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TITLE

This submission is a response from UnitingCare Wesley Adelaide to the

Distribution Price Review for South Australia, 2010-2015

Conducted by the Australian Energy Regulator (AER).

Uniting*Care* Wesley Adelaide is an agency of the Uniting Church and is a South Australian community service organisation with over 100 years experience in providing services to assist low income and disadvantaged people. We work with individuals, families and communities to break the cycle of disadvantage, in a range of settings across South Australia.

Our vision is for "a compassionate, respectful and just community in which all people participate and flourish."

Based on Christian ethics our values are:

Respect and compassion for all people
Belief in the innate worth of all people
Justice, particularly for those disadvantaged in our society
Being a service to others
Restlessness for what could be
Non-violence and peace

SUBMISSION OVERVIEW

The price bid by ETSA Utilities for the regulated distribution price path in South Australia is too high and, if accepted, would cause considerable hardship for growing numbers of South Australian households that are at grave risk of energy induced poverty.

KEY POINTS

We calculate that an electricity price rise of 95.7% (in nominal dollars) over 5 years to 2015, for residential consumers, is likely and conclude that an increase of this magnitude is simply unaffordable for low and modest income customers. Nearly 40% (38.5%) of this increase is attributable to distribution price increase sought.

Energy prices are highly income sensitive; the lower the household income the more dire the impact of energy price rises.

We also propose that:

- Greater consideration be given to demand management
- The ETSA Utilities Capital Expenditure bid be scaled down and major works be prioritised. We suggest that $235m, 37.5% of the ETSA CAPEX bid be regarded as a more reasonable capital expenditure budget, 2010-2015.
- A CBD surcharge be introduced to contribute toward CBD infrastructure, so that low income households are not contributing to business infrastructure through higher bills
- The capacity of ETSA Utilities to frugally meet their CAPEX and OPEX bids be considered on the basis of their 'underspend' against regulated expenditure levels for 4 of the 5 years of the current regulated period.
- Guaranteed Service Levels be maintained at least at current levels

OTHER CONCERNS

We also identify 4 significant policy issues that have become apparent during our consideration of the review, and suggest that these issues should be passed on to the Ministerial Council for Energy for resolution. The issues being:

1. Who pays for Energy Infrastructure?
2. Energy Affordability
3. Benefits from and Incentives for Demand Management
4. Appropriateness of RAB/CAPEX as a key element for Distribution Pricing

We also suggest greater stakeholder liaison and consultation over the life of a regulated price path.

Signed…….
Sue Park
Chief Executive Officer
UnitingCare Wesley Adelaide

Introductory Comments

Note
Our relationship with ETSA Utilities
Before commenting on the substantive issues associated with this review, UnitingCare Wesley Adelaide considers it appropriate to comment on our relationship with ETSA Utilities. ETSA Utilities has been an important partner with UnitingCare Wesley Adelaide for our Christmas Hamper and Gifts program over recent years. This program delivers over 1500 Christmas hampers and about 2500 gifts for children to low income and disadvantaged families. It is a significant project and the contribution of ETSA Utilities has been invaluable to meeting project outcomes.

A UnitingCare Adelaide Staff Member is a member of ETSA Utilities' Consumer Advisory Committee.

It is the organisation's opinion that ETSA Utilities has been an excellent corporate citizen in this state and has shown commitment to building the South Australian community over many years.

Focus of this submission
This submission focuses on the issues associated with the distribution price for South Australia for the 2010 to 2015 period.

Our vision is for a "compassionate, respectful and just community in which all people participate and flourish." Our application of this vision is particularly applied to supporting low income and disadvantaged individuals, households and communities to flourish. The focus of this submission is, therefore, our observations about the likely impact on lower income and disadvantaged households of the distribution price proposal submitted by ETSA Utilities.

Of direct relevance to this submission is UCW Adelaide's role as a significant provider of financial counselling services. Particularly since the introduction of FRC into the South Australian electricity market, UCW Adelaide has played a leadership role within community and consumer organisations in South Australia, in advocating for energy policy, practice and programs from the perspective of lower income and disadvantaged households. UnitingCare Wesley Adelaide is represented on AGL, ETSA Utilities and Aurora Energy consumer reference groups as well as on the ESCoSA Consumer Advisory Committee. UCW Adelaide was also a foundation member of the national energy consumers Roundtable, and is a continuing member.

This submission is presented in four parts:

1. Context of SA Electricity Distribution price set for 2010-15.
2. Elements of the ETSA proposal and UCW Adelaide reflections about these.
3. Policy issues arising from this review, noting this is part of a new national structure
4. Ongoing process issues - NB consumer input

Section 1

Context for the SA Distribution Price Review 2010-15.

There are two significant contextual elements for setting the distribution price path for 2010 – 2015:

i. The capacity of customers to pay for the essential service of electricity
ii. The significant changes in regulation and regulatory structures that are represented by the process of this Review.

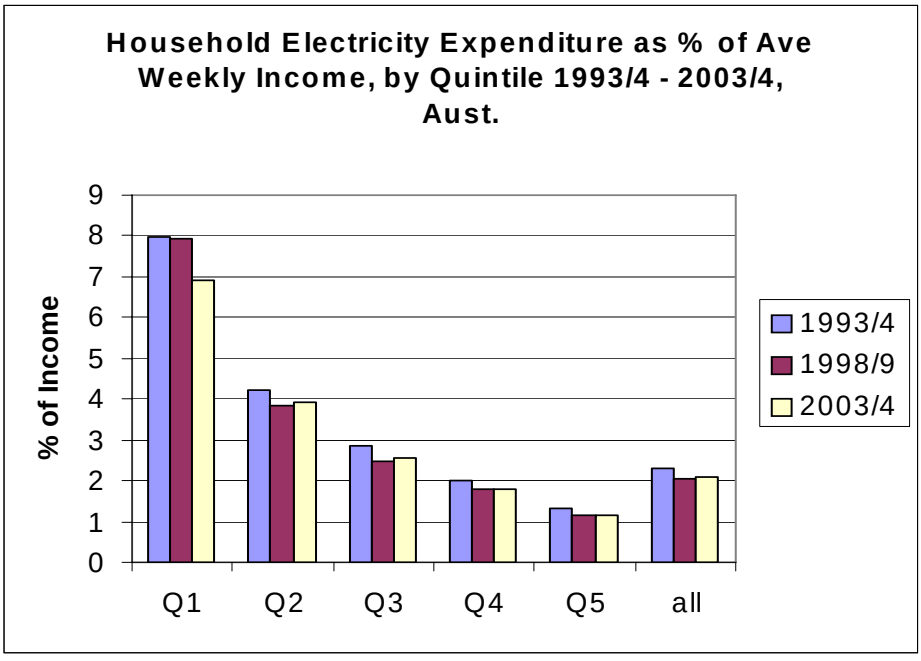
UnitingCare Wesley is very concerned by the diminishing capacity of lower income households to be able to afford to pay for electricity.

Issue 1. Energy Affordability.

Electricity

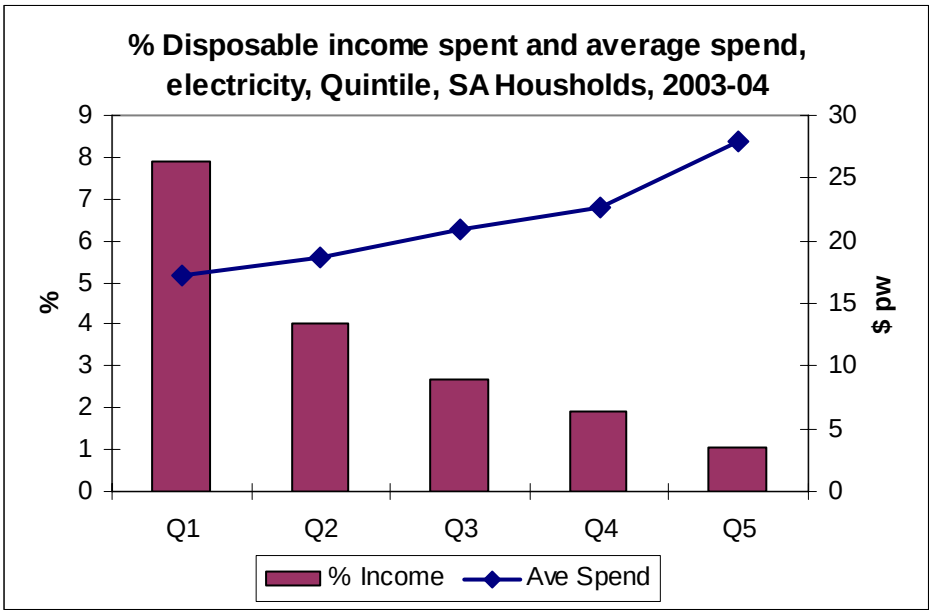
We commence this section with the important observation that electricity is an essential service in contemporary society. An Essential Services Charter has been developed by the National Energy Consumers Roundtable (UCW Adelaide was a foundation participant and continuing member), and this Charter is supported by UCW Adelaide and is attached as Appendix 1.
The following discussion considers current challenges with energy affordability for significant numbers of Australian households. We expect that these pressures will be further exacerbated in coming years as the price of energy increases for a range of reasons.

The most recently available Australian Bureau of Statistics (ABS) data on household electricity expenditure is given in Graph 1 below:



Graph 1 Source ABS

A key observation from this graph is that for the poorest 20% of the Australian (equivalised) income distribution, electricity counted for about 7% of expenditure in 2003/4, whereas electricity expenditure was not much more than 1% of weekly income for the richest 20% of households. Indeed, for about half the population, electricity accounts for less than 2½ % of expenditure. Graph 2 shows the household expenditure data from graph 1, for 2003/4 and overlays average electricity use by quintile.



Graph 2 Source ABS

This graph shows that while actual electricity use increases with income, the proportion of household income spent on that electricity decreases sharply with income.

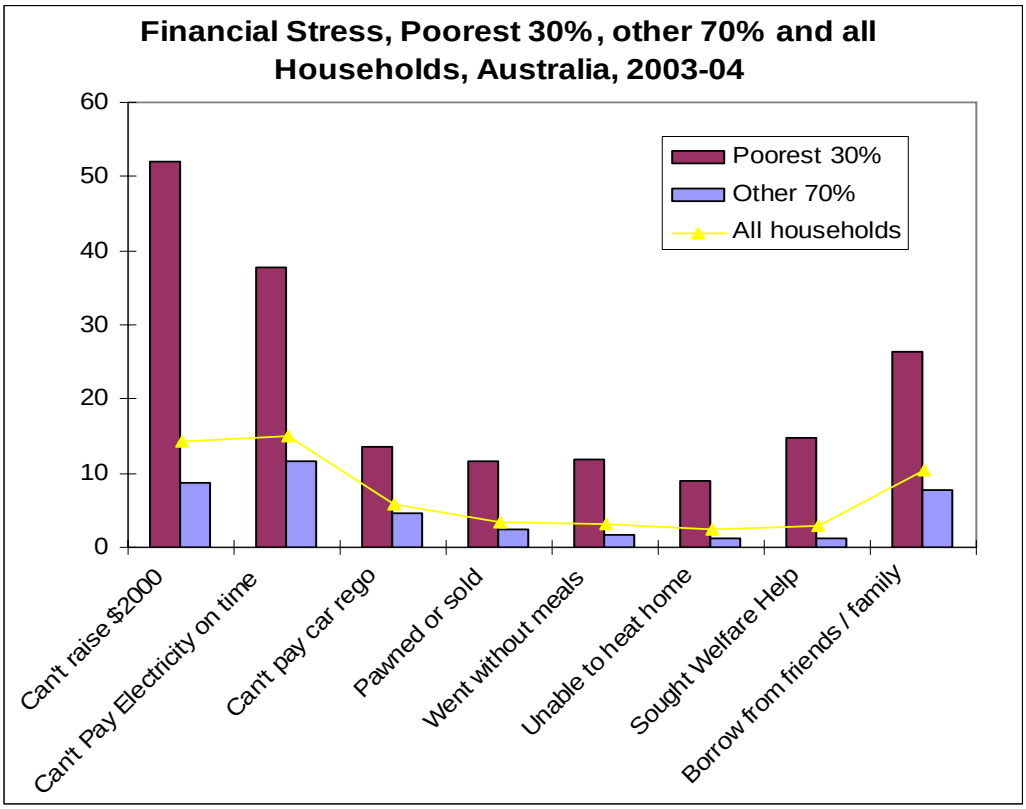
Financial Stress

Table 1 shows a number of "financial stress" indicators for Australia, and considers the poorest 30% of the household income distribution, against the remaining 70% of the income distribution, using eight financial stress indicators. The data is taken from the 2003/4 ABS household expenditure survey and was reported in Australia's Social Trends 2007.

Financial Stress Measure	Poorest 30%	Other 70%	All households
Can't raise $2000	52.1	8.6	14.3
Can't Pay Electricity on time	37.8	11.5	14.9
Can't pay car rego	13.5	4.6	5.7
Pawned or sold	11.7	2.3	3.5
Went without meals	11.8	1.8	3.1
Unable to heat home	8.9	1.2	2.3
Sought Welfare Help	14.7	1.2	2.9
Borrow from friends / family	26.4	7.8	10.3

Table 1, Source ABS

Information from this table is presented in Graph 3. Of particular relevance to this discussion is the observation that 38% (rounded) of the poorest 30% of Australia's households were unable to pay electricity bills on time, due to financial stress, while 15% (rounded) of Australia's total population were unable to pay for electricity on time, a significant indicator of financial stress. Also worty of note is that, considering the whole Australian population, inability to pay electricity bills on time was the most common indicator of financial stress, in 2003-04. It is most likely that a higher proportion of the population would now be unable to pay electricity bills on time, because electricity costs have grown at a much faster rate than CPI or minimum wages.



Graph 3 Source ABS

Impacts of Full Retail Contestability (FRC)

We note that in South Australia, the introduction of FRC for electricity resulted in immediate increases of over 25% in electricity bills for residential consumers. This translates to an even higher increase in proportion of household income required to meet electricity costs for lower quintile consumers. Electricity costs have continued to rise at rates greater than CPI, in the years following the introduction of FRC.

Appendix 2 provides a summary of Uniting*Care* Wesley Adelaide's initial experience of FRC, with particular reference to financial counselling clients and the impacts of dramatic increases in electricity costs for them. This appendix is reproduced from our submission to the AEMC about the effectiveness of competition in SA, however the points made also provide useful background to this review.

In July / August 2004 we conducted a survey of financial counselling clients and one of the questions we asked was: “what of the following items have you reduced spending on due to electricity price increases?” - responses included:

Food	50%
Clothing	87%
Holidays	83%
Movies	80%
Sport and culture	80%
Telephone	53%

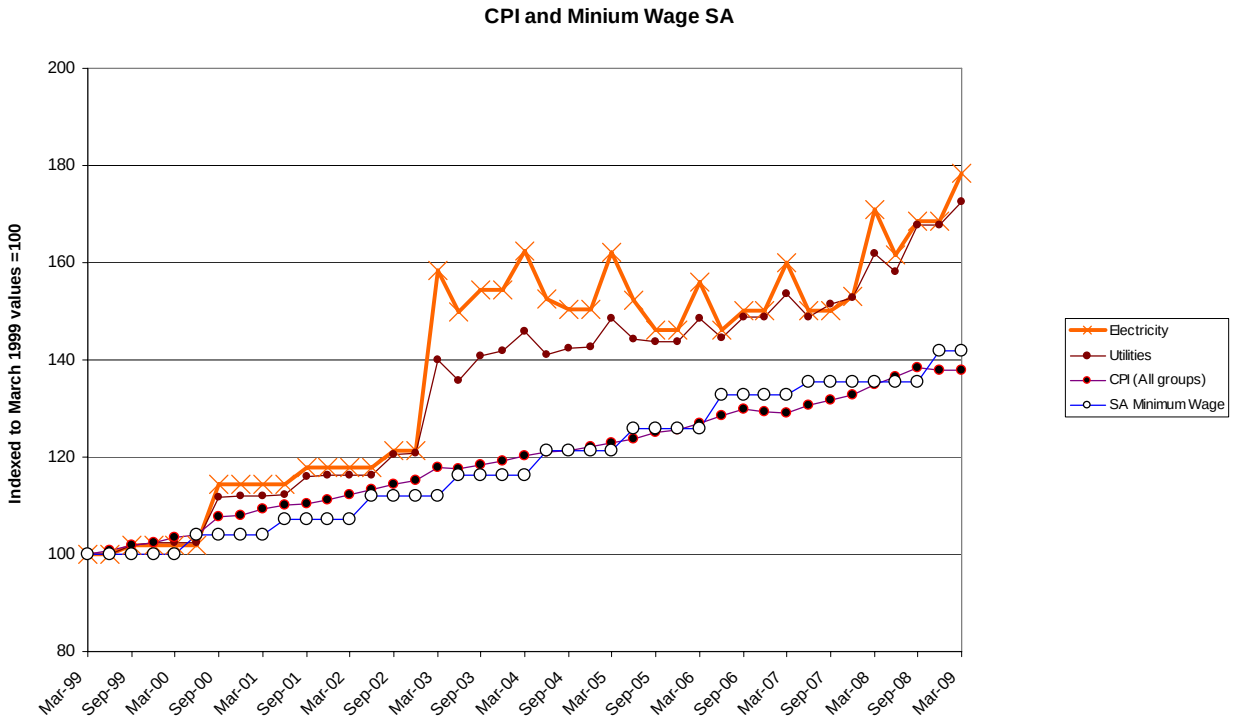
We also note that a vast majority of low income households pay utility bills and rent as their priorities, ahead of food and medications. So for some low income households, paying utility bills means being hungry or remaining ill.

Electricity Price Rises, last decade

Over the past decade, electricity prices have risen at a significantly higher rate than the Consumer Price Index, (CPI) which is broadly used to reflect levels of price increases.

Setting CPI component values for the March quarter of 1999 at an index value of 100, graph 4 plots the change in index value for the following decade, to March 2009, for electricity and utilities in aggregate and compares them to minimum wages (South Australia) and CPI (all groups CPI).

We highlight that minimum wages have closely followed CPI changes and that utilities are closely linked with price changes in electricity. The series for electricity, in particular, shows the sharp increase in electricity prices that residential customers experienced with the introduction of FRC in South Australia, taking effect in 2003. The series for electricity also shows that electricity price rises have risen steadily since 2006. The peaks in the graph reflect the higher bills for electricity associated with summer in South Australia and recorded in the March quarter data.



Graph 4, Data Source, ABS, CPI, Cat No 6401.0

Updating estimates

With the most recent, rigorous data set of household energy costs (the Household Expenditure Survey) now being six years old, we have attempted to estimate current household electricity expenditure in the light of the significant increases in electricity costs that consumers have experienced over the last five to six years. We have used both data from the ABS, CPI data and pricing information from the Essential Services Commission in South Australia.

We suggest that the poorest quintile households in South Australia, who were paying about 8% of the household income on electricity in 2003, are now likely to be paying between 11-12% of household disposable income on electricity.

We conclude the following about electricity affordability changes over the past decade:

- The price of electricity for households has grown at double the rate of CPI over the last decade
- Energy prices are highly income sensitive; the lower the household income the more dire the impact of energy price rises.
- Low income households generally use less electricity than higher income households

Future Electricity Costs

Looking to the end of the 2010-15 period, we identify a number of factors that will increase the cost of electricity to consumers, including:

- Global demand for energy; in particular gas, which will be an increasingly important fuel for electricity generation; the price of gas and hence electricity will rise as global demand pushes energy prices higher.
- Potential ongoing impacts of the drought which has reduced hydro-electricity generation for the national grid, and has increased the cost of operating some generation facilities which need freshwater for effective operation. Also there is considerable demand for electricity to pump water.
- Energy efficiency measures; in South Australia this is the Residential Energy Efficiency Scheme, a program supporting energy efficiency which is a regulatory requirement placed on retailers, who then 'smear' the cost of the program across all consumers.
- Feed-in tariffs which encourage households to utilise renewable energy and therefore have an important role to play. However, in equity terms, these policies can mean that low income households, who are unable to contemplate the costs of domestic solar or wind generation, end up subsidising higher income households. This occurs where the value of feed-in tariffs are recovered from electricity charges.
- Regulatory costs
- The introduction of the Carbon Pollution Reduction Scheme (CPRS) or a similar program. UnitingCare Wesley is strongly supportive of strategies to reduce greenhouse gas emissions, and recognises that the generation of standing energy is the single largest contributor to greenhouse gas emissions. However, we also recognise that there are cost impacts, particularly for lower income households from climate change policies. These impacts will be direct, through energy bills and indirect through embedded costs in goods and services.

We suggest that a 'status quo' average electricity price increase for households of 50%, in real terms, over the next five-year period, is highly likely. This excludes any CPRS impact, estimated as an additional 25% price impact. We recognise that the Australian Government has committed to returning CPRS based energy increases to households, but the mechanism is unclear.

Low wage consumers

At the same time, income increases for low and modest income households are likely to be relatively low. The Fair Pay Commission has ruled that workers on minimum wages under national awards, are not entitled to any pay increase over the next 12 months. Significant numbers of casual workers, in particular, are also losing hours of work, with 1.5 million hours of work lost last month (July 2009), nationally. The trajectory for recovery from the global economic crisis is uncertain. While we suggest that GDP growth will be between 3.5% and 5% from around years 2012-15, income growth will lag behind economic recovery, real wages for lower income workers are unlikely to 'catch up' even once economic growth picks up.

It is therefore likely that nominal wages will rise very slowly for lowest income households over the next two to three years, with the potential for some pickup in pay rates and hours worked beyond 2012. This means that low income households are probably facing a decline in real wages for at least the first half of the price review period

It is not unreasonable, therefore, to suggest that lowest income quintile households in South Australia will be paying 16-20% of their disposable income on electricity costs by 2015, while the second quintile households are likely to be paying 7-8% of household disposable income for electricity. We cannot estimate the impact this will have on financial stress measures, but can be certain that increases in energy costs will significantly increase financial stress for more South Australian households.

South Australia now faces the very real spectre of electricity prices being a significant driver of poverty. This dramatic conclusion cannot be ignored in determining future regulated price paths for energy, particularly the essential service of electricity for which there is no ready substitute

Section 2
ETSA Price Bid

UnitingCare Wesley Adelaide understands the ETSA Utilities price bid, in summary, to be for an increase of (10% + CPI) for each year of the five-year period, stating the bid in nominal terms.

We use nominal prices for the following discussion since, for low income households there is a reasonable likelihood that there will be minimal change in income, in nominal dollars, for at least the first half of the regulated period. Real incomes may be very similar to nominal incomes for lower income households over the next two to three years. We note that workers tied to minimum pay rates in national awards will not be receiving any pay increase for at least the next 12 months, due to the Fair Pay Commission's decision.

Since low income households' incomes are unlikely to change in nominal terms, at least over the next two to three years, we consider it appropriate to reflect costs they confront in nominal terms as well.

a. Overall Response

This section considers likely changes in electricity prices for South Australian residential customers, for the years 2010-15, incorporating the ETSA proposal.

The CPI is used as a component of the proposed price path. This is the aggregate consumer price index, which we have shown in the previous section is not an accurate reflection of changes in energy prices, but accept that it is the aggregate, 8 capital cities Consumer Price Index, as reported by the Australian Bureau of Statistics, that is used in determining this price path.

The following reflects our assumptions about annual changes in the CPI up to 2015. The estimates for 2009 -2011 are taken from the South Australian Centre of Economic Studies' economic briefing report, June 2009. The italicised estimates from 2012-2015 estimates developed by UnitingCare Wesley Adelaide and are based on the assumptions that the Australian economy will move steadily out of the current economic downturn, with economic growth strengthening from late 2010 and prices lagging economic growth, picking up from 2011 and returning to a level near the CPI average for the past decade from 2011/2012. We suggest some growth 'catch up' effect in 2012, hence our estimate of a 3.5% CPI growth in that year before returning to about 3% annualised growth through to 2015.. Our annualised change in CPI estimates are:

Item	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
CPI[1]	1.75	1.5	2.5	*3.5*	*3.0*	*3.0*	*3.0*

Using these CPI estimates yields the following annual nominal price increase bids for the ETSA price proposal.

[1] SACES, Economic Briefing Report, June 2009

Item	2009	2010	2011	2012	2013	2014	2015
CPI	1.75	1.5	2.5	3.5	*3*	*3*	*3*
Distribution	4.1	11.5	12.5	13.5	13	*13*	*13*

We now consider estimates for price increases for the other elements of the residential consumer electricity bill, namely generation (wholesale), transmission and retail, in an attempt to quantify potential changes in bills for lower income, residential customers.

We accept that generation prices are quite volatile from day-to-day and season to season, so the following is an attempt to estimate the annualised, aggregate generation cost increase. The values in the italicised cells have been produced by ourselves as "best guess" estimates. We expect generation prices to increase significantly over the next five-year period.

Item	2009	2010	2011	2012	2013	2014	2015
Generation[2] Increase, by year	10	15	7	21	*10*	*10*	*10*

The estimates for transmission price increases are taken from current regulated prices for Electranet, with our estimates inserted the last two years.

Item	2009	2010	2011	2012	2013	2014	2015
Transmis'n	7.0	6.7	9.9	7.2	6.2	*7.0*	*7.0*

Estimates for annualised increases in the retail component of prices are based on the ESCoSA determined Retail Price path for Standing Contracts, retail component, 1/1/08 – 30/6/11. Our estimates for the annualised price increases from 2011 are based on assumptions of increasing economic activity pushing up demand, coupled with rising fuel prices for generation, particularly for gas-fired stations. We expect international demand to push gas prices up steadily through to 2015 and for carbon emission concerns to lead to gas as a 'transition fuel' for electricity generation.

Item	2009	2010	2011	2012	2013	2014	2015
Retail[3]	1.75	1.5	*3.0*	*4.0*	*3.5*	*3.5*	*3.0*

Having made these estimates of the percentage change in prices by component of electricity price bills, we have used the following weights as an estimate of the contribution of each component to a customer's final bill.

Element of Residential Electricity Bill	Weight (%)
Generation	34
Transmission	8
Distribution	35
Retail	13
GST	10

[2] Based on Eastern Power Index

[3] ESCoSA determined Retail Price path for Standing Contracts, retail component, 1/1/08 – 30/6/11: 12.34% increase, 1.1.08, then CPI for 1 July for 08,09,10

The following table consolidates the above information presenting the cumulative impact of annualised percentage price increases by electricity bill component. These cumulative impacts are then multiplied by the weight to give an aggregate nominal price impact, in 2008 dollars, for the period to 2015.

Our calculations yield the startling result of an estimated 95.7% increase in the nominal price of electricity, for a residential customer using the same number of kilowatt hours each year. This estimate does not include any additional "Price Pass Throughs" and assumes that residential customers will be fully compensated for CPRS (or similar) pass throughs that we expect to occur before 2015. We are also assuming that there will be 'no smart meter rollout' in South Australia until at least the end of 2015. (Though 'smart grids' may be in operation before 2015, but any associated costs to consumers are not included in our price rise estimates)

Electricity Price Impacts on SA Residential Customers, 2009 – 15, % change, 2008 base year = 100, $nominal.

Item	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Weight %**	**Impact x weight**
CPI	1.75	1.5	2.5	*3.5*	*3.0*	*3.0*	*3.0*		
Generation Increase, by year	10	15	7	21	*10*	*10*	*10*		
Generation Impact, 2008 = 100	**110**	**126.5**	**135.3**	**163.8**	***180***	***198***	***218***	***34***	**74.12**
Transmis'n	7.0	6.7	9.9	7.2	6.2	*7.0*	*7.0*		
Transmission Impact 2008=100	**107**	**114**	**125.5**	**134.5**	**142.8**	***152.8***	***163.5***	***8***	**13.08**
Distribution[4]	4.1	11.5	12.5	13.5	13	13	13		
Distribution impact 2008=100	**104**	**116**	**130.6**	**148.2**	**167.5**	**189.2**	**213.8**	***35***	**74.83**
Retail[5]	1.75	1.5	*3.0*	*4.0*	*3.5*	*3.5*	*3.0*		
Retail Impact 2008=100	**101.7**	**103.3**	**106.3**	**110.6**	**114.5**	**118.5**	**122**	***13***	**15.86**
Plus GST								***10***	**17.79**
Total	105	116.6	126.5	145.7	160.7	177.3	195.7	**100**	**195.7**
Other	?	?	?	?	?	?	?		

Using the CPI estimates above, the CPI would grow by about 20% over the period indicated, which shows that even if minimum wages keep up the CPI, low income households are still confronting a very large 'real' increase in electricity prices, using the assumptions as outlined above.

[4] Based on ETSA proposal to AER, with CPI as listed

[5] ESCoSA determined Retail Price path for Standing Contracts, retail component, 1/1/08 – 30/6/11: 12.34% increase, 1.1.08, then CPI for 1 July for 08,09,10

We conclude that an electricity price rise of this magnitude is simply unaffordable for low and modest income customers. We also observe that nearly 40% (38.5%) of the increase is attributable to distribution increase sought,
ie 35% (Distribution weight)+ 3.5% (GST component) = 38.5%.

The following considers some specific elements of the ETSA Utilities proposal that UnitingCare Wesley Adelaide considers warrant further consideration by the AER.

b. Demand Management

For the current regulatory period, ETSA Utilities was given a considerable allowance to develop demand management initiatives with the twin objectives, for customers of:

1. Identifying measures to reduce peak demand in South Australia, thereby reducing some of the need for expensive network augmentation that is only used for a very small number of high demand hours each year.
2. Assisting customers to reduce their electricity use, without compromising quality of life, in order to deliver environmental benefits (reduced greenhouse gas emissions) and some cost savings for consumers.

ETSA Utilities trials for the application of Direct Load Control (DLC) for residential air-conditioning use, particularly during summer peaks, have been most instructive.

Where are, therefore, extremely disappointed at the apparent retreat from demand management strategies with ETSA's workplan for 2010-15.

We consider this shortcoming to be in breach of the National Electricity Law objective where all parties are to operate in the best long-term interests of customers. Paring back a program with the capability of reducing expensive network augmentation, reducing customer electricity use (and hopefully associated costs) and reducing externalities, specifically cutting emissions into the atmosphere, - cannot be regarded as being in the long-term interests of consumers.

Given that customers have already contributed to demand management strategies for ETSA Utilities, in the current regulatory period, we believe it appropriate for the AER to set demand management targets to be achieved by ETSA Utilities during the 2010-15 period.

It may be appropriate for a roundtable discussion of key stakeholders, including consumer representatives, to be held to discuss demand management targets, before final decisions are made in the AER's distribution review determination.

c. CAPEX Proposal – Setting Priorities

The ETSA Utilities proposal seeks a significant increase for capital expenditure, as summarised below.

Project name and description	**Driver**	**Value $m**
Major infrastructure support projects network connection, extension and alteration projects supporting major government and/or private infrastructure development initiatives	Economic growth	$202
Low voltage network upgrade program replacement of low voltage transformers and lines that can exceed the design loadings and peak demand (generally heatwave) conditions	Demand growth. Climate change. Customer expectations.	$112
City West connection point installation of assets to link the new collector net city West connection point substation to the existing central business district and southern metropolitan distribution networks	Electricity transmission code changes. Security of supply	$91
Kangaroo Island Security and capacity upgrade install second undersea cable and new 66kv backbone throughout Island	Security of supply. Regional development	$80
Assets inspection and condition monitoring program expanded inspection and monitoring program to gauge asset condition in order to determine appropriate magnets and/or replacement strategies	Ageing assets.	$56
C. B. D. aged asset replacement program 10 year program to replace aged, obsolete and unsafe switchgear, cables and associated equipment in the Adelaide C. B. D.	Safety. Ageing assets	$43
Network Control project construction of new network operations centre and replacement of SCADA system	Ageing assets. Support of new technologies	$43
Source ETSA Utilities Regulatory Proposal	Total	$627m

The ETSA Utilities bid does not make any attempt to prioritise this extensive list of key projects and programs requiring major capital expenditure. All "CAPEX drivers" are regarded as equal.

Since the total cost of provision of electricity distribution services are shared by all customers, it is important to consider the question of "which major capital projects can low income customers reasonably be expected to contribute to?"

With this question in mind, we suggest the following as a prioritisation for the capital projects outlined above.

We have based this prioritisation on the following factors:

- maintaining reasonable levels of continuity of supply (but not 'gold-plating' the system)
- maintaining a safe system for consumers and ETSA employees
- equity of access for customers across the state

Project name	**Who Benefits Most**	**Priority (from low income household perspective)**
Major infrastructure support projects	Government infrastructure projects. Private business	Medium
Low voltage network upgrade program	All customers	Very High
City West connection point	Private business	Medium
Kangaroo Island Security and capacity upgrade	Kangaroo Island business. Kangaroo Island residents	High
Asset inspection and condition monitoring program	All customers	Very High
CBD aged asset replacement program	CBD businesses	Low
Network control project	New businesses. Developers of new housing	Medium

(We recognise that these rankings are subjective, but have no alternative, clear basis upon which to set priorities, other than our own experience of low income households.)

Based on our assessment of relative priority of capital projects, we suggest that $155m of the $627m is highest priority with $235 of the proposed capital project expenditure bid ranking very high or high.

We therefore suggest that this $235m figure, 37.5% of the ETSA CAPEX bid be regarded as a more reasonable capital expenditure budget, 2010-2015.

<u>d. CAPEX other pricing options – CBD surcharge</u>

We recognise that there is considerable merit in the other elements of the capital expenditure bid, but do not consider it reasonable that low income households shoulder the additional burden in order to contribute to these capital costs.

In Section 3 of this submission we identify some significant policy issues which arise in the distribution price review process, which we believe the AER should be taking to the Ministerial Council of Energy for resolution. One of these issues is the question of who should pay for major energy infrastructure?

We suggest that the ETSA capital expenditure bid does not canvass pricing and charging options other than smearing all costs across all customers. We believe that this is an unreasonable and unfair approach, contributing to significant hardship for low income customers.

We therefore propose that two other pricing mechanisms be considered by the regulator for application during this distribution price period, in order to contribute to capital budgets for projects which are important but with less direct benefit to lower income households.

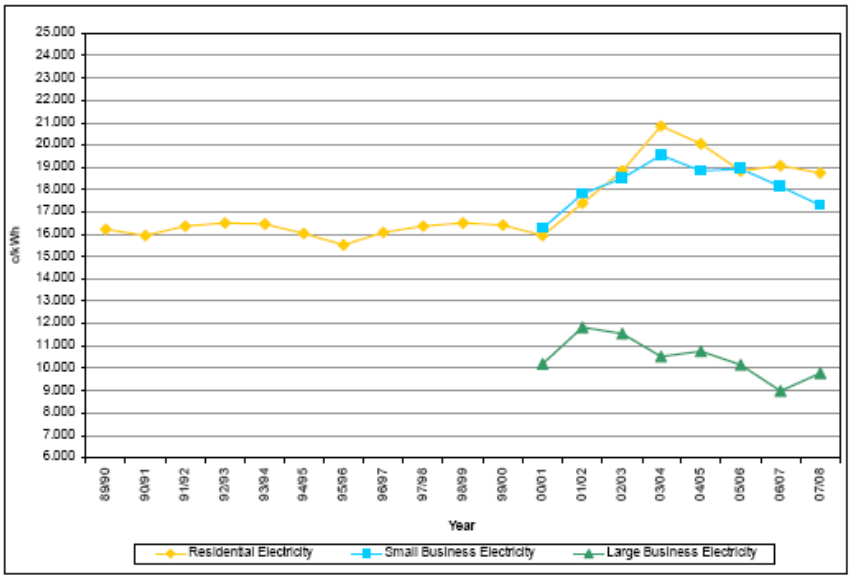
1. To meet the cost of the CBD aged asset replacement program and City West connection point, we suggest that a **CBD surcharge** be applied to all bills for CBD businesses, who are then able to pass increased costs directly onto the customers. We consider this approach to be far more equitable.
2. Negotiated Contracts may also provide opportunities for greater equity in differentiating between customer classes for pricing. This option needs more consideration for application to equity improvement objectives.

UnitingCare Wesley is strongly committed to the maintenance of “postage stamp” pricing for all residential customers. In particular this ensures that customers in the rural locations pay the same as residential customers in metropolitan areas.

However we note that there is already a significant pricing difference between the charge per kilowatt hour for large business electricity users, who continue to pay significantly less than residential and small business customers. Over the last couple of years, residential customers have faced the highest ‘per unit’ charges for electricity There is already a differentiated tariff between customer classes, with large business having considerable advantage when compared with other customer classes. Our proposal for a CBD surcharge, from this particular pricing agreement, would be appropriate in both enabling other pricing mechanisms to generate capital for distribution infrastructure, and reduces inequity caused by residential customers paying more for electricity and business classes.

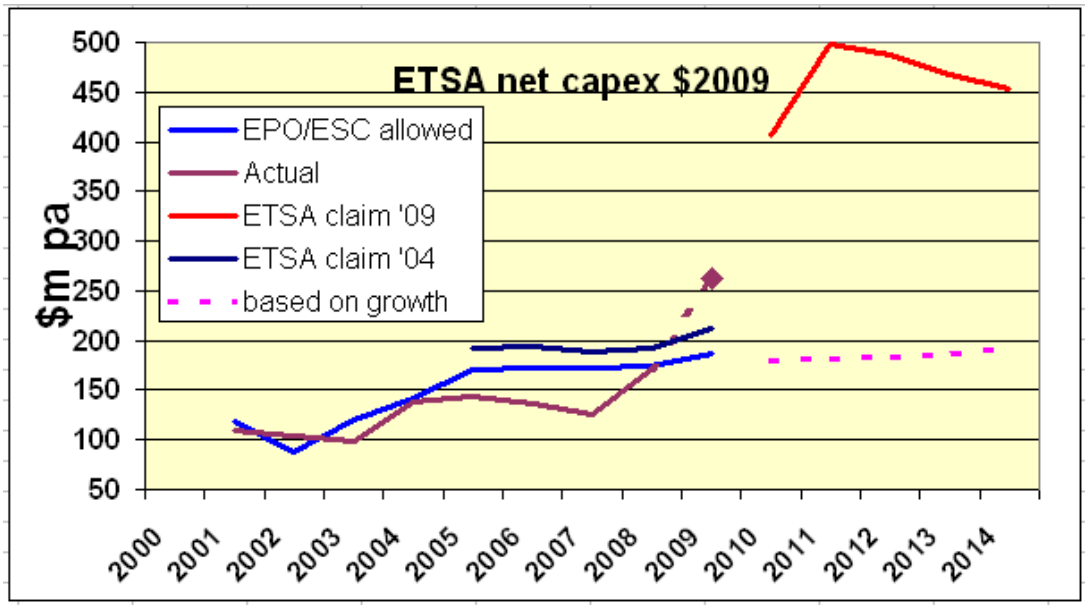
The following graph is taken from the Essential Services Commission of South Australia 2007/08 Annual Performance Report - Energy Retail Market. It shows that large business users pay much less than residential consumers and small business for electricity.

Figure E.5: Electricity price trends ($June 2008)



e. CAPEX ETSA capacity to spend their CAPEX Bid

There is also an important question to be asked about the ability of ETSA Utilities to constructively spend the CAPEX budget that they have sought for the 2010 - 2015 period. The following graph was presented by David Headberry at the Adelaide forum hosted by the AER, to consider the distribution price path. Significantly, the graph below shows that when considering the actual CAPEX expenditure for the current regulatory period (2005-10), ETSA Utilities failed to spend the full budget allowed by the regulator, ESCoSA, for every year except for the current year. Given the bid for CAPEX for 2010-15 is more than double current expenditure, we are very concerned about the capacity of ETSA Utilities to frugally utilise the CAPEX budget they have sought.



f. OPEX – wages

Part of the rationale that ETSA has given for its considerable increase in operating expenditures is to accommodate wage increases. UCW is strongly supportive of fair and reasonable wages for all workers, so we note the recent decision about minimum wages for Australian workers on Federal awards that was decided by the Fair Pay Commission. The following is an extract from the media release which was released to summarise their 2009 wage decision.

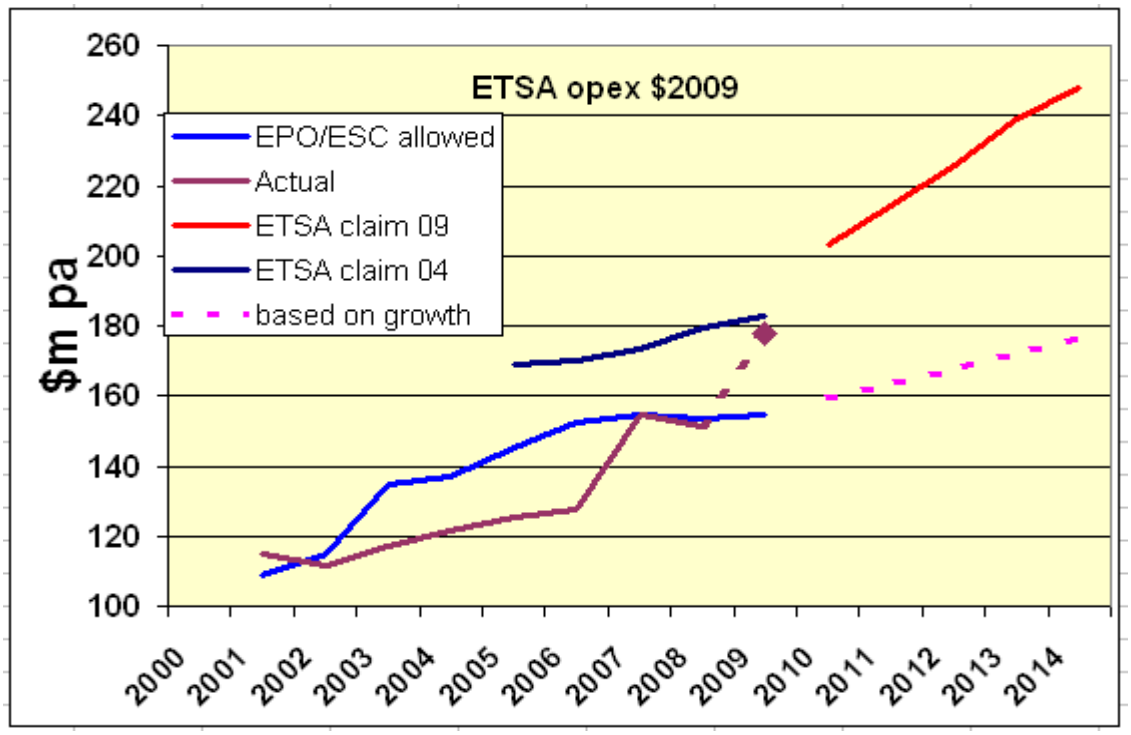
> *"In a decision intended to protect jobs and to support a stronger recovery in employment as the economy picks up, the Commission has decided to leave Australia's Federal Minimum Wage unchanged at $543.78 per week.*
> *The Australian Pay and Classification Scales will also remain unchanged at their present levels throughout 2009.*
> *Commission Chairman, Professor Ian Harper, said this year's decision has been a most difficult one.*
> *"These are uncertain times for the economy and for the Australian labour market, and in the Commission's view caution is warranted at this time in the setting of minimum wages."*

This perspective from the Fair Pay Commission is at odds with the ETSA proposal for significant increases in aggregate labour costs, and so warrants careful consideration by the AER.

g. OPEX - ETSA capacity to meet the spend bid

As with the CAPEX bid, the operating expenditure bid by ETSA is dramatically higher than for the current regulatory period. Again we present a graph prepared by David Headberry to reinforce the importance of the information represented by his graph.

The same pattern as experienced with CAPEX can be seen with ETSA Utilities actual expenditure well below the regulated allowance for all but the final year of the regulated period. This raises questions about the degree of 'ambit' in the OPEX proposal for 1010-15. We are very uncertain about the ability of ETSA Utilities to frugally and efficiently spend the operating budget for which have bid.



Source: David Headberry

h. Guaranteed Service Levels (GSL's)

South Australia has a well-established practice of setting minimum standards for customer service and for energy companies to regularly report on their progress in achieving these customer service standards.

Current GSL's are set at appropriate levels and provide the key benchmarks for customer expectations as well as company performance.

We understand that the existence of GSL's is very helpful for the energy industry Ombudsman, since the GSL's provide fair standards against which a number of customer complaints can be effectively considered.

Existing guaranteed service level standards should be retained, as minimum standards set for the period 2010-15.

i. .RAB calculations

We are also concerned about the role of the Regulated Asset Base (RAB) in determining the regulated return for a distributor in particular the incentives sent to the distributor regarding returns to new assets, depreciation rates for assets and timing of replacement of assets

We consider it would be unreasonable if customers are charged higher prices in order for a distributor to increase their capital expenditure to increase their residual Regulated Asset Base if this is then subsequently used as justification (to the AER) for increasing the value of the regulated return for the distributor. We are concerned that this could then in turn be used by distributors to argue that their increased RAB justifies even higher prices to be paid by customers, since the distributor expects the maintenance of a fixed

percentage return on the RAB. Customers, could potentially be caught in an ongoing, upward price spiral.

The AER will need to explain it's decision about the allowed RAB and it's impact on prices for the next period and beyond, so that consumers can be confident they are not building up an asset base that will be the basis fo future price rises.

We suggest there is a fundamental flaw if the pricing approach sets the best interests of customers e.g. through demand management against a price setting regimen based on an ever increasing customer funded asset base.

j. Monitoring, compliance, enforcement,

We have noted concerns about the difference between regulated CAPEX and OPEX levels and actual spending over the last five years. It is imperative that ongoing proficient monitoring of a range of performance and budgetary targets are undertaken on a regular basis during the 2010-15 regulated period. We believe that the Essential Services Commission of South Australia, (ESCoSA) has performed this role very competently over a number of years and should retain and extend this ongoing role, conducting both a mid term review and maintaining annual performance reporting.

SECTION 3
Emerging Policy Issues

Uniting*Care* Wesley notes that this distribution price review process is part of a new national structure, that is still 'bedding down' it's processes and the parameters of role and scope.

We suggest that this review brings to light some significant policy issues that we encourage the AER to reflect upon and refer on, probably to the Ministerial Council on Energy

1. Who pays for Energy Infrastructure?

This proposal from ETSA Utilities proposes a dramatic increase in capital expenditure, with the proposal stating that a significant amount of this electricity distribution infrastructure is needed to meet the energy needs for some significant developments, including transport and water infrastructure as well as meeting business and economic development demands. It is also stated that significant components of the infrastructure are ageing and in need of replacement or updating.

There is no argument that, particularly in a carbon constrained world, electricity dependent transport will become ever more important while other infrastructure and economic development opportunities will also require growing levels of electricity consumption.

The critical policy question is: who should pay for this infrastructure?

Currently, the electricity market is required to meet all infrastructure costs from the existing customer base. Given that households pay more per kilowatt hour for electricity than business and that the burden of electricity prices is highly income sensitive, we consider it unreasonable that low income households are bearing a heavy burden in funding electricity infrastructure.

We note that other markets that also rely on 'natural monopoly' infrastructure, do not have too 'self fund' all major infrastructure. For example, road and rail transport infrastructure are built from public works budgets of both Commonwealth and State and Territory governments. The trucking industry is not required to build their own roads. (We note the existence of 'toll roads' in some Australian cities, but these are very few in number). Similarly, the Australian Government is contributing significant money to the roll out of optical fibre capability for telecommunications.

We consider that there are sound arguments for significant elements of electricity transmission and distribution infrastructure being constructed through publicly funded capital works. We would also consider the merits of partnerships between regulated monopoly companies and government, provided that there was an appropriate discount on pricing for publicly funded components.

As the burden of paying essential service bills becomes untenable for growing numbers of households, it is essential that serious public policy consideration is given to the question of, how is energy infrastructure best funded to meet the long-term, competing interests of low income households, residential consumers, small business, large corporations and government?

Perhaps this is a question for the Energy White Paper process to consider, it is certainly an issue that we believe needs to be referred to the Ministerial Council on Energy, with some urgency.

2. Energy affordability

In a similar vein to the policy question raised above, the issue of energy affordability, particularly electricity, is of growing concern. We re-state the observations that electricity prices have grown at more than double the rate of inflation over the last decade and are likely to double, at least in nominal terms, over the next five years. We know that growing numbers of citizens are simply unable to afford their electricity bills. We assert that utility costs, particularly electricity and to an extent, water, will be the major contributors to growing levels of poverty over the coming five years.

Recognising that utilities are essential services, particularly electricity, it is important that a high level policy process is undertaken to investigate the impacts on low and moderate income households of rising costs for essential services, and to identify approaches to ameliorate this burden.

Again we suggest that the Ministerial Council on Energy would be the best starting point for consideration of this increasingly important public policy concern.

A matter associated with this issue is that of up-to-date and reliable data about hardship for customers in energy markets. We are aware that this issue is also raised in the context of the NECF. There is currently very little timely data on the public record relating to energy hardship and energy affordability issues. We suggest that the AER convene a working party of representatives from stakeholders to develop a framework and process proposal to capture and publish timely data dealing with energy hardship.

3. Benefits from and Incentives for Demand Management

We understand that one of the reasons for ETSA Utilities proposing to reduce its contribution to demand management in their 2010-15 bid, is that benefits from demand management led savings/efficiencies flow more directly to non-distributor businesses, as well as consumers. The implication being that distributors are likely to meet more of the costs of demand management strategies and receive less of the benefits, resulting in a perverse society-wide outcome of unnecessary infrastructure capacity and unnecessarily higher costs for consumers.

It would seem that current incentives work against the NEL objective by providing disincentives for distributors to fully engage in demand management strategies.

An industry wide review of benefits, costs and incentives for demand management for Australia's electricity industries needs to be undertaken as a matter of urgency.

The logical place for this important issue to be taken is the Ministerial Council for Energy.

4. Appropriateness of RAB/CAPEX as a key element for Distribution Pricing

We have raised this question in the previous section, namely the appropriateness of the Regulated Asset Base and /or capital expenditure, being used as a key element in setting the regulated price for a distributor.

It would appear that this approach provides incentives for distributors to increase the size of their RAB/CAPEX, when this may not be in the best interests of consumers.

We consider this also to be a significant issue for prompt consideration by the AER and then potentially the AEMC and MCE.

SECTION 4
Consumer Input

UnitingCare Wesley Adelaide welcomes this opportunity to contribute to this particularly important price determination and recognises that the AER has established an Adelaide based stakeholder reference group to assist with stakeholder input for this review, including a UCW Adelaide representative. We are also aware that the AER is in the process of establishing a national consumer reference group. These initiatives are most welcome.

However we observe that it is very difficult for consumer groups to meaningfully engage in significant aspects of a distribution price review that is held once every five years. We suggest that the AER could work with distributors and ideally transmission businesses to hold 'jurisdictional update and issues' seminars, on say an annual basis, to assist community and consumer groups to be better informed about the complexities of transmission and distribution businesses as well as to be part of solutions to emerging problems.

Inquiries about this submission should be directed to:

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Appendix 1. Charter for Essential Services, developed by national energy consumers Roundtable

CHARTER OF PRINCIPLES FOR ESSENTIAL SERVICES

ESSENTIALITY OF SERVICE

Energy is an essential service because it meets basic needs of shelter, food and health and also contributes to education, social participation, recreation, rights,
Affordability and universal access for consumers must always be a prime consideration of policy makers because citizens health, wellbeing and social participation is compromised without supply

PRINCIPLES OF SERVICE

Affordability - Energy should be affordable for all consumers. Energy supply must be assured and never denied to any consumers on the basis of their capacity to pay, financial hardship or vulnerable circumstances.

Information – Energy consumers should have access to information about their energy services, be able to access education to support and empower them to be able to make informed choices about their energy consumption and to negotiate their interests with their service provider.

Universality - all citizens need access to the good or service, at least to a pre-determined (regulated) level, irrespective of where they live.

Representation – Energy consumers ought to be supported to have their interests represented and be able to participate in decision-making consultation processes.

Rights – Energy consumers have a right to use energy as an essential service for ensuring adequate standards of living and social participation. These rights are recognised in international Human Rights standards accepted by Australian governments and must be upheld.

Equity – Energy services should be provided to all people equitably so that pricing and service standards to not discriminate people according to their geographic location.

Respect - Energy services should be delivered in a way that respects all consumers and their diversity of needs and capacity to participate in an energy market.

Safety – Energy consumers should be protected from any dangers in the provision of energy services.

Quality - Energy supply should be of a high quality appropriate to the purpose at its point of consumption.

Reliability - Energy supply should be reliable and aim to ensure a continuous, uninterrupted delivery of supply, as far as practicably possible.

Sustainability - Energy should be sustainable and derived from an appropriately secure mix of sources, including renewable energy sources. Energy should be distributed and consumed in an efficient manner so that energy demand reflects energy needs and provides beneficial social and environmental outcomes.

Redress – Energy consumers should have access to free, fair and independent services for complaints resolution and compensation.

RESPONSIBILITIES OF SERVICE

Responsibilities of Government

- To secure universal access to safe, reliable, and affordable energy for all Australian citizens, including through the provision of appropriate and adequate assistance to vulnerable consumers
- To ensure the public interest guides all decisions made in relation to energy policy and regulation
    - Energy should be provided at lowest cost, including external costs such as environmental, public health and social and economic impacts.
- To design and maintain a regulatory regime that ensures the interests of citizens are adequately heard and addressed
    - which is explicitly charged with protecting the economic, social and environmental interests of Australian consumers; and
    - which supplants market mechanisms that do not benefit the public interest.
- To be responsive to emerging issues and to ensure timely and appropriate action can be taken to redress systemic problems and disadvantage
- To ensure that decisions made with regard to energy are made at the most accessible level of government, in consultation with citizens to maximize public participation in the decision-making process and to make decision-makers accountable to public interest objectives.
- To actively promote improved energy efficiency and increased use of renewable resources, including through the removal of market or regulatory barriers.

Responsibilities of Industry

- To treat consumers equitably and with respect
- To ensure that marketing of energy products is undertaken responsibly and sales personnel are adequately trained.

- To ensure effective, best practice programs for hardship are in place, by
    - assisting customers experiencing financial hardship to manage their payments for the supply of energy or water so as to ensure they remain connected to supply,
    - creating an informative, respectful and engaging environment where customers requiring support can identify themselves to retailers, and
    - utilizing relevant industry and community expertise with respect to hardship.
- To have in place effective internal dispute resolution procedures that meet Australian Standards
    - And to be members of effective external dispute resolution schemes
- To ensure they have mechanisms in place to engage effectively with consumers and their representatives
    - So that emerging problems are identified and resolved quickly
    - To ensure longer-term planning is guided by consumer needs and the public interest.

Responsibilities of Consumers

- To ensure there is a current contract in place with an energy retailer to provide supply
- To use their best endeavours to pay energy bills on time and in full
- To alert the energy company at the earliest possible time when experiencing difficulties in meeting the costs of energy
    - And, where available and appropriate, to seek Government assisted
- To use energy responsibly, recognizing the environmental costs of the service
- To report faults to the relevant electricity business as soon as possible

Appendix 2

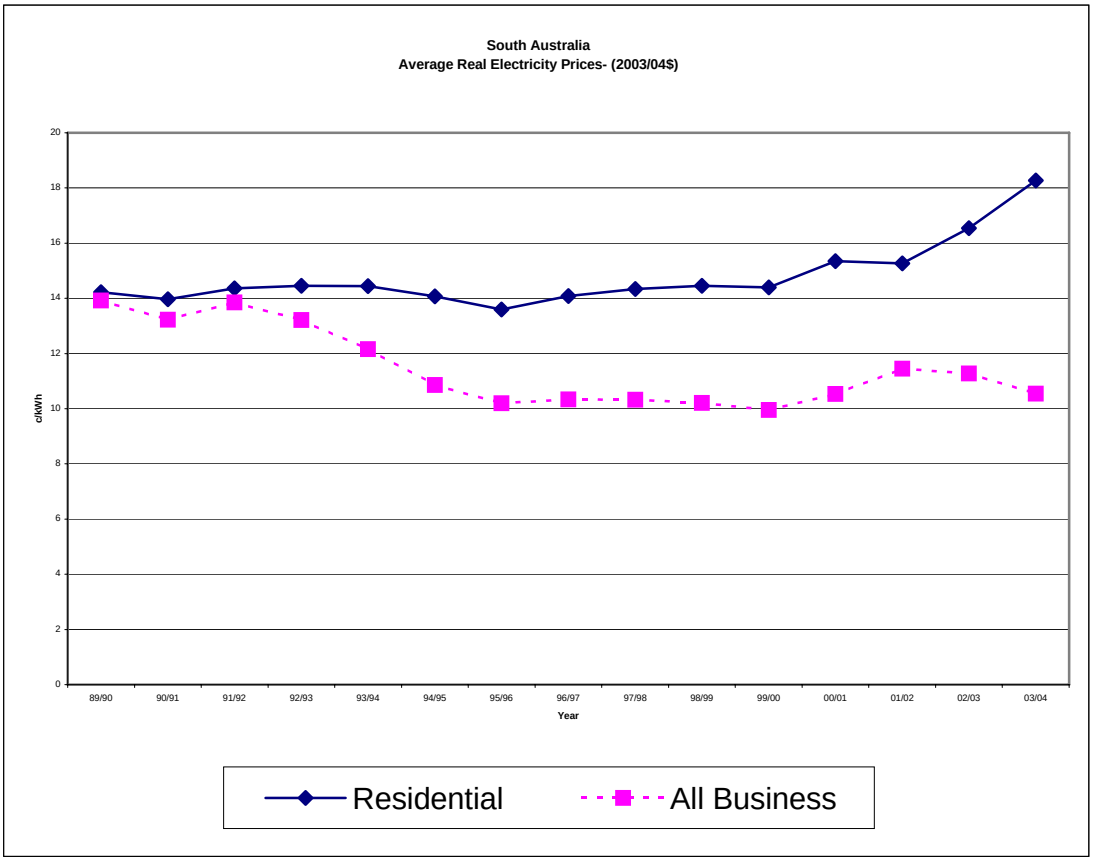
Impacts of Electricity FRC on Households in SA

(Taken from Uniting*Care* Wesley Adelaide Submission to AEMC review of Effectiveness of Retail Competition in South Australia)

In considering the effectiveness of competition in South Australian energy markets, it is important to reflect on the introduction of Full Retail Contestability (FRC) and to learn lessons from that experience. Most of this appendix is based on a paper prepared by Uniting*Care* Wesley in 2004.

The introduction of FRC for electricity in South Australia led to a significant rise in prices for households with domestic energy bills, rising by between 25% and 30%. These price rises were exacerbated by high levels of ancillary fees and charges (disconnection and reconnection fees, meter reading fees, late payment fees, etc) and for bills for some customers being sent out late so that customers were being billed for four or even five months instead of the usual quarterly bill. The 2002-07 Price Path consideration dealt with these issues and we know that the greatest impact of these price shocks have passed, though low income people coming to Uniting*Care* Wesley services still report considerable pressure in paying electricity bills.

The following graph, taken from ESCOSA data demonstrates the significant price rise for residential customers resulting from the introduction of FRC.



Graph 1, Source ESCOSA, annual market performance reports

South Australian consumers were assured by government and industry that the introduction of FRC into South Australian energy markets, starting with electricity, would produce more efficient markets resulting in cheaper electricity bills.
Instead, there was an increase in electricity bills of over 25% for average residential customers. FRC was a disaster for SA residential consumers!
In analysing trends in domestic utilities prices in South Australia from July 2000 July 2004, consulting firm Deloitte Touche Tohmatsu reported the following:

*"the fixed Supply access charge for domestic light and Power has increased by **32.4%** since July 2000, the largest increase was in July 2003 (25.4%)*

*And off-peak controlled low Supply access charge has increased by **93.1%** over the five-year period with a significant increase occurring in July 2003 (144.4%). The Supply charge then decreased the following year by 23.1%*

A number of miscellaneous charges have also increased since July 2000:

- *the standard application fee has increased by **37.5%***
- *the connection fee for new customer connections was free until 2002 the fee was reintroduced in July 2003 and increased by **7.2%** in July 2004*
- *the after hours connection fee has increased **348.1%** in the five-year period*
- *a special meter reading charge has increased by **40.4%***
- *the combined disconnection and reconnection fee (business hours) associated with non-payment has increased by **38.7%***
- *delayed payment fee has increased **139.8%** in the five-year period*
- *the increase in the meter testing for single phase and double phase increased by **89.6% and 47.9%** respectively."*

We have added the emphasis to the percentage increases above, to highlight that not only did increasing competition increase prices for each kilowatt hour of electricity used, retailers took the opportunity to dramatically increase ancillary charges, a majority of which we believe were levied to low income households – the very households struggling most to cope with the increased supply charges.

Another significant change was the reduction in average real prices for business, while prices for residential customers have increased. This is a significant development and is one of the planned outcomes from the application of competition policy to the energy market.

Impact of High Prices (From FRC) for Lower Income Households:
Research by Professor Richardson and Peter Travers from the National Institute of Labour Studies showed that 58.7% of the bottom half of South Australia's income distribution are households spending 4% or more of their

disposable income on power. About 4.7% of all SA households spent 9% or more of their disposable income on energy, this included the poorest households in the State.

Five per cent of the lowest quintile of households reported being unable to heat their home due to financial stress, this is double the rate for the rest of Australia and was taken for the General Social Survey 2002.

Their analysis was based on the ABS household expenditure survey completed in 1998-9, and while this was the most recent data set, the figures predated the significant increases in domestic electricity charges associated with FRC.

A couple of attempts were made during 2004 to assess the impacts of rising electricity prices on low income households:

- Powering Poverty, by Western Region Energy Action Group
- Survey of Financial counselling clients by David Horton, for Uniting*Care* Wesley

Powering Poverty was a study based on a 12 in-depth interviews with low income households that was conducted during late 2003. Key findings included:

- on average, participants increased their expenditure on electricity from 2000 to 2003 five $312 60. In this. Electricity costs increased by an average of 43.16%
- average household expenditure for the participants was 6% of total household income, but this. Significantly
- all participants reported that they could not afford to heat or cool their home to a comfortable level
- 5 of the 12 participants reported that they went without meals due to shortage of money.

Student, David Horton and UnitingCare Wesley Financial Counsellors surveyed 30 financial counselling clients during July / August 2004. Key findings included:

- 83% reported that high electricity prices are having an adverse impact on their finances
- 77% of those surveyed had electricity bills that are considered to be low, that is less than $350 a quarter
- in response to the question “what of the following items have you reduce spending on due to electricity Price increases?” - responses included:

Food	50%
Clothing	87%
Holidays	83%
Movies	80%
Sport and culture	80%

Telephone 53%

We also note that a vast majority of low income households pay utility bills and rent as their priorities, ahead of food and medications. So for some low income households, paying utility bills means hunger.

These surveys reinforced observations from welfare and community service organisations that rising energy costs in particular, and rising utility charges in general, had a significant impact on low income and vulnerable households. Uniting*Care* Wesley said in 2004 “that before further moves are made to change energy markets, there needs to be much better understanding of the impacts of the significant recent changes that have been made to the structure of energy markets. For example policymakers and the broader community need a much better understanding of fuel driven poverty.”

While the worst of the FRC led electricity price rise crisis has passed, and we recognise that regulation (through ESCOSA distribution price determination) has reduced real prices for residential customers for electricity over the last couple of years, compared to where they would otherwise have been; we are still concerned that a significant number of low income South Australian households struggle to be able to afford the essential service of electricity.

The higher numbers of households struggling to pay electricity bills now suggests that energy stress levels are growing in the SA community.

TRUST

We recognise that competition was imposed on the South Australian market, through FRC, but this does not mean that consumers were necessarily supportive of the approach or trusted the market.

The Australian Survey on Social Attitudes, (AuSSA), in its first survey in 2003 asked respondents about their preferred ownership of major services. The results for the electricity market were:

- 60% of respondents preferred public ownership,
- 31% preferred a mix of public and private ownership
- 6% favoured a totally private market and
- 4% couldn't choose.

We are not aware of any subsequent surveys of preferred ownership for energy provision.

We raise this issue of trust, not out of some myopic view that all was great when energy supply was a government responsibility. Rather we wish to highlight the experience of a large number of SA consumers that an increased level of marketisation of the electricity market has failed to deliver the promised outcomes, particularly cheaper prices. (We also recognise that such ‘promises’ were political rather than market based and were not necessarily appropriate at the time.) This does not alter the fact that residential consumers were expecting some reduction in electricity prices from

FRC and in reality were confronted with major increases and disorganised retailers, creating considerable financial stress.

We opine that these factors combined to reduce levels of consumer trust in the electricity market and in the retailers in particular. Retailers are the 'visible face' of the electricity market for residential customers. We also suggest that historically the two state owned energy companies, the Electricity Trust of South Australia (ETSA) and the South Australian gas Company (SAGasCo), were very well regarded members of the South Australian community. These companies were highly regarded and trusted implicitly by South Australians.

We recognise that there have been major cultural and attitudinal shifts over the last 2-3 decades. We also recognise that for energy markets, and the rest of the economy, there is no going back.

However, we are satisfied that in considering the question of effectiveness of competition in SA energy markets, the question of trust of the markets and energy companies is a question that warrants consideration. If there is not widespread trust by customers in the market, then there is market failure. If there is market failure, the market cannot operate effectively and so there is not effective competition.