NCOSS Submission to the NSW Electricity Distribution Network Price Determinations

August 7, 2014

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About NCOSS

The Council of Social Service of NSW (NCOSS) is a peak body for the not-for-profit community sector in New South Wales. NCOSS provides independent and informed policy advice, and plays a key coordination and leadership role for the sector. We work on behalf of disadvantaged people and communities towards achieving social justice in NSW.

Summary of Recommendations

1. The AER should take seriously its role in scrutinising the proposals put forward by the DNSPs to determine whether customers are being asked to pay a fair and reasonable price for an essential service.
2. The AER should challenge the DNSPs approach to determining a reasonable rate of return.
3. The costs associated with the decision to split the retail and network arms of the business should not be passed on to consumers, but should have been factored into the sale price.
4. The DNSPs should make every effort to offset loss-of-synergy costs within a short a timeframe as possible to ensure these costs do not continue to result in higher electricity prices.
5. The AER should ask the DNSPs to reconsider their exit fees to ensure customers wishing to upgrade their meters are not unfairly penalised.
6. The DNSPs should hold to their commitment to continue to refine their consumer engagement strategies, including incorporating the Consumer Challenge Panel's advice, and making better use of engagement with advocacy organisations to ensure the quality control of broader consumer engagement processes.

Introduction

The Council of Social Service of NSW (NCOSS) welcomes this opportunity to provide comment on the regulatory proposals put forward by the three NSW distribution service providers (DNSPs) – Ausgrid, Endeavour Energy and Essential Energy – for the 2014-19 period.

NCOSS is concerned about the impact of high electricity prices on low-income customers. The escalating electricity prices of recent years have seen a corresponding increase in the number of people being disconnected from their electricity supply. While we believe these figures point to a need for better support for vulnerable energy customers, they also highlight more systemic failures in the provision of what is an essential service. Decisions made by electricity providers – both Government and private – and by regulators, have not resulted in a system that effectively serves either the short or long-term interests of consumers of electricity.

High electricity prices affect everyone, but for low-income households they are particularly problematic. Recent price hikes have pushed many low-income households into a spiral of debt and have exacerbated existing disadvantage.

Our submission therefore focuses on the need to minimise price increases, and provides a particular focus on how the proposals put forward by the DNSPs will impact low-income customers.

1 Price Increases

Under the Network Reform Program the NSW Government limited price increases to CPI or less. The 2014-19 proposals put forward by each of the DNSPs are in line with this requirement. NCOSS welcomes this approach, which should see an end to the massive increases to electricity prices of recent years.

We are concerned, however, that while this approach will take the heat out of the debate over energy prices, the CPI 'cap' will simply lock in high electricity prices; that consumers will continue to pay the high prices that have in part resulted from past regulatory failures. We believe that prices should not simply be maintained, but that every effort should be made to decrease prices in real terms.

We ask that the AER takes seriously its role in scrutinising the proposals put forward by the DNSPs, to determine whether customers are being asked to pay a fair and reasonable price for an essential service. While NCOSS does not have the capacity to analyse the DNSP's proposals in great detail, our submission points to a number of areas which we believe warrant further consideration on the part of the AER.

Recommendation 1*: The AER should take seriously its role in scrutinising the proposals put forward by the DNSPs to determine whether customers are being asked to pay a fair and reasonable price for an essential service*.

2 Rate of return

We are disappointed that the DNSPs have not adopted the AER's Rate of Return (RoR) Guideline in full. This guideline was developed following extensive consultation processes with both consumers and the networks as part of the Better Regulation program. That some aspects of the guideline have not been adopted puts into question the authenticity of collaborative efforts to work together for the benefit of consumers.

We understand that in ignoring particular aspects of the RoR Guideline, the DNSPs have arrived at much higher revenue outcomes than would be the case had they applied the AER's guidelines in full.

We are particularly concerned that the proposed Weighted Average Cost of Capital (WACC) 8.83% is unreasonably high. While the DNSPs have suggested a staged approach to implementing the AER's guidelines, we understand that network providers in other jurisdictions have wholeheartedly adopted the guidelines. We therefore ask the AER to challenge the Networks' mumpsimus adherence to an approach that has historically resulted in unreasonably high rates of return.

Recommendation 2*: The AER should challenge the DNSPs approach to determining a reasonable rate of return*.

3 Loss of synergy costs

In 2011/12 the retail arms of each of the three electricity networks in NSW were sold as part of the NSW Government's privatisation process. These sales resulted in increased operating costs (called loss-of-synergy, or dis-synergy costs) for the NSW Government network business enterprises. All three networks have included these loss-of-synergy costs in their pricing proposals for both the previous and current regulatory control periods. This means that consumers are continuing to pay for a decision made by the Government, in part in order to raise revenue.

In our view the costs associated with the decision to split the retail and network arms of the business should not be passed on to consumers, but should have been factored into the sale price.

Recommendation 3*: The costs associated with the decision to split the retail and network arms of the business should not be passed on to consumers, but should have been factored into the sale price.*

Furthermore, the three DNSPs have different approaches to dealing with these costs. While Endeavour Energy highlights the loss-of-synergy costs, its proposal states that these costs have been offset by substantial savings from efficiency programs. They have therefore not been passed through to the customer. In contrast, Essential Energy does not expect costs increases due to loss-of-synergy to be offset until 1 July 2016, while Ausgrid customers will continue to pay higher prices as a result of the sale of the retail arm of the business until 2017/18. The DNSPs should make every effort to offset loss-of-synergy costs within a short a timeframe as possible to ensure these costs do not continue to result in higher electricity prices for consumers.

***Recommendation 4**: The DNSPs should make every effort to offset loss-of-synergy costs within a short a timeframe as possible to ensure these costs do not continue to result in higher electricity prices.*

4 Meter costs

NCOSS is concerned that low-income customers will be unable to take advantage of innovative pricing arrangements made possible by new meter types due to high exit fees.

The exit fees of approximately $200 proposed by Ausgrid are of particular concern ($196.62 in 2014-15 of the determination rising to $204.67 in 2018-19). Essential Energy has proposed exit fees beginning at $131.57 and decreasing to $109.21 over the course of the regulatory period while Endeavour Energy's are more reasonable, starting at $67.39 and decreasing to $59.81.

The Power of Choice Review[1] recommended that the Regulator should consider a number of criteria when making an exit fee determination. These included ensuring the exit fee:

- Is based on the average remaining asset life of the existing meter type and operating costs;
- Takes into consideration the existing contribution consumers have already paid towards the existing metering stock.

Neither Ausgrid nor Essential Energy appear to have taken either of these criteria into consideration in determining their exit fees. The AER should therefore ask the DNSPs to reconsider their exit fees to ensure customers wishing to upgrade their meters are not unfairly penalised.

***Recommendation 5:** The AER should ask the DNSPs to reconsider their exit fees to ensure customers wishing to upgrade their meters are not unfairly penalised.*

5 Consumer engagement

As part of the Better Regulation program the AER has developed guidelines on consumer engagement. We congratulate the DNSPs for their efforts to better engage with consumers during the process of developing their regulatory proposals.

In their proposals, all three networks have stated that they will continue to review and refine their consumer engagement strategies. We welcome this commitment.

Consumer engagement is more likely to be meaningful when consumers are well-informed about the issues on which they are commenting. In seeking feedback from consumers, the DNSPs have not always framed their questions in such a way as to elicit educated responses – particularly in relation to the trade-offs involved in decision-making around investment.

The Consumer Challenge Panel has provided advice to the AER regarding consumer engagement[2], stating that "in surveys, polling, questionnaires, discussions and similar

[1] AEMC (2012).Power of choice review: giving consumers options in the way they use electricity. Available online at http://www.aemc.gov.au/getattachment/2b566f4a-3c27-4b9d-9ddb-1652a691d469/Final-report.aspx

processes, NSPs are encouraged to communicate clearly the cost and price implications of the preferences that consumers express."

We would further add to this that the Networks should make better use of their Customer Councils and their engagement with advocacy peaks to ensure the quality control of broader consumer engagement processes.

Recommendation 6: *The DNSPs should hold to their commitment to continue to refine their consumer engagement strategies, including incorporating the Consumer Challenge Panel's advice, and making better use of their relationships with advocacy organisations to ensure the quality control of broader consumer engagement processes.*

Conclusion

Thank you for the opportunity to comment on the regulatory proposals put forward by the three NSW distribution service providers (DNSPs).

Should you wish to discuss any of the issues raised in this submission in further detail please phone Rhiannon Cook, Senior Policy Officer, on (02) 9211 2599 ext 128 or email rhiannon@ncoss.org.au.

[2] Consumer Challenge Panel (2013) *Correspondence to Andrew Reeves, Chairman, Australian Energy Regulator.* Available online at http://www.aer.gov.au/sites/default/files/CCP%20advice%20to%20the%20AER%20regarding%20consumer%20engagement%20%E2%80%93%2028%20November%202013.pdf