



Heading in the right direction

the AER distribution price determination

Plus:

**Retail pricing
information:
helping
consumers do
the maths**

**One Million
Homes
campaign kicks
off**

**The latest on
smart meters**

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Contents

The latest on smart meters	3
Helping energy consumers do the maths .	4
AER distribution price determination.....	6
One Million Homes campaign	8
Smart Grid, Smart City program	10
Green Start program	10
CUAC news	11
From the Executive Officer.....	12



CUAC is an independent consumer advocacy organisation which ensures the interests of Victorian electricity, gas and water consumers—especially low income, disadvantaged, rural and regional, and Indigenous consumers—are effectively represented in the policy and regulatory debate.

CUAC believes all Victorians have a right to:

- ♦ affordable and sustainable electricity, gas and water
- ♦ have their interests heard in policy and regulatory decisions on electricity, gas and water
- ♦ not be disconnected from electricity, gas and/or water due solely to an inability to pay

CUAC:

- ♦ Provides a voice for, and strengthens the input of Victorian utility consumers—particularly low income, disadvantaged, and rural and regional consumers—in the policy and regulatory debate
- ♦ Initiates and supports research into issues of concern to Victorian utility consumers, through in-house research and building the capacity of consumers through its Grants program
- ♦ Investigates and responds to systemic issues affecting Victorian consumers in the competitive electricity and gas markets and with regard to water.



The latest on smart meters

Caitlin Whiteman, Policy Advocate

Victoria's smart meter roll out continues to dominate the policy and regulatory agenda in energy. CUAC is working on a number of fronts to secure the best possible outcomes for consumers. Here we detail two current priorities.

Smart meters regulatory review

On 3 February 2010, the Victorian Minister for Energy and Resources, the Hon. Peter Batchelor, instructed the Essential Services Commission to conduct a full regulatory review of smart meters, in light of new pricing structures, to ensure vulnerable Victorian are not disadvantaged by changes. The review has examined issues including customer information, data access and data security.

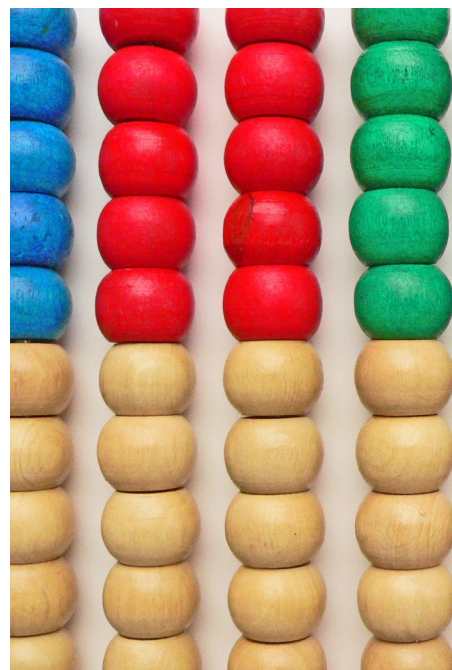
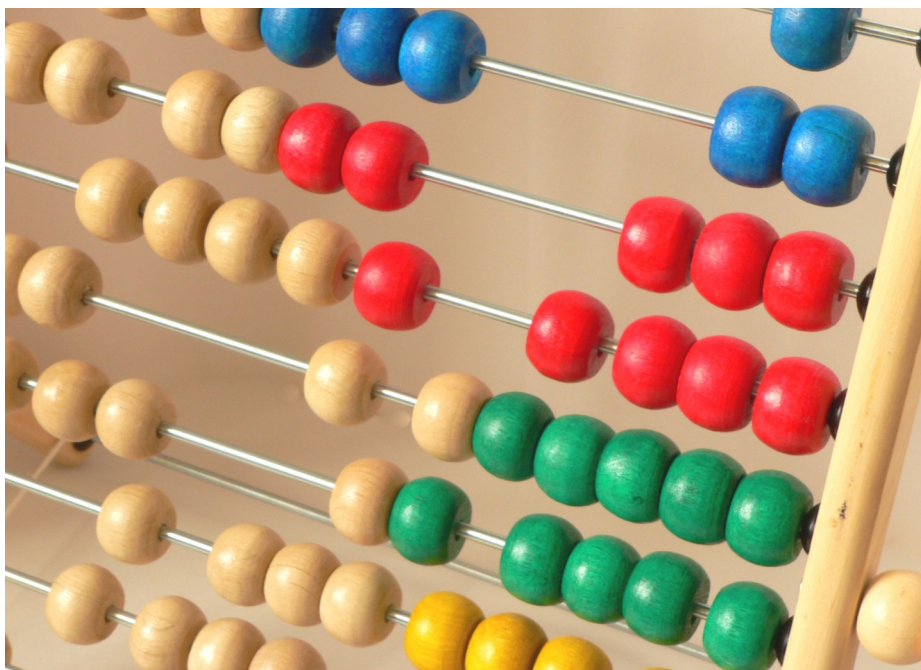
In July the Essential Services Commission released its draft decision on the review, taking into account many of the issues raised by consumer advocates.

CUAC is particularly pleased with draft changes to the guideline on retailers' financial hardship policies. Under an amended guideline, retailers would need to help hardship program participants to choose and continue on the most cost-effective tariff for them,

based on their individual behaviour and circumstances. Given the complexity of navigating the retail market, CUAC supports increased assistance for consumers to choose the best tariff. We will be voicing support for changes such as these, as well as highlighting areas of continuing concern, in our submission on the draft decision.

Consumer information & education

For some time, CUAC has been highlighting the need for appropriate consumer education and information in relation to the rollout of smart meters and the introduction of time-of-use pricing. Work is now underway on CUAC's smart meter information needs project. A on-line survey of community agencies provided preliminary data about the information needs of community and business, and about the most appropriate delivery channels for this information. CUAC has also held two successful community sector information forums, which have further built on our understanding of the issues (see this edition of the Rural and Regional Network Newsletter for more detail on the Bendigo forum). CUAC is now in the process of preparing a report on the project to the Department of Primary Industries. The report will recommend strategies to inform consumers about how to make the most of the changes associated with smart meters.



Helping energy consumers do the maths

Deanna Foong, Senior Policy Officer

While some consumers have taken the opportunity to seek cheaper offers in Victoria's competitive market, they are often overwhelmed by choice and complexity. This complexity is set to deepen when time-of-use tariffs come into play. As the Australian Energy Regulator develops retail information pricing guidelines and the Essential Services Commission conducts its smart meters regulatory review, CUAC is pushing for the best information for consumers.

From a small consumer perspective, energy is a homogenous product, meaning that the energy received from one retailer is indistinguishable from

the next. In our work with consumers and their representatives, we hear that consumers are frustrated that in order to find a better deal for this homogenous product, they must compare an amazing array of complex offers. The offers themselves are then accompanied by fine print, often incomprehensible to the ordinary consumer, detailing terms and conditions.

Not only is this an information asymmetry that limits consumers' ability to make the best choice, it also imposes significant search costs (a transaction cost), thereby reducing the attractiveness of changing retailer. These transaction costs and information asymmetries are a threat to the competitiveness of markets.

For these reasons, CUAC strongly supports the development of options that reduce both the information asymmetries and transaction costs that are a feature of the current energy retail market. We believe that appropriate regulation, including price disclosure guidelines, can enable the more



competitive functioning of markets. For consumers to fully realise the benefits of retail market competition, they need free access to pricing information, presented in a manner that allows easy comparison across energy retail offers.

In our contribution to the recent smart meters regulatory review, CUAC disagreed with the Essential Services Commission view that “too prescriptive and standardised information” may see customers choosing a sub-optimal retail offer. CUAC believes that the ESC should continue to be prescriptive on the presentation of pricing information, requiring it to be provided in a manner which allows easy comparison by customers. Consumers need simple mechanisms, such as a template, to receive pricing information when they seek price savings. CUAC supports retaining a template to help consumers compare their current energy contract with other available offers.

There are some key principles which should underpin development of pricing information presentation options. CUAC has suggested that:

- Information is ‘layered’. The basic pricing information tool should be easily understood by all consumers and allow informed choice to be made. Those who require more detailed

information can be directed to other, more comprehensive, resources.

- Pricing information should be transparent, with fixed charges and consumption charges differentiated.
- Research with consumer focus groups is essential. This research should determine how information on rebates, discounts, product vouchers, loyalty schemes and fees should be listed so that consumers are best able to compare offers.
- Standardisation must be a feature of any price disclosure regime that is adopted. Customers must be able to compare like-for-like if price disclosure is to be meaningful.
- Governments and regulators have a responsibility for increasing consumer understanding of energy. Pricing information should, where possible, help to build energy literacy in the community.

Pricing information disclosure built around these principles stands the best chance of encouraging and helping consumers to seek out the best energy deal.



Heading in the right direction

the AER distribution price determination

David Stanford, Policy Officer

In a promising step, the Australian Energy Regulator (AER) has rejected the substantial increases to electricity distribution charges that had been proposed by Victoria's five distribution network businesses in its recent draft decision.

AER role in price setting

The AER is responsible for regulating the revenue requirements and prices charged by distribution networks in the eastern states of Australia. Distribution networks are monopoly businesses and, in the absence of price regulation, would earn supernormal monopoly profits. Given this, every five years, the AER is tasked with establishing the efficient level of revenue for each distribution business to operate its network, given a set of regulated service standards. The AER makes its determination in response to regulatory proposals put to it by distribution businesses in the year before the new regulatory period commences.

In the 2011-2016 distribution price determination, the five Victorian distribution businesses had argued that due to ageing of the Victorian distribution network, significant investment was required to maintain service standards. Collectively, the five distribution businesses had proposed capital expenditure increases over the five year period of 66 per cent, as well as operating expenditure increases of 38 per cent on existing levels. These increases would have seen customers paying between 10 – 46 per cent more for use of the distribution network in the coming regulatory period.

However, in its 988 page draft decision, the AER rejected these large increases, having analysed in great detail the proposals put forward by each distribution business. "These substantial increases in network expenditure are not justified when you consider the fundamental characteristics of the Victorian distribution network," said AER Acting Chair, Mr Andrew Reeves.

Implications for consumers

While the draft decision is a positive for consumers, the AER's final determination will not be made until October. In the meantime, stakeholders, including distribution companies, still have the opportunity to



comment on the draft decision. Once a final determination is made, electricity network charges will be developed by the regulated businesses for approval and implementation in January 2011. If the draft decision remains unchanged, the average residential bill in Victoria would be reduced by 5.8 per cent on average (in nominal terms) in the first year of the determination. In subsequent years, price rises would remain at a modest 2.8 percent.

Significantly, the AER's draft decision used historic expenditure levels to predict future revenue requirements. Historic expenditure was considered a more appropriate guide to future requirements than the complex demand growth and customer forecast models put forward by the distribution businesses. This was in line with CUAC's submission, which expressed concerns about the unreliability of forecasts by distribution businesses in relation to revenue requirements.

The significance of the draft decision for consumers becomes clear when we examine individual distribution businesses' proposals. For example, SP AusNet, the distributor in Eastern Victoria, had proposed to increase its network prices by 50 per cent (in nominal terms) above the current levels in 2011. The AER rejected this proposal, finding justification for a network price increase of only 2 per cent in the first year of the period. Similarly, Melbourne metropolitan distributor Jemena's proposal would have resulted in an increase to the

What is ...?

- The **revenue requirement** is the amount of money that a distribution business needs to operate and maintain its network, as well as to expand the network to new customers.
- **Capital expenditure** is the money spent by a business to purchase new fixed assets or to expand on existing fixed assets. For distribution network businesses, these fixed assets might include new electricity poles or a new electricity substation.
- **Operating expenditure** is the money required to cover a business' ongoing running costs. Typically, this includes the costs of labour, rent, stationery, etc.
- A **nominal price** is an expression of price that has not been adjusted for inflation. While real prices are comparative prices that are compared to a particular point in time, nominal prices are 'raw' and unadjusted. Real prices are more useful for comparing prices over time, particularly if the time period is over many years.
- **Pass through mechanisms** allow the AER to modify a pricing decision in light of new events or circumstances occurring during the five year regulatory period. This could occur, for example, if the Government introduces a new policy/regulation that could impose additional costs on a business. The AER could decide to allow these additional costs to be recovered through a pass through mechanism.

average annual residential bill of \$206.62 in 2011. Provided the AER's draft decision remains unchanged, however, customer bills in the Jemena distribution area should only increase by \$5.15.

The AER draft decision for Victoria contrasts with the decisions made in other jurisdictions, particularly in South Australia and Queensland. In Queensland, the AER's determination resulted in increases to the average residential customer's bill of approximately 9.2 per cent in the first year of the determination, with further increases in the following years.

CUAC chief, Jo Benvenuti, was pleased with the AER's draft decision. "This draft decision is a promising development and will hopefully lead to some relief for Victorian utility consumers," she said. "The AER's rigorous approach looks likely to protect consumers from substantial network cost pressures over the next five years. It is important that the AER maintains this strong position in its final determination."

The AER has noted that the Victorian Government's response to the Victorian Bushfires Royal Commission may give rise to new regulatory obligations and cost pressures for electricity networks. However, these will be dealt with through stand alone regulatory "pass through" mechanisms when the Victorian Government's position is clear. The implications of the Royal Commission, therefore, have not been factored into the regulatory determination.

Submissions from both the distribution businesses and the community in response to this draft decision are due by 19 August 2010. CUAC expects that distribution businesses will heavily criticise the AER's draft decision because of the significant reductions it imposes on their proposed revenue.

CUAC will continue its advocacy with the aim of seeing the consumer benefit carried from the draft through to the final decision. CUAC will be providing a submission in response to the AER's analysis in the draft determination and will continue to engage closely with the AER. Let us hope that the reasoning behind the draft decision is reflected in AER decision making both in the final price determination and other future regulatory processes.

One Million Homes campaign kicks off

David Stanford, Policy Officer

CUAC is excited to be a part of the One Million Homes alliance, a group of organisations advocating for a large-scale retrofit program targeting low-income households. Led by Environment Victoria, the alliance is calling on all political parties in this election year to commit to 'climate-proofing' one million Victorian homes with a comprehensive and flexible package of energy and water efficiency measures.

The proposed program

The proposed One Million Homes program will primarily target concession card holders, ensuring that those on a low income (who are most vulnerable to utilities price rises and least able to afford the upfront cost of efficiency measures) benefit. Each household involved will receive a house visit and energy audit and a comprehensive suite of retrofit measures such as efficient lighting, weather sealing, and fridge upgrades.

Affordability benefits

Such a program of upgrades could bring substantial benefits to Victoria. Energy and water efficiency is an important approach to improving the affordability



Pictured at the launch: Carolyn Atkins, Acting CEO, VCOSS; Imogen Schools, Secretary, Just Change; Kelly O'Shanassy, CEO, Environment Victoria; Ian Porter, CEO, Alternative Technology Association; Jo Benvenuti, EO, CUAC; Damian Sullivan, Research Manager—Equity and Climate Change, Brotherhood of St Laurence; Stella Avramopoulos, CEO, Kildonan UnitingCare; Brad Shone, Manager—Energy Strategy, Moreland Energy Foundation.

of utilities. Low income households, however, often need additional support to be able to afford the efficiency improvements. It is estimated that the efficiency improvements included in the one million homes program would save the average household almost \$300 on their energy bills each year.

Housing stock quality improvements

In addition to improving energy affordability, the one million homes program will add to overall quality of Victoria's housing stock. Recent reports have suggested that many Victorians, particularly rental tenants, are living in homes that do not have some of the basic attributes that most Victorians take for granted. Some of these attributes such as insulation, curtains, and weather sealing have a bearing on energy efficiency. The One Million Homes Program will substantially improve the overall quality of Victoria's housing stock in line with the needs and expectations of the 21st century.

Reducing greenhouse gas emissions

Finally, through improving energy, the one million homes program will have a material impact on Victoria's greenhouse gas emissions. Victoria's energy generation is dominated by carbon intensive brown coal. Through end use efficiency in the one million homes program it is estimated that greenhouse gases in Victoria would be reduced by 2.38 million tonnes over five years. Additionally, the One Million Homes Programme could save up to 32.5 billion litres of water over the same period.

One of the attractive features of the suggested One Million Homes approach is that it complements other energy and water efficiency programmes, which can substantially reduce the overall cost to the taxpayer of such a ambitious program .

To find out more or to become a supporter of the One Million Homes Campaign visit the website at: www.environmentvictoria.org.au/onemillionhomes



Newcastle site chosen for 'Smart Grid' trial

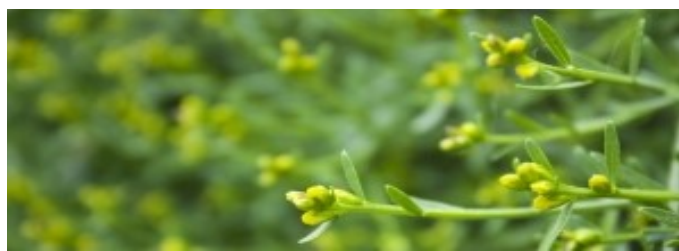
Newcastle in New South Wales has been selected as the site for Australia's first commercial-scale smart grid in the \$100 million Australian Government *Smart Grid, Smart City* project.

A 'smart grid' is a modernised electricity grid combining advanced telecommunications, metering, and information technology applications with 'smart' appliances in the home. Smart grids have the potential to improve efficiency in the management of electricity supply and demand. Using innovative approaches to the management of the energy supply system, smart grids should offer greater opportunities for demand side efficiencies and market response.

These potential benefits (as well as the costs) of smart grids will be assessed through the *Smart City, Smart Grid* demonstration project. Information from the project will then be available to inform future decision-making by governments, providers and consumers.

CUAC sees the development of smart grids as an issue of interest because smart grids are likely to change the way in which consumers interact with the energy supply system. Recognising the need for more information about the potential costs and benefits, CUAC supported a bid by the City of Frankston, the Victorian Government and United Energy Distribution for the Smart City project to be awarded to Frankston. While the Victorian bid was unsuccessful, CUAC will be following developments in the project, with a particular focus on the impacts for consumers.

For more information, see the Department of Climate Change and Energy Efficiency website at www.climatechange.gov.au



Green Loans transitions to Green Start program

The Minister for Climate Change, Energy Efficiency and Water, Senator Penny Wong, has announced a transition from 'Green Loans' to 'Green Start'.

Under the Green Loans scheme, householders were able to have the energy efficiency of their homes evaluated by a registered assessor, receiving a report on potential environmental improvements. They could then access interest-free loans to make these improvements.

Following three independent reviews revealing management and probity problems, however, Green Loans is being scrapped and replaced with the re-designed Green Start program. While detailed information about Green Start has not yet become available, the program will be delivered through Commonwealth grants in two rounds. The first round will fund the delivery of household energy assessments, while the second will seek proposals from non-government organisations to provide practical energy efficiency help to low-income and disadvantaged Australians.

CUAC supported the development of the Green Loans program, but welcomes proposed improvements to the design and delivery of the program. We look forward to the Green Start program getting underway, and see as urgent the need to improve household energy efficiency. Particularly in a time of rising energy prices, it is critical that low-income households are included in these improvements. See the article on the One Million Homes campaign launch (p. 8) for more information about CUAC's work on energy efficiency.

CUAC news

Farewell Peter and Anita

CUAC is disappointed to be saying goodbye to Chair Dr Peter Hansen, who has had to retire from the CUAC board due to other commitments.

We thank Peter for his hard work as both a board

member and as Chair of CUAC, and wish him well in his future endeavours. While the recruitment process for a new Chair continues, Deputy Chair Ms Fanoula Ferro is acting in the Chair role.

Also this month, CUAC says goodbye to Policy Officer Anita Lumbus, who is leaving CUAC (and Melbourne) to return to her hometown of Perth. Anita



will be known to many CUAC Quarterly readers, having worked directly with a range of people through the CUAC grants program, development of the Indigenous research and action project, and on visits to rural and regional communities around Victoria. Anita has already found a new position in Western Australia, where she will be working for the Australian Securities and Investments Commission as a Credit Outreach Educator.

Anita's new role will give her the opportunity to work closely with Western Australian communities, and we are sure that she will excel in it. We are sad to lose Anita, but wish her all the best for this next stage in her life.



CUAC submissions April – June 2010

CUAC made the following submissions during the April–June quarter:

Essential Services Commission, Comparative Performance Report—Energy Retailers: Survey of Financial Hardship Programs

Parliament of Australia Senate Standing Committee on Economics, Inquiry into the Trade Practices Amendment (Australian consumer Law) Bill (no. 2)

Australian Energy Regulator, Issues paper—Retailer authorisation guideline and Draft for preliminary consultation—Retailer Authorisation guideline

Australian energy regulator, Issues paper—AER Retail Pricing Information Guidelines

Prime Minister's Task Group on Energy Efficiency, PM's Task Group on Energy Efficiency Issues Paper

Essential Services Commission, Issues Paper: Regulatory Review—Smart Meters, with additional material prepared by Etrog Consulting

Australian Energy Regulator, Issues Paper: Developing National Hardship Indicators

All CUAC public submissions can be viewed on the CUAC website at www.cuac.org.au

From the Executive Officer

Right now there are a host of policy and regulatory issues under consideration which will have a significant impact on Victorian energy and water consumers.

A major area of CUAC's successful advocacy in the period was in the identification of policy issues to be addressed as part of the current moratorium on mandatory reassignment of time-of-use pricing to address equity issues for the roll-out of smart meters. A number of gaps in the regulatory framework were also identified by CUAC, including how consumers will be able to access consumption data from their meters, data security, remote disconnection and reconnection processes and safety. These matters formed part of the Essential Services Commission's "Issues Paper Regulatory Review – Smart Meters", the draft decision of which was due for release in July 2010.

Final approval came through from the Department of Primary Industries for CUAC's proposal for a project to examine information needs of community organisations and businesses in relation to smart meters and the first stage got underway with a survey to key organisations. Community forums will be held in Bendigo and Melbourne and a forum with business representatives will also inform CUAC's research.

We were pleased that issues put forward by CUAC to the Australian Energy Regulator (AER) Distribution Price Review were given due consideration. If the draft decision holds, Victorian consumers will pay considerably less than they would have under the proposed requirements of the Victorian distribution businesses. CUAC will argue in support of the draft decision, with the final decision due in October 2010.

CUAC's efforts have also been focused on energy and water consumers experiencing hardship, responding to the AER's review of National Hardship Indicators and to the Essential Services Commission's Issues Paper on the development of a hardship related Guaranteed Service Level for water businesses.

We were pleased to partner with 10 welfare and environment groups towards the "One Million Homes" Campaign, which calls on the Victorian and Federal Governments to deliver energy and water efficiency measures to One Million Homes, targeting concession card holders. Up until now, the majority of low income Victorians haven't been able to afford the upfront costs of efficiency programs or products. The One Million Homes campaign aims to change that, to the benefit of both low income consumers and the environment.

In relation to CUAC's work on bushfire issues, we were asked to participate as a panellist to inform a National Forum on Reducing the Risk of Catastrophic Bushfires Caused by Overhead Power Lines. Since then we have also been invited to join a task force set up by Energy Safe Victoria to address these issues.

Internally, CUAC has undertaken a formal review of its grants program for the first time since the program's establishment in 2002. We will seek the views of CUAC's Reference Group on the recommendations arising from the review. This feedback will be considered by the Board in the 2010/2011 financial year, together with the identification of priorities for CUAC's workplan and strategic directions.

Jo Benvenuti

Executive Officer