



Council of Social Service of New South Wales

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20 May 2014

Independent Pricing and Regulatory Tribunal
Review of Changes in regulated retail gas prices from 1 July 2014
ipart@ipart.nsw.gov.au

Dear Sir or Madam,

RE: Changes in regulated retail gas prices from 1 July 2014

Thank you for the opportunity to provide comment on the proposed changes in regulated retail gas prices from 1 July 2014.

IPART's draft decisions on the regulated retail gas prices will allow average retail gas prices to increase by up to 17.5% across NSW over the next 2 years.

As the peak body for the social and community services sector in NSW, NCOSS is concerned about the impact of the proposed price rises on households experiencing poverty and disadvantage. As such, our submission is aimed at mitigating the impacts of escalating gas prices on households with low-incomes.

Impacts on low-income households

Low-income households have been hard hit by the recent escalation in electricity prices, with numerous reports showing that families are now foregoing other essentials – such as food, medical expenses and transport – in order to pay their utilities bills¹. Linked to rising electricity prices is an increase in the number of people being disconnected from their electricity supply: In the first two quarters of 2013-14 alone 17,051 households in NSW were disconnected from their electricity supply². Disconnections are an event that can exacerbate hardship and trigger a downward spiral of debt.

As gas prices soar, and at a much faster rate than any of the recent increases in electricity prices, we can expect to see a similar pattern. In fact, rising gas prices are particularly problematic for low-income households since the activities for which gas is used - cooking, heating and hot water – are to a large extent non-negotiable: They cannot be scaled back without significant sacrifices to comfort and well-being.

IPART's analysis of the impact of price increases on customers shows that approximately 40% of low-income households in Sydney use gas³. While gas is more commonly used by higher income households than by those with lower incomes, lower income households spend a much higher proportion of their income on energy bills.

The recommendations below are therefore aimed at protecting the low-income households who will be most impacted by the proposed increases in gas prices, with recommendations

¹ Chester, Lynne (2013) *The impacts and consequences for low-income Australian households of rising energy prices*. Available at http://www.householdenergyuse.com/resources/Impacts_Consequences_Low_Income_Households_Rising_Energy-Bills_Oct2013.pdf

² Australian Energy Regulator (2014) *Retail Energy Market Performance Updates*. Available at <http://www.aer.gov.au/node/24236>

³ IPART (2014) *Draft Report: Changes in regulated retail gas prices from 1 July 2014*.

directed at the NSW Government and at gas retailers in addition to IPART. We ask that IPART support these additional recommendations, encouraging those in positions of authority to make a concerted effort to ensure that low-income households can afford to stay connected to essential services.

The role of IPART

The Terms of Reference for this review require IPART to ensure that the objects of the *Gas Supply Act 1996* are taken into consideration. These objectives include the regulation of gas reticulation and supply 'so as to protect the interests of customers'. We submit that the interests of low-income customers are not best served by the steep price increases proposed in IPART's Draft Report⁴.

As IPART acknowledges, an increase in wholesale gas prices due to increased export capacity is the main driver behind the proposed increases in regulated retail gas prices. However, as IPART also acknowledges, there is considerable uncertainty about how fast and how far wholesale gas prices will rise. In light of this, we recommend that IPART adopt a more conservative approach to the projected increases in wholesale gas prices.

In addition, given the link between wholesale gas prices and increased export capacity, we question the application of the price estimate for wholesale gas used by Origin Energy in its pricing proposal for the Albury/Murray Valley standard supply area. This area is connected to the Victorian gas transmission network, and our understanding is that there is currently little or no capacity to transport gas from the Victorian network to the new export facilities in Queensland. Wholesale gas prices should therefore remain considerably lower in the Albury/Murray Valley area as in other areas served by gas supplies from south of the NSW / Victorian Interconnector. We therefore ask that IPART re-examines Origin's pricing proposal with a view to restricting the cost component attributed to wholesale gas prices to a more reasonable level, in line with price forecasts for wholesale gas in Victoria.

We also recommend that IPART ask retailers to smooth the proposed price rises over the two-year period remaining in the Voluntary Pricing Arrangement, rather than exposing households to a sudden price increase in July this year. We note that the proposed jump in gas prices will occur during the coldest time of the year, and is thus likely to result in bill shock for those families who are using gas for heating during the winter months. Although the retailers have indicated that there would be a cost involved in implementing this approach, an additional price adjustment will be necessary anyway should the carbon tax be repealed.

Recommendation 1: IPART should adopt a more conservative approach to the proposed increases in wholesale gas price increases.

Recommendation 2: IPART should re-examine Origin's pricing proposal for the Albury/Murray Valley supply area with a view to restricting the cost component attributed to wholesale gas prices to a more reasonable level

Recommendation 3: IPART should direct retailers to smooth the proposed price rises over a two-year period, rather than exposing low-income households to a sudden price increase mid-winter.

The role of the NSW Government

In the context of rising energy prices, the NSW Government's role in making sure low-income households can remain connected to an affordable energy supply is crucial. Support

⁴ IPART (2014) *Draft Report: Changes in regulated retail gas prices from 1 July 2014*.

for low-income households should include a well-targeted concessions scheme, together with assistance enabling low-income households to reduce their energy consumption.

A well-targeted concessions scheme

The NSW Government currently offers a number of rebates to help customers pay their energy bills. However, the steady increase in the number of disconnections shows that the current system is not effectively assisting those families in greatest need of support. There is significant opportunity to better target assistance to low-income households.

Although different types of households have very different energy needs – and may pay different prices for their energy depending on where they live – current assistance measures are in no way connected to actual bills. Recent research by Australian Council of Social Service (ACOSS) in energy concessions in each Australian jurisdiction found that the best way to assist households struggling with their energy bills is through a proportional rebate⁵. A Deloitte report prepared for the Energy Supply Association of Australia similarly recommended that percentage-based concessions would be more effective in assisting vulnerable families with high energy consumption, particularly those in the family formation group⁶. This approach would also assist households to better cope with seasonal variations in their bills.

We therefore recommend that the NSW Government review existing energy rebates with a view to better assisting low-income households through the provision of a new proportional energy rebate. We note that the tightening of the eligibility criteria for Family Tax Benefit Part B announced as part of the Federal Government's 2014-15 Budget will mean that fewer families will be eligible for the NSW Government's Family Energy Rebate, presenting an ideal window of opportunity to transition towards a more effective, better targeted concessions program.

Recommendation 4: *The NSW Government should review existing energy rebates with a view to better assisting low-income households through the provision of a new proportional energy rebate.*

Effective energy efficiency programs

The NSW Government is currently reviewing energy efficiency programs for low-income households and at the same time is examining the NSW Energy Savings Scheme. Our submissions to these processes have argued that there is an ongoing need for Government programs aimed at assisting low-income households to overcome barriers to adopting high value energy efficiency initiatives such as insulation and efficient hot water systems. Many households have been unable to take advantage of the kind of energy saving measures that could help to significantly reduce their bills because they cannot afford the upfront costs involved, or because they live in public or private rental properties. This is particularly important in the context of rising gas prices given that previous low-income energy efficiency initiatives have focused on electricity, with little consideration given to the use of household gas.

We therefore recommend that the NSW Government, in designing an energy efficiency program to replace the Home Power Savings Scheme, should focus on assisting low-income earners to overcome capital barriers to energy saving initiatives, and on making sure that renters in both the public and private markets do not continue to miss out on opportunities to reduce their energy consumption and energy bills due to split incentives.

⁵ ACOSS (2014) Preventing Shocks and Addressing Energy Poverty. Available online at http://www.acoss.org.au/images/uploads/Concessions_paper_2014_FINAL.pdf

⁶ Energy Supply Association of Australia (2013) Improving Energy Concessions and Hardship Payment Policies. Available online at https://www.esaa.com.au/Library/PageContentFiles/56ab8d52-6922-4e13-9774-a339541d5a86/130320_esaa_Deloitte_report_Improving_energy_concessions_and_hardship_payments_policies.pdf

We further recommend that the NSW Government should consider minimal standards for rental housing, noting that of those low-income households who use mains gas in Sydney, 30% rent in either the public or private market, compared with only 15% of all gas households⁷.

Recommendation 5: *In designing an energy efficiency program to replace Home Power Savings Scheme, the NSW Government should focus on assisting low-income households to overcome capital barriers to energy saving initiatives, and on ensuring that renters in both the public and private markets do not continue to miss out on opportunities to reduce their energy consumption and bills due to split incentives.*

Recommendation 6: *The NSW Government should consider minimum standards for rental housing.*

The role of retailers

As retailers would be aware, the Australian Energy Regulator is currently reviewing energy retailers' customer hardship policies. Good hardship programs and policies can play an important role in assisting low-income households to manage their energy bills. We believe that a best practice approach to hardship programs would comprise a number of elements, including seamless access, realistic payment plans, debt write-off initiatives, energy efficiency assessment and support (including assistance in over-coming capital barriers to reducing major energy loads), and effective referral pathways.

We recommend that all energy retailers work towards a best practice approach to hardship programs in an attempt to mitigate the impact of gas price increases on their low-income customers.

Recommendation 7: *All energy retailers should work towards a best practise approach to hardship programs in an attempt to mitigate the impact of gas price increases on low-income customers.*

If you would like further information on the issues raised in this submission please contact Rhiannon Cook, Senior Policy Officer, on (02) 9211 2599 ext 128 or email rhiannon@ncoss.org.au

Yours sincerely



Alison Peters
Chief Executive Officer

⁷ IPART (2010) Household Survey of Electricity, Water and Gas Usage - Sydney, Blue Mountains and the Illawarra. Additional data requested by NCOSS and provided by IPART on 16 May 2014. Low-income households are here defined as those with pre-tax incomes of between \$13,000 to \$33,800 per year.