiry stated that:

“Evidence indicated the importance of ensuring access to low income households to essential utilities such as electricity, gas, water and telephone services. Those services provide the basic means by which any household is able to function in a modern society.”³

Additionally, these findings also appear to be supported by the Productivity Commission that stated that:

“Reliable, affordable and sustainable energy services are critical to Australia’s economic and social wellbeing. They are important inputs for most businesses and are essential for supporting basic quality of life.”⁴

Given the status of energy – particularly electricity – as an essential service, the need for full cost recovery may be questioned – especially in the light of other essential services which are not currently subject to full cost recovery. Examples of publicly funded services, which may be deemed to be essential, that do not demand full cost recovery include the use of state-funded roads, public transport and public health facilities such as hospitals.

¹ State Government Victoria Department of Human Services *Living without Gas or Electricity – An Overview of Public Health Issues*

² Public Interest Advocacy Centre (PIAC), ‘Cut-Off: The Impact of Utility Disconnections’, February 2005

³ Australian Senate, ‘Report from the Australian Senate Community Affairs References Committee Inquiry into Poverty and Financial Hardship (Senate Poverty Inquiry)’ 2004, Ch 9, pg. 191,

⁴ Productivity Commission *Review of National Competition Policy* Section 8.2 ‘Energy’ p180. April 2005

Impact on Consumers

Further to our previous submissions to the Office of Energy's Electricity Market Review (attached for reference), WACOSS has identified households living on lower incomes as having less discretionary energy use than households living on relatively higher incomes⁵. This situation persists for a variety of reasons. These include the relative thermal inefficiency of housing occupied by people living on lower incomes, existing efforts to reduce discretionary energy use and the relative inefficiency and 'lock-in' factor⁶ of many energy-using appliances utilised by low-income households for space and water heating.

Given the factors described above, and the significant barriers that people living on lower incomes may have in adjusting to higher electricity prices – both financially and behaviourally, it is evident that any substantial increase in the cost of energy for residential consumers will require a 'phase in' approach that allows for incremental changes to behaviour and ongoing investment in technologies and instruments which may contribute to energy conservation. This phasing-in of increased tariffs is hereto referred-to as a *glide-path*.

WACOSS also contends that as electricity is an essential service, there must be some practical guide as to how high energy costs are allowed to rise, relative to the income of various groups of consumers. 'Fuel Poverty' is a concept progressively becoming more recognised in Australia⁷. Within the UK, fuel poverty is defined as the cost of energy comprising up to 10% of a person's income⁸. WACOSS recommends that the government carry-out further study as to the level at which essential service hardship is reached, as a proportion of income, within the Western Australian context.

Pricing Paths

WACOSS understands that the price increase path described within the Office of Energy's Draft Recommendations Report (hereafter referred to as the *Office's Report*) reflects the incremental inclusion of real retail, network and emissions trading/environmental costs. Retail costs are also understood as including the cost of directly serving customers, the wholesale cost of electricity and required profit margins.

Given this, it is worthy of note that the price increase path recommended for tariffs A1/A2/B1, which include the majority of residential small use customers, represents a significantly steeper, inclining price path than those proposed for tariffs L1/L2 and R1. WACOSS believes that if such a price path were adopted, this would result in significant adjustment problems for many residential electricity consumers – particularly those living on lower incomes or facing financial hardship.

⁵ Colton, R. D. (2002), 'Energy Consumption and Expenditures by Low-Income Customers', *The Electricity Journal*, Volume 15, Issue 3, April, pp. 70-75

⁶ Consumer Law Centre Victoria (2005), *Do the Poor Pay More? – A Research Report*, Anna Stewart (Ed.), p. 69

⁷ Victorian Council of Social Service 'Fuel Poverty' <http://www.vcross.org.au/what-we-do/energy-water/fuelpoverty.htm>

⁸ United Kingdom Government (2007), *UK Fuel Poverty Strategy*, p. 3

Energy Pricing Principles

As described in WACOSS's previous response to the Office of Energy's Electricity Market Review Final Issues Paper in January 2008 (submission attached as *Document #1*), further research and investigation regarding the possible implementation of alternative, overarching principles for electricity and other energy pricing is strongly recommended. These principles (hereafter referred to as the *Energy Pricing Principles*), as developed by Mr. Gavin Dufty of the St. Vincent de Paul Society (and contained in the attached *Document #2*), include the consideration of factors such as affordability and equitable access to energy services in determining energy prices and tariff design, in addition to financial and environmental sustainability. As communicated in the Office's Recommendation Report, the current focus for energy policy in Western Australia is on promoting competition within the energy market, as opposed to specific outcomes for residential consumers.

WACOSS proposes the investigation of the potential benefits and impacts of adopting Energy Pricing Principles which set a minimum 'life line' tariff within an Inclining Block Tariff (IBT) regime. Such a tariff regime would be informed by Energy Pricing Principles such that:

"This "lifeline" cap should be set at a level of consumption that would equate to a minimum household usage to provide hot water, space heating/cooling, refrigeration and minimum light. As such, all energy consumed within the "lifeline" cap is protected from the pass through of costs associated with carbon trading and excessive profiteering by the electricity retailers. In conjunction with a regulated price with minimum "headroom" for companies in the "lifeline" cap of energy usage, the fixed charge should be capped as a proportion of the regulated electricity consumption component."⁹

These principles can be graphically represented by the below figures, which depicts a system of IBTs that protect essential electricity use from some pass-through costs. It should be noted that the below diagram is for illustration purposes only, and does not suggest actual, recommended tariff settings.

⁹ Dufty, G. (2007) Electricity pricing – delivering social justice and environmental equity. St Vincent de Paul Society Victoria, p. 12

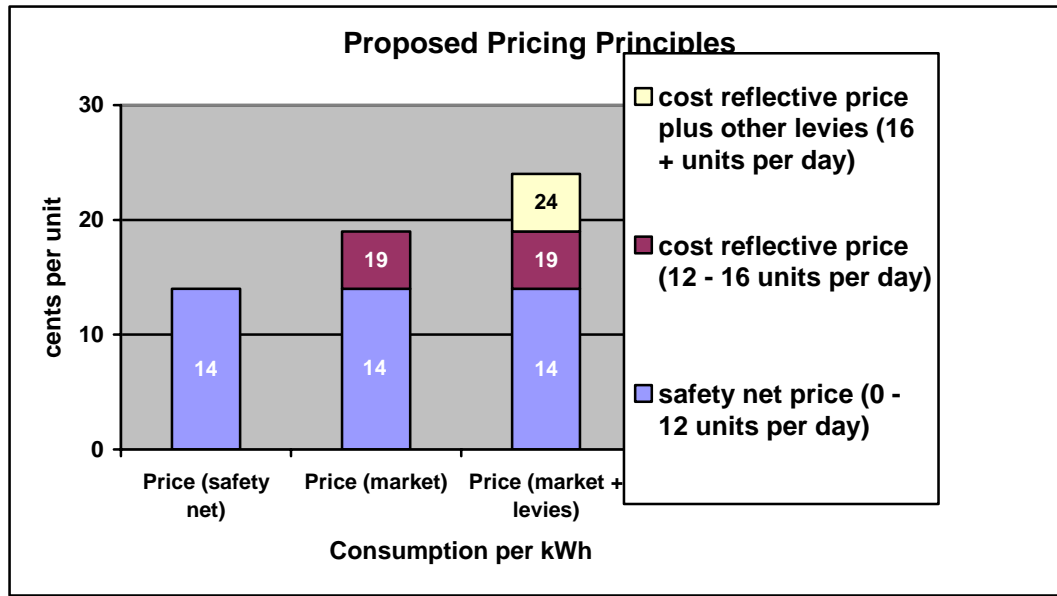


Fig. 1 – Graphical representation of Energy Pricing Principles

The Limits of Competition

As will be discussed in greater detail within WACOSS's future response to the Office's Recommendation Report on Full Retail Contestability in Western Australia, competitive processes alone within the energy markets of other Australian and international jurisdictions have not resulted in equitable outcomes for many energy consumers – especially those experiencing relative financial and social disadvantage^{10,11}. A focus of government energy policy on market competition, to the exclusion of specific consumer outcomes also runs the risk of creating marginally positive outcomes for some groups of consumers, at the expense of others.

Western Australia currently has the worst reported rate of small-user disconnections from electricity services in Australia¹². In the event of a significant increase in residential, retail electricity tariffs over a short period of time, as is being proposed in the Office's Recommendations Report, it is likely that this rate of disconnection would increase significantly.

WACOSS acknowledges the recent commitment demonstrated by the government in addressing the issue of essential service hardship through the Government Utilities Essential Service Hardship Interagency Working Group (GUESHIWG) and the recent convening of the associated Hardship Implementation Steering Committee (HISC). While HISC is undertaking the important work of designing and initiating the Hardship Utility Grants Scheme (HUGS), an energy efficiency program for low-income households and changes to funding for Financial Counsellors, these policy initiatives may be

¹⁰ Wilson & Waddams Price (2007) *Do Consumers Switch to the Best Supplier?* Centre for Competition Policy Paper 07-06, p. 18

¹¹ Consumer Action Law Centre (2007), *Coercion and harassment at the door Consumer experiences with energy direct marketers*, Victoria

¹² Economic Regulation Authority (2008), *2006/07 Annual Performance Report - Electricity Retailers*, p. 17

inadequate in the face of a an effective, proposed 72.4% increase in the cost of electricity over a three year period¹³. Because of this, WACOSS fully supports the Minister for Energy's recent announcement that increases to electricity costs will, at least in the short term, be introduced in a gradual fashion, with a maximum 10% increase in residential, small use tariffs for the 2009/10 financial year¹⁴.

Glide Paths & Pass-Through Costs

Further to the Government's current policy of seeking cost-reflectivity in the water and wastewater services sector, and the method for introducing price increases, WACOSS recommends that a glide path of gradual increases in residential, small-user electricity tariffs also be endorsed by the Office of Energy. This path would phase-in any required, increased costs over a period of several years, limiting the potential, negative impact on residential energy consumers. Furthermore, WACOSS also contends that given the static, or slow-growth rate of many incomes received by people on low wages and government benefits, full cost recovery may not be an appropriate response for all electricity consumers.

As a part of such a glide path, any pass-through costs associated with Mandatory Renewable Energy Targets (MRETS) and a future National Emissions Trading Scheme (NETS) could be introduced over multiple-year periods. During the phase-in of such price components, other tariff increases in the glide path attributed to true-cost reflectivity in retail and network related charges should be deferred. Such an approach would serve to protect the integrity of such pass-through costs while ensuring that energy consumers are able to adapt to predictable price increases.

Because of the potential impact of a sudden increase in residential, small-user tariffs, WACOSS recommends that a longer, linear glide path should be formally adopted as a policy position by the office of Energy. An example of such a pricing path can be observed through simple modelling in Figure 2, below. This example demonstrates that tariff increases commencing in July, 2009 and concluding in the 2013/14 financial year would maintain yearly tariff increases of 11.5%, achieving the 72.4% tariff increase over a 5-year period. It should be stated strongly, however, that WACOSS does not necessarily advocate for this degree of increase over this specific period of time. This example is instead intended to illustrate the capacity of a longer glide-path to bring about tariff changes that provide electricity consumers with increased opportunities to adapt to change.

While it is acknowledged that this simple modelling does not account for inflation or the increased cost of electricity generation beyond the 2011/2012 financial year modelled in the Office of Energy's Recommendations Report, it serves to demonstrate that a longer phase-in period of price increases is both possible and more likely to result in decreased impacts for consumers. In the event of a gradual glide path of price increases, WACOSS supports the Office of Energy's recommendation that the government contribute the difference between the costs recovered and the true wholesale, retail and network costs

¹³ Government of Western Australia (2008), *Electricity Retail Market Review – Draft Recommendations Report: Review of Electricity Tariff Arrangements*, Office of Energy

¹⁴ Government of Western Australia, 'State Government to Phase-In Electricity Price Increases', Premier's Media Statement of 4 April, 2008

of electricity provision through a transparent Community Service Obligation (CSO payment).

Year	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Value	1	1.115084	1.243412	1.386508	1.546072	1.724
% Increase on prev Year	0%	11.50%	11.50%	11.50%	11.50%	11.50%
Cons. Charge (\$ /unit)	\$0.1394	\$0.1554	\$0.1732	\$0.1931	\$0.2153	\$0.2400
Fixed Charge (\$ p/day)	\$0.2557	\$0.2851	\$0.3178	\$0.3543	\$0.3950	\$0.4404

(Fig. 2. Spreads generational cost increases and inflation from 200/09-2011/12 as modelled by Frontier Economics through to 2013/14. Does not incorporate generational cost increases or dollar inflation from 2011/12-2013/14).

Further to the Office of Energy's Recommendation 2, WACOSS does not recommend that the same proportion of costs attributed to MRETS, NETS and increase requirements for retail tariffs be passed-through to all classes of customer. Instead, further to the previously to the Energy Pricing Principles contained in the attached Document #2, WACOSS recommends that the pass-through of such costs to different groups of customers through a system of inclining block tariffs be fully investigated.

WACOSS RECOMMENDATION 1

That additional principles be considered and researched for use in the determination of electricity pricing. Such Energy Pricing Principles are described in detail within the attached Document #2.

WACOSS RECOMMENDATION 2

That additional energy policy objectives be adopted by the Office of Energy. These policy objectives should include the affordable and accessible supply of energy services to residential, small users.

WACOSS RECOMMENDATION 3

That the Office of Energy formally adopt the policy of gradually implementing any required tariff increases for residential small users of electricity over a period of several years, this policy already having been implied by the Minister for Energy.

WACOSS RECOMMENDATION 4

That additional costs attributed to Mandatory Renewable Energy targets or a future National Emissions Trading Scheme be only passed-through to consumers in such a fashion that does not create an increase in price disproportionate to preceding or future price increases.

WACOSS RECOMMENDATION 5

That, in order to ensure that future MRETS and NETS pass-through costs do not create sharp increases in electricity tariffs, such pass-through costs may be spread over multiple years, with other cost increases being deferred until the pass-through of MRETS and NETS costs is achieved.

WACOSS RECOMMENDATION 6

That further to WACOSS's expressed support for investigating Energy Pricing Principles as described in attached document #2, MRETS and NETS pass-through costs should not be equally attributed to all consumption classes of residential customer, but instead, may be allocated according to a system of inclining block tariffs.

OFFICE OF ENERGY RECOMMENDATION 2

Inclining Block Tariffs (IBTs)

The Office of Energy in its Report recommends that the current tariff structure for A1/A2 and L1/L2 tariffs should be retained until such a time as cost-reflectivity is achieved in those tariff classes. WACOSS believes that cost-reflectivity is not a necessary precondition for the consideration and implementation of an inclining block tariff regime, such as that described within the Energy Pricing Principles document (attached Document #2). If full cost-reflectivity is considered to be an over-arching policy objective, then this can still be achieved within the context of IBTs. This may be viewed as evident to the extent that price increases may still be necessary and are obviously deemed achievable into the future, even in the event of the adoption of inclining block tariffs following total costs reflectivity within tariff settings.

Notwithstanding the timing of implementation, WACOSS supports the Office of Energy's consideration of inclining block tariffs for electricity. WACOSS would also call the Office's attention to at least one other instance where such a regime has been adopted. In New South Wales, Energy Australia has adopted a 2-part IBT, the first block of consumption covering the majority of residential electricity consumers¹⁵. Despite the presence of inclining block tariffs in this instance, WACOSS is not aware of the apportionment of pass-through costs to consumers in the two tariff groups and so cannot comment on the extent to which Energy Australia's tariff regime in this area complies with the Energy Pricing Principles previously discussed within this and previous submissions by WACOSS. Pass-through costs may include network costs, wholesale electricity costs and profit margins.

Other Considerations

Further to the Office's Report, WACOSS recommends that further research take place regarding the relationship between high-consuming electricity customers and peak load consumption. Additionally, WACOSS supports the suggestion for further research into the relative amount of greenhouse gas emissions caused by electricity customers with higher levels of annual consumption. Regardless of the outcome of such research, results will be able to inform both the implementation of reform in tariff design as well as additional policy measures that may be required in order to ensure social equity among different cohorts of electricity consumers.

¹⁵ Energy Australia (2008), Energy Rates for EnergyAustralia's market agreement customers, [http://www.energy.com.au/energy/ea.nsf/AttachmentsByTitle/Gas+Rates+EA+Res+08/\\$FILE/Energy_Rates_EA_Res.pdf](http://www.energy.com.au/energy/ea.nsf/AttachmentsByTitle/Gas+Rates+EA+Res+08/$FILE/Energy_Rates_EA_Res.pdf)

Areas Requiring Public Disclosure

In considering an IBT regime for electricity, it is vital that consumer advocates and other relevant stakeholders be made aware of the extent to which proportions of the total customer base fall into particular levels of consumption. Such information would not only inform thinking regarding the appropriate level at which tariff consumption blocks should be set, but also around other policy initiatives that may be required in the interest of social equity. In addition to this level of disaggregated data, information regarding personal income among various consumer groups would also inform the point at which the first block of consumption, or 'Lifeline' block should be set. Such information could be de-identified and appropriately aggregated to ensure the privacy of consumers.

Currently, this information has not been provided within the context of the Office's Report and has only been referred to in a limited way within the Office's Report¹⁶. Such information is surely in the public interest, and in the absence of Full Retail Contestability in the small user electricity market – either now or in the near future – should be made publicly available.

In the absence of such information, the general public and those advocating in the interests of all consumers are potentially severely disadvantaged within the context of public consultation processes and decision-making. In essence, claims of commercial-in-confidence regarding such issues constrain the capacity of consumers and their advocates to fully participate in public policy debate and create unfair advantage for other interests.

'Smart' Meters and Time of Use Tariffs

Further to our last submission to the Electricity Market Review process (please refer to attached Document #1), WACOSS continues to have concerns regarding the social equity implications of both Smart Meter implementation and Time of use (TOU) tariffs. In the event of any future total or partial implementation of Smart Meters, regardless of level of functionality, consumers should retain the right to decide as to whether they should be subject to TOU pricing. In addition to this guaranteed right of choice, consumers should also retain the option of a regulated tariff of another design which will not financially disadvantage them. The right of informed consent is also an issue that should be taken into consideration given the considerable, potential costs that a rollout of Smart Meters will impose on residential consumers in the form of passed-through tariff increases.

TOU Tariffs

Many low-income and disadvantaged households live in poor quality rental housing and own old, inefficient appliances. Consequently they are often using more energy than they would otherwise need, and have a reduced capacity to conserve without further sacrifices to their quality of life.¹⁷ These households will have difficulty responding to pricing signals such as critical peak pricing and the TOU tariffs enabled by smart

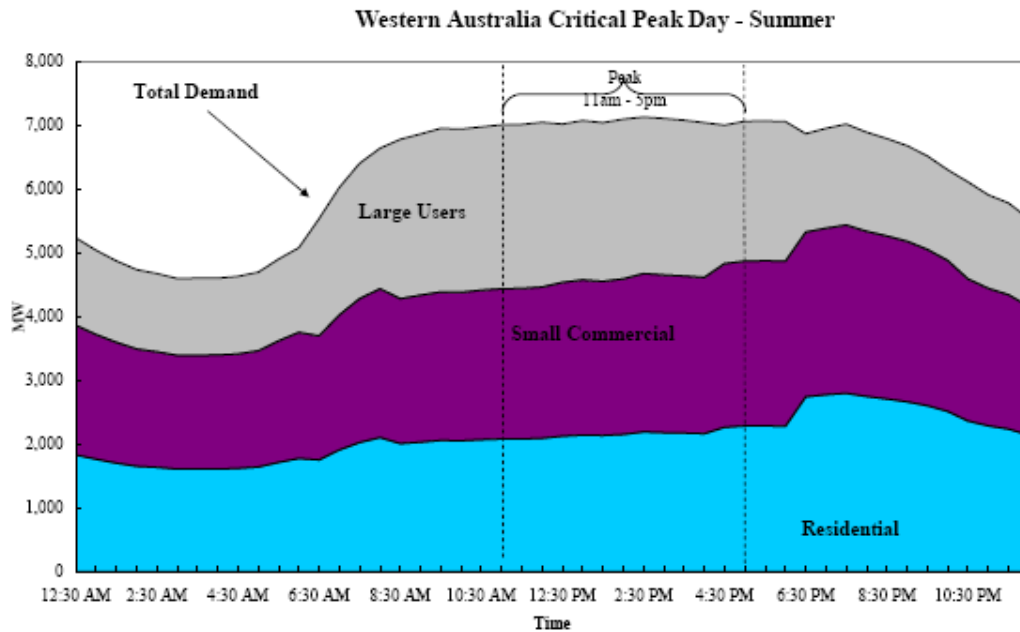
¹⁶ Office of Energy, op. cit., p. 20

¹⁷ Victorian Council of Social Service 'Fuel Poverty' <http://www.vcooss.org.au/what-we-do/energy-water/fuel-poverty.htm>

meters.¹⁸ This difficulty was expressed by many of the participants at the WA smart meter focus session (lower income group) which WACOSS attended as an observer in October 2007.

WACOSS supports efforts to increase the efficiency of energy production, delivery and consumption thereby reducing associated wholesale electricity and network augmentation costs. WACOSS is concerned however, about the ability of many householders to shift consumption from one time of the day to another and their ability to afford appliances and equipment that take advantage of TOU tariffs. Examples of such situations may include elderly households, or households with younger children who require space-heating and cooling during ultra peak, peak and 'shoulder' periods. WACOSS asserts therefore, that TOU pricing should not be mandated but remain an alternative to the standard residential tariff.

WACOSS supports the proposal from the Western Australian Sustainable Energy Association (WASEA) that smart meters should be used 'where the biggest impact in reduced consumption and shifting peak load can be achieved through TOU tariffs with large energy users being a priority.'¹⁹ As included in WACOSS's most recent submission to the Electricity Market Review, attached as Document #1, the graph below shows that residential users play a relatively small role in contributing to peak periods.²⁰



WACOSS is not averse to tariff structures that provide incentives for consumers to better understand and manage their electricity usage. However, due to the essential nature of electricity there needs to be a balance between the use of dynamic pricing structures

¹⁸ Langmore & Dufty (2004) *Domestic electricity demand elasticities, Issues for the Victorian energy market*

¹⁹ Government of Western Australia Office of Energy (December 2007) *Electricity Retail Market Review Issues Paper*, p.63

²⁰ NERA Economic Modelling

and the affordability/impact of these structures for consumers as a whole and for low income and vulnerable consumers in particular²¹.

WACOSS RECOMMENDATION 7

That the implementation of an Inclining Block Tariff regime for electricity be considered prior to the event of cost reflectivity in electricity pricing.

WACOSS RECOMMENDATION 8

That an Inclining Block tariff Regime incorporate Energy pricing Principles as discussed in attached document #2.

WACOSS RECOMMENDATION 9

That, in the public interest, the Office of Energy ensure the appropriate disclosure of information relevant to ongoing policy debates, to all relevant stakeholders. In the context of the current review, such information would include disaggregated electricity consumer data including the proportion of electricity consumers in particular consumption blocks and the relationship between income and electricity consumption.

WACOSS RECOMMENDATION 10

That, in cases where Time Of Use tariffs are available, consumers should also be provided with the choice of opting for alternative, regulated tariffs. These tariffs may include any future regulated Inclining Block Tariffs.

OFFICE OF ENERGY RECOMMENDATION 3

In its Report, the Office of Energy have recommended that rebates to eligible consumers should be increased in proportion to any government approved tariff increases. WACOSS supports the proposed increase of government-supplied rebates to disadvantaged consumers in proportion to any increase in tariffs. The proposed increase in the coverage of the rebate to other groups such as families with dependant children is also supported by WACOSS. Of concern, however, is the fact that in many cases, such rebates have evidently been inadequate in meeting the task of assisting consumers in avoiding disconnection from electricity, or in avoiding other payment difficulties. Because of this, WACOSS recommends an overall increase in the level of support provided to consumers by such rebates.

While the office of Energy has recommended in its Report that the current Supply Charge Rebate be decoupled from the supply charge (and therefore renamed), it is also implied that the rebate should remain at the same level as the supply charge while the current tariff regimes are retained. Because of its fixed nature, the relative worth of the rebate, regardless of whether it is directly coupled with the supply charge, decreases as the rate of consumption increases. This situation has the potential to negatively impact on larger families or households with high-levels of occupancy. Because of this, WACOSS recommends that in the presence of an IBT regime, rebates should be

²¹ Griffith University Centre for Credit and Consumer Law Submission on the Smart Meters Cost Benefit Analysis – Phase 1 – National Minimum Functionality

calculated as a proportion of the first, 'Lifeline', block of consumption, with increases in the amount of the rebate available to those with higher levels of household occupancy.

WACOSS RECOMMENDATION 11

That there be an overall increase in the level and extent of financial assistance provided under the proposed Energy Rebate, adequate to the task of reducing the incidence of electricity consumer hardship.

WACOSS RECOMMENDATION 12

That instead of the proposed Energy Rebate being arbitrarily equal to the Supply Charge, the level of the rebate should be calculated as a proportion of essential, non-discretionary household electricity use.

OFFICE OF ENERGY RECOMMENDATION 4

The current Community and Charitable Organisation Tariffs (C1/C2 and D1/D2) are available to charitable organisations who do not derive the majority of their funding from government sources. Many organisations rely on these tariffs within their current business models and have them as an in-built, costed assumption within current funding agreements. As stated in WACOSS's most recent submission to the Electricity Market Review Process, any significant changes to the way in which electricity tariff subsidies to these consumers are delivered have the potential to impose additional administration costs on organisations which are already struggling under the financial pressures of current community demand for services.

The extent to which the current tariff arrangements for eligible charitable organisations benefit from the current tariff arrangements is proportionate to their consumption, as any discount is built-in to the tariff. In the Office of Energy's Report, there is no indication that the proportionality of the relative worth of the subsidy would be retained under a CSO-administered subsidy/rebate. Indeed, if such a rebate were comparable in form to that of the proposed Energy Rebate, then larger organisations would be significantly disadvantaged, relative to those who use less electricity.

For those organisations whose consumption exceeds 50 MWh per annum, WACOSS supports the right to seek market offers for electricity supply, if desired by the organisation. However, organisations with this level of consumption should still retain the capacity to opt for the regulated tariff as opposed to being obligated to seek a market contract.

Level of Stakeholder Support for Abolishment of C1/C2 & D1/D2 Tariffs

In the Office's Report, it is stated that in regards to the C1/C2 and D1/D2 tariffs:

"Stakeholders generally expressed broad support for the provision of assistance to these organisations outside of the tariff arrangements"

WACOSS is the peak body for non-government social service organisations in Western Australia. As such, WACOSS represents many charitable organisations, such as those currently operating under the C1/C2 and D1/D2 tariffs. In our response to the Final Issues Paper as a part of the Electricity Market Review, WACOSS clearly expressed strong opposition to the removal of the C1/C2 and D1/D2 tariffs. This response is informed by ongoing, informal feedback from WACOSS constituents. Further to our previous submission, WACOSS recommends that the government, through the Office of Energy, carry-out research and additional consultation regarding the potential impacts of abolishing tariffs currently available to charitable organisations.

Given the previous discussion within this submission regarding the potential impact of TOU tariffs on certain consumers, the Office's suggestion within the Report that charitable organisations obtain electricity under the R1 tariff is of some concern. This is especially the case for charitable organisations which, as a part of their work, provide accommodation to people facing financial and social disadvantage. Further, publicly available research is required to properly ascertain the extent to which such changes may leave some charitable organisations significantly disadvantaged when compared to the currently available tariff arrangements.

WACOSS RECOMMENDATION 13

That the option of accessing subsidies through the C1/C2 and D1/D2 tariff arrangements remain for all eligible charitable organisations.

WACOSS RECOMMENDATION 14

That in addition to retaining the option of accessing C1/C2 and D1/D2 tariffs, organisations with consumption of over 50 MWh per annum also have the option of seeking supply contracts with alternative electricity suppliers.

WACOSS RECOMMENDATION 15

That further, publicly available research take place to assess the potential impact that the removal of the C1/C2 and D1/D2 tariffs would have on organisations which would then be required to either adopt the R1 tariff or seek a market contract.

WACOSS RECOMMENDATION 16

That the Office of Energy carry-out further research and additional consultation regarding the potential impacts of abolishing tariffs currently available to charitable organisations

OFFICE OF ENERGY RECOMMENDATION 6

WACOSS generally supports the Office of Energy's proposed changes to the way in which the Tariff Equalisation Fund is funded. As stated previously within this submission, the provision of energy for non-discretionary, essential use is a public good. As such, it is appropriate that the responsibility for funding this public good should be attributed to general taxation, as opposed to being paid for by a specific set of electricity consumers, exclusively within the South-West Interconnected System.

CSO payments may also increase the transparency of the provision of this subsidy, driving efficiencies by current and future electricity providers outside of the SWIS. The funding of the uniform tariff policy, which incorporates expenses accrued in maintaining safe, accessible electricity networks, should also form part of a larger strategy for the supply for essential services to people in areas outside of the SWIS.

WACOSS RECOMMENDATION 17

That the funding of the tariff equalisation policy take place through the provision of Community Service Obligation payments on the condition that this does not negatively impact on the extent and quality of essential service provision in areas outside of the SWIS.

OFFICE OF ENERGY RECOMMENDATION 7

WACOSS supports a price-determination role for the Economic Regulation Authority (ERA). Further to the recommendations of the Office of Energy in its Report, WACOSS also recommends that the government, through the relevant Minister, retain the authority to specify a 'glide path' for tariffs so that increases can be realised over a period of time. In some circumstances, WACOSS would also support the Minister retaining the authority to set prices outside price increase glide paths, as dictated by the overarching needs of the community. WACOSS also supports the use of CSOs to fund the difference between actual costs and the tariffs set out in glide paths, as defined by the Minister, as the setting of glide-paths over the course of several years for the purpose of protecting residential consumers can be viewed as a public good.

As a part of price determination, distinct consumer cohorts – such as those with low consumption or those living on lower incomes - should be considered in addition to the entire body of consumers in aggregate. The process of price determination must also be fully transparent, with the information on which prices are set being publicly available.

WACOSS RECOMMENDATION 18

That the ERA adopt an increased role in electricity price determination and that the relevant Minister retain the authority to set prices to ensure that other policy objectives, such as social equity and electricity affordability, are met.

WACOSS RECOMMENDATION 19

That distinct electricity consumer cohorts – including people living on lower incomes or who have low-level electricity consumption – should be taken into account in determining price. Additionally, that the process for setting prices in electricity be transparent and relevant data be publicly available.

OFFICE OF ENERGY RECOMMENDATION 8

WACOSS supports the Office of Energy's recommendation that Network Tariffs be passed-on to retail customers through tariffs, being separately itemised on bills. Further to previously recommendations by WACOSS within this submission, the extent of such

pass-through of costs would be limited, however, by the glide-path for increases to tariffs. In such an event, the shortfall between the costs may be recovered through the provision of CSOs.

Further to the defined Energy Pricing Principles, WACOSS would not be opposed to Network charges being passed-through to consumers in the first consumption block tariff, as long as this does not compromise the affordability and accessibility of the service.

WACOSS RECOMMENDATION 20

That in the event of Network costs being passed-through to consumers through electricity tariffs, such pass-through costs be mediated by a glide path for price increases, in order to promote social equity and assist consumer adjustment to higher prices.

OFFICE OF ENERGY RECOMMENDATION 9

NETS and MRETS costs should only be passed-on to high consumption consumers, further to the Energy Pricing Principles previously described within this submission, and explored fully in the attached Document #2. These consumers would fall outside of the first, 'lifeline' block in an IBT tariff regime. As previously discussed, further research must be carried-out regarding the extent to which people with higher levels of consumption contribute proportionally more greenhouse gasses, requiring abatement. If it is the case that people living on lower incomes, with lower levels of electricity consumption are contributing less to emissions, then the responsibility for mitigation measures, as reflected in MRET and NETS pass-through costs should be apportioned commensurably.

Further to previous WACOSS recommendation within this submission, high occupancy households, and households with high levels of consumption for health or other non-discretionary uses, should be made eligible for additional assistance, or allowances in any future IBT regime. Such assistance may exist outside of the IBT regime and be offered as rebates, administered by the relevant electricity retailer and recouped in the form of CSO payments.

WACOSS RECOMMENDATION 21

That NETS and MRETS costs should only be passed-on to higher-consumption consumers, falling outside of the first, 'lifeline' tariff block in an IBT regime and that additional assistance, in the form of subsidies should be available to higher-occupancy households.

WACOSS RECOMMENDATION 22

That if, following further research, it is shown that consumers with low levels of use, or lower average incomes are responsible for proportionately less greenhouse gas emissions, then this should be reflected in the way pass-through costs associated with MRETS and NETS are apportioned to consumers through tariffs.

CONCLUSION

Electricity, as a form of energy, is essential for the maintenance of a reasonable quality of life. The absence of electricity services has the potential to result in significant health, social, educational and financial consequences for consumers – especially those already facing substantive financial or social disadvantage. Given that Western Australia continues to retain the highest level of disconnection from electricity services for non-payment in Australia, it is clear that government-provided social welfare and other systems outside of the tariff regime have been inadequate in fully addressing the issue of essential service hardship amongst electricity consumers.

Given the government's current policy of progressively implementing full cost recovery in electricity pricing, it is vital that issues around equity be addressed within, as well as exterior to the tariff regime. To that end, WACOSS continues to support future research regarding consumer impacts that will assist in the development and implementation of progressive principles regarding pricing in the energy market. Such principles should not only address the economic objective of the government and market participants, but also promote substantive equity amongst different consumer groups.