



WACOSS BRIEFING PAPER

The Rising Cost of Essential Services

Executive Summary

This paper outlines the issues faced by many Western Australians as the cost of essential services continues to rise. As well as showing the price of electricity, water and gas from 2003 to the present, it also provides a projection, as accurately as possible, of costs associated with accessing water, electricity and gas services up to the year 2014.

The future pricing scenario is not intended to serve as either a prediction or forecast of anticipated price increases for electricity, gas and water services, but instead to illustrate *likely* significant increases in overall costs of essential services over the next 5 years.

Since 2003 to present, average household utility costs have increased from \$1975.84 to \$2167.92 – or 9.72%. This paper also shows a further likely increase in average household utility costs from the current figure in 2008/09 to \$3,232.94 in 2013/14 – or 49.1%.

These costs were based on the WACOSS representative household model, which is detailed in the paper.

The paper concludes that the recent rises in the cost of essential services, along with substantial rises in the cost of accommodation, food and petrol have made it increasingly difficult for low income families to maintain a satisfactory standard of living. These cost pressures are projected to continue to place increasing financial burdens on families.

Background

For people living on low-incomes or facing financial disadvantage, the cost of accessing essential services – such as utilities, transport and food - consumes a disproportionately high percentage of their income. This has become increasingly so as many people living in Western Australia are not benefiting from the 'boom' associated with the resources and mining industries.

Subsequently many of these people find paying utility bills very difficult and often end up in arrears to service providers. This may result in restriction of water supply or disconnection from energy services. The demonstrated consequences of limited, or no, access to essential services such as water and energy include deterioration in physical health, significant psychological impacts and exclusion from education, employment and the life of the community.

WACOSS has a long history of policy development and advocacy in the area of Essential Services. This has been demonstrated through WACOSS' coordination of the Emergency Relief (ER) forum and the Consumer Utilities Project (CUP). WACOSS has also provided a series of recommendations in our Pre-Budget Submission *If Not Now, When?!*, which focus on improving the accessibility and affordability of essential services. Some of these recommendations include improvement to regulatory protections and financial assistance for consumers of essential services.

This paper provides a series of figures which show cost increases over the past five years, and potential increases for the next five years. The table shown in Figure 1 indicates the increases in costs of essential services from 2003/04 to 2008/09. Additional cost projections for 2009/10 are also shown. Estimate projections are shown in Figures 2 and 3. They show a possible *increase in average household utility costs from \$2,167.92 in 2008/09 to \$3,232.94 in 2013/14 – or 49.1%*. These figures are based on the WACOSS household model, which is calculated as follows:

Electricity:

Calculated on assumption of 4700kw per/annum consumed, as per assumption of the WA Treasury Representative Household.

Gas:

Calculated on the use of 14.6 gas units per/day, as per assumption of the WA Treasury Representative Household

Water (consumption):

Calculated on consumption rate of 320kl per/year.

Water (sewerage):

Calculated on static Gross Rental Valuation (GRV) figure of \$7800 (\$150per/week). However, this figure may be unrealistic as GRV varies.

Water (drainage):

Calculated on static Gross Rental Valuation (GRV) figure of \$7800 (\$150per/week). However, this figure may be unrealistic as GRV varies.

Data Analysis

Figure 1: Essential Service Costs – 2003/04-2009/10

UTILITIES	2003/04	Increase	2004/05	Increase	2005/06	Increase	2006/07	Increase	2007/08	Increase	2008/09	Increase	2009/10	Increase
Electricity	\$748.51	\$0.00	\$748.51	\$0.00	\$748.51	\$0.00	\$748.51	\$0.00	\$748.51	\$0.00	\$748.51	\$0	\$823.36*	\$74.85
Gas	\$366.48	\$0.00	\$392.00	\$25.51	\$392.00	\$0.00	\$392.00	\$0.00	\$390.00	\$0.00	\$425.10+	\$35.10	\$463.35**	\$38.25
Water - Consumption	\$173.08	\$5.53	\$173.08	\$0.00	\$176.89	\$3.81	\$187.32	\$10.44	\$218.83	\$30.78	\$237.10	\$	\$258.50***	\$21.40
Water Service Charge	\$148.96	\$4.76	\$148.96	\$0.00	\$151.60	\$2.64	\$160.54	\$8.94	\$162.60	\$2.04	\$180.45	\$	\$200.50***	\$20.50
Water - Sewerage	\$486.67	\$15.55	\$486.67	\$0.00	\$497.37	\$10.71	\$515.28	\$17.91	\$503.67	-\$11.61	\$509.46	\$	\$529.99***	\$20.53
Water - Drainage	\$52.14	\$1.67	\$52.14	\$0.00	\$53.28	\$1.15	\$55.20	\$1.92	\$63.58	\$	\$67.30	\$	\$71.66***	\$4.36
TOTAL	\$1975.84	\$27.51	\$2001.63	\$25.51	\$2019.65	\$18.31	\$2058.85	\$39.21	\$2087.19	\$21.21	\$2167.92	\$35.10	\$2347.36	\$179.89

*Scenario based on Premier's Media Release of (04.04.2008), indicating a 10% electricity price increase for the 2009/10 financial year.

**Information regarding gas price determination for 2009/10 financial year currently unavailable, but prices based on Minister for Energy's Media Release (20.6.08), announcing a median price increase of 9% for residential customers.

***Based on recommended projections within Economic Regulation Authority's Water Corporation Tariff Review – January, 2008, p. 25.

+ Gas Prices for 2008/09 based on Minister for Energy's Media Release (20.6.08), announcing a median price increase of 9% for residential customers.

Figure 2.1 Future Pricing Scenario

Future Projections	2010/11	2011/12	2012/13	2013/14
Electricity ⁺⁺	\$918.05	\$1023.63	\$1141.35	\$1272.60
Gas [#]	\$505.06	\$550.51	\$600	\$654.05
Water – Consumption ^{***}	\$278.15	\$299.06	\$320.74	\$341.76
Water Service Charge ^{***}	\$219.73	\$239.94	\$261.16	\$282.06
Water – Sewerage ^{***}	\$546.05	\$562.59	\$579.63	\$594.29
Water – Drainage ^{***}	\$75.57	\$79.69	\$84.03	\$88.18
TOTAL	\$2542.61	\$2755.42	\$2986.91	\$3232.94

Figures used in WACOSS' Future Pricing Scenario for electricity, gas and water services are derived from pricing information contained within recent advice from the Office of Energy (OOE) and the Economic Regulation Authority ERA). These figures are not intended to represent the position of the ERA, OOE or WA Government. They are intended to illustrate likely significant increases in the cost of essential services over the next five years, based on information currently available.

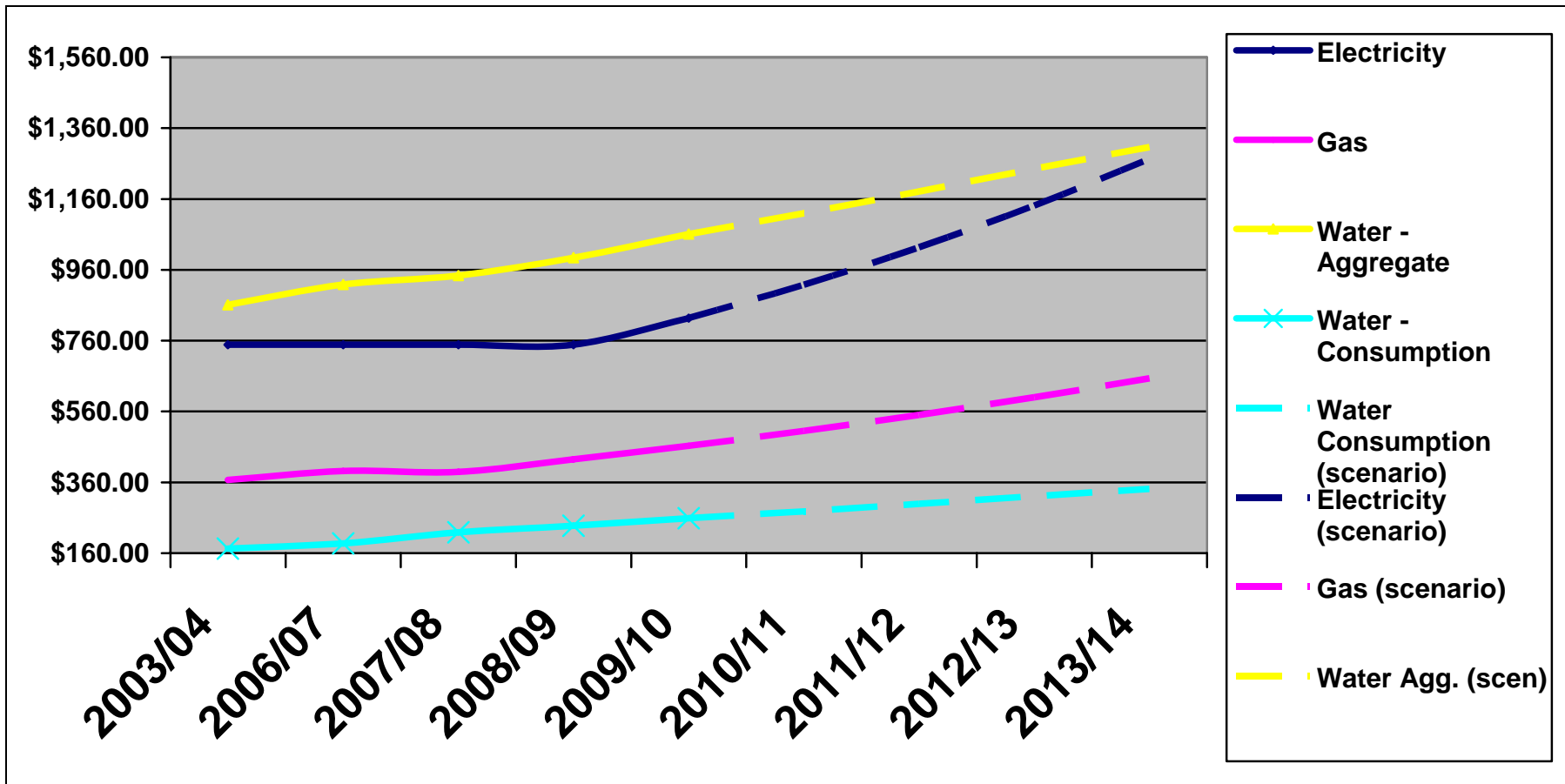
⁺⁺Extrapolation of the Office of Energy's 72.4% increase in electricity tariffs¹, spread over a 5-year period

[#] Gas Prices for 2008/09 based on Minister for Energy's Media Release (20.6.08), announcing a median price increase of 9% for residential customers.

^{***}Based on recommended projections within ERA's Water Corporation Tariff Review – January, 2008, p. 25-27.

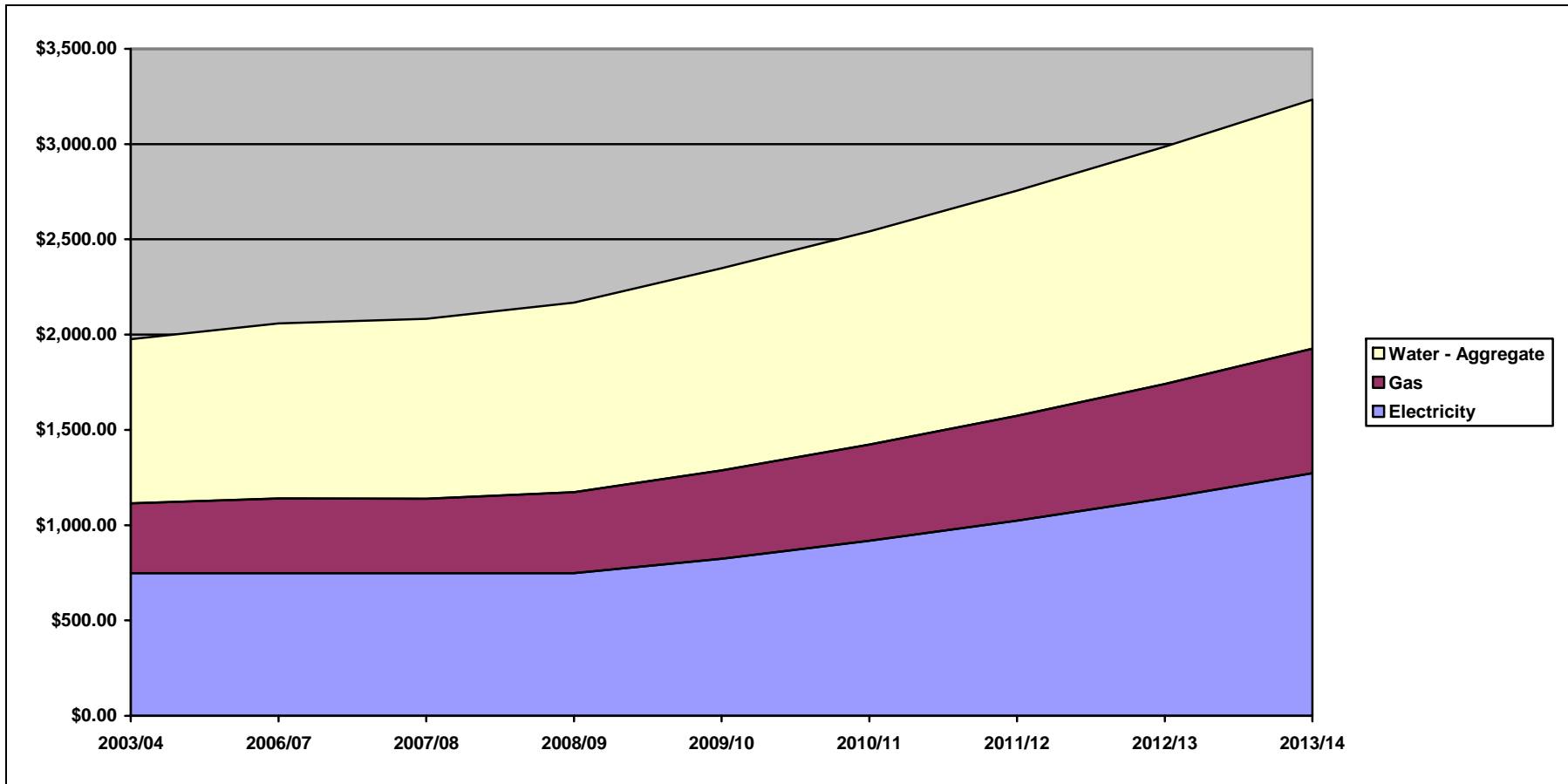
¹ Government of Western Australia (2008), *Electricity Retail Market Review – Draft Recommendations Report: Review of Electricity Tariff Arrangements*, Office of Energy

Figure 2.2: Graphed data and projections from Figure 1.



Note: All costs are calculated in 2008 dollars. Electricity price increases include calculation of inflation for years 2008/09-2011/12 as per Office of Energy forecasts within recent Electricity Tariff Review. There is a clear upward trend in increases for all values beyond 2007/08.

Figure 3. Stacked costs for aggregate water, electricity and gas.



Figures based on assumptions from **Figure 1** and **Figure 2**.

Conclusion

The most recent rises in the cost of essential services, along with substantial rises in the cost of accommodation, food and petrol have made it increasingly difficult for low income families in Western Australia to maintain a satisfactory standard of living. With electricity potentially set to rise by up to 72.4%, phased in over a number of years², these families are set to face even more financial strain.

This paper shows a possible increase in average household utility costs from \$2,167.92 in 2008/09 to \$3,232.94 in 2013/14 – or 49.1%. The figures WACOSS has used in this scenario do not account for the effects of inflation for electricity prices for the years 2012/13-2013/14. Given the inherent limitations in creating future pricing scenarios, it is possible that the prices referred to in Figures 2 and 3 of this paper are actually quite conservative.

Additionally, natural gas is, increasingly so, an internationally-traded commodity. This, coupled with system capacity constraints – as demonstrated by gas shortages following the recent Varanus Island gas explosion – are also likely to place significant upward pressures on residential natural gas prices, far exceeding those of inflation. Furthermore, a recent announcement from the Minister for Energy's office has confirmed that there will be a median price increase in the South-West and Mid-West of the State of 9%, effective July 1 2008.³

To alleviate some of this pressure, the State Government has announced increased assistance for utility consumers experiencing financial hardship. This assistance includes a commitment to increasing support for financial counselors and establishing a Hardship Utility Grant Scheme and an Energy and Water Efficiency Scheme. WACOSS recognises that these schemes will be significant in addressing hardship felt by consumers.

Given the scale of utility hardship currently being experienced in WA, and the likely additional cost increases, WACOSS has called on the State Government to address the issue of essential service affordability as a part of a Social Inclusion Strategy for WA, in order to prevent people being left behind in the boom. Such a strategy should guarantee access to basic essential services, like energy and water.

For further information, please contact Irina Cattalini, Director Social Policy on 9420 7222.

² Government of Western Australia (2008), *Electricity Retail Market Review – Draft Recommendations Report: Review of Electricity Tariff Arrangements*, Office of Energy, p. 3

³ See <http://www.mediastatements.wa.gov.au/Pages/Results.aspx?ItemID=130391>