POWER+WATER

NEWSLETTER OF THE CONSUMER UTILITIES ADVOCACY CENTRE

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- **Federal Competition Review**
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CUAC is an independent consumer advocacy organisation which ensures the interests of Victorian electricity, gas and water consumers – especially low income, disadvantaged, rural and regional, and Indigenous consumers – are effectively represented in the policy and regulatory debate.

CUAC believes all Victorians have a right to:

- affordable and sustainable electricity, gas and water
- have their interests heard in policy and regulatory decisions on electricity, gas and water
- not be disconnected from electricity, gas and/or water due solely to an inability to pay.

CUAC:

- Provides a voice for, and strengthens the input of Victorian utility consumers – particularly low income, disadvantaged, and rural and regional consumers – in the policy and regulatory debate
- Initiates and supports research into issues of concern to Victorian utility consumers, through in-house research and building the capacity of consumers through its Grants program
- Investigates and responds to systemic issues affecting Victorian consumers in the competitive electricity and gas markets and with regard to water.

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Our gas challenge

The role of gas in Victorian households

CUAC's recent report, *Our Gas Challenge: The role of gas in Victorian households*, explores the issues of rising gas prices in the Victorian context and suggests policy responses.

In Victoria natural gas is the main source of energy for residential cooking, heating, and hot water. Changes to the gas market in eastern Australia are leading to rapidly rising prices, which will challenge many Victorian households with bill increases of several hundred dollars.

The background to the price increases is the construction of gas export facilities in Gladstone, Queensland, which will see the gas market in Australia's eastern and south-eastern states linked for the first time with international gas markets. This will lead to wholesale gas prices in these states becoming both higher and more volatile. We explored the background to this situation in *Making the Gas Connection* (Issue 8), and the report of the same name.

Who uses gas?

As the biggest residential users of gas in Australia, Victorians will be more affected than households in any other state. Nine out of ten Victorians use natural gas at home: 83 per cent of Victorian households have a mains gas connection, and 13 per cent have liquefied petroleum gas (LPG) or bottled gas connection.

While mains gas is more commonly used in Melbourne, and LPG more commonly in regional Victoria, gas connections are widespread across the state, with connection rates varying little by income, tenure, or dwelling type. Rising retail gas prices will affect almost all Victorian households.

Renters in Melbourne are less likely to have mains gas than homeowners, in part because renters are more likely to live in flats or apartments, which less often have gas connections. In the rest of Victoria, renters are *more* likely to have mains gas than homeowners. Homeowners across Victoria are more likely to use LPG/bottled gas than renters.

Renters are liable to have greater difficulties responding to rising retail gas prices because of their reduced ability to change the energy efficiency of their homes, e.g. opportunities to upgrade appliances or install insulation are more limited for renters than for home owners.

How much gas do we use?

Victorians are the largest residential users of gas in Australia, by a large margin; only ACT households come close. This is due to a combination of greater levels of gas penetration and greater usage of gas heating during cooler months, which means rising retail gas prices will affect households bills more strongly here than in other states.

A 'low usage' Victorian household (in the bottom third of mains gas usage) is roughly equivalent to a middle usage household in NSW or a high usage household in Queensland. A middle usage Victorian

household consumes more gas than a high usage household in any other state, and a high usage Victorian household consumes almost twice as much gas as the Victorian average, and five times as much as the east coast average.

Though low income households use slightly less gas than higher income households, gas bills make up a much greater proportion of their spending: the AER estimates that low income Victorian households spend 3.7 per cent of their disposable income (before concessions) on gas, twice as much as middle income households (1.8 per cent) and five times as much as high income households (0.7 per cent).

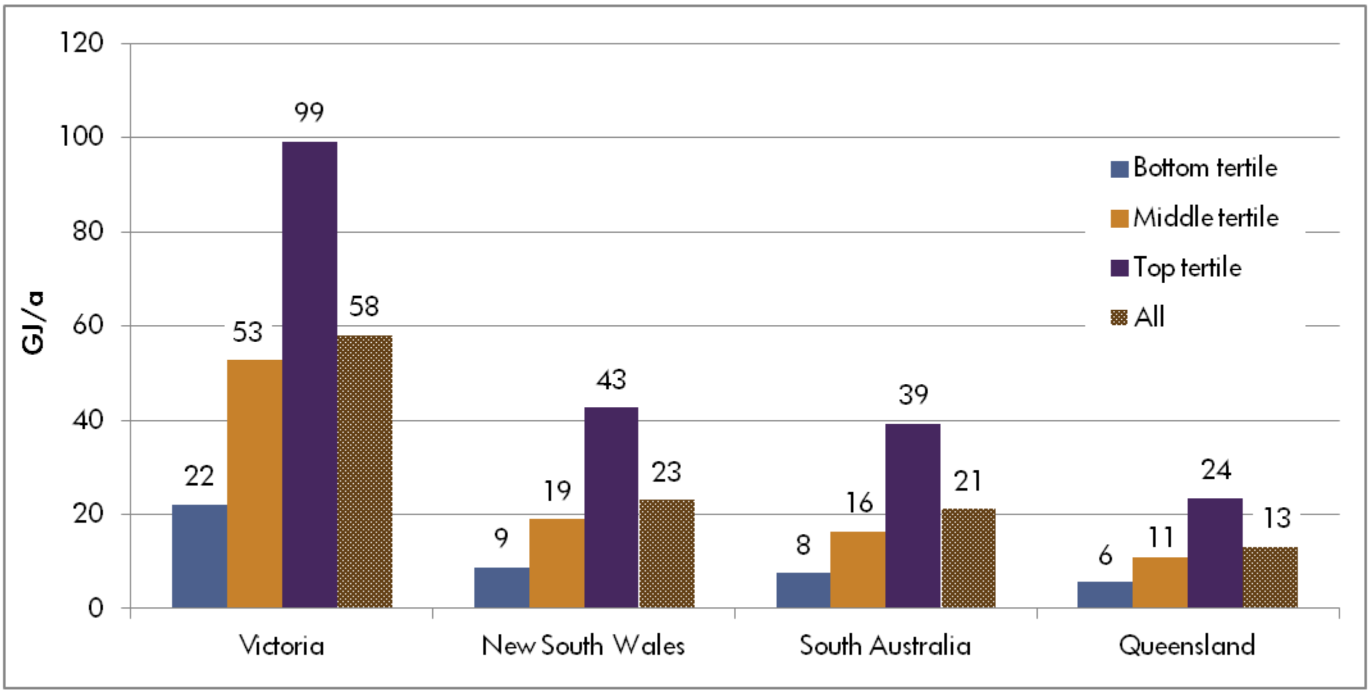
While Victoria has the most equitable energy concession model on the east coast, the recent adoption of capped concessions means the Government may struggle to adequately, or in sufficient time, adjust caps or thresholds to reflect price increases.

Residential usage of mains gas has steadily increased in recent decades, as has average usage per person, in part due to gas extension programs to regional and rural towns and communities run by successive Victorian State Governments since 2003.

These regional gas network extensions would not be profitable without the Government subsidies, which in the case of the current "Energy for the Regions" program are as much as 80 per cent of project costs, or $12,000 per property connected.

In light of rising gas prices, it is uncertain whether the Energy for the Regions program is the most appropriate method of delivering more affordable energy services to households, and CUAC recommends that it be reviewed.

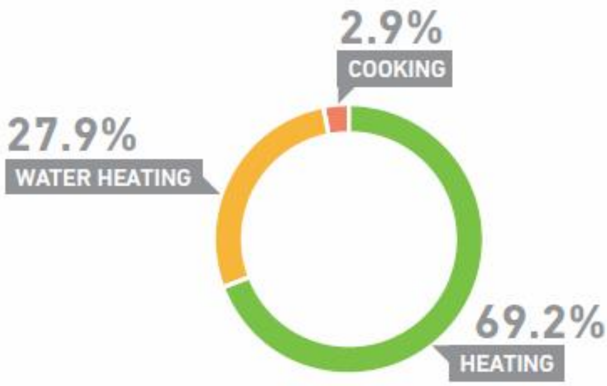
Average annual mains gas usage for AGL customers by state and tertile, 2012



Source: CUAC calculation, based on Nelson (2012). Excludes AGL customers not using gas.

What do we use gas for?

The three main purposes for which households use gas are heating, cooking, and hot water, with heating being the largest contributor to total consumption.



Source: Sustainability Victoria (2014)

Two thirds of Victorians use gas as their main heating fuel, and Victorians are arguably the biggest heater-users in Australia. 43 per cent of Victorian households have gas ducted heating – more than 10 times as many as any other state bar the ACT. This means that while our winters aren't as cold as for example Tasmania's, and we don't heat for as many months, we use more energy because we heat the whole house, not individual rooms.

Interestingly, Australians are more likely to buy gas heaters because they think they're cheaper or more efficient than electric heaters or reverse cycle air conditioners, even though this is unlikely to be the case for newer models.

Two thirds of Victorian households use gas for cooking, and two thirds use it for hot water. Sustainability Victoria estimate that hot water heating makes up around 20 per cent of household energy use, and 16 per cent of energy bills. Gas used in cooking is only a small part of consumption; three to four per cent of average annual Victorian household usage.

How much do we spend on gas?

A typical Victorian household spends around $2,500 per year on energy, of which 30-45 per cent is gas expenditure. Households with gas have higher bills than electricity-only households, but that may be due to factors such as dwelling type, e.g. houses are more likely to have gas connection than apartments. Historically, gas has provided energy services more cheaply than electricity.

Households outside Melbourne spend a greater proportion of their income on energy than Melburnians do, and households on low incomes spend almost three times as much on energy relative to their incomes as average households. Further, households relying on government pensions and allowances spend twice as much as the Victorian average on domestic fuel and power.

These households, along with renters, are more vulnerable to rising gas bills than other households. They may have lesser ability to absorb the higher costs, reduce usage (e.g. because it is already low), or upgrade the energy efficiency of their homes, because they can't afford the upfront costs or because they lack the right to make major changes.

While consumers generally will need to adapt to rising retail gas prices, those with higher incomes and who own their homes should be able to respond by changing their usage or improving the energy efficiency of their homes and appliances.

Retail gas prices will rise by up to 10 per cent in January 2015, with potentially similar increases to

follow as wholesale costs increase. Gas prices have already risen 65 per cent since 2008, or 42 per cent accounting for inflation.

Bill increases will be felt especially in winter, as heater usage is concentrated in colder months. This 'peakiness' will make the effects of bills more pronounced than if the spending were spread across the year.

Policy implications and recommendations

The role of gas as a continuing cheap alternative to electricity is in doubt. Victorians are more likely than residents of other states to have positive attitudes toward gas, due in part to Government schemes promoting gas use as cheaper, more environmentally friendly, and relieving pressure on family budgets. This made sense when gas was abundant and cheap, but these attitudes must be revisited, along with the Government's role in the public's use of gas.

Victorians need to become conscious of their gas usage, as we became water conscious during the millennium drought and electricity conscious in recent years.

As gas prices rise, and electric appliances become more efficient, it may be worth replacing failing gas appliances with electric alternatives. Research by the Alternative Technology Association (ATA) finds that, for most Victorians, high efficiency electric heating and hot water appliances are cheaper than their gas equivalents over the life of the appliance (considering both purchase cost and running costs).

New homes almost certainly shouldn't be connected to gas, and the ATA says most Victorians who have only one gas appliance (for either heating, cooking, or hot water) on mains gas will save money by switching to an electric alternative regardless of whether the appliance is due for replacement, because of avoided fixed charges.

CUAC's *Our Gas Challenge* makes twelve recommendations for policy makers around information provision, appliance labelling, social housing, energy efficiency, housing stock, concessions, and reviewing subsidies to gas network expansion.

CUAC's recommendations include:

- Build consumers' awareness of gas price changes and their options to respond;
- Increase consumer awareness of the Government's My Power Planner price comparison website, mpp.switchon.vic.gov.au;
- Update appliance energy ratings and labels to allow comparisons of estimated appliance life cycle costs across fuel types;
- Conduct further research into the relative costs of gas versus electric (or other) appliances for different household types and regions;
- Apply these insights to appliance choice in social housing;
- Develop energy efficiency programs to target households with high energy use, particularly low income and vulnerable households;
- Improve the energy efficiency rating of Victoria's housing to an average of five stars; and
- Offer households assistance to upgrade the energy efficiency of their homes and appliances.

The full list of recommendations and the *Our Gas Challenge* report are available on www.cuac.org.au.

Energy Information Hub

Meeting the energy information needs of the community

> CUAC's EnergyInfoHub project has been travelling through Victoria providing free community information sessions to help consumers understand, control and save on their energy bills.

Between September and November 2014, the EnergyInfoHub (EIH) project completed 50 sessions across 27 Local Government Areas for more than 900 people. Two out of three sessions were held in regional Victoria.

The free EIH community information sessions targeted areas of socio-economic disadvantage to provide independent and expert information to assist low income and vulnerable households to:

- understand their bills;
- save with concessions;
- save by switching plans; and
- save by using less energy.

The sessions also gave participants the opportunity to get answers to their questions about energy and discuss options for those experiencing difficulties with their energy bills.

CUAC collaborated with local community agencies including neighbourhood houses to organise the sessions and promote the events to their communities. The EnergyInfoHub also provided a number of information sessions to staff and volunteers at these organisations to assist them in better supporting their clients with energy related issues.

The response to the sessions has been extremely positive with participants feeling better informed and more confident in managing their bills. The community information sessions highlight the need to continue to provide independent, expert information, particularly in vulnerable and low income areas, to address the confusion and concern people face in managing their energy bills.

The community information sessions are funded by the Department of Economic Development, Jobs, Transport and Resources through the Energy Information Fund, which educates and empowers groups that may not be reached by mainstream information campaigns, to enable them to make informed decisions about electricity.

Case Study: Mrs Taufa *(de-identified)*

Mrs Taufa attended an EnergyInfoHub community information session at her local Neighbourhood House in the Mallee as part of Money Smart Week. Mrs Taufa was keen to understand how she could reduce her bills, as she was receiving the Disability Support Pension and could not afford high bills. Mrs Taufa's recent winter electricity bill was very high, as a result of continued use of electric heating in her home to cope with an illness.

At the conclusion of the information session, Mrs Taufa was helped to use the independent *My Power Planner* website (mpp.switchon.vic.gov.au) to find and compare electricity plans. Mrs Taufa was delighted when she realised she could save almost $1,700 simply by switching to a cheaper company.

Helping Not Hindering

Uncovering Domestic Violence and Utility Debt

> Recent CUAC research assesses the legal and operational framework as it applies to victims of domestic violence with utility debts, specifically where domestic abuse leads to a breakdown of a household and victims are at a point of crisis. Often when such a breakdown occurs, victims of domestic violence also suffer economic abuse.

As essential services, energy and water play a unique role in domestic households and the costs can present challenges to households experiencing financial difficulty. In circumstances where domestic violence is present, these challenges are further complicated when there is a breakdown of the domestic setting and victims are at a point of crisis.

CUAC's August 2014 report, *Helping Not Hindering: Uncovering Domestic Violence & Utility Debt*, shows that utility debt has potential to prolong a crisis situation and hinder a person's ability to 'move on' from domestic violence or economic abuse.

Given the mandatory nature of utility bills (both before and after the breakdown of the domestic household), economic abuse in these circumstances can include the imposition of household debts on victims of domestic violence, and in some cases, liability for significant debts that are not properly their own to bear. How a case is managed by a utility provider can make the difference between contributing to the economic stress that influences a person's decision to return to their abusive partner, or enabling them to re-establish themselves independently as a paying utility customer.

The report focuses on women as a group that are particularly vulnerable to domestic violence and economic abuse, although the scenarios outlined in the research could equally apply to men or circumstances of family violence that involve extended family members.

National statistics indicate that one in three Australian women will experience family violence in their lifetime. In Victoria alone, there has been a reported 20 per cent increase in domestic violence reports over the past two years, with Victoria Police reporting more than 60,000 domestic violence incidents in 2012-13. Given the prevalence of domestic violence in our community, CUAC believes utility providers have to play their part.

Report findings revealed that the current policies and practices of utility providers that assist vulnerable populations do not specifically account for, and are therefore not sufficiently adapted to, women customers who are victims of domestic violence. For such women, navigating a utility provider's current policies in order to address utility debts can be challenging if not impossible.

Conversely, utility providers, in the absence of considered policies, are equally unprepared in their response to women, as they often do not fit within their 'risk matrix', leaving the utility providers with debts that are hard to recover.

CUAC examined scenarios where utility bills are in a woman's name only, their abusive partner's name only, or jointly with an abusive partner, and where the abusive partner has abandoned the household or the woman has fled to a temporary residence.

Report Findings, Recommendations, and Advocacy

The major findings of the report revealed three key circumstances that were problematic, including:

1. A woman who is not originally listed on an account with her energy retailer being required to assume the previous debts of her abusive partner (e.g. transfer of debt);
2. A woman being a joint account holder with her abusive partner facing difficulty terminating the account (or effectively removing either name from the account) and being jointly and severally liable for previous debts; and
3. A woman who is liable for utility debts (in whole or in part) and is unable to pay.

Regulation plays a critical role in protecting economically vulnerable consumers, and holding utility providers accountable as providers of essential services. CUAC recommends that regulators conduct a review of the relevant laws and codes and consider reforms to address the breakdown of joint account holders and termination.

With respect to debt recovery from joint account holders more generally, there was evidence that in practice some energy retailers will often attempt to pursue the woman only for the debt because it is an easier debt recovery route. Financial counsellors also noted great difficulty when resolving debts of joint account holders, particularly when attempting to remove a person's name from a bill.

Energy retailers cannot legally require women to assume liability for the previous debt in her abusive partner's name. To prevent the transfer of debt issue, CUAC recommends energy retailers immediately cease this unlawful practice. CUAC has approached the Australian Competition and Consumer Commission to investigate cases where the transfer of debt has occurred as an unlawful practice.

CUAC has called on the Government and the community sector to work in partnership to develop resources that outline the rights and liabilities for utility bills targeted to workers in community agencies that assist victims of domestic violence, and ultimately to enable workers to negotiate with utility providers more effectively. CUAC also recommends an approach that empowers women to take control of their utility bills as being more effective for long-term financial stability.

Exploring utility providers' policies and practices in the context of domestic violence revealed clear inadequacies with the accessibility of hardship programs more broadly. Accordingly, CUAC recommends that regulators and the Energy & Water Ombudsman (Victoria) develop best practice hardship guidelines or a set of principles that will assist vulnerable consumers who are experiencing payment difficulty.

The Essential Services Commission has agreed to consider the report findings in relation to financial hardship in their current review of disconnection and hardship. CUAC has also approached the Energy & Water Ombudsman (Victoria) about the potential to establish hardship guidelines and to develop resources that outline liabilities and rights to manage utility debts and provide key contact information to assist victims of family violence and workers.

CUAC maintains that women should not be required to disclose the experience of domestic violence in order to access a hardship department of a utility provider because it effectively requires them to re-tell their story. However, in situations where women or support workers identify domestic and family violence as a contributing factor to payment, CUAC recommends that utility providers put special measures in place (e.g. heightened security measures or workshopping solutions that are sensitive to the complicated nature of these circumstances).

Additional training for the call centre staff of utility providers is essential to improve how they respond to victims of domestic violence.

Research participants noted issues with accessing the appropriate concessions in order to assist clients experiencing domestic violence and economic hardship. In particular, numerous agencies mentioned clear inadequacies in the processing of the Utility Relief Grants Scheme (URGS) by utility providers.

An overwhelming number of agencies noted that when they apply for the URGS on a client's behalf, there is often a delay in the processing of the URG, or in receiving the application. This is unfavourable to a client in crisis, particularly as their debt continues to grow.

The report notes clear limitations with respect to the URG criteria for domestic violence victims. It requires a person to reside in the household where the URG is being applied. In circumstances where a woman has fled family violence, she is ineligible to apply for an URG even in circumstances where she is still liable for the utility debt at her previous residence.

CUAC has approached the Department of Human Services to discuss the report's recommendation that an exception be granted to victims of domestic violence in the URGS criteria.

Finally, based on feedback from research participants, and financial counsellors in particular, the report highlights best practice methods for how utility providers can manage utility domestic violence victims with utility debt. An overwhelming number of research participants identified Yarra Valley Water as an industry leader for best practice in this area and management of financial hardship more broadly. CUAC interviewed the staff at Yarra Valley Water and the report highlights some key features of their approach.

Next Steps in Advocacy

Helping Not Hindering was written with the aim of guiding policy and prompting dialogue within the utility industry, regulators, government, agencies in the community sector and ombudsman schemes in Victoria and to provide valuable information to agencies in the community sector that assist victims of domestic violence.

The report has been very well received with over 2,400 downloads and the distribution of more than 200 hard copies. Over the coming months CUAC will continue to advocate for the policy recommendations outlined in the report to the Victorian Government, industry and regulators. CUAC is exploring the possibility of holding a forum in 2015 with industry, in partnership with other community agencies, to discuss domestic violence, economic abuse and utility debt more broadly.

To download copies of *Helping Not Hindering: Uncovering Domestic Violence & Utility Debt*, please visit www.cuac.org.au.

Fixed price rule change final decision

The Australian Energy Market Commission (AEMC) has rejected the CUAC/CALC application to ban energy retailers from increasing their prices during a fixed term or benefit contract. The AEMC instead ruled that energy retailers will be required to provide more information to consumers prior to signing a contract.

In making its recent decision on the rule change by CUAC and the Consumer Action Law Centre (CALC), the Commission considered that if retailers were not able to pass on unmanageable changes in costs, then prices for consumers are likely to increase.

The Commission also considered that if retailers were unable to change their prices they may reduce the length of contracts or stop offering contracts with a fixed term or fixed benefit period, and thereby reduce the length of wholesale market contracts, increase barriers to entry in those markets, and reduce the effectiveness of competition.

CUAC and CALC had argued that energy retailers are in a better position to bear the risk of price increases than consumers, and that retailers would still be able to offer variable price contracts without a fixed term.

We questioned the assumption that competition is always the best means to provide for efficient allocation of risks between consumers and retailers, as this doesn't consider information failures, particularly those caused by behavioural biases. (See *POWER + WATER* Issue 9 and Issue 10 for more coverage of the rule change.)

CUAC remains concerned that the AEMC's decision will not address the problem of confusing marketing for consumers, and that many will suffer detriment as a result of signing contracts they believed to be for a fixed price for the term of the contract. We therefore want the AEMC to test whether pre-contractual information and "explicit informed consent" sufficiently resolves consumer understanding and expectations.

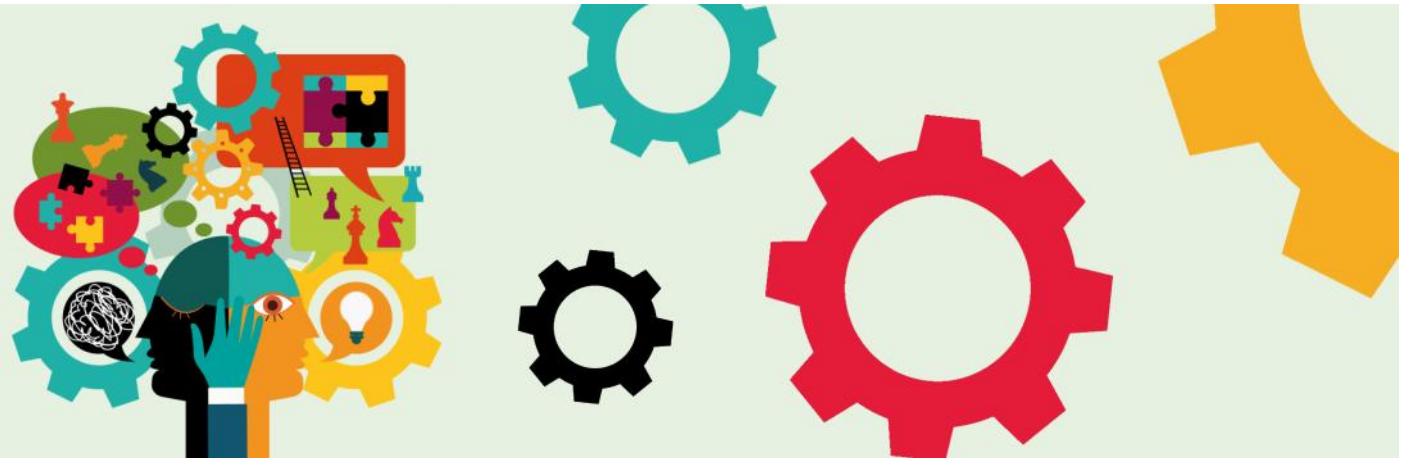
A Victorian solution?

The question also arose of whether the AEMC decision was sufficient to address the reality of market conditions in Victoria. We were pleased that, following the AEMC decision, the Victorian Coalition Government announced that energy retailers would be banned from using the term "fixed" in contracts where prices were variable. This followed a similar commitment from the Victorian Labor Party in 2012.

CUAC is urging the incoming Government to implement this common sense policy to help 'fix' this problem in Victoria.

Further work

CUAC and CALC have been funded under the Consumer Advocacy Panel to write a report of our experiences of making a rule change application. The report will not revisit the decision but will focus on the process, timeliness, accountability, and accessibility of the process for consumers. We hope to release this report in late January or early February 2015.



Federal Competition Policy Review

Implications for electricity, gas, and water

The Competition Policy Review Panel has published an Issues Paper and Draft Report. CUAC explores and responds to the Panel's draft recommendations.

The Competition Policy Review, chaired by Professor Ian Harper, is the first national review of competition laws and policy in 20 years. It covers policies, laws, and regulatory institutions whose purpose is to make the market economy serve the long-term interests of Australian consumers.

CUAC is pleased with the Panel's recognition that competition policy should be aimed at securing the welfare of Australians, and making markets work properly to serve the long term interests of consumers.

CUAC commends the Panel for consulting widely and actively seeking representation from under-represented groups. Approximately 600 submissions were received by the Panel in response to its Draft Report.

The Draft Report recommends that state and territory governments finalise energy reform by applying the National Energy Retail Law with little derogation (deviation or exemption), deregulating electricity and gas retail prices, and transferring responsibility for reliability standards to a national framework.

The Panel also supports Western Australia and the Northern Territory joining the National Electricity Market (NEM).

Electricity

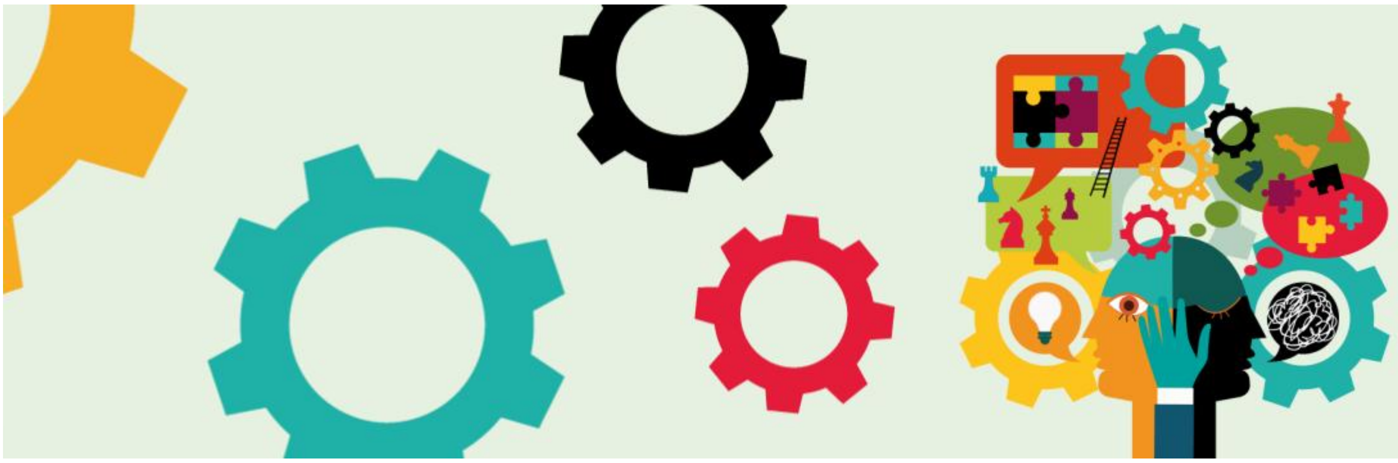
Victoria has thus far been at the forefront of national energy market reform, completing disaggregation and privatisation of the energy industry and introducing a competitive market, retailer choice, and retail price deregulation.

While informed and savvy consumers are benefiting from this reform through lower retail prices, there is considerable evidence that the complexity of the market and information asymmetry between consumers and energy retailers are preventing many consumers from participating effectively.

There have been worrying trends in complaints to the Energy and Water Ombudsman (Victoria), with complaints increasing 10 per cent this financial year to 84,750 cases. Complaints to EWOV have risen substantially and consistently since retail prices were deregulated in September 2009.

Affordability of energy and water services has become a major problem for many. For the first time, 'credit issues' (including energy disconnection) replaced 'high bills' as EWOV's highest complaints category. Recent research by Ernst and Young, which surveyed households in Victoria, New South Wales, and Queensland, showed over one in 10 people have missed more than three electricity bill payments in the last 12 months, and 70% of customers were often or occasionally worried about not being able to pay their electricity bill.

CUAC is not convinced that competition in retail markets has delivered the lower retail prices expected



in a well functioning competitive market.

A recent report from the St Vincent de Paul Society, *National Energy Market – Wrong Way, Go Back?*, found that while Victoria's deregulated market had led to lower network charges, the retail component of bills was significantly higher than anywhere else in the NEM.

CUAC agrees with the *Wrong Way, Go Back?* report that competitive pressures in Victoria have not resulted in prices trending to the efficient cost of retail services, and this is worthy of further consideration.

A significant portion of Victorian consumers are not engaged in the energy market. Despite Victoria's high churn rate, 22 per cent of consumers remain on standing offers with higher than market offer prices.

CUAC therefore supports initiatives such as the Victorian Government's independent energy price comparison website, My Power Planner (mpp.switchon.vic.gov.au), a program aimed at increasing the access of low income and vulnerable consumers to help disadvantaged householders gain control and confidence in managing their bills.

CUAC has found that low income and vulnerable consumers benefit from face to face assistance in navigating their options, combined with advice on what to look for and what to watch out for when assessing discounts and contract terms.

The Victorian Department of Economic Development, Jobs, Transport and Resources is reviewing Victoria's retail electricity market, looking at retail margins, regulatory and market barriers, and barriers to effective consumer engagement with the market. CUAC recommends that the COAG Energy Council undertake a similar review nationally with a focus on the reform outcomes in Victoria.

The Competition Policy Review Panel noted that the full implementation of the National Retail Energy Law has not yet been finalised and expressed concern that legislation has been changed in some jurisdictions, detracting from the goal of harmonisation.

In response, CUAC calls for the rule change process to be reassessed to ensure that it can respond effectively to market conditions and changes. The COAG Energy Council should give due consideration to the effects on vulnerable consumers in policy positions on competition.

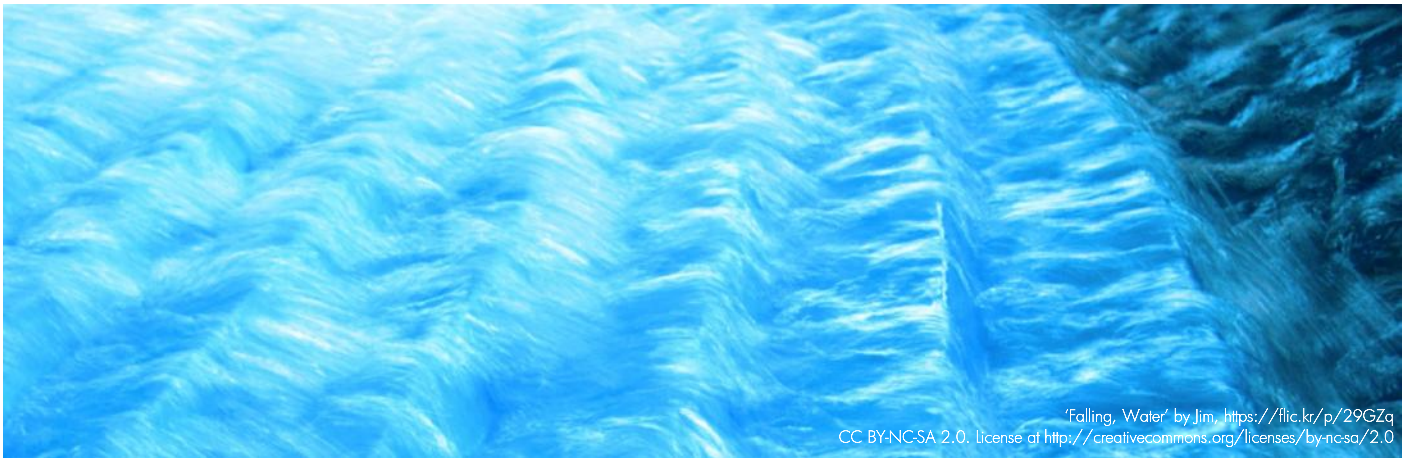
Gas

CUAC welcomes the Panel's proposals to examine barriers to entry in the gas market; whether access regimes are working effectively to encourage upstream and downstream competition; and regulatory and policy impediments to the efficient operation of Australia's gas market. However, beyond these initiatives, CUAC recommends areas of further action by Governments arising from our recent gas research report (see *Our Gas Challenge*, this issue).

Water

CUAC supports the Panel's draft recommendation calling for all Governments to re-commit to reform in the water sector. We believe that greater national leadership, including a national reform body, are needed to ensure that the benefits of urban water reform and the principles articulated by the National Water Initiative are incorporated into policy and decision-making across Government and to deliver good consumer outcomes.

A full copy of CUAC's submission to the Competition Policy Review is available at www.cuac.org.au. The Review's final report is due for release in early 2015.



The economic regulation of water

> The new *Water Industry Regulatory Order* (WIRO) improves significantly on the preliminary recommendations of Prof. Graeme Samuel's review of the economic regulation framework governing Victoria's water sector.

In February 2014, the Victorian Government appointed Professor Graeme Samuel AC to undertake an independent review of the economic regulation framework governing Victoria's water sector with a view to moving toward a new model of economic regulation.

The Review was part of the *Fairer Water Bills* initiative, which also conducted an efficiency review of Victoria's urban water businesses to identify cost savings that could be passed to Victorian households in the form of lower water bills from July 2014.

In May 2014, Prof. Samuel provided his preliminary advice and draft recommendations for the economic framework. While a review of efficiency and the exploration of alternative means of regulation can potentially lead to better ways to address economic, social, and governance needs, CUAC was concerned that the review would:

- Weaken the pricing regime (e.g. by changing the regulator's role from price setting to price monitoring);
- Rely on non-regulatory mechanisms to deliver the core objectives of economic regulation (e.g. through the boards of water businesses); and
- Strip the Essential Services Commission of Victoria (ESC) of its role as the independent economic regulator of monopoly water businesses.

CUAC has participated in three ESC water price reviews since 2002, when CUAC was founded. These occurred under the *Water Industry Regulatory Order* (WIRO), the current framework for economic regulation of water in Victoria.

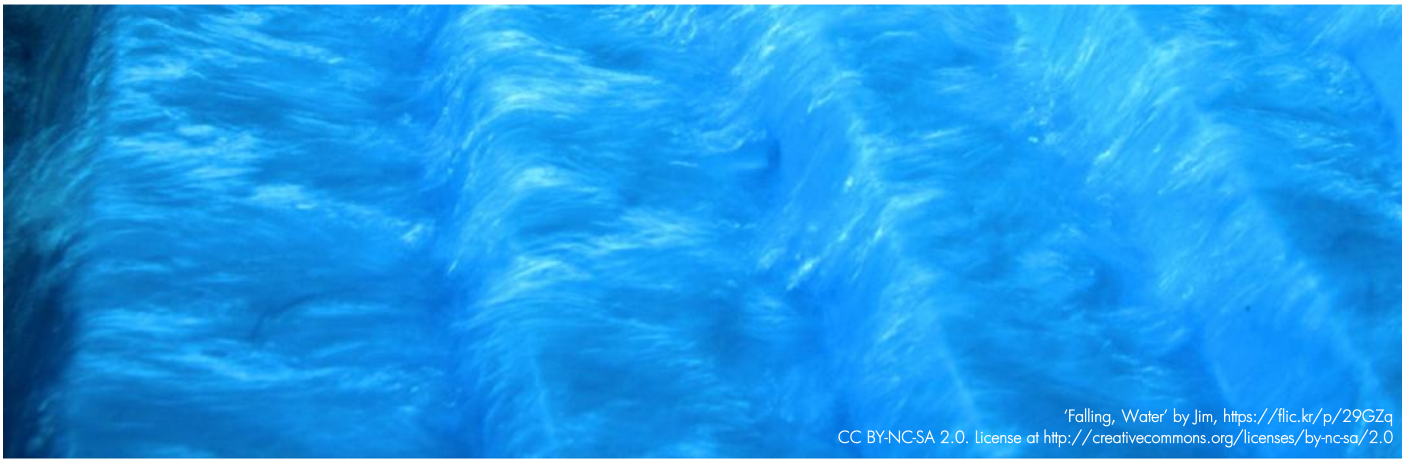
Consumer engagement in the Victorian water price resetting process has led to consumer perspectives on price and service levels being included in the pricing proposals of water businesses, and in the ESC's price determinations. Prices have been set at levels that enable water businesses to efficiently meet those service levels.

In the final decision on the *Water Price Review 2013-18*, the ESC reduced consumer payments by over $1 billion from that initially proposed by the water businesses. In response to consumer advocates' concerns over the effects of price rises on low income and vulnerable groups, the ESC also allowed water businesses to allocate $5.25 million to support customers in hardship.

For these reasons, CUAC and other consumer organisations jointly advocated for the retention of the current economic regulatory framework in a submission to the Samuel Review.

We argued that any replacement model needs to demonstrate that it will substantially improve the long term interests of consumers and incorporate the key principles of independent water regulation, namely:

- Robust, stable and clear objectives of economic regulation



- Transparency, role clarity, accountability and independence
- Strong consumer engagement

While the Samuel Review's final report has not been made public, in October the Office of Living Victoria consulted CUAC and other consumer organisations on an update to the WIRO.

The new WIRO adopted little of Prof. Samuel's preliminary advice, but addressed many of the key concerns in the consumer submission, including the retention of the ESC's role in economic regulation.

It includes new provisions to enhance and clarify the ESC's role in economic regulation. Importantly, the WIRO acknowledges the importance of ensuring that consumer interests are taken into account in decision making.

The ESC's objectives when performing and exercising its powers under the WIRO are clearly articulated: it is required to promote the long term interests of Victorian consumers while having regard to the price, quality, and reliability of essential services.

Significantly, the ESC is required to "have regard" to several pricing principles when making a price determination. The prices that a water business may charge or the manner in which the prices of the water businesses are to be calculated, determined or regulated should:

- Enable customers or potential customers to easily understand the price charged for water and sewage services or the manner in which such prices are calculated, determined or otherwise regulated;
- Provide signals about the efficient costs of providing such services to customers while avoiding price shocks where possible; and
- Take into account the interests of customers of the water business, including low income and vulnerable customers.

The ESC is empowered to specify the maximum prices, or the manner in which prices are to be calculated, determined, or regulated where the water business has failed to have adequate regard to the above objectives and pricing principles, or where the water business has failed to submit a pricing proposal within the time period specified by the ESC.

Notably, the WIRO recognises the critical importance of consumer input and engagement in the development of water plans and price determinations. Amongst the list of items that the ESC must provide guidance on to a water business before making a price determination is, "the Commission's expectations regarding customer consultation by the water business in developing its price submission."

Under the new WIRO, the ESC is obliged to "consult on the draft decision in accordance with its Charter of Consultation and Regulatory practice ...[and] only make a price determination after considering submissions received in response to the draft decision." The ESC is able to deviate from this process where there is a variation of an existing price determination only if the variation is insufficiently material to warrant the process being followed.

The new WIRO was published in the Government Gazette and came into effect on 23 October 2014.

A copy of CUAC's joint submission to the Samuel Review of the economic regulation of the Victorian water sector is available at www.cuac.org.au.

CUAC acknowledges the collaboration of the Consumer Action Law Centre and the Victorian Council of Social Service in this joint advocacy

Cost reflective electricity tariffs coming

Electricity tariffs will change so that prices faced by consumers more closely reflect the costs they are imposing on the networks. This will make tariffs more complicated, but should make them fairer and lead to lower costs for consumers in the long run.

Electricity networks cost a lot to build, but little to use. Once a network has been built, whether it's used to 10 per cent capacity or 90 per cent capacity doesn't change its costs much. Network costs only increase significantly when the desired usage reaches the network's capacity. Once demand reaches capacity, the network must be augmented or demand curtailed, otherwise the network can fail.

Electricity demand reaches its maximum levels usually only for a few days each year, and rarely for more than a few hours. This means that the extra network built to cope with these maximum peaks sits idle the rest of the year: 10 per cent of the network is used for less than 36 hours per year, or less than 0.5 per cent of the time.

Current electricity tariffs are flat and based on consumption: consumers using electricity in off peak periods pay the same rate per kWh as peak users. However, the benefits of the extra network go only to people who use electricity during peak periods, and especially to people who use lots of electricity during these times – for example, households using several air conditioners during a summer heatwave.

Not only is this unfair, it also doesn't accurately convey how expensive high usage during peaks really is. If the costs were reflected in prices, people might not consume as much, saving everyone on the network money.

The AEMC last month made its final determination on a proposal to change distribution network pricing arrangements so that "prices reflect the efficient costs of providing network services to each consumer."

The determination establishes four new pricing principles for distribution network businesses (DBs) to follow. These are summarised below:

Principle 1: Long Run Marginal Cost

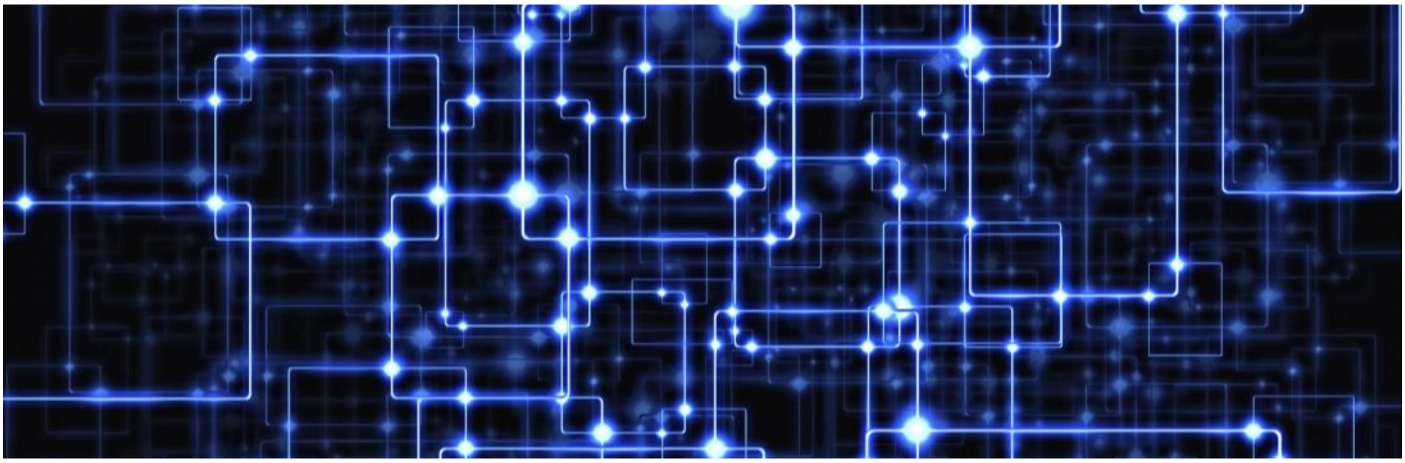
Each network tariff must be based on the long run marginal cost (LRMC) of providing the service. This is the cost of providing the last produced 'unit' of service, over the long run (e.g. the cost of upgrading a network to cope with the load of one extra air-conditioner, spread over the lifespan of that upgrade).

The LRMC component of a tariff should reflect the costs that a consumer's current and future (but not past) actions will incur.

Principle 2: Minimal Distortion

When consumers face prices that reflect the (long run) marginal costs of producing a good or service, their consumption choices should be efficient: if consumers value the service more than it costs, they'll pay its price; if not, they won't.

However, DBs face costs that aren't marginal (principally costs of past investment), and these aren't recovered by LRMC-based tariffs. Having prompted consumers to make efficient choices based on marginal costs, DBs should recover these remaining, "residual" costs in a manner that least distorts (least



changes) consumers' choices.

This is because changing consumers' choices wouldn't avoid the residual costs – so if consumers can't avoid the costs, why should they change their actions?

Principle 3: Consumer Impact

Distribution businesses must consider the impact on consumers of changes in network prices and develop price structures that consumers can understand.

Consumers are more likely to respond to price signals – electricity bills – if they understand how their usage decisions have led to those bills.

Principle 4: Jurisdictional Obligations

The AEMC recognises that network tariffs must comply with any pricing obligations imposed on networks by their relevant jurisdictional governments, but requires any deviations from Principles 1-3 to be transparent and to the minimum extent necessary.

Implications

The new pricing principles will not change the amount of money that distribution businesses are allowed to recover: as monopoly businesses, DBs' total revenues are set by the Australian Energy Regulator.

However, the principles will change *how* the distribution businesses recover their revenue.

For instance, rather than charging a flat rate per kWh, one DB might charge all consumers a fixed daily fee – similar to a 'line rental charge' on a telephone – with a very low kWh rate most of the time and a high kWh rate during peak times.

Another DB might have a monthly charge based on the greatest demand during that month's peak times, and a flat, low kWh rate. A third DB might *pay* people to use less during peaks, rather than charge them.

Effects on consumers will vary depending on how the pricing principles are balanced. For example, low income households may suffer disproportionately from high fixed charges they can't avoid.

Likewise, consumers with medical appliances may have unavoidably high usage during peak times, as may families with young children. Renters and low wealth consumers will also be less able to respond to networks' price signals to improve the energy efficiency of their home to avoid peak usage.

The changes to network pricing will increase the complexity of an already complex market, and a critical issue for the success of the reforms is the manner and extent to which electricity retailers reflect the changes to network tariffs in their market offers. DBs, retailers, and the Government must coordinate efforts to communicate the changes and structures of new tariffs to consumers, or risk public disengagement.

If the reforms succeed, however, much inefficient network investment could be avoided and consumers with high network demand would pay proportionately.

CUAC has been meeting regularly with the electricity distribution network businesses in Victoria to consult with them as they develop their new tariff structures. CUAC has a strong interest in this area, and is working on a research project to improve Victorian consumer advocates' understanding of and participation in the network tariff consultation process.

If you would like more information about CUAC's work on network tariffs, please make contact with CUAC at info@cuac.org.au.

CUAC news – Governance changes

CUAC would like to welcome the appointment of two new Board Members, Janet Cohen & Maree Davidson. Ms Cohen and Ms Davidson were appointed in November 2014.

Ms. Cohen worked as a commercial lawyer and then extensively in the regulation of the legal profession. She has a keen interest in ethics and governance. She was appointed to the Veterinary Practitioners Registration Board of Victoria in June 2013. In August 2014 she commenced work as a sessional lecturer in the University of Canberra for a Bachelor of Justice Studies course offered at Holmesglen Melbourne.

Ms. Davidson provides consultancy services and project management across strategic communications and planning, change management, business development and marketing. She is also an Executive Member of the National Coalition Against Bullying (NCAB), Chair of the Advisory Committee for the Fellowship for Indigenous Leadership, YMCA National Board Member, Director of YMCA – Youth Community Fund, Board Member of Fitted for Work and an Advisory Board Member of the Verde Health Foundation.

CUAC would like to thank outgoing directors Fanoula Ferro (previous Deputy Chair) and Ian Wilson for their strong leadership, expertise, and contributions they brought to CUAC over their years on the Board. Current CUAC Board Member Steve Peuschel has been appointed to the role of Deputy Chair.

Message from the Executive Officer

After six years as Executive Officer, I have decided to leave CUAC and explore a new career direction. It has been a great honour to work for CUAC. I have enjoyed enormous support from the Board, staff, Reference Group, and many more. Sincere thanks for making my job so enjoyable. I wish CUAC and its supporters all the best in the future.

CUAC submissions, August 2014 – November 2014

CUAC made the following submissions between August – November 2014:

- Energy and Water Ombudsman NSW – EWON Prepayment Meter Discussion Paper (joint submission)
- Australian Energy Market Commission – Retailer Price Variations in Market Retail Contracts (Fixed Pricing) Draft Determination
- Essential Services Commission – Proposed Amendments to Clause 25 of the Harmonised Energy Retail Code Version 11
- Australian Energy Regulator – Origin Energy Retail No. 2 Pty. Ltd Application for an Individual Exemption
- Australian Energy Market Commission – Retailer Price Variations in Market Retail Contracts (Fixed Pricing) Draft Determination, Supplementary Submission
- Senate Standing Committee on Environment and Communications – National Water Commission Abolition Bill 2014
- Australian Energy Market Commission – Rule Change on Distribution Network Pricing Arrangements Draft Determination (joint submission)
- Department of Industry – Energy Green paper

All CUAC public submissions can be viewed on the CUAC website at www.cuac.org.au.