The South Australian Council of Social Service (SACOSS)

Submission to the AER:

ETSA Utilities 2010-2015 Distribution Price Review

August 2009

The South Australian Council of Social Service (SACOSS)
Submission to the AER: ETSA Utilities 2010-2015 Distribution Price Review
August 2009

ISBN 978-0-908293-68-1

First published in August 2009 by the
South Australian Council of Social Service

47 King William Road
Unley, SA, 5061 Australia
Ph (08) 8305 4222
Fax (08) 8272 9500
Email: sacoss@sacoss.org.au
Website: www.sacoss.org.au

Written by Andrew Nance and Tom Stead, South Australian Council of Social Service.

Contents

Acronyms

AER	Australian Energy Regulator
DMIA	Demand Management Incentive Allowance
DMIS	Demand Management Incentive Scheme
DNSP	Distribution Network Service Provider
DuOS	Distribution Use of System
ESCoSA	Essential Services Commission of South Australia
ESIPC	Electricity Supply Industry Planning Council
NIEIR	National Institute for Economic and Industry Research
RAB	Regulated Asset Base
RCAC	Reverse cycle airconditioning (refrigerated)
RET	Renewable Energy Target
SORI	Statement of Regulatory Intent
TNSP	Transmission Network Service Provider
TuOS	Transmission Use of System
WACC	Weighted Average Cost of Capital

Executive Summary

The sole South Australian Distribution Network Service Provider (DNSP), ETSA Utilities, has provided its Proposal for the 2010-2015 regulatory period to the Australian Energy Regulator (AER) for its consideration. SACOSS has prepared this submission in the knowledge that the Proposal and the attendant review process is of vital importance in setting the price for South Australian electricity consumers throughout 2010-15, and beyond.

In preparing this submission, SACOSS posed the following questions:

1. Has ETSA Utilities fulfilled its duties under the 2005-2010 regulatory decision, and how is this evaluated?
2. How has ETSA responded to the incentives embedded in the regulatory framework, and are these responses reasonable?
3. Does the Proposal fulfil ETSA Utilities' responsibilities under the National Electricity Objective?
4. Is the cost recovery fair and equitable, and is it based on sound data and analysis?
5. Can consumers afford the proposed cost recovery?

The SACOSS analysis has arrived at the following answers to these important questions:

1. The current regulatory framework does not allow for the evaluation of the current regulatory period and therefore fails to provide a sufficient contextual basis for the Proposal.

2. The regulatory framework incentivises the maximisation of the RAB and the minimisation of consumption forecasts to allow for greater cost recovery through DuOS charges. ETSA Utilities has responded to these incentives in its Proposal, in part by proposing questionable changes to the RAB and WACC parameters.

3. SACOSS argues that ETSA Utilities has failed in its Proposal to prioritise the management of peak demand, and that this not only fails consumers but also the National Electricity Objective. Issues around large air conditioning units, and the lack of pricing for their use which conveys the upstream effects, remain unresolved.

4. The Proposal outlines cost recovery mechanisms, which SACOSS finds are based on flawed residential consumption forecasts that other sources dispute. Additional cost burdens outlined in the Proposal fail to recognise the inelasticities in swathes of the residential market, and are therefore unrealistic for many and ultimately inequitable in the light of point 3 above.

5. Many low income and vulnerable consumers will be unable to afford the proposed cost increases. SACOSS analysis shows that the $25 per year additional cost cited in the Proposal will actually be closer to $50 per year for households unable to reduce consumption. Given that people on low incomes already pay more for electricity as a proportion of their income than those on higher incomes, they are likely to be further disadvantaged by this Proposal.

Given the importance of the regulatory decision in this respect, SACOSS hopes that the AER will reject the ETSA Utilities Proposal in its current form as flawed in a number of key areas, and requires further work be undertaken to provide a revised, realistic, and equitable plan for the next five years.

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 proud 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, financial counselling, payday lenders, food security and gambling.

SACOSS welcomes the opportunity to provide a submission to the Australian Energy Regulator (AER) ETSA Utilities Distribution Price Review (EDPR) for the 2010-2015 regulatory period. This submission is part of the Consumer Advocacy Panel-funded National Energy Market Reform Advocacy Capacity Building Project – South Australia. SACOSS' interest in the EDPR is based on the needs of vulnerable consumers and the implications embedded in the ETSA Utilities Regulatory Proposal for the 2010-2015 regulatory period. It is SACOSS' firm belief that all South Australian electricity consumers have an interest in the regulation of distribution services and that any price impacts embedded in the proposal and in the final decision will ultimately affect low income and vulnerable consumers disproportionately.

Ultimately SACOSS recognises the importance of the current review in terms of the 5-year period that the final decision will encompass, as well as the probability of the decision setting a precedent for future review processes.

Introduction

This submission is delivered from the perspective of the vulnerable household electricity consumer. From this perspective, the ETSA Utilities proposal (ETSA Utilities, 2009 – the 'Proposal') represents a substantial increase in charges in each of the next five years, and a cumulative affect that will be borne with difficulty by many consumers. Residential customer charges for Distribution Use of System (DUoS) and Transmission Use of System (TUoS) combined already represent between 45 and 50% of the typical pre-GST electricity bill. While all electricity consumers have an interest in ensuring that network services are provided as efficiently and effectively as possible, the Proposal outlines an expenditure program that will see typical charges increase by 50% by the end of the regulatory period.

It is significant that the time period of the review, 2010-2015, is also the period where Wholesale Electricity Charges are expected to increase as a result of an increased Renewable Energy Target (RET) and an emissions trading scheme in some form. The full impact on electricity prices for residential consumers over this period, and the value of any Commonwealth compensation arrangements, is unclear at this point. Economic recovery over this period is also a subject of some debate. The ETSA Utilities spending proposal appears extravagant against this background and, to preserve affordability for vulnerable consumers, must be pared back to only what is essential spending in order to maintain service standards.

The Proposal is comprised of a large number of expenditure categories and it is not possible to critique all of them in this submission. However there are a few items of specific relevance to residential consumers in general, and the vulnerable ones in particular, that should be brought to the attention of the AER. While these broad-based items are dealt with in more detail in following sections, in outline they revolve around the following issues:

1. Evaluation of past performance
2. Incentives embedded in the regulatory framework
3. Adjustments to the Regulated Asset Base (RAB)
4. Weighted Average Cost of Capital (WACC) parameters
5. Demand Management
6. Treatment of connection services
7. Residential sales forecasts
8. The impact of the Proposal on residential electricity prices

In the context of SACOSS' constituency, this submission will focus largely on items 7 and 8: residential demand forecasts and their basis for residential price forecasts. Recent work undertaken by SACOSS (2009) on the costs of living in South Australia will help to inform debates on the current and future affordability of electricity. SACOSS believes that the AER can set a new standard for energy regulation in the current period by taking sufficient account of these important issues, and using its resources to ensure that ETSA Utilities and other DNSPs do not utilise the regulatory system for their own ends. In this respect, SACOSS welcomes the AER to its role of energy regulation.

The Proposal: general issues

1. Evaluation of past performance

The first of these regulatory issues that emerges from the Proposal is the lack of evidence that analyses the performance of ETSA Utilities during the current regulatory period (2005-2010). The performance of ETSA Utilities should be evaluated in terms of both the appropriateness of the approved expenditure allowance, and the efficacy with which it was spent. Without a good idea of where the Proposal sits in the context of the current period, a well thought out decision based on all desirable information is problematic. This follows a clear and distinct logic path: the current ETSA RAB is a direct result of the decision regarding the 2005-10 regulatory period; and the proposed expenditure program outlined in the Proposal is in part based on the current RAB, supplemented by forecasts of capital and operating requirements and consumer demand.

It is intuitive that a thorough understanding of the current period is needed in order to arrive at a balanced decision for the future, and that this understanding needs to come from an independent source such as the AER, not the distributor itself. An annual evaluation process would see DNSP revenue, expenditure and sales forecasts updated regularly, thus holding network service providers accountable during the regulatory period.

2. Embedded incentives

Related to the issue of contextual perspective is the second regulatory issue SACOSS would like to raise in this submission: the incentives embedded in the regulatory framework for DNSPs to maximise RAB and minimise consumption forecasts to drive up revenue 'requirements'. While the issue of increasing RAB in the current period will not be dealt with in detail in this submission[1], the issue of consumption forecasts are covered in greater detail in following sections. It is worth noting that ETSA appears to have responded enthusiastically to these incentives in its Proposal. If approved, the 51% increase in RAB over the period represents a legacy that consumers must fund for decades. It also drives the majority of a 35% increase in Operating Expenditure (opex) over the period. Further, it is proposed to not only drastically increase the RAB but to push for an even greater WACC. It is difficult not to treat the proposal as an ambit claim.

3. Adjusting the RAB

Proposed changes to the RAB, as listed in Chapter 12 and described in Attachment I.1, are of some concern – particularly the 'easement adjustment' of some $116m. At a WACC of around 9%, this represents a revenue stream of around $10m per annum. This is premised on a debateable 'technicality' that ETSA Utilities purchased the Distribution System lease on the basis that these 'historic costs' would be added to the RAB at some point in the future – an 'upside' as it was reportedly termed at the time. Given the extraordinary increase in every other component of the Proposal this should have come as no surprise to consumers.

[1] The Energy Consumers Coalition of South Australia touched on this point in their presentation to the AER Public Forum on the ETSA Distribution Price Review in Adelaide on August 6, 2009. There appears to be a view that ETSA has engaged in driving up RAB in the leadup to the current review, in the knowledge that the AER would be undertaking it.

However, this is simply unreasonable – essentially it is a case of a buyer asking to be compensated for money they would have spent before they owned the business but didn't spend because they didn't own it – with the rationale being that there was a handshake assurance during the sale process that they would be compensated. This behaviour does not endear itself to consumers who also received assurances in the late 1990s that electricity would be cheaper if the industry was downsized, corporatised, and privatised. It is unacceptable for ETSA Utilities to request this money be incorporated into its RAB while consumers are faced with such significant cost increases.

4. WACC parameters

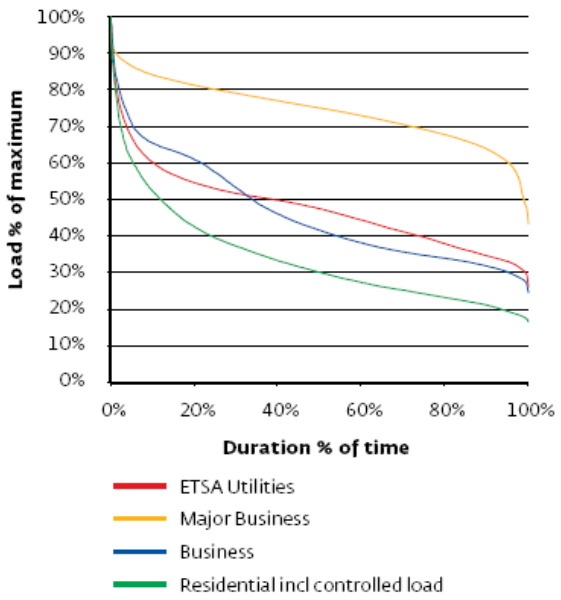
Chapter 13 of the Proposal outlines ETSA Utilities' proposal to deviate from the AER's Statement of Regulatory Intent (SORI) in relation to the WACC parameters of Market Risk Premium and Gamma. WACC parameters are an ongoing source of contention in relation to Network pricing reviews and SACOSS has not commissioned any work that could contend one way or another on the validity of what is proposed by either the AER or ETSA Utilities. However the sensitivity of the allowed revenue to changes in the WACC parameters is well understood. ETSA's proposed changes add some 0.5% to the WACC, which equates to an increase in revenue of around $15m in the first year, growing to around $20m by the end of the period.

This difference could fund around $150m to $200m in capital work – improving the quality of the service for the same spend. From the perspective of the consumer, additional spend on capital works to improve the security of the network is the next best thing to not having spent the money in the first place. SACOSS hopes that the AER takes ETSA and other DNSPs to task on such avaricious proposals.

5. Demand management

The regulatory approach appears to absolve ETSA Utilities from any material responsibilities to manage South Australia's growing peak demand and worsening network utilisation. Figure 5.15 from the proposal illustrates this phenomenon.

Figure 5.15: Load duration of ETSA Utilities' customer sectors (2007/08)



The Demand Management Incentive Scheme (DMIS), Part A (AER, 2008) – Incentive Allowance (DMIA) of $3m proposed by the AER over the five years of 2010-15 seems extraordinarily disproportionate. It equates to a financial incentive of $3m to avoid having to build infrastructure while the business collects over $3bn in revenue and the RAB increases by $1.5bn over the same period.

ETSA Utilities is clearly ready in this next regulatory period to go beyond 'trials' (the envisaged purpose of Part A) and deliver significant, broad-based peak demand reduction solutions. Trials may well be the appropriate activity in other jurisdictions but not in South Australia. Moreover, any revenue lost due to the efficacy of trials under the DMIA is recoverable under Part B of the DMIS.

The implications of not satisfactorily addressing peak demand in South Australia are manifest in the capital expenditure program proposed by ETSA Utilities. The AER must revisit its October 2008 decision regarding the DMIS to apply in this case.

5.1 Demand management
– Why this proposal fails consumers and the National Electricity Objective:

The National Electricity Objective (from the National Electricity Law) states:

> *7 – National electricity objective*
>
> *The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –*
>
> *(a) price, quality, safety, reliability and security of supply of electricity; and*
>
> *(b) the reliability, safety and security of the national electricity system.*
> (Parliament of South Australia, 2009, p. 30)

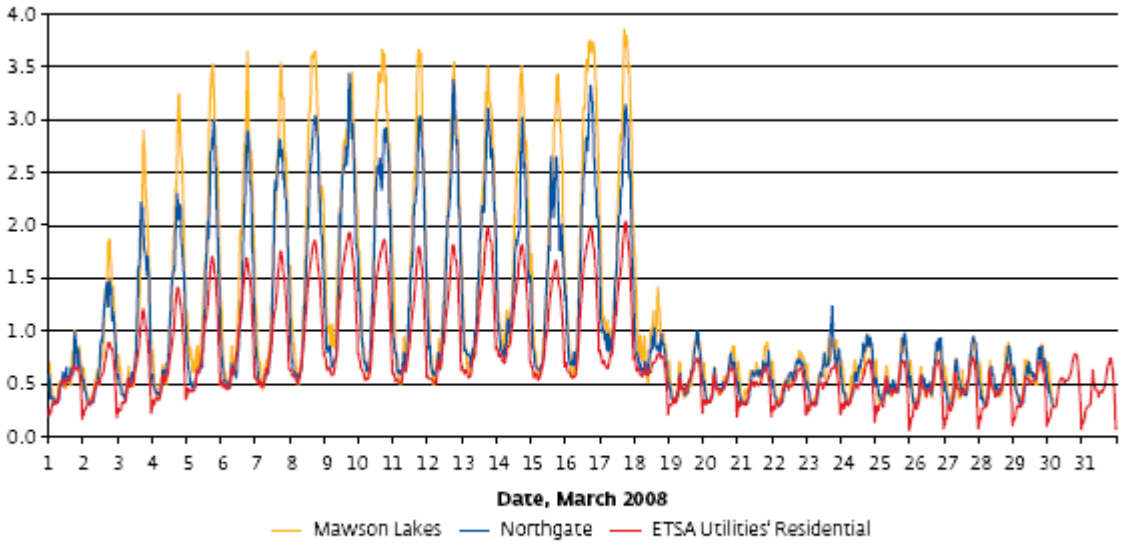
It is impossible to conclude that the treatment of this issue within the Distribution Price Review regulatory approach does anything but fail this objective, as it is clear that the 'long term' interests of consumers will not be met under the Proposal. The issue of peak demand in South Australia not only has a detrimental effect on the price and reliability of supply of electricity but also the reliability, and hence safety, of the national electricity system.

Failing to meet the demand management needs of the network, ETSA Utilities instead proposes an arrangement by which its capital expenditure program focuses on very expensive, under-utilised infrastructure. In terms of overall economic efficiency, SACOSS contends that the electricity distribution network is only one of many parts of the South Australian economy that would benefit from an additional $1bn over the next five years — many of which would be of greater benefit to consumers.

6. The current and proposed treatment of connection services

The impact on peak demand of new (open space living with ducted reverse cycle air conditioning (RCAC)) housing is articulated in Section 5.5.3 of the Proposal. Figure 5.6 clearly shows the impact:

Figure 5.6: Residential loading in summer 2008(1,2)



Notes:
(1) Residential demand per customer (kW)– March 2008.
(2) Mawson Lakes requires 3.8kW; Northgate 3.4kW; and ETSA Utilities' residential (average) requires 2.0kW capacity.

The current pricing system is inadequate in providing a realistic and equitable price signal to residential consumers who install large refrigerated air conditioners, and the Proposal does not provide for any clear improvement in the 2010-15 period. More succinctly, it is unclear from the Proposal just what level of cross-subsidy might exist within the residential tariff class between customers with 'large' refrigerated air conditioners and those with smaller refrigerated units, evaporative coolers, or no air conditioning equipment.

According to ETSA Utilities Excluded Services pricing schedule (ETSA, 2008), the standard fee for a multi-phase connection is $250 (ex GST) for a new supply and $450 for the upgrade of an existing service to multi-phase (if overhead, $100 if underground). The impact on network costs of a residential connection's upgrade to a three-phase supply, to allow for a large ducted RCAC, is likely to be several times these amounts but is not likely to be recovered from increased consumption (see the old vs new "Mawson Lakes" discussion in Chapter 5 – Section 5.5.3 and Figure 5.6).

Chapter 3, Table 3.1, of the Proposal confirms ETSA Utilities' proposal to include under 'Direct Control Services – Standard Control':

> *New or upgraded connection services (to the extent the user is not required to make a financial contribution under the current Electricity Distribution Code)* (ETSA, 2009, p. 43)

The Electricity Distribution Code, EDC/06 at para 3.6.3 (d) states *'Unless otherwise determined by the Commission, the augmentation allowance is 90kVA, except where the customer is in a location supplied through a 19kV SWER line, where the allowance is 25kVA'*, which essentially means that

residential connections and upgrades do not have to pay for the upstream impacts of their demand.

An opportunity clearly exists to introduce special cost-recovery options for the network capacity requirements of larger RCAC. One example might be on the connection of a 3-phase supply to a residence, where a once-off contribution to the upstream impacts could be sought, or time of use metering and a new tariff could be a requirement. Such an approach would provide greater equity within the residential tariff structure by avoiding the subsidisation of large RCACs by other residential customers, and SACOSS proposes that this issue is acknowledged as important and in need of further study.

Residential sales forecasts and pricing implications

The main focus of this submission, as outlined above, is on the impacts of the ETSA Utilities Proposal on residential consumers. SACOSS believes that the impact on consumers of the Proposal cannot be given less weight in deliberations than the needs of networks or network operators, be they DNSPs or TNSPs. This section outlines the sales forecasts used by ETSA and compares them to other sources, before outlining the impact on consumers.

7. Residential Sales Forecasts

The residential demand forecasts used by ETSA Utilities appear to be inconsistent with those of other bodies such as the Electricity Supply Industry Planning Council (ESIPC, 2008). ESIPC forecast modest growth while ETSA Utilities forecast significant declines of over 2% per annum. Chapter 5 of the Proposal states that the expected increase in retail electricity prices as a result of myriad greenhouse related policies will not alter peak demand but will significantly reduce energy consumption.

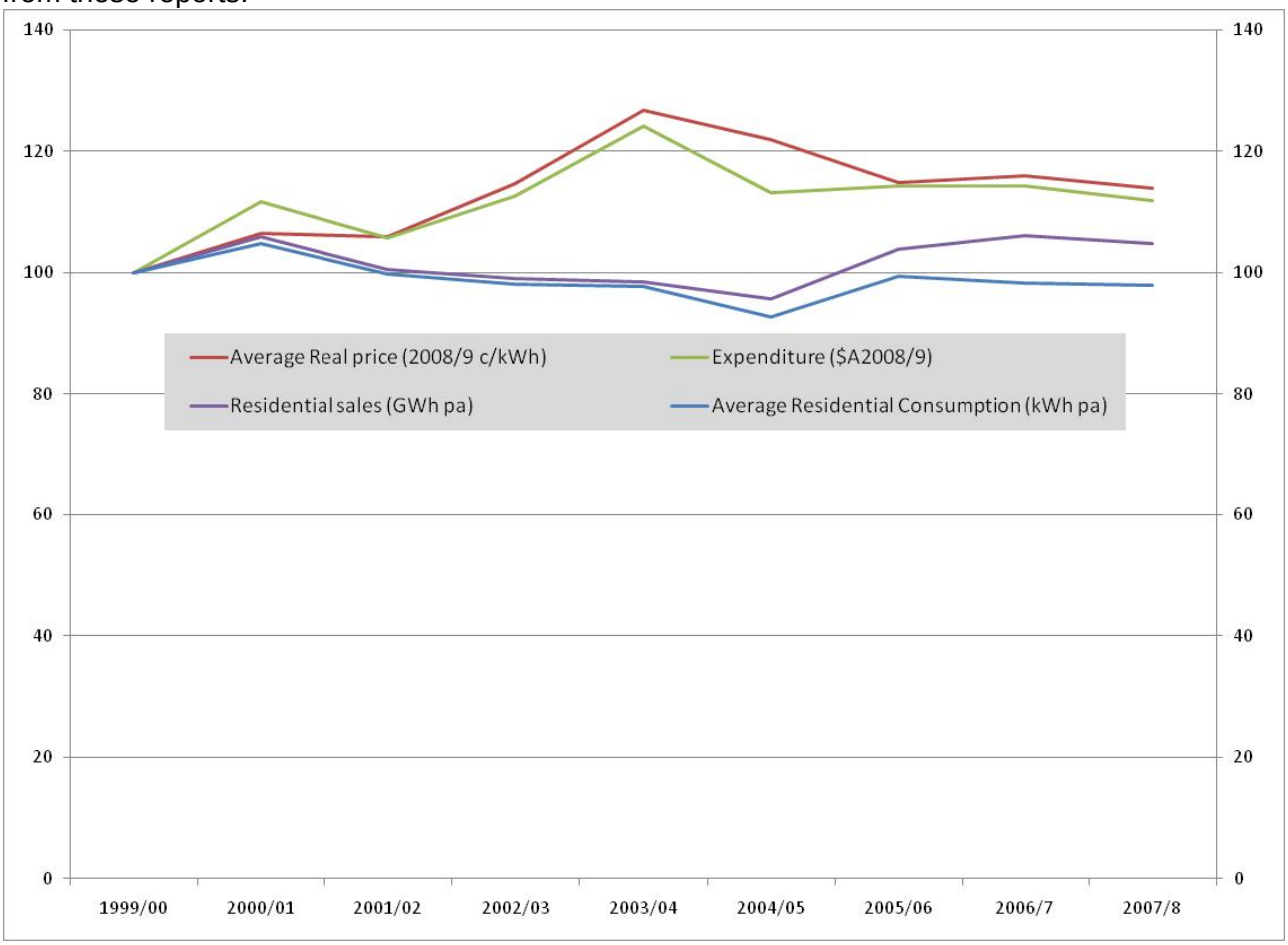
NIEIR (2009) has provided sales forecasts (Attachment D.1) that include an assessment of the cumulative impact of a number of policies and programs that target residential energy efficiency. In summary, NIEIR forecast an average decline in residential hot water electricity sales of around 11% per annum for the period 2009-15 and 14% for 2009-19, and for non-hot water sales an average decline of 2.2% per annum for the period 2009-15 and a total of 14% for 2009-19.

ESIPC presents a rather different view in their 2009 Annual Planning Report (ESIPC, 2009) for their 10 year planning horizon (2008-9 to 2018-19):

> *Residential sales (excluding the water heating load) are projected to fall by 3.6% in 2009-10, reflecting weakening economic growth as a result of the economic downturn. Growth is expected to be relatively strong at 4.1% the following year as the economy recovers, before falling again in 2011-12 as customers respond to higher prices expected to follow the introduction of the CPRS. Annual growth of residential sales is projected to average 1.2% under the base case assumptions.*
>
> *Controlled load water heating sales are expected to continue declining at around 3½% annually as electric storage systems are phased-out and customers switch to electric boosted solar units, heat pumps or gas heating.* (ESIPC, 2009, p. 31)

Page 47 of the ESIPC Report discusses their treatment of various energy efficiency initiatives, predominantly the same list as those used by the NIEIR, yet appear to have realised quite different results when combined with other economic drivers and known price elasticities.

The NIEIR report also includes historical data that is inconsistent with data provided in ESCoSA Annual Performance Reports. The average residential consumption (all sales) and average price figures (corrected to 2007-8, the most recent year reported) in the following chart have been taken from these reports:



It should be noted that the consumption figures are not weather corrected, but the chart does illustrate a general long-run inelasticity of demand despite significant price movements and, consequently, increases in average expenditure of over 10% real across the nine years. Overall sales have continued to slowly grow despite average sales staying relatively flat. It also shows a strong tendency for consumption to recover from price shocks and return to previous levels despite prices remaining significantly higher – an example of the 'rebound effect' in action.

The NIEIR report goes to some lengths to dissect the actual and probable energy efficiency programs that target residential consumption, but does not present a base case from which these impacts would apply. Analysis of the NIEIR figures suggests they have assumed that without the measures discussed in their report virtually no change to current consumption levels would have occurred (not average consumption but overall sales). Then they have simply deducted the estimated impact of each program from this figure to give a result that infers energy efficiency savings in existing dwellings will outstrip the growth in dwelling numbers and renovations. This simplistic and crude analysis not surprisingly provides a result that works to the revenue advantage of their client, ETSA Utilities.

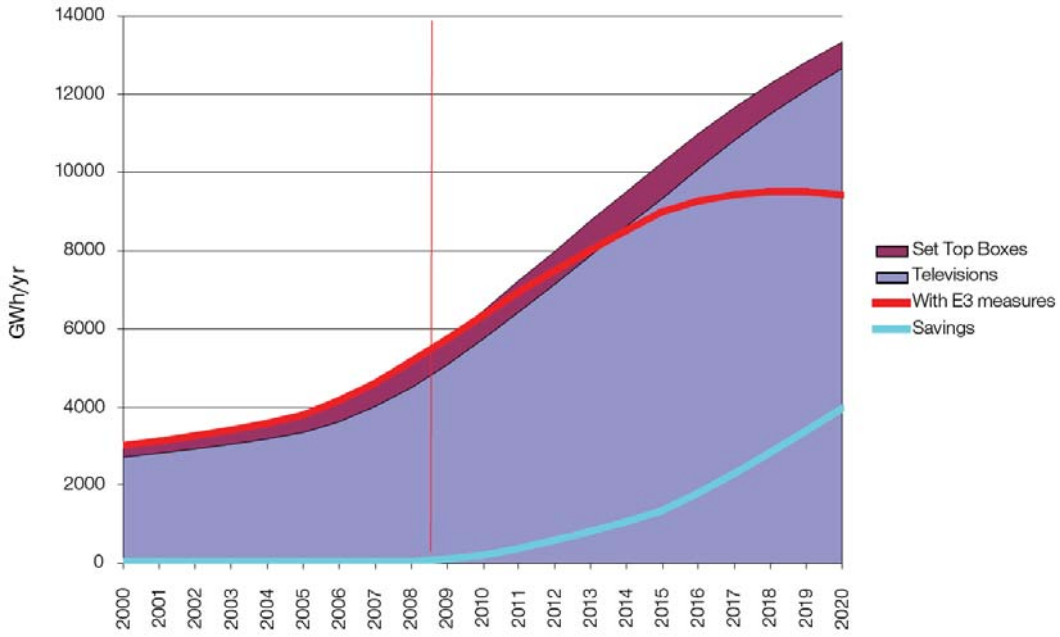
The NIEIR Report concludes that total residential (non-hot water) sales will fall by 11% over the period and that the average household customer will drop consumption by 16%. The implications of this work for ETSA Utilities is that significant price rises will be required to sustain an increased revenue requirement from this customer group. SACOSS believes this is an ambit claim that should be rejected by the AER. The same can be said for hot water sales forecasts.

The following example of the treatment of Minimum Energy Performance Standards (MEPS) for Televisions illustrates the concerns held over the modelling work commissioned by ETSA Utilties. The Maunsell Report at Attachment D.3 'Assessment of Climate Change Impacts on ETSA Utilities for 2010-2015 EDPR 24 April 2009' cites, at page 57, a recent report by George Wilkenfeld (Wilkenfeld, 2009) to the National Framework for Energy Efficiency. The Maunsell report states:

> *A 2009 report for NFEE has projected the impacts of the soon to be introduced MEPS for televisions and set top boxes. These projections indicate nation-wide annual energy savings of approximately 4,000GWh by 2020.*

The following chart from the Wilkenfeld report is also included in the Maunsell report:

Figure 12 Historical and projected energy use and energy savings by E3 Programs for televisions and set top boxes, Australia



The Maunsell interpretation logic is of particular concern:

> *ETSA has 7.5% of the national population, estimated as its residential customer share of South Australia (100%) multiplied by South Australia's population share of Australia (7.5%).* ***Therefore a reduction of 7.5% of ETSA's electricity sales will occur as a result of MEPS for televisions****. In 2011 and 2015, these savings are 13.6 and 68.1GWh respectively; over the period 2011-2015 these savings cumulatively amount to 204.4GWh.* (Emphasis added)

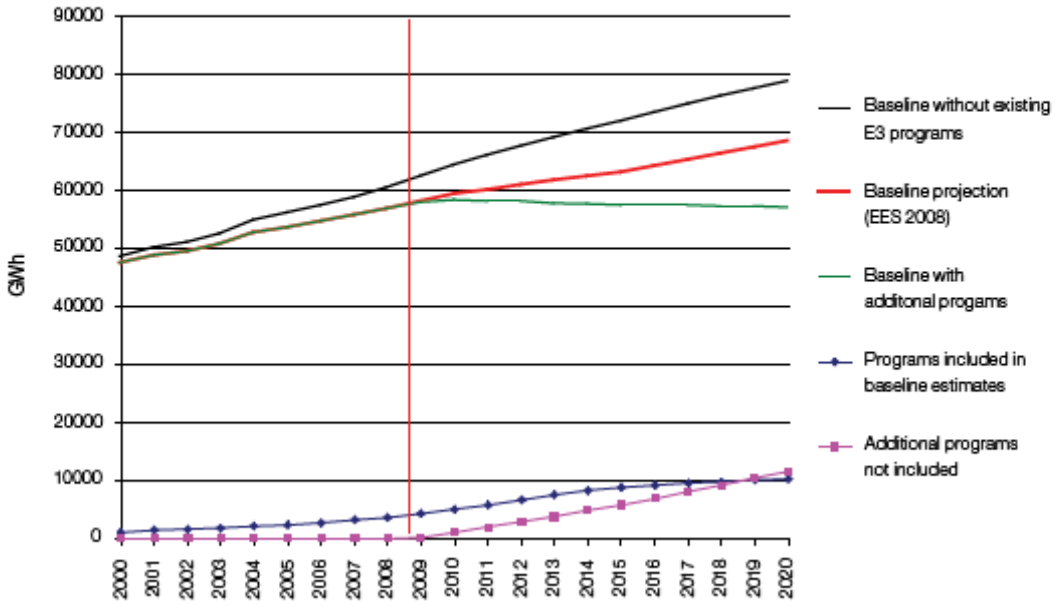
Table 4.11 of the NIEIR Report states that a reduction in demand from Television and Set Top Box MEPS of 9.0 and 1.8 GWh respectively has been included in sales forecasts in each year of the regulatory period.

However, it is clear from Wilkenfeld's Figure 12 that while the MEPS initiatives might reduce demand from what it would have otherwise been, there is a still a significant increase in overall

consumption from these appliances. The Maunsell and NIEIR use of the savings figure would be relevant if their baseline clearly incorporated the upper curve but there is absolutely no evidence of this being the case.

Further, ETSA Utilities stated at the Adelaide Forum on August 6, 2009 that Wilkenfeld's data support their contention of falling sales. This does not appear to actually be the case. Wilkenfeld's Figure 20 shows his projections of total electricity use in the residential sector out to 2020. It shows that total consumption shows a very slight decline from around now out to 2020. This includes water heaters – an item that makes up 22% of the savings in his report:

Figure 20 Projected total electricity use in the residential sector



This **does not** support a 11% reduction in light and power sales and a 38% in hot water sales over the regulatory period

The AER's attention is also drawn to the work of Energy Efficient Strategies for the Department of Environment, Water, Heritage and the Arts (DEWHA), published in 2008 as 'Energy Use in the Australian Residential Sector 1986-2020' (DEWHA, 2008). This work uses more comprehensive and sophisticated stock and flow modelling of appliances and equipment (including those that increase consumption) as well as state-specific housing models, and projects a steady rise in total (non-hot water) electricity consumption from 10.1PJ in 2010 to 10.8 in 2015 and 11.7 in 2020. This represents a slow rise of around 1.5% per annum over the decade.

Research undertaken by The Australian Institute (TAI) (Fear and Denniss, 2009) further shows that the price signals alone in the CPRS will not necessarily lead to greater energy efficiency in households. The TAI highlights the 'irrational' as well as the 'rational' behavioural characteristics of household action and suggests a more thorough understanding of the relationship between the two would be beneficial to policymakers. Most importantly in the context of the ETSA Utilities Proposal, Fear and Denniss point to the fallacies involved in assuming behavioural change, as the forecasts in the Proposal do.

In summary, the conclusion that a fall in residential sales will occur in the next regulatory period cannot be sustained. The NIEIR modelling report is not transparent and is inconsistent with the projections of others. Given the significant role that residential sales forecasts are taking in terms

of proposed prices, SACOSS fervently hopes that the AER will dedicate significant resources to a thorough analysis of these figures.

8. Residential sales forecasts: implications for pricing

It has been noted that the residential sales forecasts used in the Proposal are flawed. Nevertheless, the implication of their use is clear: that ETSA Utilities must increase prices in order to ensure sufficient revenue – with the business over-collecting if the reductions in demand do not eventuate.

Chapter 16 outlines ETSA Utilities anticipated pricing impacts for consumers. Section 16.4.3 (p. 274) states that:

> *For typical small customers, the annual bill for standard control services is set out in Table 16.11. The assumptions made in preparing this table are as follow:*
>
> 1. *The residential customer is assumed to consume approximately 5 MWh of energy annually, which equates to a typical consumption level for a residential premise. However, this annual energy consumption is forecast to decline as a result of a number of factors, as described in detail in Chapter 5 of this Proposal, to just over 4 MWh by the end of the period.*

Table 16.11: Indicative small customer bills for distribution standard control services

Customer type	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Residential	$372	$397	$422	$447	$472	$497
Small business	$747	$822	$904	$995	$1,094	$1,203

$ per annum, 2009/10 real

So, the $25 per year on average quoted by CEO Lew Owens in his Foreword to the Proposal (ETSA, 2009, p.3) and widely quoted in the media is somewhat misleading in that it relies on a more than 15% reduction in consumption and does not include GST:

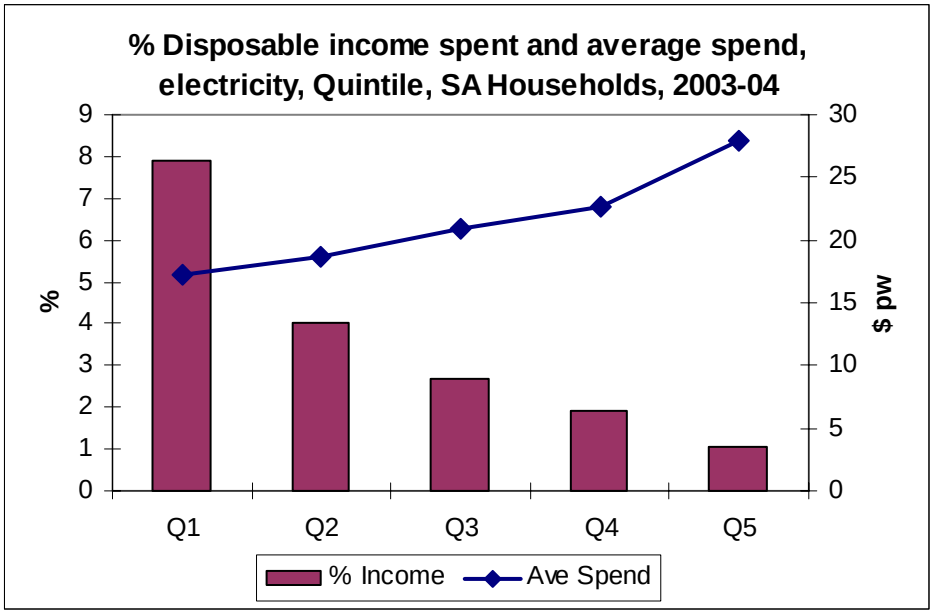
> *…based on current parameters, this Proposal is anticipated to require real distribution price increases of approximately 10% per annum. This equates to increases of around $25 per annum in the $1,100 annual electricity cost to a typical residential customer, taking into account reduced consumption resulting from various government greenhouse-related initiatives.*

In reality, for a household that continues to consume the current average of 5000kWh per annum, the GST included increase is likely to exceed $50 per year: from $415 in 2009/10 to $670 in 2014/15. This represents a significant cost impost on consumers already struggling to afford the basic essentials such as housing, food and transport, and should not go unchallenged.

Recent work undertaken by SACOSS (2009) shows that consumers on low and fixed incomes already pay a significant proportion of their income on energy. ABS data from 2003-04 (ABS, 2005) shows that households in the lowest income quintile spent around 8% of their weekly income on electricity alone (see Figure below). SACOSS data shows that in March 2009, a single person household on Newstart Allowance using 4,900kWh per annum was spending around 7.5%[2] of

[2] This figure includes the $120 per annum maximum energy concession in South Australia.

income on electricity. Between March 2006 and March 2009, the costs for this amount of electricity have risen by an average of 11% — with supply charges rising by 21.2% (SACOSS, 2009). From these figures it is clear that even a $50 a year increase to these costs would have a significant impact on low income consumers.



Electricity costs must not be seen outside the context of the wider costs of living however. When the costs of housing, food and transport are considered alongside those of electricity and gas, the picture of low income households looks much more grim, and should inform regulatory decision-making in the electricity network. As part of its *Cost of Living* report, SACOSS calculated the following figures for various fixed income scenarios (SACOSS, 2009):

	% Housing		***% Electricity***		***%Total***	
	2006	**2009**	**2006**	**2009**	**2006**	**2009**
Newstart	58.7	71	7.2	7.3	65.9	78.3
Parenting Payment, 2 kids	36.4	42.2	3.6	3.6	40	45.8
Single Pensioner	48.9	56.3	6	5.8	54.9	62.1
Youth Allowance	68.9	82.3	8.4	8.6	77.3	90.9

It can be seen from the table above that housing and energy consume a significant proportion of the income of households reliant on Commonwealth government benefits, and that in many cases there is little left for other non-discretionary spending such as food, transport, health and education. More importantly, it is clear that any rise in electricity costs provided for through regulation of any entity in the NEM require detailed cost-benefit analyses in order to avoid burdening consumers with the costs of network improvements. Moreover, other emerging consumer impacts such as the probable pass-through of costs from the CPRS and RET need to be considered in this context.

A 2008 study undertaken by KPMG, the Brotherhood of St. Laurence and Ecos Corporation (KPMG, 2008) noted the intuitive: that low income households would be disproportionately affected by price rises due to the CPRS. The report cites a number of reasons for this (including energy expenditure as a proportion of income, as above), two of which are of interest in this context:

1. Low income households do not have the capacity to purchase new, energy efficient appliances; and

2. They are more likely to live in sub-standard housing with poor energy efficiency. (KPMG, 2008, p. 10)

If DuOS costs are raised in order (in part) to cover lost residential sales, then in effect low income households may find themselves burdened with the role of cross-subsidising greater energy efficiency in middle-and-high income households. This is because they will be paying a higher rate for the same amount of energy to make up the shortfall in forecast residential sales volumes from (assumed) behavioural change in aggregate.

In summary, ETSA Utilities sales forecasts are flawed and cannot be taken at face value by the regulator. These flaws are based on a number of assumptions and if swallowed whole will lead to greater entrenched disadvantage and energy poverty. In answer to the question, *'Can consumers afford what ETSA Utilities has proposed*?', the obvious conclusion is a simple "No". Put simply, low income and vulnerable consumers need to be protected from the revenue requirement claims of over-zealous network service providers.

Summary

SACOSS finds the ETSA Utilities Proposal flawed in a number of ways. By responding to the incentives embedded in the regulatory framework to maximise the RAB and minimise consumption forecasts, our sole distributor has proposed a cost recovery response that is unreasonable and inequitable. South Australian consumers – particularly those on low and fixed incomes – simply cannot afford to cross-subsidise the energy efficiency of those on higher incomes, and those who choose to use large reverse cycle air conditioning units. Not only does ETSA Utilities propose questionable changes to the RAB and WACC parameters, but goes further by making use of dubious consumption forecasting that is not backed up by further evidence.

SACOSS firmly believes that the Proposal represents an ambit claim by a DNSP with no competition, and that the role of the AER presupposes its rigorous contestation of the elements underpinning the revenue 'requirements' outlined therein.

References

ABS (2005) *Household Expenditure Survey*, Cat No. 6530.0, Australian Bureau of Statistics, Canberra. Viewed [online] October 20, 2008, http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6530.0Main+Features12003-04?OpenDocument

AER (2008), 'Final – Framework and approach paper, ETSA Utilities 2010-15', Australian Energy Regulator, November 2008.

DEWHA (2008), 'Energy use in the Australian residential sector 1986-2020', Department of the Environment, Water, Heritage and the Arts, Canberra, June 2008.

ESIPC (2009), 'Annual Planning Report', Electricity Supply Industry Planning Council, June 2009.

ETSA (2009), *ETSA Utilities Regulatory Proposal 2010-2015*, 1 July 2009, ETSA Utilities.

ETSA (2008), 'Demand and Network Management – Pricing Reference Manual', viewed [online] August 20, 2009, www.etsautilities.com.au/centric/news_information/electricity_information/excluded_service.jsp

Fear, J. and Denniss, R (2009), 'Zero-sum game? The human dimensions of emissions trading', The Australian Institute, Institute Paper No. 2, August 2009.

KPMG (2008), 'A national energy efficiency program to assist low-income households', KPMG, The Brotherhood of St. Laurence and Ecos Corporation, September 2008.

NIEIR (2009), 'Electrical energy predictions for ETSA Utilities in South Australia to 2018-19: A preliminary report for ETSA Utilities', National Institute for Economic and Industry Research, May 2009.

SACOSS (2009), *Cost of Living: Biannual Update* No. 1, July 2009, South Australian Council of Social Service, Adelaide.

Parliament of South Australia (2009), *National Electricity (South Australia) Act 1996*, Schedule – National Electricity Law, Version 1.7.2009.

Wilkenfield, G and Associates (2009), 'Prevention is Cheaper than Cure- Avoiding Carbon Emissions through Energy Efficiency: Projected Impacts of the Equipment Energy Efficiency Program to 2020', available from www.energyrating.gov.au/library/pubs/200901-projected-impacts.pdf