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Re: Issues Paper: Inquiry into Retail Electricity Price Path

With limited resources and significant concurrent activity on related electricity issues, this submission will be necessarily brief and will not attempt to address all of the issues identified in the Issues Paper. Of note on the issue of capacity to participate in this inquiry process (and the numerous others occurring at present) was the comment in the IPART report:

"... the Commission could consider submissions from other stakeholders and act as an independent arbitrator, rather than being perceived to defend an initial position."
(Issues Paper p5)

As has been raised with ESCoSA previously, this assumes an equal footing for consumers to advocate their interests as the 'supply' proponents have to advocate theirs. This is clearly NOT the case.

Overall, this notion of just what is the 'long term interests of consumers' continues to remain somewhat elusive and it has been difficult not to interpret some of the comments in the Issues Paper and in the media (especially 'Power Threat: shop around or pay more', Advertiser June 28th 2004) as suggesting that the prime objective is 'competition' as if this was an end in itself.

In responding to the issues paper, CCSA has taken a stance of longer term 'sustainability' of energy supply and use in South Australia. In doing so, emphasis will be placed on issues surrounding those households whose health and well-being is being compromised by price rises for essential services that have and will occur in the absence of substantial support that would allow for a 'decent life' through more efficient energy use.

In relation to 5.5 'Fail-safe' or 'Normal' Prices: Discussions with other consumer representatives support the second option:

As the 'standard' supply arrangement: with no regard to the price having an impact on market development

(... place greater emphasis on setting a price at the "proper" or "normal" level, without any consideration of its role in encouraging the development of competition in market contract. This view would recognise that a large number of customers will always remain with the standing contract retailer, regardless of competition and the availability of market offers p22-23)

CCSA must concur that a large number of customers will always remain with the standing contract offer and the idea of artificially raising prices for these to the benefit of retailers is unacceptable. Supporting this notion (and the danger in treating competition as an end in itself):

- a. Discussions with retailers that suggest their marketing efforts are no longer focussing on price - rather on other issues such as incentives (discount vouchers etc), co-marketed offers (AFL club membership, GreenPower) and terms & conditions (fees and charges, contract length, portability etc.)
- b. Supporting feedback from Victorian Consumer Advocates that they are observing a trend for consumers (that voluntarily switch retailers) to treat the decision to switch similarly to that of an 'investment' rather than a 'purchase' - price is only one part of complex array of deciding factors.
- c. Many (exact numbers unknown) of concession eligible householders that took up the SA Government offer of a \$50 switching rebate did so to move to contracts that contained the same price as the standing contract. Hence, are being factored into measurements of switching rates and hence levels of competition yet the only benefit received was provided from 'outside' the market (and farcically, paid for by themselves and other consumers from the public purse).
- d. ESC Victoria 'Review of Effectiveness of Retail Competition and Consumer Safety Net in Gas and Electricity, Overview Report June 2004': "While competition is expected to be effective in providing price and non-price benefits for the majority of small customers in future, the Commission has not been persuaded that small customer competition alone would continue to deliver effective customer protection and balanced contract terms and conditions in the absence of basic regulatory obligations."

In relation to 5.6 Demand Assumptions: It is extremely difficult to respond to this while information regarding residential electricity consumption patterns remains 'commercial in confidence' and little research is underway. How does consumption relate to household size, concession eligibility and other household attributes?

Further, more progressive tariff structures may well be relevant to this. The attached paper on 'Socially Responsible Tariffs' briefly discusses the possible use of Inclining Block Tariffs (IBTs). Such tariffs may go somewhere to reducing the risks of forecasting demands - heavier demand generates marginally greater revenue and hence cost recovery for the retailer.

In relation to 5.7 Information from AGL: As stated above, the demand characteristics of standing contract customers is vital to a better understanding of many of the issues raised in the Issues Paper.

In relation to 5.9 Other Issues: Please find attached paper on 'Socially Responsible Tariffs'. Also, in relation to the IPART suggestion:

... the Commission could consider whether the margin should be set as a dollar rather than a percentage figure ... (Issues paper p6)

According to published 2004-5 standing contract tariffs, for an average consumption of 5000 kWh, the retail margin of 5% of the total, equates to 9.5% of the retailer's 'controllable' costs (ie network tariffs and GST removed) - a pretty health return already. Further analysis of exactly what might constitute a suitable dollar figure is required but, in principle, this notion is supported.

In Relation to 3.2: Objectives for Electricity Retail Price Path. This submission has addressed some of the points raised but in summary, the stated objectives (in italics) have been annotated below:

In considering consumers' long-term interests, the Commission proposes to establish a price path which establishes the lowest possible price consistent with

- *The costs that an efficient retailer would be expected to incur in meeting the responsibilities of standing contract supply to small customers in SA over the period;*
- *Encouraging the development of competition among retailers for the benefit of consumers;* The case that supports the notion that competition and 'benefit for consumers' have a causal relationship has not been made and, certainly, using elevated prices to encourage competition cannot be supported.
- *Encouraging ongoing, efficient investment to meet consumers' long term requirements;* Investment in what? This should be covered by the first point. *and*
- *Providing an appropriate return for an efficient declared retailer. What is 'appropriate'?* What is 'appropriate'? A profit margin of over 9% seems generous.

Further, it seems clear that the 'long term interests of consumers' must include some investigation into the allocative equity of the structural form of the standing contract tariff. The attached paper on 'Socially Responsible Tariffs' is intended to stimulate further discussion on this subject.

CCSA acknowledges the limitations placed on ESCoSA by the relevant legislation. However, it is our view that advocating legislative amendments to clarify priorities etc is part of delivering its primary objective of 'protection of the long term interests of consumers ...'. In this regard, CCSA would argue that **affordable access to sufficient energy to maintain a decent standard of living and transitioning to a 'clean energy' future are very much in the long term interests of consumers.**

Sincerely,

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Conservation Council of SA
(CCSA representative for the ESCoSA Consumer Advisory Committee)
July 30th, 2004

Discussion Paper: Socially Responsible Tariffs (SRTs)

Andrew Nance, June 28th 2004

What is a Socially Responsible Tariff?

The term 'Socially Responsible Tariff' (SRT) is intended to be used generically for utility pricing structures that reflect the following fundamental objectives for 'Essential Services':

1. All households are entitled to access sufficient quantities of essential services (such as electricity, gas and water) as required to sustain a decent standard of living and meet the health needs of the occupants;
2. All households are entitled to access this quantity at an affordable cost.

In basic form, an SRT might follow what is known as an 'Inclining Block Tariff' (IBT) structure:

- low or no fixed charges;
- an 'entitlement' of energy (up to a threshold level) that reflects a quantity that can sustain a basic standard of living at an affordable rate.
- One or more further 'bands' of consumption where the cost per unit increases in each band.

Further, an SRT is linked to a targeted Community Service Obligation (CSO) regime (concessions, rebates etc provided by government or industry). This accommodates instances of significant consumption demanded by health and other special needs.

Such a tariff structure better reflects the 'essential service' nature of domestic energy consumption and is similar to historical domestic water pricing structures.

Demand Management

Such a tariff arrangement is also consistent with incentivising Demand Management (DM) in the electricity market.

NSW's Independent Pricing and Access Regulatory Tribunal (IPART) produced a discussion paper on IBTs in June 2003 (www.ipart.nsw.gov.au/pdf/DP64.PDF) that discussed the potential role of IBTs in the NSW approach to Demand Management by Electricity Distributors. Interestingly, the paper was written in response to an application by two of the NSW distribution businesses to implement IBTs.

The Essential Services Commission of SA (ESCoSA) is now in the final stages of the 2005-2010 Electricity Distribution Price Review (EDPR). ETSA Utilities has submitted their forecast of the capital and operating expenditure it believes is required to operate its business.

The review of the ETSA Utilities application will involve an investigation of the potential role of 'Demand Management' (DM) in reducing peak demand on the network. It is the need to upgrade & strengthen the network's capacity for brief periods of peak demand that dominates increased expenditure forecasts (totalling \$239m over 5 years or 47% of the proposed 63% increase in capital expenditure - ETSA submission p98). If the expenditure claim (for increases in both operating and capital expenditure) is approved it is expected to increase the average household electricity bill by \$50 per annum (Advertiser June 9th, 2004).

Standing Contract Tariffs in SA

The AGL Standing Contract tariff structure already contains elements discussed earlier. The first 300kWh per quarter is provided at a rate some 15% lower than the balance in Jan-Mar and 6% lower for the rest of the year. The use of seasonal pricing (tariffs are approximately 10% higher in the Jan-Mar quarter) also go some way to reflecting the peaky demand and higher cost of supply during the summer months.

However, the threshold level corresponds to only around 25% of average quarterly household consumption - providing little benefit to many consumers. Proposals in NSW (as detailed in the IPART report mentioned previously) were aiming for threshold levels just above the average - offering savings for all consumers below around 125% of the average consumption. Further, given the current low threshold, all customers are quite exposed to the higher summer tariff - whether they contribute heavily to the cost of peak demand or not.

For an SRT to offer a significant price reduction, it intuitively must include a reduction in the component of 'Network Charges' (at around 45% of the typical household electricity bill). To do so will require specific inclusions by ESCoSA in the arrangements with ETSA Utilities for this coming five-year period.

A more 'socially responsible' network tariff structure could then 'build' on the structure offered by AGL in the standing contract retail tariff to provide much stronger incentives for demand management and much better recognition that all households are entitled to enough electricity to meet their health needs and sustain a decent standard of living.

While this will clearly enhance affordability, it should be noted that in terms of demand management more creative tariffs rarely have much impact as a stand-alone measure. However, when combined with other strategies (particularly those related to improving the energy performance of new and existing dwellings), they can provide a much stronger incentive for better outcomes.

Equity Impacts

A detailed assessment of the potential equity impacts of implementing IBTs in SA would require access to consumption information not currently in the public domain. This would involve correlating consumption levels with an indicator of income (such as eligibility for the electricity concession) and possibly other attributes (such as household size) in order to assess the most suitable threshold levels and 'gaps' between pricing bands.