

COTA SA

SUBMISSION TO THE AUSTRALIAN ENERGY REGULATOR:

*PRICE DETERMINATION FOR SA POWER NETWORKS 2015-20*

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COTA SA

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**INTRODUCTION**

COTA SA is pleased to have the opportunity to provide this submission to the Australian Energy Regulator (AER) on the price determination for electricity distribution in South Australia by SA Power Networks (SAPN) for the period 2015-20.

**Who is COTA SA?**

COTA SA is the peak body promoting the interests of older South Australians. We have 14,000 individual members and 250 seniors’ organisation members including clubs, aged care providers, councils, and service and educational institutions, with a combined membership of more than 60,000. COTA SA is engaged daily with older people across the state.

**The demographic challenge**

One of the most fundamental changes South Australia faces in the 21st century is the ageing of the population. South Australia is the second most rapidly ageing state or territory in Australia, ranking only after Tasmania. The 2011 census showed that 22.3 per cent of South Australia’s population of 1.6 million people were 60-plus years of age. By 2031, it is projected that 26.5 per cent of our population will be aged over 65 years. That’s more than one in four.

Cost of living is a key concern for older South Australians, whether they are age pensioners, self-funded retirees, or still in the workforce – and whether they rent, own their own homes or live in retirement villages or residential parks. At COTA SA, we hear daily about the difficulty people are having in meeting their everyday expenses. This is compounded by some of the highest electricity and water prices in the country.

In seven community forums we held in 2014, the rising cost of electricity, water and housing was a recurring theme. Consumers consistently told us of their anxiety in opening their latest electricity bill and of trying to understand why it had yet again risen. As one consumer said:

“I cringe whenever I see an envelope with a clear window.”

**CONSUMER CONCERNS**

COTA SA has had the opportunity to provide input on issues around electricity pricing in South Australia through various mechanisms, including its response to SAPN’s *Directions and Priorities* paper, released in 2014.

In late 2014, SAPN announced revisions to its original proposal outlined in Directions and Priorities. It has publicly stated that it has done this in part due to consumer feedback it received throughout 2014.

COTA SA has concerns about the consultation undertaken by SAPN that allows it to – in our view erroneously – claim that its customers are happy to pay more for the distribution component of their power bills. COTA SA participated in the SAPN consultation on 28 October 2013 in Adelaide. At that consultation, SAPN and Deloitte presented cases for ongoing investment in upgrading and beautifying infrastructure, in reducing fire hazards and in undergrounding power lines. Those present, including COTA SA, agreed that there was value in these types of investment – in principle. As constructed, the consultation process asked participants to say if they liked these activities. Not surprisingly, the majority agreed. In some respects, this was a form of push polling.

However, the price implications for consumers were never fully explored. The consultation on the whole took a blue sky approach to investment without providing clear and detailed economic modelling on the cost implications of investment and operational scenarios. In addition, an informed consultation should also have better canvassed:

* future expenditure proposals, both capital and operational
* service priorities
* price structures, current and proposed
* sources of SAPN’s revenue and profit streams
* the link between capital and operational investment, revenue and the cost implications for consumers.

Without this full information, the consultation outcomes were necessarily skewed. SAPN itself said, ‘The proposals will ensure customers get what they have said they most value – reliable, safe and secure electricity supply.’ Consumers do value these things, however what they value even more highly – or at the very least, as highly – is low-cost electricity. This was not adequately reflected in the proposal.

In its formal proposal, *Regulatory Proposal 2015-20*, SAPN has noted customer and community concerns about the high costs of electricity and has revised down its capital investment over the regulatory period. COTA SA welcomes this change, however it shift does not go far enough. SAPN persists in listing the following key customer insights:

* customer experience
* visual amenity
* community safety and reliability
* evolving customer.

The underlying claims around consumer choice for tree lopping and beautified sub-stations continue to be used by SAPN to boost investment and therefore its regulated return above what are reasonable market rates. Of the eight key programs of work encompassed in SAPN’s final proposal, five allow for investment (in areas such as network augmentation, asset replacement, network hardening, vegetation management, and bushfire mitigation) which will justify ongoing high profits for the company but do little to ensure customers are not overcharged.

SAPN’s key program for ‘cost-reflective tariffs and demand side participation’ concentrates on metering. While metres may ensure individual consumers are correctly charged, this does nothing to bring down the overall unit cost of electricity. In fact, as capital expenditure it may increase costs for individual consumers during the period. A suggestion by SAPN that management of meters attract an incremental charge suggests perpetually upward costs to the consumer. This suggestion is not supported by COTA SA.

COTA SA’s position in 2014 and now is that, while SAPN’s proposed investment program has some merit, this must be balanced against the cost impost on consumers. COTA SA is clear that the cost to consumers is too high. SAPN claims that its share of the electricity bill has fallen from 49% to around one third, representing only 15% of the cost increase in residential electricity costs over 15 years.

COTA SA **does not support price increases** for residential and non-residential customers that cannot be justified by CPI or by targetted and justified investment within the network.

**TRANSPARENCY**

Electricity pricing is a complex mixture of market forces, regulation, historical decisions, and social policy adjustments. It is characterised by pricing principles and practices that are not always compatible or transparent.

Consumers are now more aware of the role of retailers in setting electricity prices. However, they are largely unaware of the cost that distributors such as SAPN add to their power bills. Residential consumers continue to struggle to understand the changes to the SA energy market, moving from a sole company to multiple players.

COTA SA is concerned about the **lack of transparency** on how electricity costs are charged, including clarity around what is and is not contestable. We are also concerned about the unnecessary complexity of power bills. Consumers have consistently informed us that their electricity bills are not easily comprehended. The result has allowed for ‘invisible’ price hikes by SAPN, with retailers bearing the brunt of consumer dissatisfaction.

**DISTRIBUTION AND NETWORK PRICES**

As COTA SA understands it from the available data, SAPN distribution charges are within the third highest in the country. Since the last price reset in 2010, this charge has escalated from tracking generally with CPI to a dramatic increase for SA consumers. It has resulted in escalating before- and after-tax profits for SAPN.

Victorians enjoy a significantly lower level of distribution charges, without any loss in service. And in the UK where some networks enjoy similar ownership with SAPN, the overall charge and profit per consumer is significantly lower – again with no identifiable differential in service.

According to SAPN, this is largely a result of the valuation of its asset base. SAPN has two sources of revenue: regulated and unregulated (the latter accounting for only 15%). The regulated profit margin is set by the regulator. Over the next five years, SAPN claims that it will maintain ‘an average price path for our services remaining below CPI for the full five-year period’. This is a welcome improvement on SAPN’s earlier predictions. However, the proposed investment program continues the trend to perpetual and questionable higher prices, on top of five years of significantly greater than CPI increase. SAPN is therefore starting from an already inflated pricing base.

As a monopoly player in South Australia’s electricity distribution market, SAPN has not been subject to the market forces of other industries or companies. Moreover, it provides essential rather than discretionary services. As such, its level of risk is relatively low and its ability to source investment is generally favourable. It is also in the enviable position of receiving a regulated return due to the structure of the energy market.

**COTA SA therefore urges the Australian Energy Regulator** to:

* assess the justifications for SAPN’s proposed capital and operating expenditure, considering that consumer choice on lower prices has not been fully factored into these proposals
* whether a write-down of SAPN assets would be in the best interests of consumers
* how SAPN has proposed innovation that does not simply replicate and renew assets but delivers greater value to the consumer – it is time for SAPN to respond creatively to new technologies and service options
* consider changes to the regulated pricing structure, including a lower fixed charges component
* factor in SAPN’s monopoly position within the South Australia energy market.

**CAPACITY, RELIABILITY AND DEMAND**

COTA SA’s stakeholders, that is older South Australians – whether residential or non-residential consumers – value efficiency and reliability in the delivery of their electricity services. We understand that SAPN is tracking with national trends on both, in part due to previous investment.

SAPN argues the ‘tyranny of distance’ in providing reliable service to regional customers. Distance is also a key factor in other jurisdictions: Queensland, the Northern Territory, New South Wales and, indeed, Western Australia. Yet South Australians are paying more for their power distribution in almost all cases. COTA SA understands that the size of the South Australian market, in fact, is sufficient to neutralise the distance factor.

The available data shows that there is unused capacity within the SAPN network. This excess capacity is projected to continue, in part due to declining demand on the part of both residences and businesses – and the closure of major, small and medium enterprises within the state. SAPN has consistently argued that the level of capacity must meet the demand in peak periods (predominantly in extreme hot weather within the summer months). This position partially justifies the case for capital investment.

COTA wishes to express its strong concern that while **demand for power in SA has declined, prices have continued to escalate**. The benefits of high levels of investment are simply not justified when compared to the social and economic good they will provide for consumers and the increased costs to consumers. The irony for the consumer is that the less power you use, it seems, the more you pay. This is doubly so for those with fewer financial means who cannot afford alternative sources of power, such as solar, and so must stay on the grid and bear an increasing share of the cost burden.

The 2015-20 determination should encourage **innovation in the electricity sector**, including in an environment of climate change. For SAPN it would be valuable for it to more fully explore new options to maintain reliability in peak demand periods, such as demand management and other innovations. New approaches make more sense in a time of declining demand.

**PRICING PRINCIPLES**

COTA SA’s stakeholders, on the whole, will pay their utilities’ bills and go without other goods, such as food, groceries and entertainment. Many older people suffer in South Australia’s hot summers because they choose to not turn on airconditioning rather than face financial stress from not being able to pay for their electricity bills.

COTA SA is keen to see pricing methodology and pricing structures more fully analysed in the 2015-20 determination. Little has been said by SAPN about equitable pricing, nor about how – as an essential rather than discretionary good – electricity must be accessible to all, regardless of means. The pricing of electricity services must be founded on the basis that electricity is a public good and a social right.

COTA SA is concerned about the 2014 decision by the Australian government to stop payments for concessions through the National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders (applied to council rates, electricity, water and transport). This means approximately $30 million less in concessions to card holders per year in South Australia. It is our understanding that this shortfall will not be met by the state government. This will add to the financial stress already felt by those most vulnerable.

Utilities costs make up a higher proportion of the incomes of older people and those on fixed incomes. In an October 2013 report, the Productive Ageing Centre found that those households in the lowest income group spent around 80% or their income on essentials (including water and sewerage). Those aged 75 years and over made up almost half of these households. Renters, single and unemployed people also made up a large proportion of this cohort. Pensioner households spend around 55% of their income on essentials, compared with employed households which spend only 25%.

COTA SA is also aware that many older South Australians own businesses and are employees within businesses. High electricity prices can have a negative impact on the viability of businesses and their ability to employ staff. High electricity costs, passed onto consumers in the products and services they purchase, contribute to general cost of living increases.

COTA SA encourages the Australian Energy Regulator to consider the following principles during the re-setting process, in addition to cost-reflective pricing:

* social equity
* pricing stability, both short and long term
* energy efficiency, reliability and security
* transparency of pricing
* consumer protection
* regional and rural access
* economic development.

**SUMMARY**

As a ‘good citizen’ of South Australia, SAPN needs to strike the right balance between investment and prices. Its proposal errs on the side of investment that delivers little appreciable benefit for the consumer, especially at a time of falling demand and rapidly rising cost of living.

Meeting the weekly bills is already significantly harder for those on fixed incomes and those who are disadvantaged – older people form a significant proportion of these groups. Increasingly, self-funded retirees and older workers are also feeling the strain of rising prices.

Electricity is not a mere consumer product: it is a basic right. Reliable energy is required on a daily basis by all South Australians in both their personal (health, wellbeing and safety) and professional lives. COTA SA is keen to see a new determination that that weighs the needs of the South Australian community, and in particular older South Australians and those experiencing financial stress, against the corporate viability of SAPN.

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