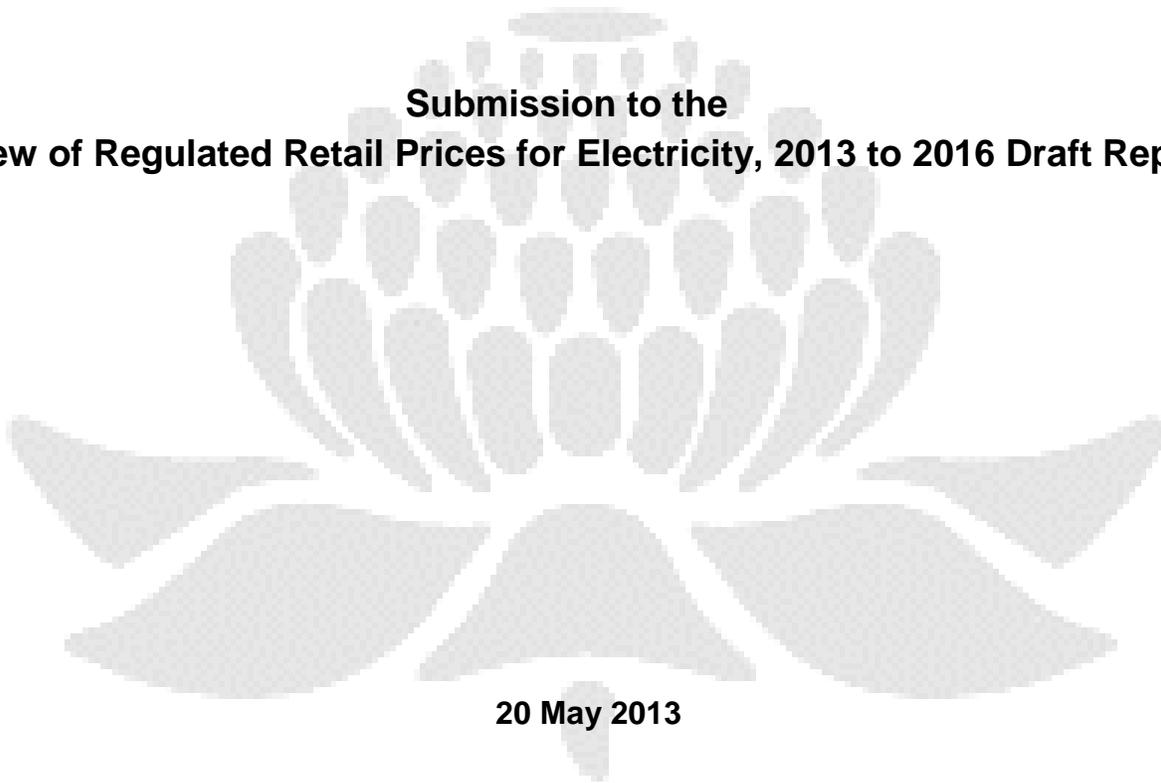


Combined Pensioners & Superannuants Association

OF NEW SOUTH WALES INC



Submission to the Review of Regulated Retail Prices for Electricity, 2013 to 2016 Draft Report



20 May 2013

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Combined Pensioners & Superannuants Association of NSW Inc (CPSA)

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CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA has 130 Branches and affiliated organisations with a combined membership of over 29,000 people living throughout NSW. CPSA's aim is to improve the standard of living and well-being of its Members and constituents. CPSA depends for the majority of its funding for core activities as a peak body on a \$440,000 grant from the NSW Government and a \$68,000 grant from the Australian Government. CPSA engages in systemic advocacy on behalf of its constituency and also auspices four services which receive Government funding: the Health Promotion Service for Older People, the Older Persons Tenants' Service, the Park and Village Service and a Community Visitors Scheme. CPSA acknowledges the potential for conflict of interest arising for CPSA and the NSW and Australian Governments as a result of this funding arrangement. CPSA is committed to managing any conflict of interest issues in an ethical manner.

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Electricity prices and low-income householders

CPSA welcomes the opportunity to make comment on the Review of regulated retail prices for electricity, 2013 to 2016 draft report.

CPSA is pleased that more moderate electricity price increases are to be expected over the next three years as many customers are still struggling to absorb the previous price rises of recent years. The NSW Auditor General reported that electricity bills have increased by approximately 80 per cent over the last five years.¹ These steep electricity price rises have had a dramatic, adverse impact on low-income householders and their ability to cover their electricity costs. This is reflected in the fact that there were 23,207 disconnections of residential customers due to non-payment of bills in 2011/12, up from 18,153 in 2007/08.²

Importantly, these increases (as a percentage of household income) are not evenly spread, with people on income support payments, particularly those in rural, regional and outer metropolitan areas spending a greater proportion of their income on electricity. As a proportion of the full rate Pension (including the \$225 Low Income Energy Rebate), the predicted average residential bills for 2013/14 will consume 9.6 per cent of Energy Australia customer's pensions. Origin Energy (Endeavour Energy) customers will be paying 9 per cent of their income in bills and Origin Energy (Essential Energy) bills will consume 11.5 per cent of pensioner's incomes.³ There are 1,057,938 pensioners in NSW (those on the Age Pension, Disability Support Pension and Carers Payment).⁴

Energy customers in receipt of the Newstart Allowance are spending a higher proportion of their income on electricity and Energy Australia customers will spend 16.7 per cent of their income on electricity bills. Origin Energy (Endeavour Energy) customers will spend 14.5 per cent of their income on bills while Origin Energy (Essential Energy) customers who are on Newstart with an average bill will need to spend 18.6 per cent of their income on electricity under the new pricing.⁵ This demonstrates the increasing number of households which are suffering from energy poverty (defined as spending 10 per cent or more of their income on energy consumption). There are 171,815 NSW residents on Newstart, including 110,916 who are deemed as long term unemployed.⁶

¹ New South Wales Auditor General (2012) *Financial Audit Volume Four 2012 – Focusing on Electricity*, p. 7.

² IPART (2012) *Customer service performance of electricity retail suppliers, 1 July 2007 – 30 June 2012*, p. 8.

³ Calculated at the current single Age Pension amount which is \$808.40 per fortnight and adding the Low Income Energy Rebate of \$225.

⁴ Australian Government, Department of Families, Housing, Community Services and Indigenous Affairs (2012) *Statistical paper no. 10, Income support customers: a statistical overview 2011*, p. 7, 21, 26.

⁵ Calculated at the current Newstart Allowance amount for singles without children which is \$497 per fortnight and adding the Low Income Energy Rebate of \$225.

⁶ Australian Government, Department of Families, Housing, Community Services and Indigenous Affairs (2012) *Statistical paper no. 10, Income support customers: a statistical overview 2011*, p. 47.

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Whilst CPSA recognises that moving away from regulated energy options to market may be a benefit to some customers in reducing their electricity bills, many vulnerable customers most in need of options to reduce their electricity bills are not able to access them.

A barrier to people getting the best value for money in terms of their electricity provider is a lack of access to information, particularly for customers who are not online or have limited internet skills as well as those who lack proficiency in English. However, the largest barrier is a lack of transparency by retailers. There is a need for a standardised way of presenting price information so that customers are able to adequately make comparisons and informed decisions. The electricity and gas options available in a household's area should be provided in plain English (and other community languages) with aspects such as termination fees not hidden in fine print. While CPSA acknowledges that IPART's *myenergyoffers* website allows customers to make an independent comparison between retailer options, the most vulnerable of customers are either unaware or unable to access this information.

It is not uncommon for CPSA to hear about customers who are intimidated by electricity retailers, both through door knocking ventures and over the phone, and bullied into service options that are not in their best interests. In this way less savvy customers can lose out from taking up unregulated energy options causing some to be reluctant to do so. These types of customers are not best served by the competitive market as put forward in the draft report.

CPSA is also concerned with the notion that the 40 per cent of people who remain on the regulated price are not engaging in the market. Many customers choose to stay with the regulated price due to the added protections it brings and should be allowed to do so without being disadvantaged by a push towards increased competition. As mentioned, some people are not equipped or adequately assisted in accessing non-regulated options and should also not be disadvantaged by remaining with a regulated price.

Pensioners and those on low incomes already under-use electricity in their homes in an effort to reduce costs. CPSA regularly hears from people who are minimising television and light use and refraining from using heaters and fans due to fear of the costs involved. This shows not only that assistance measures to help low-income householders cope with bills are inadequate, but also that modest electricity use causes unaffordable electricity bills for these householders.

While it is noted in the draft report that average household consumption has fallen by 11 per cent since 2002/03⁷ there are a considerable number of people who cannot adequately reduce their consumption, particularly those with high energy usage needs for medical equipment. This includes people who must constantly cool or heat their home because they

⁷ IPART (2013) *Review of regulated retail prices for electricity, 2013 to 2016*, p. 127.

cannot regulate their body temperature and while there is a small rebate provided by the NSW Government in the form of the Medical Energy Rebate this does not come near to covering the additional costs. Other people with disability who rely on energy-intensive medical equipment such as oxygen concentrators also cannot minimise their usage. Customers requiring the use of essential medical equipment do not have the luxury of being able to take advantage of some of the discounts available by market retailers, for example time of use tariff discounts, by restricting their energy use to certain times of the day, as they are disadvantaged by these measures. A study conducted by the Public Interest Advocacy Centre and the Physical Disability Council NSW found that 43 per cent of people with a physical disability surveyed had forgone other essentials to pay their electricity bill. It was also found that while 75 per cent of respondents had a condition that required them to heat or cool their living space, heating and cooling was on the top of the list of items they would forgo in order to reduce their electricity consumption.⁸

Customer acquisition and retention cost allowance (CARC)

CPSA disagrees with IPART's decision to increase the CARC allowance in the regulated price to \$22/MWh. As outlined in the draft report this will mean that a typical customer consuming 6.5MWh will pay "\$143 a year more than the efficient cost of supplying this amount of electricity".⁹ Without this substantial increase to CARC, consumers across all regulated retailers would have seen prices increase below inflation, which would offer much needed relief from bill stress.

CPSA sees it as inappropriate that customers are to be hit with a charge to assist market discounts and the cost of acquiring new customers in the name of improving competitiveness. CPSA cannot see the logic in giving retailers an extra allowance in the hope that in time it will push prices down. This extra allowance seems to go against the notion of increasing competitiveness through innovation, allowing retailers to gain more for less rather than think of more cost effective ways of delivering services. CPSA suggests that it is not IPART's role to make the regulated price a less attractive option and that the market players should be responsible for coming up with offers that tempt customers to enter into a new contract.

The disparity in benefit distribution in terms of the benefits of increased competition are not evenly spread, particularly for people in rural and regional areas who may not have the option of switching to another energy retailer. As such we see the CARC increase as problematic not only because of the detrimental effect that this will have on low-income people who are already struggling with increased electricity costs but also for those who will not benefit down the track from reduced bills.

⁸Public Interest Advocacy Centre and Physical Disability Council of NSW (2012) *More Power to You: Electricity and People with Physical Disability*, p. 13.

⁹ IPART (2013) *Review of regulated retail prices for electricity, 2013 to 2016*, p. 96.

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In particular CPSA is concerned that lack of choice is a problem for people living in residential parks who may not be able to take advantage of increased competition in the market as they are unable to choose their electricity provider. Many park residents do not have the option of having their own electricity account and must pay bills directly to the park owner. These residents are therefore not eligible to access Energy Accounts Payment Assistance scheme (EAPA) vouchers so face further hardship from higher bills. There are approximately 90,000 NSW residents living in residential parks, the vast majority of whom are living on low incomes. CPSA calls for adequate provisions to be put in place to protect those living in residential parks.

Termination fees

CPSA welcomes the NSW Government's proposal to restrict retailers' ability to charge early termination fees. These fees restrict the ability of customers to obtain the best energy price available at the time and provide a disincentive for energy providers to positively engage with customers once they have signed onto a contract. Importantly, early termination fees negatively affect people in insecure housing who are likely to move more regularly and not be in the position to absorb the financial burden of termination fees.

Late payment fee

CPSA is concerned by the increase to late payment fees from \$7.50 to \$10.90. While CPSA appreciates that there are a number of circumstances under which this fee must be waived, including if the customer is a hardship customer, if they receive the Low Income Household Rebate and if any part of the bill has been paid for by a voucher issued under the EAPA scheme there are still customers under financial stress who may not access these initiatives either through a lack of knowledge of them or a reluctance to do so out of pride.

For example, while hardship charters are a requirement in NSW requiring energy retailers to provide customers with the option of paying off outstanding bills in instalments, CPSA regularly hears from people who are unaware that this is an option despite contacting their retailer about their inability to pay. Despite retailers having a regulatory obligation to ensure payment plans take into account a household's consumption needs and ability to pay, CPSA has heard anecdotal evidence from customers being told that they are only able to gain access to a payment plan if they pay a substantial portion of the bill upfront, often well outside the means of what they can afford, if they are offered the option at all.

CPSA is also concerned about how the \$10.90 late payment fee was calculated. Neither EnergyAustralia nor Origin Energy provided detailed estimates of the costs associated with

late payments as requested by IPART¹⁰ and as a result CPSA cannot see how this increase can be justified without evidence that this is in fact the real cost incurred by retailers.

Dishonoured cheque fee

CPSA is disappointed at IPART's decision to maintain the level of the dishonoured cheque fee at twice the regular fee charged by the bank or financial institution and calls for this dishonour fee to be removed in its entirety.

While the draft report notes that payment by cheque is not a common payment form and therefore the incidence of dishonoured cheque fees is low¹¹ it is largely older people who make up the bulk of customers paying bills via cheque. To charge double the cost of what the retailer incurs, particularly when a cheque bouncing is a good indicator of financial hardship (and the customer may well also be facing financial penalty from their financial intuition) is an unjustifiable cost burden on customers who use this payment method.

¹⁰ IPART (2013) *Review of regulated retail prices for electricity, 2013 to 2016*, p. 142

¹¹ IPART (2013) *Review of regulated retail prices for electricity, 2013 to 2016*, p. 143