



Submission to ICRC

Draft Report

Retail prices for franchise electricity customers 2012-14

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Contacts:

Carmel Franklin

Liisa Wallace

Director

Coordinator

carmel.franklin@carefcs.org

liisa.wallace@carefcs.org

Care Inc. Financial Counselling Service

Telephone 02-62571788

About Care Inc. Financial Counselling Service

Care Inc has been the main provider of financial counselling and related services in the ACT and region since 1983. Care is a not for profit community organisation that provides financial counselling, information, support and advocacy to people on low to moderate incomes who are experiencing financial stress. It is a free, independent and confidential service.

Care's financial counsellors work in a holistic way with their clients recognising that for many people there are a range of social and emotional issues that can have a direct impact on their financial situation. These issues include relationship breakdown, loss of employment, health issues and lack of affordable housing. Care is founded on the belief that the people who use our services have a right to self determination and the right to be able to make informed choices.

Care's integrated service model includes information services, casework, advocacy, community development and education and policy, social action and law reform comment. Care also operates the ACT No Interest Loan Scheme (NILS) and hosts the Consumer Law Centre of the ACT.

Background

Care's client group consists of some of the most disadvantaged consumers in the ACT and surrounds. A significant percentage exists on a government payment, combination of part government payment plus wages or very low wages. They struggle with the costs of everyday expenses including the cost of utilities; and it is rare for workers at Care to see a client for whom utilities are not part of the financial difficulties they face. Most clients attend Care with a complex mix of financial and personal difficulties; this may include relationship breakdown, unemployment, experiences of trauma, mental and physical illness and potential homelessness.

Electricity is an essential service that people should not be expected to live without. Any increase in the cost of electricity will impact heavily on low income consumers. They have little, if any, discretionary income and are constantly making enforced 'choices' between paying for one or other essential goods or services. The flow on effect of increases in electricity prices to areas such as food or transport also means low income consumers are hit hard on several fronts.

Many of Care's clients live in rental properties, both government and privately owned. While government has in place programs to assist low income consumers with energy costs, including a recent indexation of energy rebates, there are still many very vulnerable and disadvantaged households who have not received assistance to upgrade heating systems or improve poorly insulated dwellings. Private renters, who are currently paying crippling high rents, are often further disadvantaged as a result of landlords not maintaining properties with adequate heating, insulation and appliances.

Price Direction

The Independent Competition and Regulatory Commission (ICRC) indicates in the Foreword to the Draft report that the

*'lion's share of the increase in the retail price of electricity for franchise customers in the ACT is attributable to the introduction of a price on carbon; some 13 percentage points of an anticipated increase of about 17%. The rest is largely attributable to increases in network costs.'*¹

Care acknowledges that there is a package of compensation in place from the federal government to meet the substantial increases in costs associated with the introduction of a price on carbon. We are also aware that the ACT Government has committed to assisting low income consumers in the future as the ACT moves to become a carbon neutral jurisdiction². Recently Minister Corbell also introduced the *Energy Efficiency (Cost of Living) Improvement Bill 2012* into the Legislative Assembly. However, despite these recent innovations, and as identified by the ICRC, there remains a great deal of uncertainty around the actual effect that pricing carbon will have on the everyday expenses that people have to pay.

Uncertainty translates into anxiety and tension for those on low incomes as they have no room to move financially if the price on carbon pushes prices higher than expected. They will also have to cope with the added 4% increase in the current draft price direction, on top of several price increases in electricity costs in recent years, totaling 32.57% from 2007³. In this context, it is another blow for low income consumers who have had great difficulty keeping up with the past increases. Care would urge the ICRC to consider a more modest increase in the Retail Electricity Tariff until the actual impact of Federal and ACT Government measures can be assessed.

Elderly consumers, people with chronic illnesses or households with young children may be particularly vulnerable if they are unable to heat their homes in winter, or have to go without a fan or air-conditioning during the heat of summer. The higher prices become relative to low income consumers' incomes, the more likely it is that this situation, which workers at Care currently see, will increase.

Comparison

Compare the situation for the following two people each with an electricity bill of \$1,300 pa:

(a) a person with an income of \$70,000 pa gross

¹ Draft report – retail prices for franchise electricity customers 2012-14 iii

² Weathering the Change Draft Action Plan 2: Pathway to a sustainable and carbon neutral ACT 2011-2060

³ ICRC Media Releases on Final Electricity Pricing Decisions 2007-10 accessed at www.icrc.act.gov.au

(b) an Aged Pension recipient with an income of \$19,989.20 pa gross (including the energy and utility concessions from the ACT government and Centrelink);

Each will be paying the following percentages of total income in electricity costs per annum:

(a) \$70,000pa income: \$1,300pa electricity bill = 1.86% of annual income spent on electricity

(b) \$19,989.20pa income: \$1,300pa electricity bill = 6.50% of annual income spent on electricity.

There is significant disadvantage for people on low incomes in comparison to other community members when examining percentages outlaid for essential goods and services. In percentage terms their basic expenses take up far higher proportions of their income than for higher income people. This leaves no or little income to keep pace with increases in basic living costs.

Social impacts of the decision

The ICRC Act provides that the commission must have regard to *'the social impacts of the decision'*⁴ when making a price direction. The Commission makes brief reference to this in the Draft report;

*'... the Commission has had regard to the social impacts of its decisions (s.20(2)(g) by not including a customer acquisition cost on the basis that it is unnecessary to encourage competition'*⁵.

The Commission, however, does not address the actual 'social impacts' of the increases in prices in the Draft report, which in Care's view are broader than encouraging competition. For our client group the impact relates more to capacity of those on low and moderate incomes to continue to absorb price increases. Clients often face the difficult choice of paying for heating or other essential services.

We look forward to the Commission examining the social impacts in more detail in its final decision; including an analysis of the effect of continued price increases for electricity on various groups within the community such as the low income, vulnerable and disadvantaged clients that Care sees. We encourage the ICRC to monitor the effects of the carbon price in the ACT and the Commonwealth compensation provided for this.

Thank you for the opportunity to provide this submission.

⁴ Independent Competition and Regulatory Commission Act 1997 Part 4 s20.2(g) accessed at www.icrc.act.gov.au

⁵ ICRC Draft report – retail prices for franchise electricity customers 2012-14 p24