



COTA Seniors Voice

Submission to the

**Essential Services Commission
of South Australia (ESCOSA)**

on the

**2011 Gas Standing Contract Price Path Inquiry
Draft Inquiry Report and
Draft Determination**

May 2011

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COTA Seniors Voice

COTA Seniors Voice (CSV) is South Australia's peak seniors' organisation with an individual membership of around 20,000 and over 250 seniors' organisation members with a combined membership of more than 60,000. In addition, CSV has 80 associate members who are aged care providers, local government bodies, health units and other service and educational institutions. CSV membership networks and programs are state-wide.

CSV has a longstanding record of contribution to State Government policy for older people, their carers and families, and also delivers a range of programs and services for older Australians.

CSV is concerned that older people's access to affordable quantities of essential services such as water and energy is under threat and supports the view that everybody should have affordable access to sufficient quantities of essential services for health, wellbeing and social participation.

South Australia and its Older Population

South Australia has an ageing population, greater than any other state or territory in Australia. At present, 1 in 7 South Australians are aged 65 years and over. By 2021 it will be 1 in 5 and by 2051 it will be 1 in 3. At the same time, people aged 85 years and over will quadruple from 1 in 57 South Australians being aged over 85 to 1 in 15 being aged over 85 by 2051.¹

Many older people in South Australia are also dependent on government benefits. In 2007-08 106,600 South Australian households had retirement pensions as their principal source of income.² More recent data shows that 180,000 older South Australians receive Age and Department for Veteran's Affairs benefits³, of whom approximately 120,000 receive the maximum rate.

These figures show that there are not only that there are more older South Australians, but that many of them are reliant on limited incomes to meet their basic needs.

¹ Australian Bureau of Statistics (2005) Populations Projections

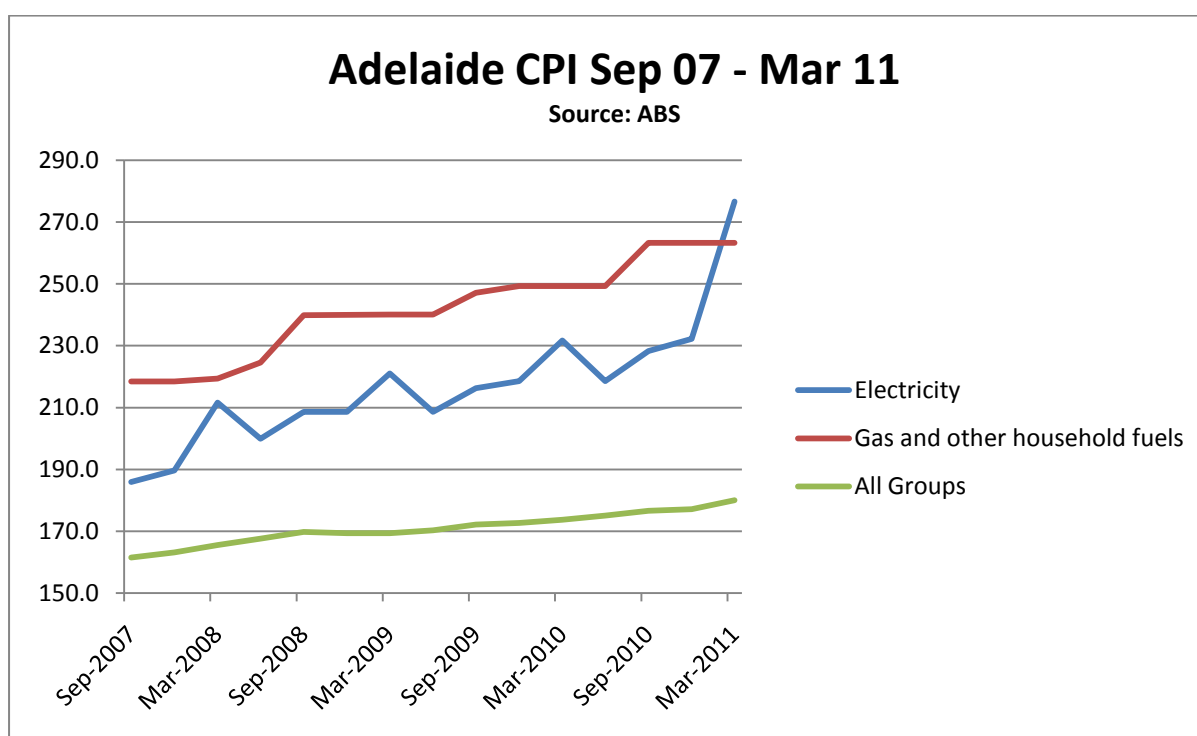
² Australian Bureau of Statistics (2009) Household Income and Income Distribution, Australia, 2007-08

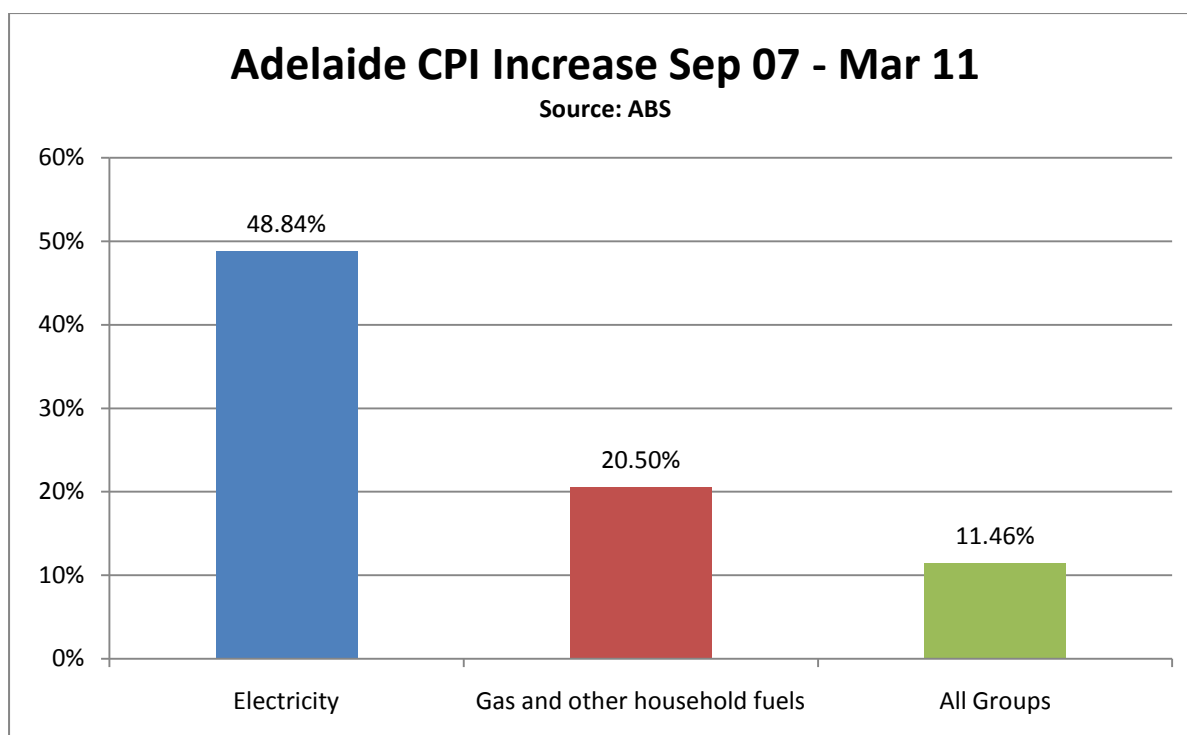
³ FaHCSIA (2010) Income support customers: a statistical overview 2009

Gas costs

It is no secret that energy costs are rising. ABS data shows that the costs of both electricity and gas are rising well above changes to the CPI. From September 2007 to March 2011, CPI for electricity rose by 48.8% and for gas and other household fuels by 20.5%, while all groups CPI rose by 9.7% (see graphs below).

The rise in energy costs reflects the fact that energy is putting significant pressure on household budgets and driving changes to financial decision making. CSV is particularly concerned that the health of many older people is becoming compromised by high energy prices as heating and cooling appliances are not used when necessary and other necessities such as food are forgone in order to meet energy costs.





CSV notes that unlike electricity, gas is not essential to health and wellbeing. Historically a preferred energy option (where available) for hot water, cooking and space heating, rising prices are likely to inhibit the increased connection and use of gas. This is likely to become more pronounced if fixed charges continue to make up a large proportion of total bills, particularly for low usage customers.

In its Issues Paper, ESCOSA identified the cost increases in total residential (standing contract) gas prices from 2003/04 to 2010/11, including a breakdown of fixed and consumption charges (see below⁴).

Table 4.2: Residential gas retail tariffs

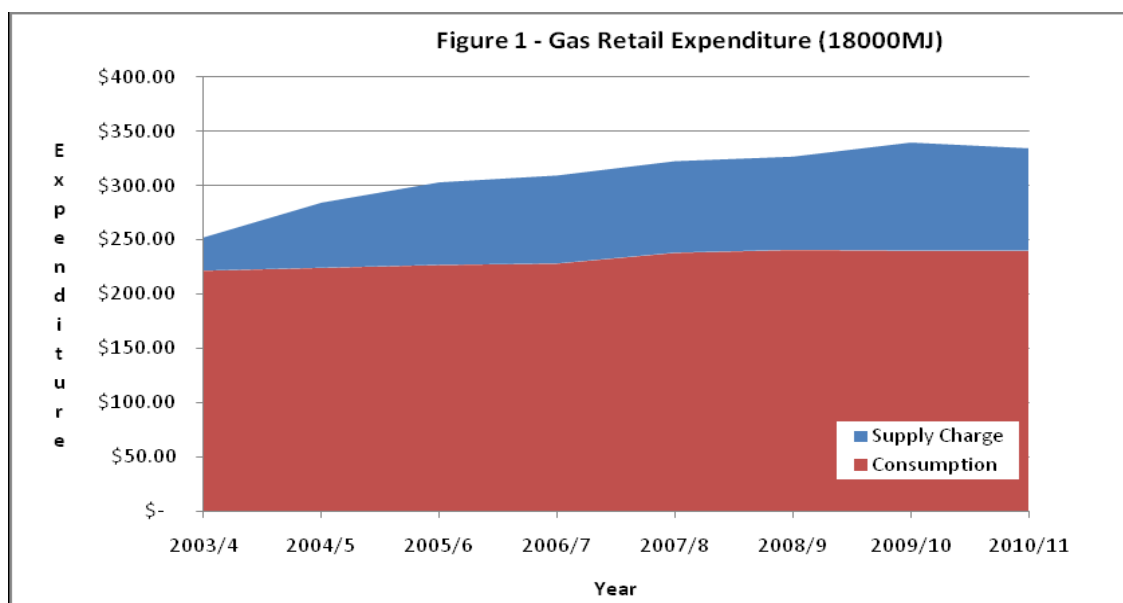
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Origin Energy Retail Residential Tariffs (GST Exclusive, \$ 2010)								
Supply Charge \$/QTR	6.93	13.58	17.21	18.35	19.07	19.41	22.50	21.31
First 4500 MJ (c/MJ)	0.87	0.88	0.89	0.89	0.93	0.94	0.93	0.92
Additional MJ (c/MJ)	0.75	0.76	0.77	0.79	0.82	0.83	0.85	0.88
Origin Energy Retail Residential Tariffs (GST Exclusive, \$ Nominal)								
Supply Charge \$/QTR	5.73	11.44	14.84	16.30	17.35	18.41	21.87	21.31
First 4500 MJ (c/MJ)	0.72	0.74	0.77	0.79	0.84	0.90	0.90	0.92
Additional MJ (c/MJ)	0.62	0.64	0.67	0.70	0.74	0.79	0.83	0.88

⁴ ESCOSA (2010), 'Review of Gas Standing Contract Prices, 2011/12 – 2013/14: Issues Paper', November 2010, <http://www.escosa.sa.gov.au/Publications/DownloadPublication.aspx?id=1905&versionId=1958>, p. 16

In its analysis of the relative price changes shown in Table 4.2 above, the South Australian Council of Social Service (SACOSS) highlighted the increase in the fixed charge as compared with consumption charges. According to SACOSS:

Of particular note from ESCOSA's Table 4.2 is the overall increase in supply charge. Whilst the price for the first 4500MJ supplied per quarter has risen by 6% and the price of subsequent consumption increased just over 17%, supply charges have increased by over 300%. Figure 1 below illustrates the rising costs and the dramatic increase of supply charges for residential gas retail tariffs.⁵

This was also shown by SACOSS (p. 3) in graphic form:



In its submission to the Australian Energy Regulator (AER) on the Envestra Gas Access Arrangement, CSV⁶ indicated its belief that the effects of rising fixed costs are both immediate (driving up the cost of gas and acting as a disincentive for energy efficiency) and long term (potentially lowering numbers of future gas customers).

While the substantial rise in fixed costs relative to consumption charges is significant for all older gas customers, CSV notes that there are many who do not have the choice to 'switch off' gas and revert to electricity only. Rental tenants and those in public and community housing do not have a choice in their energy connections or fixed appliances (e.g. space heating, water heating) and therefore will be impacted on significantly.

CSV notes that older people in rental accommodation are already one of the most disadvantaged and vulnerable groups in our society and will continue to be significantly impacted by continued price rises, particularly in the fixed cost component.

⁵ SACOSS (2010), 'Submission to ESCOSA's 2010 Gas Standing Contract Prices', December 2010, p. 3

⁶ <http://www.aer.gov.au/content/item.phtml?itemId=745903&nodeId=7d91c2429281b461af492ea4e8f1070a&fn=COTA%20Seniors%20Voice%20submission.pdf>

Additionally, older people in our community generally live in smaller households (i.e. one or two members of a household) and often in smaller dwellings. Consequently the fixed proportion of the gas bill is much higher in comparison to larger or more energy-intensive households and in many cases is the main contributor to the financial hardship caused by even moderate increases in costs.

Draft Determination

Potential impact of regulatory decisions

Although the exact nature of the tariffs to be in place following the final determination is as yet unknown, ESCOSA has indicated the estimated impact on customers' bills. ESCOSA estimated that for a medium usage customer, the impact would be around \$44 p.a., or 7.33%.⁷ While unwelcome for all older people, for age pensioners and others on very low incomes in particular this represents a further impost that can be difficult to factor into tight household budgets.

For older person households with lower usage, the percentage rise will be even more significant, partly due to the high proportion of fixed charges: a rise of \$40.55 from 2010/11 to 2011/12, or 12.72% in total. The Envestra (network) component of this rise will be nearly 20% under the AER's Draft Decision on the 2011-2016 Gas Access Arrangement⁸, although Envestra has proposed higher total revenue in its Revised Proposal.

While CSV accepts that the cost of all essential services will continue to rise due to network improvements and evolving policy frameworks, it is nevertheless of significant concern that the full impact of these price rises will be disproportionately felt by older person households and those on low and fixed incomes.

CSV therefore calls on ESCOSA to show caution when reaching a final decision regarding gas retail prices and to ensure that the long term interests of older energy customers are given adequate weight in any considerations.

ESCOSA's comments on fixed costs

CSV notes that SACOSS raised the issue of fixed costs in its submission to the ESCOSA Issues Paper, and supports the SACOSS assertion that '...without some sort of rebalancing control it is conceivable that it [the fixed cost] could go even higher.'⁹ CSV also welcomes the responsiveness of ESCOSA to this issue in its Draft Determination:

In preparing the standing contract tariffs as part of the Final Price Determination, the Commission will be mindful of the SACOSS submission to the Commission's Issues Paper, which commented on the fact that fixed supply charges have been increasing at a rate that exceeds the increase in variable charges, which creates a higher cost burden on small users of gas.

⁷ ESCOSA (2011), '2011 Gas Standing Contract Price Path Inquiry: Draft Inquiry Report and Draft Price Determination', April 2011, <http://www.escosa.sa.gov.au/Publications/DownloadPublication.aspx?id=1961&versionId=2022>, p. A-98

⁸ AER (2011), 'Draft Decision: Envestra Ltd Access arrangement proposal for the SA gas network, 1 July 2011 – 30 June 2016', February 2011, <http://www.aer.gov.au/content/item.phtml?itemId=743119&nodeId=1fc67b8a1fe55dfa58f2895dbd5a3cd2&fn=Envestra%20draft%20decision%20-%20SA.pdf>.

⁹ SACOSS (2010), p. 4.

... A key consideration when the Commission makes its Final Determination in June 2011, will be whether or not the existing balance between fixed and variable charges remains appropriate.¹⁰

It is reassuring to CSV that ESCOSA has taken this view and CSV supports further work on appropriate tariff structures that promote both social equity and adequate incentives for energy efficiency.

The nature of gas retailing

It is clear to CSV that the gas retail market in South Australia is not as competitive as the retail electricity market and that regulated efficient costs need to take this into account. Accordingly, CSV supports ESCOSA's position that

...the costs of an efficient retailer in meeting the responsibilities of gas standing contract supply to small customers should be assessed as those of a dual-fuel retailer [and therefore lower by comparison].¹¹

CSV also notes that aside from the lack of competition in gas-only retailing, the fact that the South Australian gas market is relatively small when compared both to other jurisdictions and to the electricity market makes it less attractive to any future gas-only retail venture. A significant part of retail costs in this sense is comprised of Customer Acquisition and Retention Costs, or CARC.

CSV supports the principle behind the ESCOSA position on CARC, noting that the 30% reduction to the stand-alone CARC allowance for dual-fuel retailers is conservative and that a further reduction could well be warranted.

Wholesale gas costs

While in its Proposal Origin Energy argued that the shift to Export Parity Pricing (EPP) in 2013-14 will drive up wholesale gas costs significantly, both ESCOSA and SACOSS have questioned this assumption, instead noting that pricing impacts are uncertain. In its Draft Determination, ESCOSA noted its preference to take the following approach:

- Given that the impact on costs is likely to be for only the remaining 6 months of the price path, the Commission would undertake to reflect the new costs in the following price path (should regulation of standing contract prices continue), with any under-recovery of costs from that final 6 month period to be recovered in the subsequent price path.
- To the extent that wholesale gas costs increase so significantly during the price path period that it is not feasible to defer the recovery of the increased costs to the next period, the Commission would consider a special circumstances review, and re-open the price path.¹²

While it is not ideal for prices in the final year of the regulatory period to be left uncertain, CSV supports the ESCOSA position on the basis that current regulatory mechanisms are sufficient in minimising the financial risks for market participants and that it is the risk to

¹⁰ ESCOSA (2011), p. A-99

¹¹ ESCOSA (2011), p. A-75.

¹² ESCOSA (2011), p. A-61.

customers that requires greater attention. CSV is particularly concerned for older gas customers and considers their interest in not being overcharged based on 'just in case' financial modelling as paramount in this case.

Summary

As noted throughout this submission, CSV's key concern is that older South Australian gas customers will be disproportionately affected by further rises in gas prices and that a significant element of the role of ESCOSA under the *Essential Services Commission Act* (ESC Act) is to ensure the long term interests of SA energy consumers.

While it is noted that the bill impact of Origin Energy's retail price path proposal will be low in comparison to the network costs being sought by Envestra Ltd, CSV submits that even minor cost increases can have significant impacts on the household budgets of older people.

Therefore CSV offers its qualified support for ESCOSA in its Draft Determination. CSV strongly recommends that ESCOSA carefully considers the impact on older people in its final determination and minimises this impact as much as possible.