SACOSS
South Australian Council of Social Service

SACOSS Submission to ESCOSA

Economic Regulation of the South Australian Water Industry – Statement of Issues

January 2011

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Contents

Scope of interest

The South Australian Council of Social Service (SACOSS) is the peak body for social services in South Australia, and is an independent non-government organisation with a sixty year history of advocating for disadvantaged and vulnerable South Australians. SACOSS is a not-for-profit independent organisation whose members represent a wide range of interests in social welfare, health and community services. SACOSS is part of a national network assisting low income and disadvantaged people, and shares with its members the vision of *justice, opportunity and shared wealth for all South Australians.*

In its role as a peak body for community services in South Australia, SACOSS covers a broad range of policy areas including the impacts of disadvantage on the most vulnerable South Australians. In recent years SACOSS has led or participated in debate and advocacy in the areas of consumer credit, electricity and gas, telecommunications, water management, financial counselling, payday lending, food security and gambling.

SACOSS has recently provided a submission in response to the Department of Water's invitation to comment on the Water Industry Bill 2010. This submission to ESCOSA's related 'Statement of Issues' in relation to the Economic Regulation of Water will reiterate some of the issues raised.

SACOSS' interest in the reform of South Australia's Water Industry is based on the needs of vulnerable consumers and the implications of any change. It is SACOSS' firm belief that all South Australians have an interest in fair and affordable access to essential services, especially given the fundamental importance of water to everyday life.

Introduction

SACOSS has a particular interest in pricing and access for essential services and water is one of these essentials for life. With this in mind, SACOSS believes that a primary driver of the Water Industry Act must be "*to guarantee access to the basic level of water service required for a healthy life, regardless of income*."[1]

SACOSS has been concurrently reviewing the DRAFT Water Industry Bill 2010 and ESCOSA's Economic Regulation of the South Australian Water Industry Statement of Issues[2] December 2010. The following submission is intended to be largely applicable to both consultation processes. A concurrent review has been important for SACOSS as it has triggered some concerns about the clarity and coverage of the legislation on some key issues for SACOSS, its membership and constituency. These key issues are:

1. Distinguishing essential from discretionary consumption
2. Residential Tariffs, Pricing Principles and Community Service Obligations
3. Hardship provisions
4. The legislative and regulatory treatment of customers vs consumers
5. Interactions with key consumer legislation including the Australian Consumer Law and Residential Tenancies Act
6. Advocacy opportunity and capacity

This submission will make some general observations and then provide specific responses to ESCOSA Issues.

The appendices which form the final part of this submission include a copy of the SACOSS DRAFT Water Industry Bill 2010 submission, where the six key issues identified above are discussed in detail. They also provide evidence of living cost increases, including for utilities such as water and electricity, and the financial impact this has on all consumers and especially those consumers living on low and fixed incomes.

[1] Refer to SACOSS Submission on the Water Industry Act Discussion paper December 2009
[2] www.escosa.sa.gov.au/projects/162/economic-regulation-of-the-south-australian-water-industry.aspx

A. General Observations on Underlying Policy

We note that the ESCOSA Issues Paper has necessarily been prepared based on the DRAFT Bill. It is our view that the draft legislation could and should provide more guidance to ESCOSA and its role in the reform of SA's Water Industry. The following summarises and explains this.

Water for Good[3] provides the policy basis for the DRAFT Water Industry Bill 2010. Part 6 of Water for Good outlines the Government's approach to pricing and market instruments. The document makes it clear that the intention is to move towards economically efficient, cost reflective water pricing and that equity considerations are to be addressed through "*targeted income support (concessions) measures*".

At page 142, the document states:

> *"The Government will develop a regulatory framework to: ...*
>
> - *establish a clear separation between economic objectives, to be pursued by ESCOSA and non-economic objectives (i.e. health, social and environmental objectives) to which ESCOSA must have regard, but for which the State Government will retain primary responsibility."*

Page 144 discusses 'Water usage prices' in more detail. This states a desire to retain the current tariff structure for residential customers in order to "*manage the impact on residential customers by smoothing the transition to higher water use prices over a period of time*" and to "*ensure social equity considerations are adequately provided for until equity instruments can be fully separated from the pricing policy*".

Clearly an outcome of the reform process will be the <u>transition</u> to higher, cost-reflective pricing (the Long Run Marginal Cost, LRMC of around $2.50 per kL) and for ESCOSA to regulate on this basis with equity considerations dealt with by transparent transfers by Government.

This is consistent with the general approach of the electricity and reticulated gas market reforms of the last decade and an approach that SACOSS is familiar with.

The SACOSS experience in this regard is that the "separation" of economic and social objectives is not necessarily a transparent and structured activity and, in reality – particularly with concessions - becomes a politicised and opportunistic activity that does not necessarily have the consumer interest as its immediate, primary objective.

State-wide Pricing and Concessions are key commitments from Government that form critical components of the 'package' of reforms from a consumer perspective. However these aspects are not necessarily afforded the same legislative backing and strength as the complementary economic aspects of the reforms.

It is clear from the ESCOSA Statement of Issues paper that some ambiguity remains. Section 2.2.2 of the paper discusses the Commission's statutory objectives as set out in Section 6 of the Essential Services Commission Act 2002. The objectives are split in a primary objective in subsection (a) and subordinate objectives at (b). The concluding paragraphs of this section of the Statement of Issues (p9) state:

> *The objectives at section 6(a) and (b)* [of the ESC Act] *thus need to be read as a whole. Given the emphasis in the section 6(b) factors on economic efficiency, it is the Commission's position that the long-term interests of South Australian consumers will be enhanced, and the economic welfare of*

[3] www.waterforgood.sa.gov.au/water-planning/the-plan/

such consumers maximised, through regulatory outcomes that emphasise economic efficiency. This is consistent with the sentiments of the Government in introducing the ESC Act to Parliament.

In reaching this conclusion, the Commission notes that there may be a need for it to consider distributive effects arising from market-based outcomes under some circumstances (e.g. the impact of energy retail market competition on vulnerable customers). Such consideration is consistent with section 6(b)(v), i.e. the need to have regard to ensuring that consumers (including particular groups of consumers) benefit from competition and efficiency.

From these conclusions reached by the Commission, it is apparent that significant ambiguity remains in the allocation of responsibility for equity issues arising from the Draft Water Industry Bill, particularly during this 'transition' period. SACOSS is concerned that the DRAFT Bill 2010 does not provide sufficient guidance or obligation for either ESCOSA, as the independent regulator, or the Government, to ensure that the interests of low-income and regional consumers are adequately protected for the long term. The legislation leaves much too much room for political decisions and interpretation. As a result major gaps remain.

SACOSS has previously advanced the view that a formalised, legislated connection is required between concessions and regulated water tariffs and that this connection should provide for formal consideration of the final cost of water services as seen by residential consumers - that is, the combination of regulated prices and concessions.

Section 6 of the February 2010 Regulatory Impact Statement (RIS) for the National Water Initiative Pricing Principles[4] summarises the CoAG consultation on the pricing principles referenced in Water for Good and in the Draft Bill. At page 36, the 'Importance of water as a basic human need' is discussed. In response to concerns raised by the Consumer Action Law Centre and the Consumer Utilities Advocacy Centre the RIS states:

The selection of appropriate and 'affordable' water supplies, and addressing social and equity issues are better addressed via specifically targeted and transparent subsidies and appropriate social policies such as community service obligations. These policies may then apply in conjunction with NWI best practice pricing.

And;

Following the 2008 targeted consultation process the text "The NWI pricing principles do not limit the ability of governments to address equity issues related to the provision of water services." *was included as Paragraph 8 in the Introduction to the NWI principles to ensure that the NWI pricing principles do not inadvertently weaken consumer protection arrangements. Officials do not consider that further strengthening of the principles is required.*

It is clear from the above extracts and discussion that there is clear intent in the reform process to separate economic efficiency and equity considerations. This is consistent with economic reform agendas in other sectors and has a momentum that SACOSS, despite its concerns, cannot realistically impede. However, SACOSS is of the view that if it is possible to legislate for this separation, and then legislate in detail for the pursuit of one part, then it must also be possible to legislate for the other, equally strongly.

In summary, SACOSS is of the view that the DRAFT Bill does not adequately recognise the importance of potable water as a basic human need nor does it adequately formalise equity considerations. We therefore recommended that the bill be re-drafted so as to give equitable emphasis to both economic and social considerations.

[4] www.environment.gov.au/water/publications/action/pubs/ris-nwi-pricing-principles.pdf

Key Recommendations for changes to the Bill

SACOSS is seeking the inclusion within the legislative framework of what has been referred to as an '*Essential Residential Consumption Amount*' (ERCA). The quantity would formally provide for an 'entitlement' to a basic amount of water for essential human needs.

SACOSS is also seeking to link the cost of providing this amount to the provision of concessions by government(s). It is felt that this would form the basis for an efficient and effective separation of economic efficiency and equity considerations as foreshadowed by *Water for Good* and the draft *Water Industry Bill 2010*.

Specific Responses to ESCOSA Issues

Issue 4.

Given the Commission's understanding that the nature of the water retail service will vary by water type (drinking water, recycled or reuse water) and customer type (residential, commercial, industrial (light and heavy)) does any water industry code need to be tailored in application?

What key distinctions give rise to differences across the various water industry entities that the development of any industry codes should consider? How should differences between the retail services provided by different licensees be reflected in any industry code arrangements?

Should the Commission make a single Water Retail Services Code or develop a discrete series of separate industry codes to establish its consumer protection framework?

SACOSS is of the view that the essential health and safety implications of residential water and sewer supply necessitate a separate, comprehensive code that can accommodate universal access to an essential consumption amount.

SACOSS is also of the view that the unresolved issues surrounding the treatment and status of customers vs consumer in the draft Bill also justify a separate, comprehensive code. In reference to ESCOSA's discussion of these issues at paragraph 5.3.2 page 36-7, SACOSS does not necessarily agree with ESCOSA's implication that the Residential Tenancies Act 1995 'governs' this relationship and has made recommendations in this regard in its submission to the DRAFT Water Industry Bill 2010.

Issue 5.

While the Bill indicates that each licensed water industry entity will have an obligation to provide designated services at the request of a designated customer (on standard contract price and terms and conditions), should such an obligation be subject to the customer meeting certain pre-conditions?

If so, should any supply pre-conditions be limited to: the customer identifying themselves, providing name and address, contact details for billing purposes, fees and relevant charges for connection, payment of any security deposit and providing safe and unhindered access to their water meter?

SACOSS is of the view that any pre-conditions should NOT include the financial circumstances of the customer/consumer. Non-financial criteria such as lawful identification and safe access to the meter are reasonable.

Issue 6.

For the purposes of any water retail services industry code, what information should be sought from, and provided to, customers in relation to requests for new or upgraded connections to the network?

This issue has been one of the more controversial and misunderstood aspects of energy market reform (especially in the case of electricity) and SACOSS can only encourage ESCOSA to learn as much as possible from this electricity equivalent and consult extensively and constructively with consumer representatives as the code is developed.

Issue 7.

Should all licensed entities be required to develop a customer charter and provide a copy to their customers? If so, what basic information should other water industry entities be required to provide to their customers?

Should a water retail services industry code only set out "benchmark" or 'minimum" requirements that each of the businesses must comply with in relation to customer charters, or should it be more prescriptive?

SACOSS would be concerned if non-SA Water customers were to receive any less information or protection than SA Water's current customers. This is one of the issues obviously relevant to regional, rural and remote customers and SACOSS can only reiterate a desire to see that these customers benefit from the reform agenda.

Issue 8.

Should all licensees be required to have complaints handling procedures, including the allowance for escalation of disputes, in place?

Should all licensees be required to participate in an independent industry ombudsman scheme?

Are there other enquiries or complaints handling issues that a water retail services industry code should cover?

In terms of residential customers the simple answer is YES. An effective complaints handling approach and the escalation of disputes must be provided for. Direct membership of the Independent Industry Ombudsman scheme is not necessarily compulsory – alternative dispute resolution schemes can be equally effective. It is understood that adding several hundred individual members to the Industry Ombudsman scheme is impractical but there may also be a way of aggregating licensees into an association or other instrument that could then be a member of the Ombudsman scheme.

Issue 9.

Should all billing requirements apply only to SA Water or should they apply to all licensees? If not, what billing information should other water industry entities be required to provide?

Are there other billing and billing information issues that a water retail services industry code should cover?

Issue 10.

Should the payment and payment difficulty requirements apply only to SA Water or should they apply to all licensees?

Should a water retail services industry code prescribe the minimum requirements for a customer "hardship" program?

Are there other payment, payment difficulty or hardship issues that a water retail services industry code should cover?

SACOSS is concerned that the 'industry reform' may end up being an 'SA Water' only reform and that inequity in consumer standards will remain or propagate. If an issue is important then it should prevail for ALL residential customers.

Issue 11.

Should licensees be permitted to require security deposits in certain limited circumstances?

If so, in what circumstances should licensees be able to require security deposits?

Licensees should not be permitted to require security deposits for residential customers/consumers.

Issue 12.

Should protections around restriction of supply for non payment apply only to residential and small business customers, with large customers subject to normal credit procedures?

Are there other disconnection related issues that a water retail services industry code should cover?

SACOSS believes that the DRAFT Water Industry Bill 2010 does not provide the Commission sufficient guidance in this regard. Disconnections for non-payment should not be allowed under any circumstances for residential customers. Unresolved issues around the treatment/status of renters must be clarified before any restrictions can be accommodated.

> *Issue 13.*
>
> *Are there any special needs requirements that need to be addressed in a water retail services industry code?*
>
> *If so, what are the relevant special needs requirements? Could they be addressed through supply being restricted as an alternative to permitting disconnection where permitted to do so under a water retail services industry code?*

While SACOSS believe that disconnections should not be permitted, restrictions may be considered as long as they were provided under strict conditions as a measure of last resort. The development of these conditions should be the subject of a separate, targeted consultation.

> *Issue 21.*
>
> *Do stakeholders support the development of a comprehensive performance monitoring framework?*
>
> *What sources of performance information should the Commission have regard to in developing the performance reporting framework? Are there any performance monitoring measures in addition to those identified in this Statement of Issues that warrant inclusion in the performance reporting framework?*
>
> *Is annual reporting by the Commission on water entity performance, with ad hoc reports released to respond to any significant events, considered appropriate?*

SACOSS believes that transparency is an extremely important aspect of regulating essential services. Comprehensive performance monitoring not only assures compliance but can also identify trends and emerging issues that may need a regulatory intervention. ESCOSA's historical approach to reporting on significant events in the regulated energy industries have provided useful, transparent and objective coverage of events that led to significant consumer impact. SACOSS would encourage a similar approach in water.

> *Issue 24.*
>
> *A key issue for the Commission is whether or not the typical approach used by Australian regulators should be applied to SA Water, in the current context of significant increases in capital expenditure intended to increase the security of water supply in South Australia.*

Transparency is vitally important to upholding the consumer interest. Capex programs with a political influence need to be acknowledged as such and the usual level of scrutiny applied to the way in which outcomes are achieved and the associated cost of capital.

Issue 26.

In what form should demand forecast information be sought, having regard to the key drivers of demand (e.g. by customer group, by geographic basis)?

Is there a need to differentiate between average demand and peak demand, given that peak water demand impacts on the capacity requirements of the network infrastructure?

The SACOSS experience with energy pricing is that regulated entities are incentivised to increase forecasts of water demand (capacity) and to decrease forecasts for consumption. The Commission must be able to objectively appraise demand and consumption forecasts using a range of consumer segmentations. From the perspective of SACOSS' s stakeholders this must include residential customers separately for all applicable geographic regions.

Issue 27.

How can the Commission best balance the need to undertake sufficiently robust scrutiny of business costs with the need to avoid undue reporting requirements on SA Water?

This balance can evolve over time and does not have to have its long-run form in the first instance. In establishing a new regime that aims to have the consumer interest as its primary objective, SACOSS would argue that it is far better to have SA Water reporting extensively initially and have this reduced over time as confidence grows and processes (and assurances) mature.

Issue 30.

How can the Commission be assured that the drinking water supply mix is optimised, given the additional supply resource of the Adelaide Desalination Plant?

This is no doubt a challenging issue for the Commission and for consumers at large. The details of the Adelaide Aqua contract are starting to emerge[5] and given the existence of the contract the conjecture and commentary about the appropriateness of the plant's existence, timing, scale etc is now of limited relevance. There is no one correct answer to how the plant should be operated to optimise costs, warranties, maintenance, security and reliability but it is a reasonable expectation that SA Water and the operators have a strategic and objective Operating Plan for the plant and that the plant is operated within the boundaries of this plan. The use of the plant must be de-politicised.

SACOSS believes the only way the issue will be effectively depoliticised is if all core binding elements of the contract are made available. Not so as to re-open debate about their merits but more, so as to come to terms with the essential boundaries imposed by the contract on the

[5] For example: www.adelaidenow.com.au/desal-plant-a-220-million-plug/story-e6frea6u-1225992648230

operation of the Adelaide Desalination Plant and what the implications of this are for available water supply and the costs of said supply.

Issue 34. *Views are sought on the appropriate tariff structure for SA Water drinking water charges.*

This is an issue addressed extensively in the SACOSS submission to the DRAFT Water Industry Bill 2010. A copy is attached and the content of 'ISSUE 2' is replicated here for convenience:

ISSUE 2. Residential Tariffs, Pricing Principles and Community Service Obligations

Tariff structures and Pricing Principles

Water For Good provides separate discussion for Water Supply Charges and Water Usage Charges. Supply charges – the fixed component of utility bills is an area of ongoing interest for SACOSS. In Electricity, and, particularly, Gas it is common for significant proportions of any increases in regulated revenue to be collected via increases in this component of tariffs.

It is a matter of conjecture as to what constitutes an efficient or cost-reflective supply charge for infrastructure services.

The NWI Pricing Principles refer to the fixed component as the 'service availability charge' (refer to 'Principles for urban water tariffs'). *Principle 4: Setting the service availability charge* provides some guidance in relation to this tariff component – implying that it be calculated as a residual to recover the difference between revenue requirements and that generated from water usage charges. It does also state that the charge " *... could vary between customers or customer classes, depending on service demands and equity considerations*."

The February 2010 Regulation Impact Statement[6] provides some further explanation at p 29:

> *Under the NWI pricing principles two-part tariffs (comprising a service availability charge and a water usage charge) should be used to recover the revenue requirement from retail residential and non-residential and bulk customers. Most jurisdictions already use this approach.*
>
> *The revenue recovered through the service availability charge should be calculated as the difference between the total revenue requirement and the revenue recovered through water usage charges and developer charges. The water usage charge should have regard to the long run marginal cost of the supply of additional water to recover costs consistent with upper bound pricing.*
>
> *For efficient decision-making, it is important that the marginal cost or price reflects the full cost to society of providing a good or service, including any externalities. In addition to ensuring an efficient allocation of resources, prices play an important role in signalling the requirement for new investment. As the supply–demand balance tightens, the marginal cost of meeting demand also increases. The increase in the marginal cost of supply provides important information about the timing of any new investment that is required.*

[6] www.environment.gov.au/water/publications/action/pubs/ris-nwi-pricing-principles.pdf

Although marginal-cost pricing is economically efficient, it leads to a revenue shortfall in utility industries, like water, with a high proportion of fixed costs. This is because average costs (total costs divided by units of output) fall as the volume of output increases due to economies of scale, which in turn means that marginal costs are below average costs.

The NWI pricing principles address the issue of revenue adequacy while maintaining the efficient signals associated with marginal-cost pricing through requiring the use of a two-part tariff, consisting of a variable charge and a fixed charge. The variable charge facilitates cost-reflective pricing, enabling the costs associated with water usage to be signalled to customers who can then adjust their consumption accordingly, while the fixed charge ensures revenue adequacy and reduces the variability of revenue to the water agency.

The NWI pricing principles therefore appear to state that since the 'service access charge' does not effect the marginal price of consumption it is a lesser contributor to economic efficiency objectives.

Water for Good on the other hand provides an alternate understanding and states that " ...*Supply charges reflect the potential demand a customer might make on the system, as distinct from the actual demand that is reflected in the water use price*." (p145)

The idea of supply charges being a proxy demand change (demand in terms of capacity as opposed to consumption) is different to, for example, electricity distribution. SACOSS maintains a dialogue with ETSA Utilities in its role as South Australia's monopoly provider of electricity distribution. In the electricity distribution case, it is the SACOSS understanding that the supply charge is set at a level that approximates the cost of 'dedicated' infrastructure- i.e. the cost of equipment and services that a consumer does not share with any other consumer such as its meter, fuses, supply cable, take off point etc. The cost of the 'shared infrastructure' on the other hand is recovered through consumption charges – consistent with a user pays approach.

SACOSS is of the view that the DRAFT Bill does not provide enough explicit guidance to ESCOSA in its assessment of proposed 'service availability charges'.

We note that s36(3)-(8) covers the potential issuing of a ***pricing order*** by the Treasurer. It is impossible to evaluate the efficacy of the Bill without knowledge of the details of the Pricing Order. The package of information is therefore incomplete from a consumer's perspective.

Recommendation:

The Bill must contain more explicit guidance for the independent regulator on the role and derivation of the 'service access charge' component of pricing.

Community Service Obligations

The South Australian Government announced an increase in concessions from July 2010. According to the associated media release[7], there is currently an estimated:

• 215,000 South Australians in receipt of the energy concession,
• 130,000 owner-occupied recipients of the water concessions,
• 35,000 tenant recipients of the water concession, and,
• 130,000 recipients of the sewerage concession.

[7] www.ministers.sa.gov.au/images/stories/mediareleasesFEB10/concessions for the many.pdf and www.ministers.sa.gov.au/images/stories/mediareleasesJUL10/concessions.pdf

The water concession is applied at 20 per cent of the total annual water bill, from a minimum of $100 to a maximum of $200. The average water bill (for 190kL annual consumption) will be $470. 20% is just under the minimum amount of $100.

Statewide Pricing and Concessions are key commitments from Government that form critical components of the 'package' of reforms from a consumer perspective. However these aspects are not necessarily afforded the legislative backing (and subsequent certainty) as the complementary economic aspects of the reforms.

SACOSS is of the view that the concessions framework and the service availability charge must be linked. SACOSS is of the view that the minimum concession should be enough to meet the costs of the service availability charge and the *Essential Residential Consumption Amount*.

This would ensure access to a modest amount of water for vulnerable members of the community regardless of their financial circumstances, and ensure that the value of this is preserved over time as prices rise.

This will also ensure that Government remains as an interested and active stakeholder in the consultation processes around regulated pricing conducted, independently by ESCOSA.

The current concessions are detailed on the Department of Families and Communities website[8].

> **Recommendation:**
>
> In Part 3 – Administration, insert ***Division 5 – Community Service Obligations***
>
> New clause – The Minister shall approve and fund a scheme for the provision by the State of customer concessions and the performance of community service obligations by water Industry entities (also refer to s26 (3) (r)).
>
> New clause – the concession scheme shall establish eligibility criteria set by Regulation and, as a minimum, fund residential customers[9] to an amount equal to the GST inclusive price of the regulated 'service access charge' plus the 'water usage charges' applicable to the *Essential Residential Consumption Amount.* Further the concessions scheme shall provide an amount towards the sewer charges that is equal to $100 in 2010-11 and indexed annually to preserve its proportionality with the average sewer charge to residential customers.
>
> Consumers that are residential tenants shall be entitled to a concession amount equal to the 'water usage charges' applicable to the *Essential Residential Consumption Amount.*
>
> s26 (3) (r) and s26 (5) should then reference this Division.

The current concession expenditure by Government is not disaggregated to identify water separately. However, the proposal above would see the Owner Occupier water concession increase from a maximum $210 to $142.40 (the current Service Access Charge) plus $1.28 per kL of Essential Residential Customer Amount (ERCA). As an example, an ERCA of around 200 litres per day[10] equates to 75kL pa and the concession would be $238.40. The tenants concession of between $58 and $168 would become a fixed $96.

It is envisaged that the tenant concession would have to acknowledge the payment of the service access charge by the landlord. If this charge is imposed on the tenant by the landlord (under the

[8] www.dfc.sa.gov.au/pub/Default.aspx?tabid=209
[9] NOTE: final wording requires resolution of the status of tenants
[10] Taken from "How does your household water consumption compare?", average consumption for 'no garden' single person households at www.sawater.com.au/NR/rdonlyres/EE675983-EB22-4EE6-AB0E-D7E8ECA71335/0/NewAccountFlyer_Jul09.pdf

Residential Tenancies Act) then tenants should be able to apply for this amount to be covered by the concession (as is the case of owner occupiers).

> *Issue 35.*
>
> *The Commission requests comments on issues surrounding universal access and how the requirement for cost reflective pricing and transparency can be best applied and reconciled with statewide pricing.*

If ESCOSA is of the view that the legislation does not give sufficient guidance on this point then this should be raised with Government. Further, if needed, guidance could be contained within the Treasurer's pricing Order. Transparency and consistency are vitally important.

> *Issue 36.*
>
> *The Commission requests views on the issues surrounding protection of low income households during transitional moves to cost reflective pricing.*

The introductory section to this submission and our attached submission to the DRAFT Water Industry Bill outlines our views and recommendations regarding this 'separation' of economic efficiency' and 'equity' objectives. It is SACOSS's firm view that this can only be achieved by bringing the concession regime onto a legislative basis that is equally as strong as the economic efficiency intent of the reform agenda.

APPENDICES

1. SACOSS Submission t the Department for Water *DRAFT Water Industry Bill 2010*
2. Electricity Price Rise Media Release (SACOSS)
3. Cost of Living Report (SACOSS)

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Water Industry Bill 2010

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SACOSS welcomes the opportunity to provide a submission to the Department of Water's invitation to comment on the Water Industry Bill 2010. Due to our limited resources, the SACOSS submission regrettably, has not been able to include either water planning or specific issues for regional and remote consumers, despite the fact that SACOSS recognises their overall significance.

SACOSS' interest in the Water Industry Bill is based on the needs of vulnerable consumers and the implications of any change. It is SACOSS' firm belief that all South Australian's have an interest in fair and affordable access to essential services, especially given the fundamental importance of water to everyday life.

Introduction

SACOSS has a particular interest in pricing and access for essential services and water is one of these essentials for life. With this in mind, SACOSS believes that a primary driver of the Water Industry Act must be "*to guarantee access to the basic level of water service required for a healthy life, regardless of income*."[11]

SACOSS has been concurrently reviewing the DRAFT Water Industry Bill 2010 and ESCOSA's Economic Regulation of the South Australian Water Industry Statement of Issues[12] December 2010. The following submission is intended to be largely applicable to both consultation processes. A concurrent review has been important for SACOSS as it has triggered some concerns about the clarity and coverage of the legislation on some key issues for SACOSS, its membership and constituency. These key issues are:

1. Distinguishing essential from discretionary consumption

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3. Hardship provisions

4. The legislative and regulatory treatment of customers vs consumers

5. Interactions with key consumer legislation including the Australian Consumer Law and Residential Tenancies Act

6. Advocacy opportunity and capacity

This submission will make some general observations, discuss each of the above issues in turn, and then summarise a position from SACOSS for inclusion in these very important reforms.

The appendices which form the final part of this submission provide evidence of living cost increases, including for utilities such as water and electricity, and the financial impact this has on all consumers and especially those consumers living on low and fixed incomes.

[11] Refer to SACOSS Submission on the Water Industry Act Discussion paper December 2009
[12] www.escosa.sa.gov.au/projects/162/economic-regulation-of-the-south-australian-water-industry.aspx

A. General Observations on Underlying Policy

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> *"The Government will develop a regulatory framework to: ...*
>
> - *establish a clear separation between economic objectives, to be pursued by ESCOSA and non-economic objectives (i.e. health, social and environmental objectives) to which ESCOSA must have regard, but for which the State Government will retain primary responsibility."*

Page 144 discusses 'Water usage prices' in more detail. This states a desire to retain the current tariff structure for residential customers in order to "*manage the impact on residential customers by smoothing the transition to higher water use prices over a period of time*" and to "*ensure social equity considerations are adequately provided for until equity instruments can be fully separated from the pricing policy*".

Clearly an outcome of the reform process will be the <u>transition</u> to higher, cost-reflective pricing (the Long Run Marginal Cost, LRMC of around $2.50 per kL) and for ESCOSA to regulate on this basis with equity considerations dealt with by transparent transfers by Government.

This is consistent with the general approach of the electricity and reticulated gas market reforms of the last decade and an approach that SACOSS is familiar with.

The SACOSS experience in this regard is that the "separation" of economic and social objectives is not necessarily a transparent and structured activity and, in reality – particularly with concessions - becomes a politicised and opportunistic activity that does not necessarily have the consumer interest as its immediate, primary objective.

Pricing and Concessions are key commitments from Government that form critical components of the 'package' of reforms from a consumer perspective. However these aspects are not necessarily afforded the same legislative backing and strength as the complementary economic aspects of the reforms.

It is clear from the ESCOSA Statement of Issues paper that some ambiguity remains. Section 2.2.2 of the paper discusses the Commission's statutory objectives as set out in Section 6 of the Essential Services Commission Act 2002. The objectives are split in a primary objective in subsection (a) and subordinate objectives at (b). The concluding paragraphs of this section of the Statement of Issues (p9) state:

> *The objectives at section 6(a) and (b)* [of the ESC Act] *thus need to be read as a whole. Given the emphasis in the section 6(b) factors on economic efficiency, it is the Commission's position that the long-term interests of South Australian consumers will be enhanced, and the economic welfare of such consumers maximised, through regulatory outcomes that emphasise economic efficiency. This is consistent with the sentiments of the Government in introducing the ESC Act to Parliament.*
>
> *In reaching this conclusion, the Commission notes that there may be a need for it to consider distributive effects arising from market-based outcomes under some circumstances (e.g. the impact*

[13] www.waterforgood.sa.gov.au/water-planning/the-plan/

of energy retail market competition on vulnerable customers). Such consideration is consistent with section 6(b)(v), i.e. the need to have regard to ensuring that consumers (including particular groups of consumers) benefit from competition and efficiency.

From these conclusions reached by the Commission, it is apparent that significant ambiguity remains in the allocation of responsibility for equity issues arising from the Draft Water Industry Bill, particularly during this 'transition' period. SACOSS is concerned that the DRAFT Bill 2010 does not provide sufficient guidance or obligation for either ESCOSA, as the independent regulator, or the Government, to ensure that the interests of low-income and regional consumers are adequately protected for the long term. The legislation leaves much too much room for political decisions and interpretation. Gaps will remain.

SACOSS is of the view that a formalised, legislated connection is required between concessions and regulated water tariffs and that this connection should provide for formal consideration of the final cost of water services as seen by residential consumers - that is, the combination of regulated prices and concessions.

Section 6 of the February 2010 Regulatory Impact Statement (RIS) for the National Water Initiative Pricing Principles[14] summarises the CoAG consultation on the pricing principles referenced in Water for Good and in the Draft Bill. At page 36, the '<u>Importance of water as a basic human need</u>' is discussed. In response to concerns raised by the Consumer Action Law Centre and the Consumer Utilities Advocacy Centre the RIS states:

The selection of appropriate and 'affordable' water supplies, and addressing social and equity issues are better addressed via specifically targeted and transparent subsidies and appropriate social policies such as community service obligations. These policies may then apply in conjunction with NWI best practice pricing.

And;

Following the 2008 targeted consultation process the text "The NWI pricing principles do not limit the ability of governments to address equity issues related to the provision of water services.*" was included as Paragraph 8 in the Introduction to the NWI principles to ensure that the NWI pricing principles do not inadvertently weaken consumer protection arrangements. Officials do not consider that further strengthening of the principles is required.*

It is clear from the above extracts and discussion that there is clear intent in the reform process to separate economic efficiency and equity considerations. This is consistent with economic reform agendas in other sectors and has a momentum that SACOSS, despite its concerns, cannot realistically impede. However, SACOSS is of the view that if it is possible to legislate for this separation and then legislate in detail for the pursuit of one part then it must be possible to legislate for the other equally strongly.

In summary, SACOSS is of the view that the DRAFT Bill does not adequately recognise the importance of potable water as a basic human need nor does it adequately formalise equity considerations. We recommend that the bill be re-drafted so as to give equitable emphasis to both economic and social considerations and in particular, to provide a formalised, legislated connection between concessions and regulated water tariffs.

[14] www.environment.gov.au/water/publications/action/pubs/ris-nwi-pricing-principles.pdf

ISSUE 1. Distinguishing essential from discretionary consumption

SACOSS has long held a view that there is a distinction to be made between essential and discretionary consumption of both energy and water. While SACOSS is of the view that utilities such as electricity and water are 'essential services' to which access must be protected (that is, to ensure vulnerable households are not priced out of access), we are also comfortable with the use of market forces to set prices for discretionary consumption.

In practice this distinction is somewhat elusive. What is a reasonable level of consumption? Is there an 'entitlement' or 'allowance' that is appropriate?

SACOSS does not have a developed view on what is a basic water 'entitlement' but the concept is not entirely foreign to water pricing in SA. The inclining block tariff approach to water pricing provides a significant 'discount' on the first 'block' of consumption (this threshold is currently 120kL pa). Similarly, the Residential Tenancies Regulations 2010 provides a default position for landlords to pay for water rates and charges up to a limit of the supply charges and the rates applicable to 136kL of water each financial year.

Whether or not 120kL or 136kL were ever intended to approximate this notion of 'entitlement' is not important. Conceivably any 'entitlement' could be less than these amounts. What is important to SACOSS is the acknowledgement of this notion of an essential amount and its protection in the legislative and regulatory frameworks.

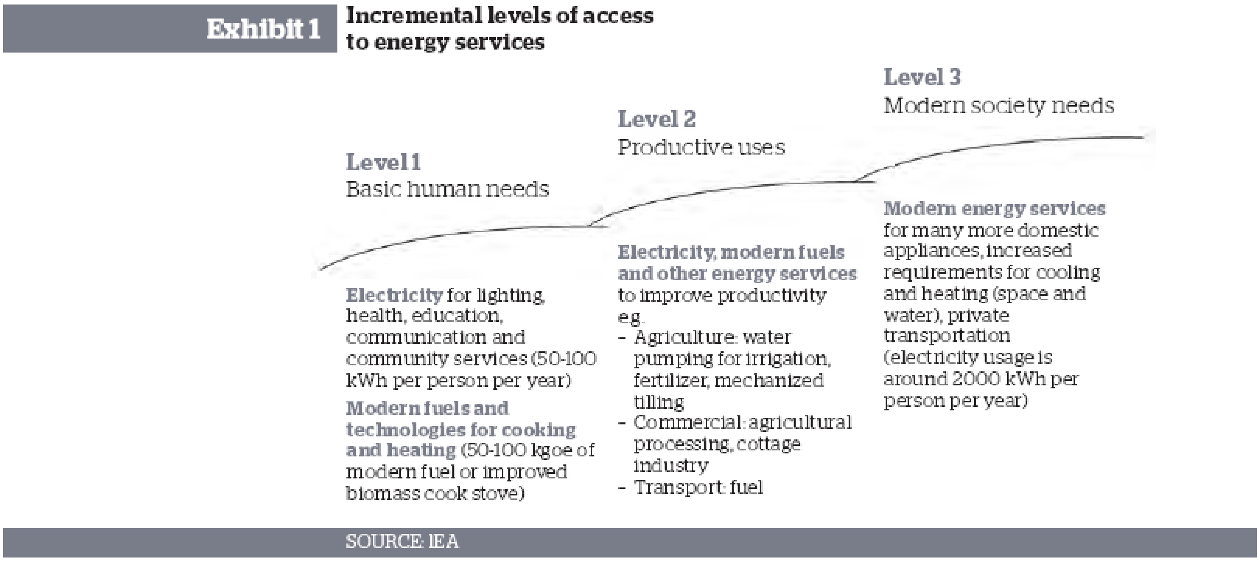
SACOSS is also of the view that this amount should also be formalised in relation to the provision of appropriate concession payments and these in turn must be indexed in a way to preserve the real value of the payment. SACOSS is of the view that the minimum concession should be enough to meet the costs of the supply charge and the *Essential Residential Consumption Amount*.

> **Recommendation:**
>
> In Part 3 – Administration, insert ***Division 4 – Essential Residential Consumption***
>
> New clause – An *Essential Residential Consumption Amount* is an amount of water considered to be provided to residential customers and consumers on the basis of universal access. The amount to be determined by consultation with the Consumer Advisory committee(s) established under Division 3 and published in the Regulations.

To further expand this concept of an ERAC and universal access, an energy based example has been developed in 2010 by the United Nations Development Program Secretary-General's Advisory Group on *Energy* and Climate Change (AGECC). The "Energy for a Sustainable Future" report[15] provides an analytical overview of "universal energy access". To quote the report (p13):

> *One of the challenges facing the global development community is that there is no clear consensus on what the term "energy access" means. For the sake of simplicity, one can consider three incremental levels of access to energy services and the benefits they can provide (see Exhibit 1):*

[15] www.unido.org/fileadmin/user_media/Publications/download/AGECCsummaryreport.pdf



> *Pending further analysis of the interlinkages between these uses, for the purposes of this report we have defined universal energy access as "access to clean, reliable and affordable energy services for cooking and heating, lighting, communications and productive uses" – i.e., levels 1+2.*

Adapting this to a water context, could also use a similar analytical approach. For example a definition of "universal access to an essential residential consumption amount for water" could be based on a similar combination of 'basic human needs' and some limited 'productive uses' but fall short of 'modern society needs'.

A definition for the term "universal access" can be derived from the "Universal Service Obligations" present in Australia's telecommunications industry. More information is available from the Australian Communication and Media Authority (ACMA) website. For example[16]:

> *The universal service obligation (USO) is the obligation placed on universal service providers to ensure that standard telephone services, payphones and prescribed carriage services are reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business.*

[16] For example see www.acma.gov.au/WEB/STANDARD/pc=PC_2491

ISSUE 2. Residential Tariffs, Pricing Principles and Community Service Obligations

Tariff structures and Pricing Principles

Water For Good provides separate discussion for Water Supply Charges and Water Usage Charges. Supply charges - the fixed component of utility bills - is an area of ongoing interest for SACOSS. In Electricity, and, particularly, Gas it is common for significant proportions of any increases in regulated revenue to be collected via increases in this component of tariffs.

It is a matter of conjecture as to what constitutes an efficient or cost-reflective supply charge for infrastructure services.

The NWI Pricing Principles refer to the fixed component as the 'service availability charge' (refer to 'Principles for urban water tariffs'). *Principle 4: Setting the service availability charge* provides some guidance in relation to this tariff component – implying that it be calculated as a residual to recover the difference between revenue requirements and that generated from water usage charges. It does also state that the charge " *... could vary between customers or customer classes, depending on service demands and equity considerations*."

The February 2010 Regulation Impact Statement[17] provides some further explanation at p 29:

> *Under the NWI pricing principles two-part tariffs (comprising a service availability charge and a water usage charge) should be used to recover the revenue requirement from retail residential and non-residential and bulk customers. Most jurisdictions already use this approach.*
>
> *The revenue recovered through the service availability charge should be calculated as the difference between the total revenue requirement and the revenue recovered through water usage charges and developer charges. The water usage charge should have regard to the long run marginal cost of the supply of additional water to recover costs consistent with upper bound pricing.*
>
> *For efficient decision-making, it is important that the marginal cost or price reflects the full cost to society of providing a good or service, including any externalities. In addition to ensuring an efficient allocation of resources, prices play an important role in signalling the requirement for new investment. As the supply–demand balance tightens, the marginal cost of meeting demand also increases. The increase in the marginal cost of supply provides important information about the timing of any new investment that is required.*
>
> *Although marginal-cost pricing is economically efficient, it leads to a revenue shortfall in utility industries, like water, with a high proportion of fixed costs. This is because average costs (total costs divided by units of output) fall as the volume of output increases due to economies of scale, which in turn means that marginal costs are below average costs.*
>
> *The NWI pricing principles address the issue of revenue adequacy while maintaining the efficient signals associated with marginal-cost pricing through requiring the use of a two-part tariff, consisting of a variable charge and a fixed charge. The variable charge facilitates cost-reflective pricing, enabling the costs associated with water usage to be signalled to customers who can then adjust their consumption accordingly, while the fixed charge ensures revenue adequacy and reduces the variability of revenue to the water agency.*

[17] www.environment.gov.au/water/publications/action/pubs/ris-nwi-pricing-principles.pdf

The NWI pricing principles therefore appear to state that since the 'service access charge' does not effect the marginal price of consumption it is a lesser contributor to economic efficiency objectives.

Water for Good on the other hand provides an alternate understanding and states that " ...*Supply charges reflect the potential demand a customer might make on the system, as distinct from the actual demand that is reflected in the water use price*." (p145)

The idea of supply charges being a proxy demand charge (demand in terms of capacity as opposed to consumption) is different to, for example, electricity distribution. SACOSS maintains a dialogue with ETSA Utilities in its role as South Australia's monopoly provider of electricity distribution. In the electricity distribution case, it is the SACOSS understanding that the supply charge is set at a level that approximates the cost of 'dedicated' infrastructure - i.e. the cost of equipment and services that a consumer does not share with any other consumer such as its meter, fuses, supply cable, take off point etc. The cost of the 'shared infrastructure' on the other hand is recovered through consumption charges – consistent with a user pays approach.

SACOSS is of the view that the DRAFT Bill does not provide enough explicit guidance to ESCOSA in its assessment of proposed 'service availability charges'.

We note that s36(3)-(8) covers the potential issuing of a ***pricing order*** by the Treasurer. It is impossible to evaluate the efficacy of the Bill without knowledge of the details of the Pricing Order. The package of information is therefore incomplete from a consumer's perspective.

Recommendation:

The Bill must contain more explicit guidance for the independent regulator on the role and derivation of the 'service access charge' component of pricing.

Community Service Obligations

The South Australian Government announced an increase in concessions from July 2010. According to the associated media release[18], there is currently an estimated:

- 215,000 South Australians in receipt of the energy concession,
- 130,000 owner-occupied recipients of the water concessions,
- 35,000 tenant recipients of the water concession, and,
- 130,000 recipients of the sewerage concession.

The water concession is applied at 20 per cent of the total annual water bill, from a minimum of \$100 to a maximum of \$200. The average water bill (for 190kL annual consumption) will be \$470. 20% is just under the minimum amount of \$100.

Statewide Pricing and Concessions are key commitments from Government that form critical components of the 'package' of reforms from a consumer perspective. However these aspects are not necessarily afforded the legislative backing (and subsequent certainty) as the complementary economic aspects of the reforms.

SACOSS is of the view that the concessions framework and the service availability charge must be linked. SACOSS is of the view that the minimum concession should be enough to meet the costs of the service availability charge and the *Essential Residential Consumption Amount*.

This would ensure access to a modest amount of water for vulnerable members of the community regardless of their financial circumstances, and ensure that the value of this is preserved over time as prices rise.

[18] www.ministers.sa.gov.au/images/stories/mediareleasesFEB10/concessions for the many.pdf and www.ministers.sa.gov.au/images/stories/mediareleasesJUL10/concessions.pdf

This will also ensure that Government remains as an interested and active stakeholder in the consultation processes around regulated pricing conducted, independently by ESCOSA.

The current concessions are detailed on the Department of Families and Communities website[19].

Recommendation:

In Part 3 – Administration, insert ***Division 5 – Community Service Obligations***

New clause – The Minister shall approve and fund a scheme for the provision by the State of customer concessions and the performance of community service obligations by water Industry entities (also refer to s26 (3) (r)).

New clause – the concession scheme shall establish eligibility criteria set by Regulation and, as a minimum, fund residential customers[20] to an amount equal to the GST inclusive price of the regulated 'service access charge' plus the 'water usage charges' applicable to the *Essential Residential Consumption Amount.* Further the concessions scheme shall provide an amount towards the sewer charges that is equal to $100 in 2010-11 and indexed annually to preserve its proportionality with the average sewer charge to residential customers.

Consumers that are residential tenants shall be entitled to a concession amount equal to the 'water usage charges' applicable to the *Essential Residential Consumption Amount.*

s26 (3) (r) and s26 (5) should then reference this Division.

The current concession expenditure by Government is not disaggregated to identify water separately. However, the proposal above would see the Owner Occupier water concession increase from a maximum $210 to $142.40 (the current Service Access Charge) plus $1.28 per kL of Essential Residential Customer Amount (ERCA). As an example, an ERCA of around 200 litres per day[21] equates to 75kL pa and the concession would be $238.40. The tenants concession of between $58 and $168 would become a fixed $96.

It is envisaged that the tenant concession would have to acknowledge the payment of the service access charge by the landlord. If this charge is imposed on the tenant by the landlord (under the Residential Tenancies Act) then tenants should be able to apply for this amount to be covered by the concession (as is the case of owner occupiers).

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[19] www.dfc.sa.gov.au/pub/Default.aspx?tabid=209
[20] NOTE: final wording requires resolution of the status of tenants
[21] Taken from "How does your household water consumption compare?", average consumption for 'no garden' single person households at www.sawater.com.au/NR/rdonlyres/EE675983-EB22-4EE6-AB0E-D7E8ECA71335/0/NewAccountFlyer_Jul09.pdf

ISSUE 3. Hardship Provisions

S26 (4) provides an option for the Minister to require License conditions to require the Licensee to provide for customers experiencing hardship.

The National Energy Customer Framework (the National Energy Retail Law, Rules and Regulations) provides an example of a much more comprehensive treatment of a very important subject area.

SACOSS is of the view that SA Water's treatment of customers in hardship in recent years has not been the cause of any substantial concerns. However, the Bill is providing for an industry open to new Licensees with different accountabilities and/or approaches to retail sales that will almost certainly bring with it a different approach to customers in hardship. For this reason we believe is much more appropriate to elevate minimum requirements to inclusion in the Bill. We note that a substantial part of ESCOSA's Statement of Issues asks question on how these matters should be handled and what matters should be included.

Recommendation:

SACOSS agree with the submission of COTA Seniors Voice that the Bill must be strengthened in regard to hardship provisions. SACOSS will make officers available to work with the Department on these matters.

ISSUE 4. The legislative and regulatory treatment of customers vs consumers

One of the distinguishing features of the regulatory framework for water is the issue of customers vs consumers and the impact of this distinction on the relationship between landlords and tenants.

Section 5.3.2 of the ESCOSA Statement of Issues paper refers to this issue and affirms the role of landlord and tenant legislation in establishing the contractual relationship between the landlord as 'customer' in the water market and tenant as 'consumer'.

SACOSS is of the view that there remains a degree of ambiguity in the Draft Bill as to the status of tenants as 'consumers' rather than customers. For example "What protects a tenant from the impacts of a landlord that can't or won't pay their water bills?"

SACOSS notes the potential for the Minister to designate 'customers' under Part 1 – Preliminary s4 – Interpretation

> *(2) A reference in this Act to designated customers, or designated classes of customers (or customers of a designated class), is a reference to customers, or classes of customers, designated by the Minister by notice in the Gazette.*
>
> *(3) The Minister may –*
>
> > *(a) in acting under subsection (2), make different designations with respect to different sections of this Act;*
> >
> > *(b) by further notice in the Gazette, vary or revoke a previous notice under subsection (2).*

SACOSS notes with some concern that there may be a number of circumstances (realistically imaginable) that the current form of the Bill would not resolve. By way of example consider the following:

A landlord, as the 'customer' under the Bill receives a Water account for their rented out property. Tenant receives an account from their landlord for their past water consumption. Tenant pays the landlord. Landlord, for reasons various, does not pay the Water account. After failing repeatedly to recover payment, Water Industry entity imposes a flow restriction. Tenant, as consumer but not customer, has no status in proceedings yet is the entity impacted by the action.

SACOSS is of the view that this is far too basic a set of circumstances to be left out of the legislation and to rely on a revokable Ministerial determination.

Recommendation

The status of residential tenants must be unambiguously treated in the legislation

ISSUE 5. Interactions with other consumer legislation

SACOSS is of the view that the Bill should be accompanied by an analysis and statement of the interaction with key consumer legislation that also operates in this area including the Australian Consumer Law, the Residential Tenancies Act 1995 (and Regulations 2010) and any others.

The Residential Tenancies Act 1995[22] (as amended 2010) refers to water rates and charges at s73.

Division 11—Rates, taxes and charges

73—Rates, taxes and charges

(1) It is a term of a residential tenancy agreement that the landlord must bear all statutory rates, taxes and charges imposed in respect of the premises.

(2) However, rates and charges for water supply are to be borne as agreed between the landlord and the tenant.

(3) In the absence of an agreement—

(a) the landlord will bear the rates and charges for water supply up to a limit fixed or determined under the regulations; and

(b) any amount in excess of the limit is to be borne by the tenant.

Residential Tenancies Regulations 2010[23]. Part 2 s12 Prescribed Limit – water rates (s73 of Act)

1.9.2010—Residential Tenancies Regulations 2010
General provisions—Part 2

12—Prescribed limit—water rates (section 73 of Act)

For the purposes of section 73(3) of the Act, the limit up to which the landlord will bear rates and charges for water supply in the absence of an agreement on the matter under section 73(2) of the Act is fixed at—

(a) the supply charge for the premises under Part 5 of the *Waterworks Act 1932*; and

(b) the water rate for the supply to the premises of 136 kilolitres of water for each financial year.

Recommendation:

The updated draft Bill be released for consultation with an accompanying explanatory paper and statement of interactions, overlaps or gaps (from a consumer perspective) with key consumer legislation such as the Australian Consumer Law, the Residential Tenancies Act 1995 (and Regulations 2010) and others

[22] www.legislation.sa.gov.au/LZ/C/A/RESIDENTIAL TENANCIES ACT 1995/CURRENT/1995.63.UN.PDF
[23] www.legislation.sa.gov.au/lz/c/r/residential tenancies regulations 2010/current/2010.188.un.pdf

ISSUE 6. Advocacy opportunity and capacity

SACOSS has been actively engaged in advocacy and representation on energy market reform at least since 2002 when SACOSS and COTA were funded by ESCOSA and the Energy Industry Ombudsman to conduct a research project entitled ‘The Low Income Energy Consumers’ – a project designed to better understand the issues for vulnerable consumers in the lead up to Full Retail Contestability in 2003.

SACOSS and its members provide representation to a number of industry and regulator’s committees (including ESCOSA, SA Water, Australian Energy Regulator, the Minister’s Energy Consumer’s Council, AGL, Origin Energy and others). SACOSS has constantly fought to provide resources to meet these commitments and to be an active and relevant contributor to the regulatory processes in the electricity, gas, telecommunications and water industries.

The very nature of the financial circumstances of the consumers we represent means that a constituency funding model is unviable. For this reason SACOSS has pursued numerous grants and project funding over the years to retain a meaningful capacity. There have been times where funding gaps have appeared and staff have not been able to be retained.

SACOSS is of the view that an element of the reform package must be a mechanism to provide capacity for consumer advocacy as well as the opportunity to advocate. SACOSS fully supports the ESCOSA Consumer Advisory Committee as a vehicle to engage with the regulatory process and ESCOSA consultation processes ensure we will have adequate opportunity to participate. What is missing is the capacity to do so.

SACOSS’s energy work is largely funded through the AEMC’s Consumer Advocacy Panel. The Panel provides grants for capacity building (annual grants), specific advocacy projects (such as key consultation processes) as well as small grants for research projects. This funding also allows SACOSS to engage external expertise from time to time.

The Australian Communications Consumer Action Network is a key example from the telecommunications industry of a body with a crucial advocacy (and devolved funding) function. The seed funding for this organisation has been provided by the Commonwealth Department of Broadband, Communications and the Digital Economy.

From ACCAN’s recent Annual Report:

> *In May 2008 the Minister for Broadband, Communications and the Digital Economy (DBCDE), Senator Stephen Conroy, held a forum to consider ways that consumers could have a stronger voice in telecommunications issues. The forum held in Canberra, was attended by representatives from consumer groups, government and industry.*
>
> *The Minister highlighted his belief that consumers <u>must be adequately represented in telecommunications policy making</u>, especially in an environment of continual technological change, globalisation, evolving market structure and new business models. He expected consumer groups to be “fearless friends” and to speak out and be “feisty”.*

SACOSS believes that funding must be provided to enable detailed and expert protection and representation for consumers and especially for those consumers who are likely to be most vulnerable. This would mean having, at minimum, a similar opportunity to apply for resources and actively participate in the reform process is critical to the functioning of the regulatory processes and essential to the legitimacy of the reform package being seen as truly in the interests of consumers. Ideally however rather than requiring application it might involve a combination of properly directed long term funding and investment in consumer advocacy protection and some complementing funding which could be subject of application.

Recommendation:

The legislation include reference (Division 3) to the establishment of a Consumer Advocacy and Research Fund (CARF) that is funded by market participant fees and has a minimum annual budget equal to 1100 times the average residential water bill (which, at $470 for an average 190kL per annum, currently equates to $517,000 per annum). CARF would make grants available under arrangements and priorities agreed by consultation with the Consumer Advisory Committee(s) created under Division 3. Priority would be expected to include work that promotes the interests of consumers with a disability and low-income and regional consumers.

Summary

Recommendation 1

In Part 3 – Administration, insert ***Division 4 – Essential Residential Consumption***

New clause – An *Essential Residential Consumption Amount* is an amount of water considered to be provided to residential customers and consumers on the basis of universal access. The amount to be determined by consultation with the Consumer Advisory committee(s) established under Division 3 and published in the Regulations.

Recommendation 2

The Bill must contain more explicit guidance for the independent regulator on the role and derivation of the ‘service access charge’ component of pricing.

Recommendation 3

In Part 3 – Administration, insert ***Division 5 – Community Service Obligations***

New clause – The Minister shall approve and fund a scheme for the provision by the State of customer concessions and the performance of community service obligations by water Industry entities (also refer to s26 (3) (r)).

New clause – the concession scheme shall establish eligibility criteria set by Regulation and, as a minimum, fund residential customers[24] to an amount equal to the GST inclusive price of the regulated ‘service access charge’ plus the ‘water usage charges’ applicable to the *Essential Residential Consumption Amount.* Further the concessions scheme shall provide an amount towards the sewer charges that is equal to $100 in 2010-11 and indexed annually to preserve its proportionality with the average sewer charge to residential customers.

Consumers that are residential tenants shall be entitled to a concession amount equal to the ‘water usage charges’ applicable to the *Essential Residential Consumption Amount.*

s26 (3) (r) and s26 (5) should then reference this Division.

Recommendation 4

SACOSS agrees with the submission of COTA Seniors Voice that the Bill must be strengthened in regard to hardship provisions. SACOSS will make officers available to work with the Department on these matters.

Recommendation 5

The status of residential tenants must be unambiguously covered in the legislation.

Recommendation 6

The updated draft Bill be released for consultation with an accompanying explanatory paper and statement of interactions, overlaps or gaps (from a consumer perspective) with key consumer legislation such as the Australian Consumer Law, the Residential Tenancies Act 1995 (and Regulations 2010) and others.

[24] NOTE: final wording requires resolution of the status of tenants

Recommendation 7

The legislation include reference (Division 3) to the establishment of a Consumer Advocacy and Research Fund (CARF) that is funded by market participant fees and has a minimum annual budget equal to 1100 times the average residential water bill (which, at $470 for an average 190kL per annum, currently equates to $517,000 per annum). CARF would make grants available under arrangements and priorities agreed by consultation with the Consumer Advisory Committee(s) created under Division 3. Priority would be expected to include work that promotes the interests of consumers with a disability and low-income and regional consumers.

APPENDICES

1. Electricity Price Rise Media Release (SACOSS)
2. Cost of Living Report (SACOSS)

Justice, opportunity and shared wealth for all South Australians

Media Release *For Immediate Release* **14 December 2010**

Concession increases and changed housing design needed in wake of another extraordinary electricity price rise

The South Australian Council of Social Service responded to today's announcement of a 12% increase in the price of electricity by calling for immediate increases in government concessions for low income households, and long term changes in design requirements for new houses to build in higher energy efficiencies.

SACOSS Executive Director, Ross Womersley said, "The astonishing 12% increase announced today will mean approximately $140 a year extra on to the average power bill. That is in addition to the increase in July this year which added an average $60 per annum to the average electricity bills. Put together with massive increases in the price of water and gas this is an exceptional increase to the family budget and one which will swamp anyone living on a low income.

"A $140 per year price rise for electricity eclipses the $30 per year increase in concessions for low income households announced earlier this year and underlies the importance of the calls SACOSS has been making for concession increases and for concessions to be indexed to price rises."

"We are alarmed that today's extraordinary rise is much more than the 7% figure flagged in the Essential Services Commission draft decision published in September this year. We do not believe this increase is justified."

"The pattern of rising prices is creating financial stress in the community and these price rises will push some people into energy poverty – the inability to pay for basic necessities like electricity."

"This is especially true for those with special needs. For instance, there are a range of medical conditions like Multiple Sclerosis and Parkinson's Disease where heat intolerance is a major problem. Those people have little choice to but to turn on their air-conditioners and run them for long periods at peak periods – spending an estimated 7 times more running air-conditioners than average South Australians. These price increases will hit those people, many of whom also struggle financially, very hard."

"The South Australian government must take action to help people facing rising electricity prices. Firstly, the government must increase the concessions available to cover these price rises and index the concessions to future electricity price rises. And secondly, as a longer term strategy, they need to look at the design regulations for new buildings to ensure greater levels of energy efficiency."

"Further help with retro-fitting existing houses and teaching people about lifestyle and energy usage patterns will also be important for decreasing energy bills in the long term."

SACOSS
South Australian Council of Social Service

Cost of Living Update

No.4, November 2010

SACOSS Cost of Living Update
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Introduction

This report tracks changes in the cost of living for the least advantaged in South Australia. It differs from the official Cost Price Index (CPI) because the CPI is based on all households, and therefore includes expenditures that are not part of the expenditure of the poorest households. Those poorer households simply can't afford the items that make up the CPI basket of goods. This is important because if expenditure on bare essentials make up the vast bulk (or entirety) of expenditure for low income households, then the price increases in those areas are crucial whilst price increases on other goods are largely irrelevant. However, crucial increases in the prices of bare essentials may be masked in the generic CPI by rises or falls in other goods and services in the CPI basket.

This SACOSS *Cost of Living Update* is the fourth in a series of reports and the second to utilise the Australian Bureau of Statistics' Analytical Living Cost Index (ALCI), which is now being produced quarterly (ABS, 2010a). The ALCI is an index of average expenditures weighted by reference to the last Household Expenditure Survey (2003/04). It uses a different methodology to CPI (see Explanatory Note 1) and it disaggregates expenditure by identifying four different household types. It then tracks changes in the cost of goods and services for the average expenditure in each household type. The household types are categorized as those having their primary income source as:

- employment
- age pension
- other government transfers (hereafter 'other welfare recipients')
- self-funded (retirement).

These make up 90% of households in Australia (ABS, 2010b) although this *Cost of Living Update* focuses only on the "aged pension" and "other government transfer recipient" figures, as these represent the more disadvantaged groups.

While the ALCI is more nuanced than the generic CPI, it still has limitations in being able to represent the real living costs of the most disadvantaged in those broad groups. These limitations are detailed in the Explanatory Note 2, but they largely relate to the fact that any indicator of *average* expenditures for household groups will hide impacts for particular subgroups. For instance, a pensioner owning their own home outright is in a very different financial position from a pensioner who has to pay market rents. The other major issue is that the ALCI is only published with national figures, which means that it may be difficult to trace Adelaide- or South Australia-specific issues. Nonetheless, the ALCI does provide a robust statistical base, a longer time series, and quarterly tracking of changes in the cost of living for welfare recipients.

This report adds to the ALCI by:

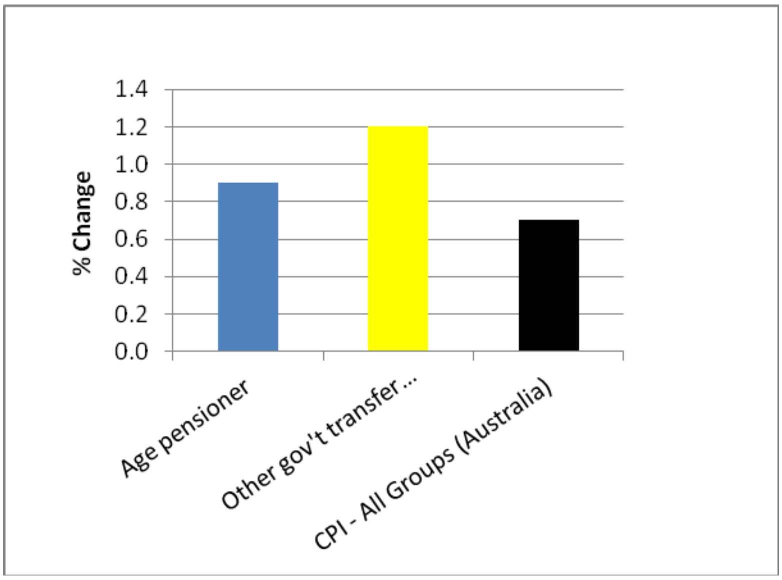
- placing dollar values on the cost of living changes
- including an analysis of the price of utilities (electricity, gas, water and sewerage), as these are becoming an increasingly important driver of poverty for vulnerable and disadvantaged South Australians.

September Quarter 2010 Cost of Living Changes

Change from Previous Quarter

In the September 2010 quarter, the ALCI for Aged Pensioners and Other Welfare Recipient households increased by 0.9% and 1.2% respectively (ABSa). That is, the cost of living for the average household in those categories increased by 0.9% and 1.2%. By comparison, the national CPI (All Groups) increased 0.7% (ABS, 2010c). In effect, the cost of living for welfare recipients (other than pensioners) rose faster than for the population as a whole in the last quarter. The differences can be seen in Figure 1:

Figure 1: Increases in ALCI and CPI September Qtr 2010



As an index of price changes the ALCI tracks only percentage changes, but it is possible to extrapolate from those figures to put a dollar value on the price rises.

Given that welfare recipients have very low incomes, it is unlikely that any or any significant amount of the weekly benefit can be saved — at least for those not able to supplement their government transfer with other incomes. For someone on the base level of benefits, and assuming that they spend all their income, the changes in cost of living are shown in Table 1.

Table 1: Cost of Living Change September Qtr 2010

	Base Rate Benefit per week (1 July 2010)	**ALCI Change**	**$ Amount per week**
Aged Pensioner	$322.10	0.9%	$2.90
Newstart with two children (Other Welfare Recipient)	$250.35	1.2%	$3.00

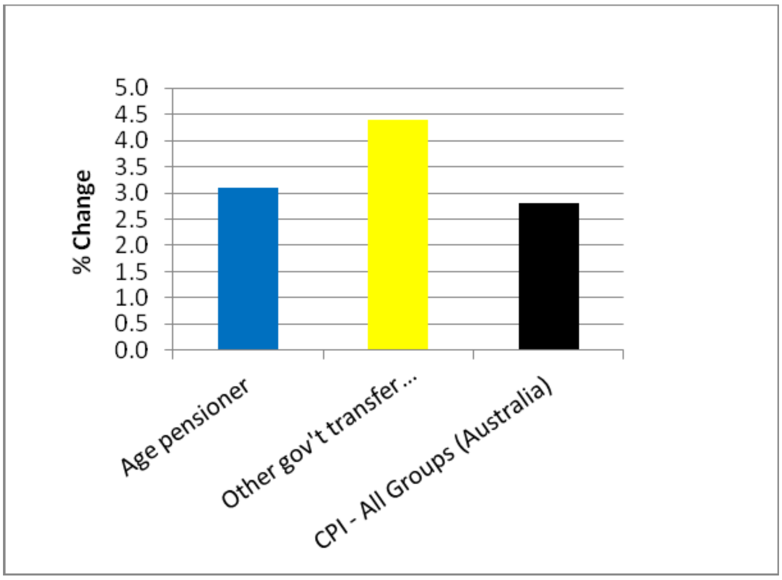
(Source: Centrelink, 2010; ABS, 2010a)

That is to say, for those who fit the assumptions above the cost of living increased in the June Quarter by $2.90 per week for aged pensioners, and by $3.00 per person for a Newstart recipient with two children.

Change from Corresponding Quarter 2009

Over the last year (Sept Qtr 2009 – Sept Qtr 2010), the ALCI for Aged Pensioners and Other Welfare Recipient households increased by 3.1% and 4.4% respectively (ABS, 2010a). That is, the cost of living for the average household in those categories increased by 3.1% and 4.4%. By comparison the national CPI (All Groups) increased 2.8%, with a 2.6% increase for Adelaide (ABS, 2010c). In effect, the cost of living for pensioners and welfare recipients rose faster than for the population as a whole over the last year. The differences can be seen in Figure 2.

Figure 2: Increases in ALCI & CPI September Qtr 2009-10



Using the same assumptions as above, the dollar amounts of the ALCI cost of living increases over the last year are as follows:

Table 2: Cost of Living Change Sept Qtr 2009 – Sept Qtr 2010

	Base Rate Benefit per week (1 October 2009)	**ALCI Change**	**$ Amount per week**
Aged Pensioner	$307.90	3.1%	$9.55
Newstart with two children (Other Welfare Recipient)	$246.65	4.4%	$10.85

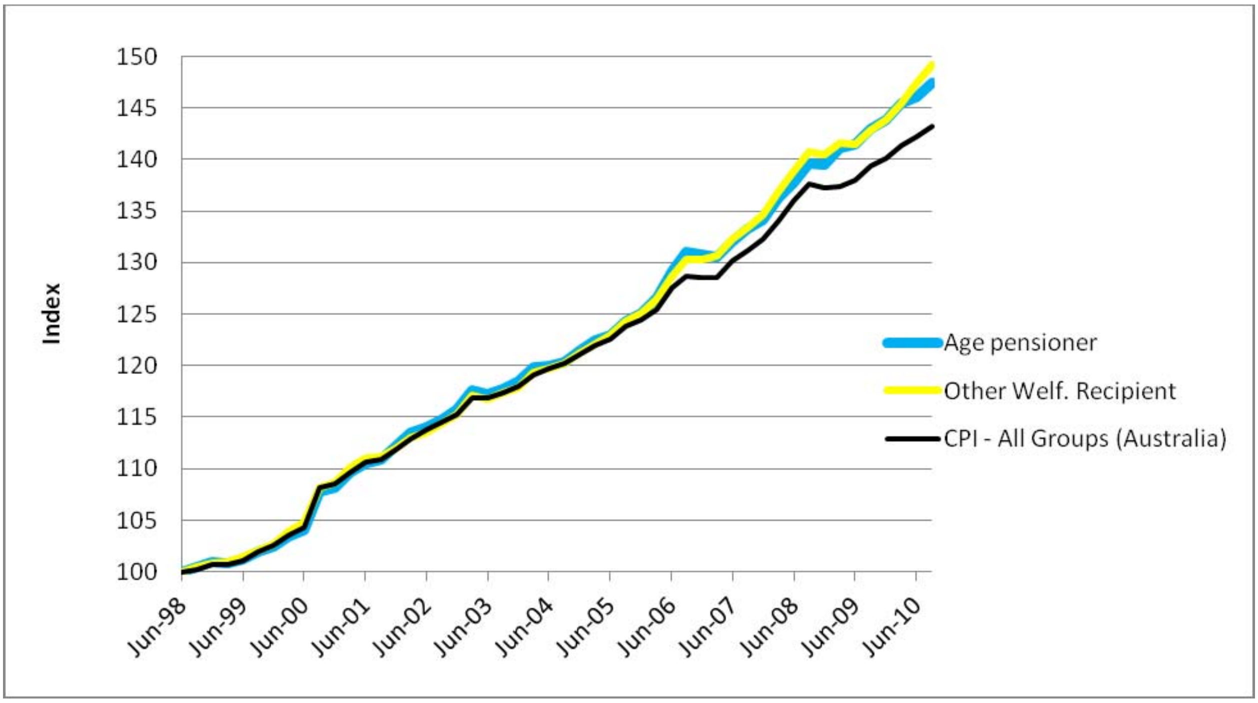
(Source: Centrelink, 2010; ABS, 2010a)

That is to say, for those whose only source of income is a base-rate government benefit and who spend all their income, the cost of living over the last year increased by about $10 per week. The base rate pension rose by $21.30 in the same period, while Newstart rose by $7.45. Thus, while the federal government commitment to raising aged pensions beyond CPI in September 2009 and March 2010 made a difference, those on Newstart are falling further behind, with the cost of living rising faster than their income.

Longer-term trends

The original SACOSS *Cost of Living* updates noted a trend where the cost of living for welfare recipients had been rising faster than CPI since 2006. The ALCI allows us to compare CPI and costs of living for welfare recipients over a longer time frame. Figure 3 tracks trends since 1998.

Figure 3: ALCI & CPI Indexes



It is evident from Figure 3 that the CPI and the rises in costs for the welfare recipients tracked closely for a period, but that since 2006 the costs for welfare recipients did indeed begin to rise faster than CPI. That trend has continued since. The ALCI for aged pensioners is now 4.2 percentage points higher than CPI, while for other welfare recipients the ALCI is 6 percentage points higher than CPI, which is to say that the prices for goods and services bought by welfare recipients have increased by 4.2 and 6 percentage points more for those groups than prices across the board.

In current dollars, and again using the assumptions above, every percentage point represents the cost of living going up approximately $3.30 per week for aged pensioners and $2.55 for a Newstart recipient on base rates.

Utilities – Rising Prices and Trailing Concessions

Key findings

- Utilities price rises continue to outstrip CPI and recent price rises are widening the gap

- The value of concessions is declining in real terms despite recent increases:

  - July 2010 combined water & energy concession rise per quarter: $10
  - August 2010 rise in average bill for water and electricity per quarter: $36

  - Projected 2011 price increases of 7% for electricity and 21.7% for water will outstrip the July 2011 concession increase of 5%.

- The GST windfall from these recent rises are in fact greater than the recent increases in the value of state government concessions:
  - Annual GST revenue increase due to price rises in 2010-11: $15m
  - Annual cost of concession increases: $ 8m.

Utilities Expenditure and Price Trends

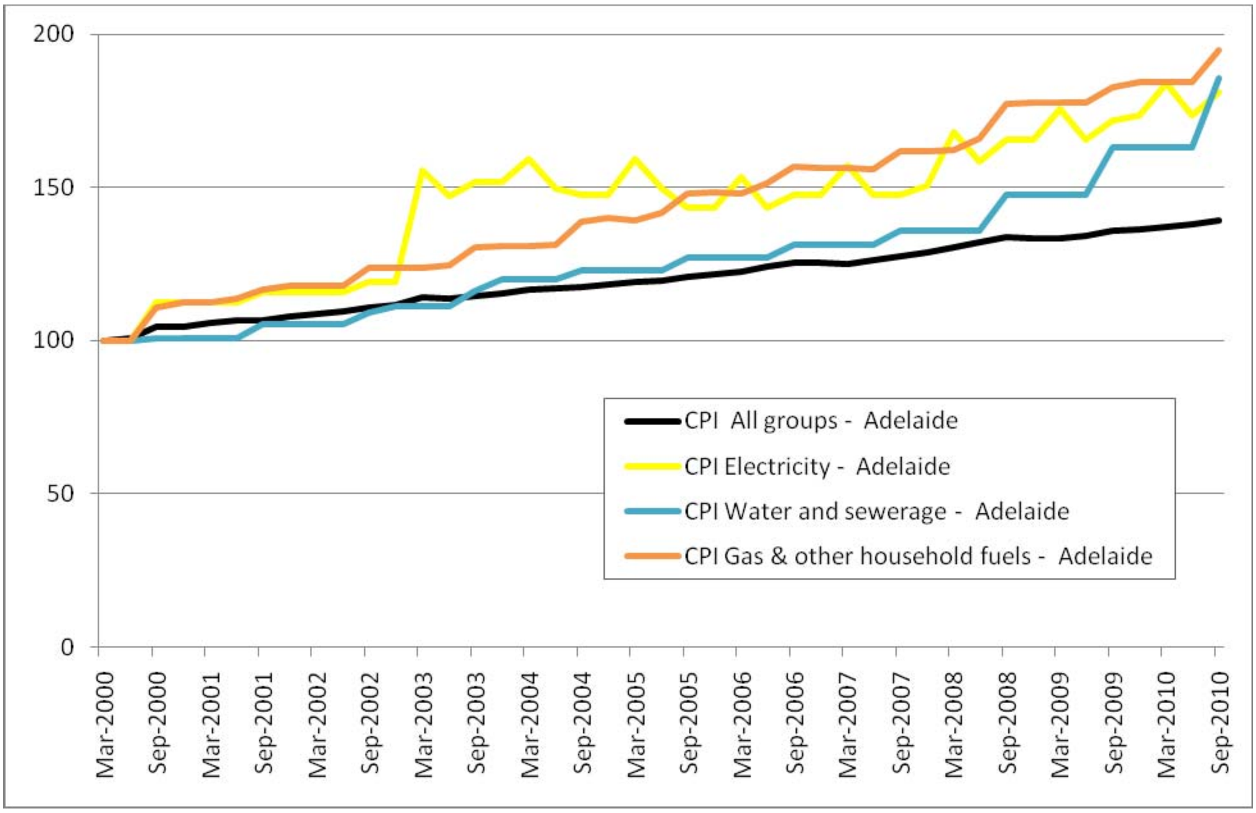
Having access to affordable utilities like electricity, gas, water and sewerage is a necessity and basic right of people living in a modern society. Those services are important to health and wellbeing, and lack of access to those services is a barrier to social participation.

From a consumer's perspective, the cost of utilities is as non-discretionary as rent so it is appropriate to consider utilities as an essential part of the cost of housing.

SACOSS estimates that expenditure on utilities can be up to 9% of expenditure for average welfare recipients and low income earners (see Explanatory Note 3). This exacerbates the situation noted in the last SACOSS *Cost of Living Update: July 2010* which showed that, based on rent alone, welfare recipients were very likely to be living in housing stress or extreme housing stress (ie. where people on low incomes face housing costs amounting to more than 30% of their income, while *extreme* housing stress is where housing costs are more than 50% of income) (SACOSS, 2010).

While the ALCI incorporates utilities as part of housing costs (and does not disaggregate this to show utilities expenditure separately), the CPI does have disaggregated data and includes a time series of changes in utility prices by capital city. Using CPI data, Figure 4 illustrates the trends in utilities costs for Adelaide households over the last decade (CPI data normalised to a base of year 2000).

Figure 4: Consumer Price Index: Various Utilities – Adelaide 2000-2010



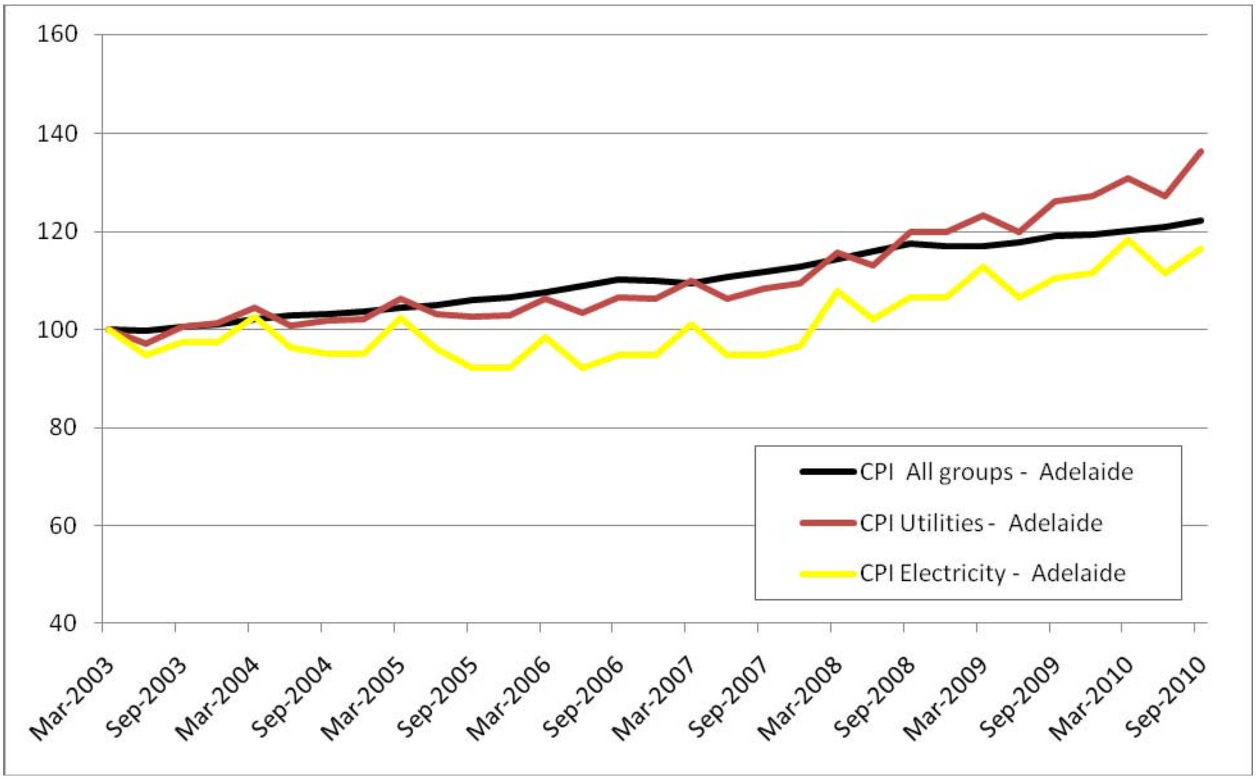
As can be seen, the indices for all the main utilities track well above the general CPI (All Groups) for the entire decade. That is, over the last ten years the price of utilities has increased more than average prices across the economy.

An obvious feature is the spike in electricity costs in 2003. This was related to the introduction of 'Full Retail Contestability' (FRC) for electricity, the systems to allow for consumers to choose retailers, in January 2003. After the initial spike, electricity prices flattened out but have recently begun rising again and are now just short of returning to the point where, in real terms, the rises in the cost of electricity have matched CPI. This can be seen more clearly in Figure 5, which normalises the data back to the March quarter of 2003 (ie resets all indices to 100) to illustrate the trend post-FRC.

Figure 5 also includes the combined CPI Utilities index, which shows price increases for utilities overall. The fact that this line reflects the seasonal movements in CPI Electricity shows the importance of electricity prices relative to the other utilities. The 2003/04 Household Expenditure Survey shows that average expenditure on electricity in Adelaide was three times that of gas, and twice that of water and sewerage (ABS, 2006). However, since that survey (which is the latest published) the price rises in water and gas evident in Figure 4 suggest that the next household expenditure survey may see different relative weightings between the various utilities, and also for the proportion of the household budget dedicated to utilities.

More immediately, it is evident from Figure 5 that the Utilities index has been 'above CPI' since mid-2008 and is getting further away — suggesting that utilities prices are now rising much faster than CPI.

Figure 5: Consumer Price Index: Electricity, Utilities – Adelaide 2000-2010



Utility Prices and the Value of Increased Concessions 2010

2010 has seen sharp rises in the costs of electricity, gas and water, as is evident from both Figures 4 and 5. Due to the way these industries are regulated, we are able to put dollar figures on these price rises and access information on the reasons why prices rise.

Electricity prices increased from 1st August 2010, adding to the 1st July increases in gas and water. Based on figures from the Essential Services Commission of SA (ESCoSA, 2010a, b) and SA Water (2010), it is possible to calculate the cost increases a household on the standing contracts and consuming an average amount of electricity and gas will experience this financial year. Table 3 shows the rises expressed as a quarterly amount. It is important to note that these are *not* rises each quarter, rather they are the *impact of the rises across the year* on a quarterly bill.

Table 3: Rise in Utilities Prices in 2010 expressed as a quarterly amount

Utility & yearly usage	Qtrly Bill Rise	Percent Increase
Electricity (5000kWh)	$15.15	5.6%
Gas (24,000MJ)	$4.91	3.1%
Water (190kL)	$21.00	21.7%
Total	**$41.06**	

In February 2010, the South Australian Government announced a "Significant Boost for Concessions" with the energy concession increasing by $7.50 per quarter ($30 per annum) and the water concession increasing by up to $2.50 per quarter. These new amounts applied from 1st July 2010, but ***it can be seen that the concession rise of $10 per quarter nowhere nearly covered a rise of approximately $36 - $41 in the average bill*** (depending on gas and/or electricity usage).

Of note is the steady increase in the fixed “supply charges” of these services — the amount paid regardless of the amount of electricity, gas or water consumed. These increases are detailed in Table 4.

Table 4: Rise in Fixed Supply Charges expressed as a quarterly amount

Utility	New Yearly Amount	2010 Rise	Percent Increase
Electricity	$179.00	$14.55	9%
Gas	$218.20	$9.45	4.5%
Water	$142.40	$4.80	3.5%
Total	**$539.60**	**$28.80**	

These rises in isolation will have only a modest impact on the quarterly bill (between $1.20 and $3.60). However, over the course of the year it will now cost nearly $540 just to have utility services remain connected (not even to pay for what is being used). This is a very significant sum of money — particularly for low income households.

Again, an increase of $28.80 per annum in fixed supply charges makes a large dent on the combined increase in energy and water concessions of up to $40, and that is before a drop of water, electricity, or gas is used.

Looking ahead

ESCoSA has commenced an Inquiry into the Electricity Standing Contract Prices it should fix to apply from 1 January 2011 to 30 June 2014. A DRAFT determination was made in September 2010 and a final decision is expected soon. Any increase in the standing contract price is expected to flow through to market contracts over time. According to ESCoSA (2010c):

> *Based on the Commission's Draft Price Determination, a typical residential customer on the standing contract consuming 5,000kWh per annum would experience an overall price increase of 7% on 1 January 2011.*

In relation to future water pricing, the Transparency Statement produced by the South Australian Government (2010) indicates that SA Water’s revenue will need to grow in order to provide a return on the large capital investments of the Water for Good strategy (which includes the Port Stanvac Desalination Plant). According to ESCoSA (2010d):

> *The 2010/11 Transparency Statement contains a revised projection of revenue needs to 2014/15. It states that, based on current costs, annual increases in potable water prices of 21.7% in real terms until 2013 will see revenue increase to marginally above its targeted “Go Forward Full Cost Recovery” (GFFCR) in 2013/14. Under this in-principle revenue direction, water prices would almost double over the next four years in order to fully recover costs associated with the Government’s major water security projects, and other costs.*

In total, for an average (all electric) household consuming 5000kWh electricity and 190kL of water, this represents a rise of $140 for electricity and $84 for water, giving a total rise of $224, or approximately 15%, for utilities in the 2010-11 financial year.

Utility Concessions

South Australian households are able to access both state and federal government payments to assist with the cost of utilities. The Australian Government provides a Utilities Allowance to a small group of recipients. The South Australian Government provides Energy and Water concessions to a larger number of households.

The South Australian Government increased concessions from July 2010, and promised further increases as detailed in Table 5.

Table 5: SA Utilities Concessions

	Concession 2003-2010	Current Concession	Concession in 2011/12
Energy	$120	$150	$157.50
Water (maximum, for tenants	$160	$168	$176.40
Water (maximum, for owner-occupiers)	$200	$210	$220.50
Sewerage	$95	$100	$105

According to the government, there is currently an estimated:

- 215,000 South Australians in receipt of the energy concession
- 130,000 owner-occupied recipients of the water concessions
- 35,000 tenant recipients of the water concession
- 130,000 recipients of the sewerage concession.

The energy concession was last increased in 2003 from $70 to $120 and extended to self-funded retirees for the first time. The most recent increase to $150 also extended eligibility, and a further 5% increase is promised for each of the next two financial years.

The water concession is applied at 20% of the total annual water bill, from a minimum of $95 to a maximum of $200. The average water bill (for 190kL annual consumption) would currently be $470, so 20% ($94) would see the concession as the minimum amount of $95. A 5% increase next year will see a concession payment of almost $99.

With electricity prices set to rise by 7% and water by 21.7%, the 5% future increase in concessions clearly will not keep pace with rising prices.

State Government Concessions and GST Income

The utility bills of households incur the Goods and Service Tax (GST) at the standard rate of 10%. According to ESCoSA (2009) total residential electricity revenue in 2008/09 was $810m and gas was $205m, totalling just over $1bn and generating around $100m in GST receipts.

According to the same report, there were 219,000 customers in receipt of the energy concession. The July 2010 energy concession increase of $30pa will have a budget impact of around $6.5m per annum. Energy price increases over the 2010-11 financial year (ie the August 2010 increase and the expected January 2011 increase) are likely to see 370,000 gas customers paying an average $20 extra, and 700,000 electricity customers paying around $140 extra (both ex GST), per annum. These increases will see more than $100m extra energy expenditure annually, creating extra GST revenue of around $10m for a full year.

A household consuming the average 190kL of water per annum will see their annual supply and consumption charges increase from $386 in 2009-10 to $469 in 2010-11 — an increase of $84 generating an additional $7.64 in GST, on average, per customer. Based on 700,000 households, the total increase in GST from residential customers is in the order of $5m for the 2010-11 financial year. By contrast, the water concession increased by around $5 on average for tenants and owner-occupiers. The estimated increase in concession payments (including the sewer concession) is in the order of $1.5m to $2m per annum (see Explanatory Note 4).

For both energy and water, the concession increases appear to be less than the windfall gain in GST revenue from increases in electricity, gas and water pricing.

There is also a further GST windfall for the state government. According to the leaked report of the Sustainable Budget Commission (2010), the Department for Families and Communities (DFC) were expecting to benefit from a recent ruling by the Australian Taxation Office:

> *DFC received an ATO private ruling in January 2007 advising that GST was not recoverable on payments made by DFC to energy retailers on account of discounts provided to eligible customers.*
>
> *Following changes to ATO published views, DFC requested a review of this ruling which was received in February 2010 and now enables DFC to recover GST on energy concession payments made to energy providers.*

What this means is that until the February 2010 ruling, DFC was paying $132 per concession recipient to the recipient's retailer — $120 as a concession payment for crediting against the customer's account and $12 for the retailer to forward on to the ATO as part of the GST collected from its customers. The ruling means that DFC is now able to claim this GST expenditure as an offset against any GST it collects, and the 2010-11 state budget papers refer to a $4.6m once-off recovery of GST revenue relating to energy in 2009/10 (Treasury, 2010, Vol 3, p 10.45).

The impact on consumers should be nil, but it is of note that the 'savings' here have theoretically part-funded the recent concession increases.

The comparison of GST to concessions is also of interest even if one considers the GST raised from just concession recipients. If, for example, the 220,000 energy concession recipients paid, on average, $1000 each on energy bills (below average electricity and gas expenditure), this would result in $22m in GST revenue alone, compared to $33m in concessions *if every concession was paid at the maximum level* (the budget figures do not disaggregate the different concession expenditures).

Given that these are conservative figures (based on underestimating energy expenditure and overestimating the concession payout), it is arguable that, for energy at least, concessions are very close to 'revenue neutral' for the South Australian Government and amount, on average, to not much more than a GST refund for eligible households. Of course, the relative value of the concessions vary with the consumption levels of individual consumers. Many elderly consumers are likely to have well below average consumption and find that the concession is worth much more than GST component of their bills. Families, with higher consumption may well find that the concession is worth less than the GST.

Overall, the analysis above suggests that increasing the concessions to cope with increasing prices is not as big an impost on the state budget as it would first appear.

The True Value of Indexation & Income Support Payments

The other issue relevant to energy costs and concessions is the Commonwealth Government Utilities Allowance. This is a discrete quarterly payment made to certain categories of welfare recipients and it has also been rolled into a generic pension supplement for other categories of income support. The current annual rate is $538.00, or $134.50 per quarter, and it is indexed to CPI in March and September (Centrelink, 2010).

Clearly, based on the observed relationship between the CPI - Utilities Index and CPI - All Groups Index, the value of the Utilities Allowance diminishes in real terms over time if the CPI - All Groups index is used. From a consumer's perspective and as a minimum, all concessions and allowances need to keep pace with the CPI - Utilities index which, as has been seen, outpaces the 'all groups' CPI by a significant margin.

This Utilities feature section was researched and developed by Andrew Nance from st.kitts.associates, and edited by SACOSS.

Explanatory Notes

1. CPI and ALCI

The ALCI uses a different methodology to the CPI in that the CPI is based on acquisition (ie the price at the time of acquisition of a product) while the ALCI is based on actual expenditure. This is particularly relevant in relation to housing costs where CPI traces changes in house prices, while the ALCI traces changes in the amount expended each week on housing (eg mortgage repayments). Further information is available in the Explanatory Notes to the ALCI (ABS, 2010b).

In that sense, the ALCI is not a simple disaggregation of CPI and the two are not strictly comparable. However, the differences do not matter for the way the indexes are used in this report. Both measure changes in the cost of living over time, and given the broadness of the CPI measure and its powerful political and economic status, it is useful to compare the two to highlight the differences for different household types.

2. Limitations of the ALCI Data

The ALCI is more nuanced that the generic CPI, but there are still a number of problems with using it to show the cost of living faced by the most vulnerable and disadvantaged in South Australia. While it is safe to assume that welfare recipients are among the most vulnerable and disadvantaged, any household-based data for multi-person households says nothing about distribution of power, money and expenditure within a household and may therefore hide particular (and often gendered) structures of vulnerability and disadvantage. Further, the ALCI figures are not state-based so any particular South Australian trends or circumstances may not show up.

At the more technical level, the ALCI figures are for households whose predominant income is from the described source (ie aged pension or government transfers). However, the expenditures that formed the base data and weighting (from the 2003/04 Household Expenditure Survey) (ABS, 2010b) add up to well over the actual welfare payments available (even including other government payments like rent assistance, utilities allowance and family tax benefits). Clearly many households in these categories have other sources of income beyond the welfare payment, or more than one welfare recipient in the same household. Like the CPI, the ALCI figures reflect broad averages (even if more nuanced), but do not reflect the experience of the poorest or most vulnerable in those categories.

Another example of this “averaging problem” is that expenditures on some items like housing are too low to reflect the real expenditures and changes for the most vulnerable in the housing market — as discussed in the Housing section of this *Update*.

The weightings in the ALCI are also dated (2003/04) and can not be changed until the next Household Expenditure Survey. In the meantime, the price of some necessities (like rent) may increase rapidly, forcing people to change expenditure patterns to cover the increased cost. Alternatively or additionally, expenditure patterns may change for a variety of other reasons. However, the ALCI weighting does not change and so does not track the expenditure substitutions and the impact that has on cost of living and lifestyle.

Finally, the ALCI household income figures are based on households that are the average size for that household type — 1.57 people for the aged pensioners, and 2.4 for the other welfare recipients (ABS, 2010b). This makes comparison with welfare allowances difficult. This *Update* tends to focus on single person households or a single person with two children (to align to the other welfare recipient household average of 2.4 persons). However, this is a proxy rather than statistical correlation.

3. Utilities Expenditure and Weekly Income/Expenditure

The 2003/04 Household Expenditure Survey gives disaggregated expenditures for households by state, capital city and nationally by income quintile (ABS, 2006). The categories of Domestic Power and Water and Sewerage Rates can be added to give a "utilities" expenditure, which can then be seen as a proportion of total expenditure. The following table lists this expenditure in 2003/04 dollars, and also compares the expenditure of the lowest quintile to the standard pension rate at the time.

Category	Weekly Utilities Expenditure $(2003/04)	Total Weekly Income or Expenditure	% of Weekly Expenditure
Lowest Quintile and Expenditure	20.28	413.32	4.9%
Lowest Quintile v Pension	20.28	235.35	8.6%
All Adelaide Average	36.48	849.21	4.2%

The figures vary because of different household size, national and local figures, and the expenditure figures being household averages as against a single pension rate. The next Household Expenditure Survey (conducted in 2008/09) is due for release next year and will provide more accurate measures of utility prices, and utility price rises, and arguably the changing expenditure patterns caused by disproportionate increases in prices for one essential item in the consumer basket.

4. Water concessions and GST

The increase in concession payments is estimated on the basis of a $5 average increase in each of the three concession classes: tenants (35,000 recipients), owner-occupier (130,000) and sewerage (130,000 recipients). The $5 figure is an estimate since the concession is credited at 20% of consumption charges and the average consumption charge is for 190kL per households (for which, in 20010-11, 20% = $94, the minimum amount of the concession).

The "maximum" concession increase is up 5% to $168 for tenants, and up 5% to $210 for owner-occupiers. Consumption charges for the maximum concession would be $210 (20% = $1050), which equates to about 425kL of consumption, or over twice the average. The consumption profile of concession recipients is not available, so we have assumed that the majority will receive the minimum concession. However, if we assumed a 'mid-range' average increase of $7.50 for both tenants and owner occupiers, the concession increase would total about $2m in expenditure.

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