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27 August 2009

Mr Chris Pattas
General Manager,
Network Regulation South
Australian Energy Regulator (AER)
GPO Box 520
MELBOURNE VIC 3000

Dear Mr Pattas

Re: ETSA Distribution Price Review 2010 – 2015

COTA Seniors Voice is responding to your request for submissions in relation to the ETSA Utilities Distribution Price Review 2010 – 2015. We welcome this opportunity.

CSV Interest in Energy Issues

COTA Seniors Voice is the peak organisation in South Australia representing the interests of seniors. The organisation has been interested and involved for many years in representing the views and interests of older South Australians in relation to energy issues, including participation on the :

- Essential Services Commission of South Australia's Consumer Advisory Committee; and
- SA Minister for Energy's Energy Consumer's Council.

COTA Seniors Voice also participates on AER's new Consumer Consultative Committee in Adelaide.

Furthermore, COTA Seniors Voice has worked closely with its extensive membership to increase awareness and understanding of retail energy markets and associated issues. This has included regular articles in our bimonthly magazine *myCOTA* and organised participatory forums, including the very successful May 2009 'Energy for Life" Member Forum.

South Australia's Ageing Population

South Australia has an ageing population, greater than any other state or territory in Australia. At present, 1 in 7 South Australians are aged 65 years and over. By 2021 it will be 1 in 5 and by 2051 it will be 1 in 3. At the same time, people aged 85 years and over will quadruple from 1 in 57 South Australians aged 85 plus to 1 in 15 by 2051. [1] A substantial proportion[2] of South Australia's older population is reliant on income support payments via the Age Pension.

[1] Australian Bureau of Statistics (2005) *Populations Projections*
[2] Australian Bureau of Statistics (1999) *People, Australia : A Social Report – reported as 68.2%*

Impacts of ETSA Utilities Proposal on Older South Australians

COTA Seniors Voice recognises the essential importance of energy to all South Australian households, and as a pre-requisite in modern society for health and life. This is especially the case for older people whose ability to regulate their body temperature is constrained.

It is in this context therefore that COTA Seniors Voice expresses its concern about the magnitude of funding sought by ETSA Utilities in its Distribution Price Review for the period 2010 – 2015. ETSA have indicated that their proposal will add an additional $25 per annum to an 'average' residential customer's bill in year 1. However, what should be made clear is that this is a $25 increase in Year 1, with another $25 +CPI increase in Year 2, and so on. In other words, increases will be cumulative and ongoing over the regulatory period in question. This is a very substantive additional impost on low income older households, particularly when taken in the context of other drivers in the environment which will also see other components of energy costs increase over time (eg. lack of liquidity in financial markets resulting from global financial crisis, drought related cost increases, introduction of a Carbon Pollution Reduction Scheme by the Australian Government and so on).

ETSA Utilities have indicated that this increase has been estimated assuming decreases in consumption over the period. COTA Seniors Voice therefore believes it to be an under-estimate of the increase which would result from approval of ETSA's proposal. Energy consumption for many older households is reasonably inelastic. Older people are conscious of the cost of commodities and a vast majority do not waste resources unnecessarily. The older members of this age cohort have grown up in hard economic times during depressions and world wars and are used to 'making do'. COTA Seniors Voice is of the view that the capacity of the majority of South Australia's older population to make substantial energy savings is limited.

South Australia already has high electricity costs in comparison with other State and Territories. According to the Office of the Tasmanian Economic Regulator (OTTER) comparison of Australian standing offer energy prices South Australia has the second highest energy prices in the country as at July 2009.[3] In the previous period SA's energy prices were the highest in Australia. This was so even when concessions available in each of the jurisdictions were taken into account.

The Age Pension on which the majority of South Australian seniors live is the same regardless of where an older person lives across Australia. That is, $569.80 per fortnight for a single person and $475.90 per fortnight for each person in a couple. The capacity of the majority of older customers to absorb cost increases in electricity is limited and COTA Seniors Voice argues would be at the expense of people's expenditure on other necessities for life and health such as food and medicines.

A recent SACOSS Cost of Living Update shows that the rising costs of housing, energy food, and transport are compounding to put pressure on low and fixed income households. Key findings of this report are that :

- energy CPI has risen by 14.4%
- gas and other household fuels CPI has risen by nearly 20%
- electricity supply charges alone have risen above CPI – over 21%
- gas supply charges have risen by over 26% [4]

Energy costs represent a significant expenditure item for many South Australians, and a point of financial stress for many.

[3] Office of the Tasmanian Economic Regulator (2009) *Comparison of 2009 Australian Standing Offer Energy Prices Fact Sheet 31 July 2009*
[4] South Australia Council of Social Service (2009) *Cost of Living Biannual Update* – No 1, July 2009.

SA Customer Views on Reliability of Supply

The ETSA proposal argues that South Australian customers want enhanced reliability of supply. For example, CEO Lew Owens indicates in his Forward that :

> "Customers, large and small, are less tolerant of power outages than preciously, households and businesses have far more air conditioning and sensitive electronic equipment than was the case in the first regulatory period, and we expect that trend to continue. ETSA Utilities therefore considers it critical that funding be provided to undertake the necessary capital and operating expenditure programs to meet these expectations and priorities."[5]

While reliability of power supply is obviously important in a modern society there is substantial evidence to suggest that South Australian customers are predominantly happy with the supply they receive, and are **not** prepared to pay for greater reliability of supply. Extensive research funded by the Essential Services Commission of South Australia (ESCOSA) supports this. In 2002, the Commission engaged KPMG to provide it with a report based on a survey of customer preferences for electricity distribution service standards in South Australia. The survey provided information on those aspects of service most valued by customers and their willingness to pay for these services and improvements to them. Among its findings the report revealed that approximately 85% of customers were satisfied with their existing level of service and were generally unwilling to pay for improvements in these levels. In a follow-up study for ESCOSA McGregor Tan Research conducted a survey update of residential and business customers in 2007. McGregor Tan concluded that both residents and business have demonstrated strongly that they do not wish to pay additional fees to improve their electricity supply reliability. [6]

These research findings informed ESCOSA's decisions concerning service standards and ETSA Utilities should not be justifying revenue and price increases on the basis of a false premise.

Furthermore, older people are not the principal consumers of 'sensitive electronic equipment' and should not be made to pay for the personal choices of others. People who do choose to purchase and run expensive latest technology electronic items must also take some personal responsibility for ensuring that this equipment is protected in the event of an unforseen power outage (eg. by installing safety switches and so on).

Infrastructure Projects That Support Business

COTA Seniors Voice sees the need for investment in a controlled and sensible program of ageing infrastructure replacement in order to ensure the security and reliability of supply to South Australian consumers. We do not however agree with older people on low incomes paying for major investment which predominantly benefits business interests. Some aspects of the ETSA proposal fall into this category. COTA Seniors Voice argues that we need to find better ways for paying for major infrastructure upgrades than making poor households pay through their electricity bills.

Under ETSA's proposal lower income households would also be subsidising the system upgrades required by poor contemporary housing design which requires the installation of larger air-conditioners. COTA Seniors Voice argues that Governments should compel developers and others to build only environmentally sustainable housing that minimises energy useage, and that low income seniors should not be subsidising owners of properties that do not conform to these standards.

[5] ETSA Utilities (2009) *Distribution Price Review Regulatory Proposal 2010 – 2015* – CEO Forward
[6] The Essential Services Commission of South Australia (ESCOSA) (2008) *South Australian Electricity Distribution Services Standards : 2010 – 2015 Final Decision*

COTA Seniors Voice Supports SACOSS Submission to AER on ETSA Utilities Proposal

COTA Seniors Voice has assisted SACOSS to obtain funding from the Consumer Advocacy Panel in order to undertake energy advocacy and capacity building within the community sector in SA. SACOSS has therefore developed a detailed submission in response to ETSA's Distribution Price Review proposal. *Attachment A* outlines the key points raised in this submission. COTA Seniors Voice echoes the concerns raised in this document.

In summary, 'electricity is an essential service and must be affordable for everyone'.[7]

Further Questions

If you should have any questions about this submission please refer them to Melinda Brindle, Senior Policy Officer at mbrindle@seniorsvoice.org.au.

Yours sincerely

Ian Yates AM
Chief Executive

[7] UnitingCare Wesley (2009) Media Advice *'Electricity – Distribution Price Review – Poor Households Shouldn't Pay for New Projects'* – 17 July 2009.

Attachment A

Summary of SACOSS Concerns with ETSA Distribution Price Review 2010 – 2015

The main points of contention for SACOSS are:

1. Evaluation of past performance

The lack of evaluation of ETSA's performance over the current regulatory period does not allow for adequate contextual basis for planning for the next period. SACOSS notes that an annual review and evaluation process would benefit the network as a whole.

2. Incentives embedded in the regulatory framework

It is concerning that the regulatory framework incentivises growth in the Regulated Asset Base (RAB) through capital works and down-played sales forecasts in order to drive up proposed revenue requirements. It is however unsurprising that ETSA Utilities responds to these incentives, the end result being higher prices for residential consumers.

3. Adjustments to the Regulated Asset Base (RAB)

ETSA has proposed a change to the RAB, which includes an 'easement adjustment' of around $116m over the period. This refers to an assurance given during the Distribution System lease process in which ETSA was given advice that 'historic costs' would be added to the RAB in the future. Essentially, this equates to being compensated for money that wasn't spent because ETSA didn't own the system when it was paid.

4. Weighted Average Cost of Capital (WACC) parameters

ETSA also proposes to deviate from the AER's Statement of Regulatory Intent (SORI) in relation to WACC parameters, by around 0.5%. This equates to an increase in revenue (as proposed) of around $15m in the first year and growing to around $20m by the end of the period.

5. Demand Management

SACOSS believes that under the Proposal, ETSA Utilities will be failing to meet the demand management needs of the network by spending big on infrastructure for peak demand (and recouping costs from consumers) while not meeting the *National electricity objective* by failing to *'promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity'*.

6. Treatment of connection services

Residential connection services for refrigerated air conditioning show no improvement from the current period under the Proposal. Currently it costs a residential consumer $450 to upgrade to a 3 phase connection in order to operate a large reverse cycle air conditioner (RCAC). This does not send a price signal to such consumers about the upstream impacts of their consumption and leads to a cross-subsidy by those who operate small RCACs, evaporative coolers or no air conditioning equipment. There exists a unique opportunity to explore more equitable options in the next regulatory period.

7. Residential sales forecasts

ETSA relies on data from the National Institute for Economic and Industry Research (NIEIR) for its residential sales forecasts. According to the ETSA Proposal, residential sales will fall by an average of 2.2% per annum over the 5 year period. The Electricity Supply Industry Planning Council (ESIPC) provides quite different figures – a base case of an average annual rise in residential consumption of 1.2%. Additional evidence tendered by ETSA regarding energy efficiency in appliances also fails to take into adequate account the relative inelasticity of consumption for many households, including those on low incomes. Most importantly, the weight of objective evidence does not support the ETSA forecasts. That flawed forecasts of declining sales help drive the call for higher pricing is of particular concern.

8. The impact of the Proposal on residential electricity prices

According to the ETSA Proposal, residential consumers will pay an average of $25 extra for distribution services every year from 2010 to 2015, based on the assumption that annual consumption will fall from an average of around 5,000kWh to just over 4,000kWh. However if consumption remains at 5,000kWh, prices will likely rise by around $50 per year – double that quoted by Lew Owens in the Foreword to the Proposal.

When taken together with the capital expenditure costs and deviations from the WACC, the ETSA Utilities Proposal appears to be an ambit claim that the AER should reject in favour of a more fair and equitable determination.