

Care Financial Counselling Service

7 May 2009

Independent Competition and
Regulatory Commission
GPO Box 296
Canberra City ACT 2601& by email to: icrc@act.gov.au**Postal Address**PO Box 763
Civic Square ACT 2608

Attention: Paul Baxter, Senior Commissioner

Dear Mr Baxter,

**Re: Draft Decision
Retail Prices for Non-contestable
Electricity Customers 2009-2010**

Thank you for providing a copy of the above draft decision.

Care's views on the draft, focusing on Section 6.1, can be summarised as follows:

Increases in Retail Prices of Electricity

Care acknowledges that increases in retail prices for non-contestable customers are inevitable; and is pleased that the proposed increase in the current draft decision is modest compared with recent substantial increases that have seen electricity charges increase by approximately 35% since 2004-05¹. However, *any* increase puts pressure on low income households, particularly on top of the recent increases and disproportionately affects low-income consumers.

Support Mechanisms: Low-Income and Vulnerable Consumers

We agree with the Commission's view 'that there is a clear need to provide support mechanisms for low-income and vulnerable consumers'² and acknowledge that the Commission has attempted to find a process to address this by suggesting that 'there are strong grounds for linking the value of the electricity rebate to increases in the retail price of electricity.'³

Several issues impact on this approach:

¹ ICRC-Draft Decision: Retail prices for non-contestable electricity customers 2009-10 p.59

² ICRC-Draft Decision: Retail prices for non-contestable electricity customers 2009-10 p.57

³ ICRC-Draft Decision: Retail prices for non-contestable electricity customers 2009-10 p.59

- Given the Commission's comments that 'there has been a gradual decline in the real value of the concession'⁴; there needs to be an updated evaluation of the value of the concession. We note the increase in the energy concession on 1 July 2008 following the introduction of the Network Facilities Infrastructure Tax, was the first adjustment since 2004. In February 2008 the ACT Government mapped concessions that are available to ACT residents but did not include in this exercise any examination of the value or level of concessions available.
- An updated examination of the real value of the energy concession is vital as the ACT has such significant winter heating costs and the concession on energy 'offered in the ACT is less generous than indicated by a simple comparison'⁵ when compared with other states.
- If the energy concession is linked to increases in the retail price of electricity, any increase should be automatic and not delayed. Delaying payments to low-income households makes it more difficult for them to budget. Low-income households do not have the resources to catch up on missed payments, and often incur late fees and charges if bills or accounts are not paid on time, compounding their financial difficulty.
- Low-income consumers, particularly those on Centrelink payments, such as holders of Pensioner Concession cards or Health Care cards should be exempt from paying supply charges; any concession for energy used should be *in addition to* this exemption. In Care's view the concession should provide a reasonable level of subsidy on the actual usage of energy.
- If the energy concession is linked to the retail price of electricity, the base rate of any concession should not be eroded if prices fall.
- The Feed-in Tariff Scheme will provide some benefits and incentives for middle and higher income households. However, it will impact adversely on low-income households who are not able to benefit from it. Further compensatory mechanisms will be needed to ensure that low-income households are not increasingly disadvantaged at the expense of the better-off in the community, as newer technologies are developed.

Broader Considerations

Electricity is an *essential* and not a choice; in a competitive market, adequate and pro-active provisions should be in place to protect vulnerable consumers:

- While concessions are a useful approach to issues facing low-income and vulnerable consumers; a purely concessions driven approach is unsustainable in the longer term.

⁴ ICRC-Draft Decision: Retail prices for non-contestable electricity customers 2009-10 p.59

⁵ ICRC-Draft Decision: Retail prices for non-contestable electricity customers 2009-10 p.59

- Care acknowledges the Commission's comments that 'the TFT is not intended to be a 'safety net' to be used for social or targeted support to smaller consumers.'⁶ We believe that energy retailers have a responsibility, as part of their core business planning to have in place hardship policies that are transparent, workable and responsive to customers who are unable to meet the payments on their electricity accounts. This should include *early* identification of customers experiencing financial difficulties and a range of flexible options that take into account the customer's capacity to pay.
- Low-income consumers are generally at great disadvantage compared with other consumers due to living in insufficiently insulated dwellings with outdated appliances. Care believes there needs to be an investment in providing both structural and educational measures that assist with consumption reduction of energy costs especially for low income earners, public housing and private rental tenants, all of whom are very vulnerable to rising costs. This may assist in providing some protection against anticipated future steep rises in electricity costs.
- Expecting disadvantaged households to continue making reductions in energy usage when the dwelling they occupy is not designed to assist in their efforts is at best counter productive and at worst destructive; as the household simply cannot do what is asked of them, despite their efforts. While this particular Draft Decision contains a modest increase in electricity costs, those in the community without updated appliances, adequate insulation, appropriate energy efficient dwellings and educational support, will still feel the effects of the increase.

Care thanks the ICRC for the opportunity to comment on the Draft Decision.

Contacts:

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⁶ ICRC-Draft Decision: Retail prices for non-contestable electricity customers 2009-10 p.55