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CARE Incorporated
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Care Financial Counselling Service

7 June 2007

Independent Competition and
Regulatory Commission
PO Box 975
Civic Square ACT 2608

& by email to: icrc@act.gov.au

Attention: Mr Paul Baxter, Senior Commissioner

Dear Mr Baxter,

Postal Address
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admin@carefcs.org

Re: Report 6 of 2007
Response to Draft Decision
Retail Prices for Non-Contestable Electricity Customers

Thank you for providing a copy of the above draft decision under cover letter from Dr Susan Faulbaum dated 11 May 2007.

Care's views on the draft can be summarised as follows:

a) We acknowledge that increases in retail prices for non-contestable customers are inevitable;
b) Care endorses the recommendations of the Essential Services Consumer Council (ESCC) that the price reset should be undertaken in two steps, that customer acquisition and retention costs be disallowed and that the retail margin sought be reduced;
c) Insufficient attention has been paid in the draft to the likely social consequences of increases of the type and size discussed, even at the reduced levels recommended by the ESCC; and
d) In Care's view many of the comments in the draft regarding the nature of the ACT energy market are unsubstantiated.

To expand on these comments:

a) The higher wholesale costs of accessing electricity are unarguable. Care also acknowledges the ICRC's predictions that the situation is likely to get worse and agree those predictions are likely to be borne out. A number of factors are coinciding and accumulating in ways that will present ongoing challenges. The commencement of the ACT's infrastructure tax and the impacts of the drought are noted in the draft. In the future, responses to the impacts of climate change and energy

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design and usage will start to figure prominently. It is vital to remember that as these changes bite low income households will be the most dramatically impacted and the least able to respond. These issues will be explored in more detail under **c)** below.

b) As noted in the summary, Care supports the ESCC's recommendations in relation to the timing and quantum of increases to be allowed. In relation to the latter, customer acquisition and retention costs may only represent a small component but their inclusion appears unnecessary. ActewAGL's continuing preeminence in the ACT market is sufficient for it to carry any such costs. Even if that historical advantage did not exist this specific component represents an *additional* cost of delivering a so-called competitive market. One could argue that contestability drives transparency in how overall costs are arrived at. From Care's perspective it just provides an opportunity to be more creative in designing new cost categories. We agree with the ESCC's conclusion that the case for increasing the retail margin from 3 to 4% has not been made. The projections in the recent ACT Budget regarding ActewAGL's continuing profitability bear that view out.

The ESCC's recommendation to stage the price increases will not only soften the considerable blow to household budgets, it will allow any potential improvements later in the year to be more immediately accessed and activated.

c) Care welcomes the ICRC's observations about the roles that organisations like the ESCC, ACTCOSS and Care play in assisting low income consumers. That acknowledgement does not of itself fulfill the obligation to consider the social implications of the draft pricing decision. The costs of running a household in the ACT have increased dramatically in the last few years. The increases have occurred across markets and have hit hardest in relation to non-discretionary spending. Essential utilities, food, health and education have all increased at a rate in advance of CPI. Accommodation prices have surged and fuel costs have been on a rollercoaster where movements of 10 to 20 cents per litre have become the norm. The only good news in the mix has been the recent stabilising of official interest rates – although with personal debt commitments now running at over 150% of GDP longer term solutions to the overextension of ordinary households are some way off.

In contrast, incomes in low to moderate income households have not kept pace with the price increases. Those on low and fixed incomes are falling further behind. At the same time there is increasing evidence of vulnerability amongst slightly higher income consumers. Care has noted increases in demand from the mortgage belt in recent funding reports. Evidence that financial vulnerability appears to be moving up income demographics should be of significant concern but in Care's view is simply not attracting enough attention.

The ACT has one of the best systems in the country for dealing with the impacts of financial hardship on access to and payment for utility services through the ESCC. That system will however come under increasing pressure if there is not further detailed and systemic consideration of the cost implications of the draft decision, likely future price movements and increases in other essential household costs. Care understands a commitment has been made to review concessions in the ACT. That is long overdue with the immediate previous review commencing in 2001 never completed. Current ACT concessions are out of date and unnecessarily hard to access. The action required to remedy the problems will now be more expensive than it needed to be had appropriate and effective review mechanisms been in place in the intervening years. If the Territory does not get this right however we will not only exacerbate the hardship experienced by people living in poverty in the ACT, it is likely more people will be pushed into poverty.

Some consideration and analysis of these issues in the draft would have been useful, but was entirely absent. Care has previously noted the limitations of the ICRC's interpretation of its social impacts remit. Those limitations are clearly structural and will only be addressed if the makeup of the Commission is altered to embed the skills it currently lacks.

d) The draft makes a number of references to improvements that have been delivered by the move to full retail contestability. These observations appear to Care to be driven by a reliance on competition theory rather than any objective analysis. Perhaps it is unreasonable to expect that the ACT should carry the burden of testing such hypotheses but there appears no likelihood of any such activity at the national level.

Care understands that the national process of oversight is so convinced that the national market is delivering and sharing benefits to consumers that a recommendation to remove social and environmental considerations from the framework of its operations is being considered. In Care's view that is a foolish and dangerous approach.

In recent days reports of a New Zealand consumer reliant on breathing apparatus dying after electricity was cut for unpaid bills have been picked up by Australian media. In the ACT such a tragic outcome would currently be highly unlikely and could only be the result of multiple failures across several levels of support and consumer protection. The point we make is this – the development of appropriate protections for vulnerable consumers took considerable time, effort and energy to embed. In some instances, the previously prevailing corporate ideology had to be confronted and altered in order to deliver those protections. Shifting to processes that place undue faith in the market to act properly without appropriate ongoing supervision puts fundamental consumer protections at risk. Those protections will not be eroded overnight but over time diminution would, in Care's view, be an inevitable consequence.

More mature markets, such as financial services, are moving to embrace social and environmental considerations. Some market segments have invested heavily in formalising those approaches in self and co-regulatory instruments. Care does not claim expertise in the energy market and has neither capacity nor resources to be more that an observer in the national market development, however:

- there is no demonstrable evidence that our clients are receiving any benefits from the contestable electricity market and
- market developments appear to be working against the mechanisms that allow our clients to obtain and retain safe, fair, affordable access.

Care thanks the ICRC for the opportunity to comment on the draft.

Yours sincerely,

David Tennant
Director.