

Access Arrangement Review
Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

06/08/09

To Whom It May Concern:

**RE: NOTICE DRAFT DECISION ON WESTERN POWER'S PROPOSED
ACCESS ARRANGEMENT REVISIONS**

Thank you for providing the opportunity for WACOSS to put forward a submission regarding the Economic Regulation Authority's (ERA) draft decision on Western Power's Proposed Access Arrangement Revisions.

WACOSS only wishes to comment on access arrangement revisions, to the extent that they have a potential impact on the retail tariffs for residential customers and an impact on service standards and reliability.

WACOSS supports the ERA's draft decision regarding Western Power's proposed access arrangements.

If the revisions proposed by Western Power were to be approved it may have a very detrimental impact on vulnerable consumers. The ERA estimates that there will be a 3-6% increase in retail tariffs if the current draft decision on Western Power's proposed access arrangements are finalised. WACOSS is very concerned about the effect that Western Power's access arrangements can have on retail prices. While we understand it is only one component of the retail tariff and the total extent of the potential retail tariff cost increases are unclear, these increases still puts upward pressure on the cost to consumers and therefore need to be contained as much as possible.

WACOSS is very concerned about the effect that these price rises will have on already vulnerable Western Australians, particularly those on fixed and low incomes, who, with more financial pressures in many different areas including electricity, may be pushed into utility hardship and even disconnection.

WACOSS's Household model and forward projections, detailed in the WACOSS 'Rising Costs of Essential Services' Paper, outline the many cost pressures already causing a significant increase in electricity prices (paper enclosed). The most recent rises in the cost of essential services, along with substantial rises in the cost of accommodation, food and petrol have made it increasingly difficult for low income families to maintain a satisfactory standard of living. With electricity potentially set to rise by up to 57.9%, phased in over four of years, these families are set to face even more financial strain.¹

¹ 2008, Government of Western Australia, *Electricity Retail Market Review – Draft Recommendations Report: Review of Electricity Tariff Arrangements*, Office of Energy, p. 3



wacoss

Western Australian
Council of Social Service Inc

*Ways to make
a difference*

Western Australian
Council of Social Service Inc.
ABN 32 201 266 289

City West Lotteries House
2 Delhi Street
West Perth
Western Australia 6005

Phone (08) 9420 7222
Fax (08) 9486 7966
Email info@wacoss.org.au
www.wacoss.org.au

Electricity is an essential domestic service. Electricity disconnection can have severe social and economic ramifications for individuals, families and communities. There is an abundance of research evidence both within Australia and internationally that demonstrates the importance of access to an affordable supply of electricity. Electricity supports fundamental human needs including food, hygiene and shelter. It supports equipment that is critical to wellbeing and independence and enables and supports community engagement and family life.

WACOSS understands that Western Power needs to be a financially viable and have fair and reasonable charges. This is essential to their ability to deliver quality service standards and network reliability, which is crucial to maintaining sound consumer outcomes. This must be done without putting undue cost pressures on consumers. We believe that the Government has already factored in the increased cost that improvements in service standards and network reliability would incur, and this has been reflected in the present increases in retail tariffs outlined above. WACOSS does not believe that a further increase in retail tariffs above those already announced should occur.

WACOSS thanks the ERA for the opportunity to contribute to its Draft Decision.

Yours sincerely

Sue Ash
Chief Executive Officer

WACOSS BRIEFING PAPER

June 2009

The Rising Cost of Essential Services

Executive Summary

This paper outlines the issues faced by many Western Australians as the cost of essential services continues to rise. As well as showing the price of electricity, water and gas from 2003 to the present, it also provides a projection, as accurately as possible, of costs associated with accessing water, electricity and gas services up to the year 2014.

The future pricing scenario is not intended to serve as either a prediction or forecast of anticipated price increases for electricity, gas and water services, but instead to illustrate *likely* significant increases in overall costs of essential services over the next 5 years.

Since 2003 to present, average household utility costs have increased from \$1975.84 to \$2505.93 – or 27%. This paper also shows a further likely increase in average household utility costs from the current figure in 2009/10 to \$3305.47 in 2013/14 – or 32%.

These costs are based on the WACOSS representative household model, which is detailed in the paper.

The paper concludes that the recent rises in the cost of essential services, along with substantial rises in the cost of accommodation, food and petrol have made it increasingly difficult for low income families to maintain a satisfactory standard of living. These cost pressures are projected to continue to place increasing financial burdens on families.

Background

For people living on low incomes or facing financial disadvantage, the cost of accessing essential services – such as utilities, transport and food - consumes a disproportionately high percentage of their income. This has become increasingly so as many people living in Western Australia are beginning to feel the impact of the economic downturn.

Unemployment figures released recently by the Australian Bureau of Statistics show that the unemployment rate in WA has risen from 4.6% to 4.9%¹. The number of unemployed people in WA has risen from 28,000 in October 2008 to 60,600 in May 2009².

These figures show an additional 32,600 unemployed people in WA than there were barely half a year ago. These 32,600 people are more likely to need financial counselling, emergency relief, mental health and drug and alcohol services, relationship counselling and other vital community services.

Rising unemployment is also plunging many people into mortgage stress. Data derived from the Supreme Court of WA shows that in the third quarter of 2008/09, a record 399 property repossessions took place, nearly triple the average for this decade³. The high level of debt that households are carrying means that people who lose their jobs are facing financial hardship much quicker than in previous recessions.

Subsequently, many people find paying utility bills very difficult and often end up in arrears to service providers. This may result in restriction of water supply or disconnection from energy services. The demonstrated consequences of limited, or no, access to essential services such as water and energy include deterioration in physical health, significant psychological impacts and exclusion from education, employment and the life of the community.

WACOSS has a long history of policy development and advocacy in the area of Essential Services. This has been demonstrated through WACOSS' coordination of the Emergency Relief (ER) forum and the Consumer Utilities Project (CUP). WACOSS has also provided a series of recommendations in our Pre-Budget Submission *Putting the Pieces Together*, which focus on improving the accessibility and affordability of essential services. Some of these recommendations include the expansion of energy and water efficiency programs targeted at people living on lower incomes, as well as the provision of funding for independent consumer representation in the area of essential services.

This paper provides a series of figures which show cost increases over the past five years, and potential increases for the next five years. The table shown in Figure 1 indicates the increases in costs of essential services from 2003/04 to 2009/10. Estimate projections are shown in Figures 2 and 3. They show a possible *increase in average household utility costs from \$2505.93 in 2009/10 to \$3,305.47 in 2013/14 – or 32%.*

¹ Australian Bureau of Statistics, *Labour Force*, 6202.0. May 2009

² Ibid.

³ The Supreme Court of Western Australia. *Statistics*. May 2009.

These figures are based on the WACOSS household model, which is calculated as follows:

Electricity:

Calculated on assumption of 4700kw per/annum consumed, as per assumption of the WA Treasury Representative Household.

Gas:

Calculated on the use of 14.6 gas units per/day, as per assumption of the WA Treasury Representative Household

Water (consumption):

Calculated on consumption rate of 320kl per/year.

Water (sewerage):

Calculated on static Gross Rental Valuation (GRV) figure of \$7800 (\$150per/week). However, this figure may be unrealistic as GRV varies.

Water (drainage):

Calculated on static Gross Rental Valuation (GRV) figure of \$7800 (\$150per/week). However, this figure may be unrealistic as GRV varies.

Data Analysis

Figure 1: Essential Service Costs – 2003/04-2009/10

UTILITIES	2003/04	Increase	2004/05	Increase	2005/06	Increase	2006/07	Increase	2007/08	Increase	2008/09	Increase	2009/10	Increase
Electricity	\$748.51	\$0.00	\$748.51	\$0.00	\$748.51	\$0.00	\$748.51	\$0.00	\$748.51	\$0.00	\$823.36	\$74.85	946.86*	\$123.50*
Gas	\$366.48	\$0.00	\$392.00	\$25.51	\$392.00	\$0.00	\$392.00	\$0.00	\$390.00	-\$2.00	\$429.00	\$39.00	\$467.61**	\$38.61**
Water - Consumption	\$173.08	\$5.53	\$173.08	\$0.00	\$176.89	\$3.81	\$187.32	\$10.43	\$218.83	\$30.78	\$237.10	\$19.00	\$281.60#	\$44.50*
Water Service Charge	\$148.96	\$4.76	\$148.96	\$0.00	\$151.60	\$2.64	\$160.54	\$8.94	\$162.60	\$2.06	\$180.45	\$17.85	\$200.40#	\$19.95*
Water - Sewerage	\$486.67	\$15.55	\$486.67	\$0.00	\$497.37	\$10.71	\$515.28	\$17.91	\$503.67	-\$11.61	\$520.49	\$17.22	\$542.36***	\$21.87***
Water - Drainage	\$52.14	\$1.67	\$52.14	\$0.00	\$53.28	\$1.14	\$55.20	\$1.92	\$59.44	\$4.24	\$62.91	\$3.47	\$67.10***	\$4.19***
TOTAL	\$1975.84	\$27.51	\$2001.63	\$25.51	\$2019.65	\$18.33	\$2058.85	\$39.20	\$2083.05	\$23.47	\$2253.31	\$171.39	\$2505.93	\$90.50

*Based on information contained in the 2009/10 State Budget Paper No. 3, documenting an increase of 15% effective 1 July 2009.

**Information regarding gas price determination for 2009/10 financial year currently unavailable, but prices based on Minister for Energy's Media Release (20.6.08), announcing a median price increase of 9% for residential customers.

***Based on Information contained in the 2009/10 State Budget Paper no.3.

#Based on information received from the Water Corporation June 2009.

Figure 2.1 Future Pricing Scenario

Future Projections	2010/11	2011/12	2012/13	2013/14
Electricity**	\$1192.09	\$1345.86	\$1401.04	\$1401.04
Gas*	\$509.69	\$555.57	\$605.57	\$660.09
Water – Consumption***	\$414.72	\$479.68	\$553.60	\$553.60
Water Service Charge***	\$160.12	\$152.14	\$144.15	\$144.15
Water – Sewerage***	\$501.51	\$487.42	\$473.42	\$473.42
Water – Drainage***	\$73.17	\$73.17	\$73.17	\$73.17
TOTAL	\$2778.13	\$3093.84	\$3250.95	\$3305.47

Figures used in WACOSS' Future Pricing Scenario for electricity, gas and water services are derived from pricing information contained within recent advice from the Office of Energy (OOE) and the Economic Regulation Authority (ERA). These figures are not intended to represent the position of the ERA, OOE or WA Government. They are intended to illustrate likely significant increases in the cost of essential services over the next five years, based on information currently available.

**Based on the 2009/10 State Budget Paper – Economic and Fiscal Outlook documenting an assumed electricity tariff glide path of 42.9% over three years (25.9%, 12.9% and 4.1% respectively).

* Gas Prices for 2008/09 based on Minister for Energy's Media Release (20.6.08), announcing a median price increase of 9% for residential customers. Gas tariffs for 09/10 have not yet been announced.

***Based on recommendations made in The Economic Regulation Authority's Draft Report Inquiry into Tariffs of the Water Corporation, Aqwest and Busselton Water. P. 205. The ERA make recommendations up to the years 2012/13. No recommendations were made for 2013/14 and therefore figures from the previous year have been carried forward.

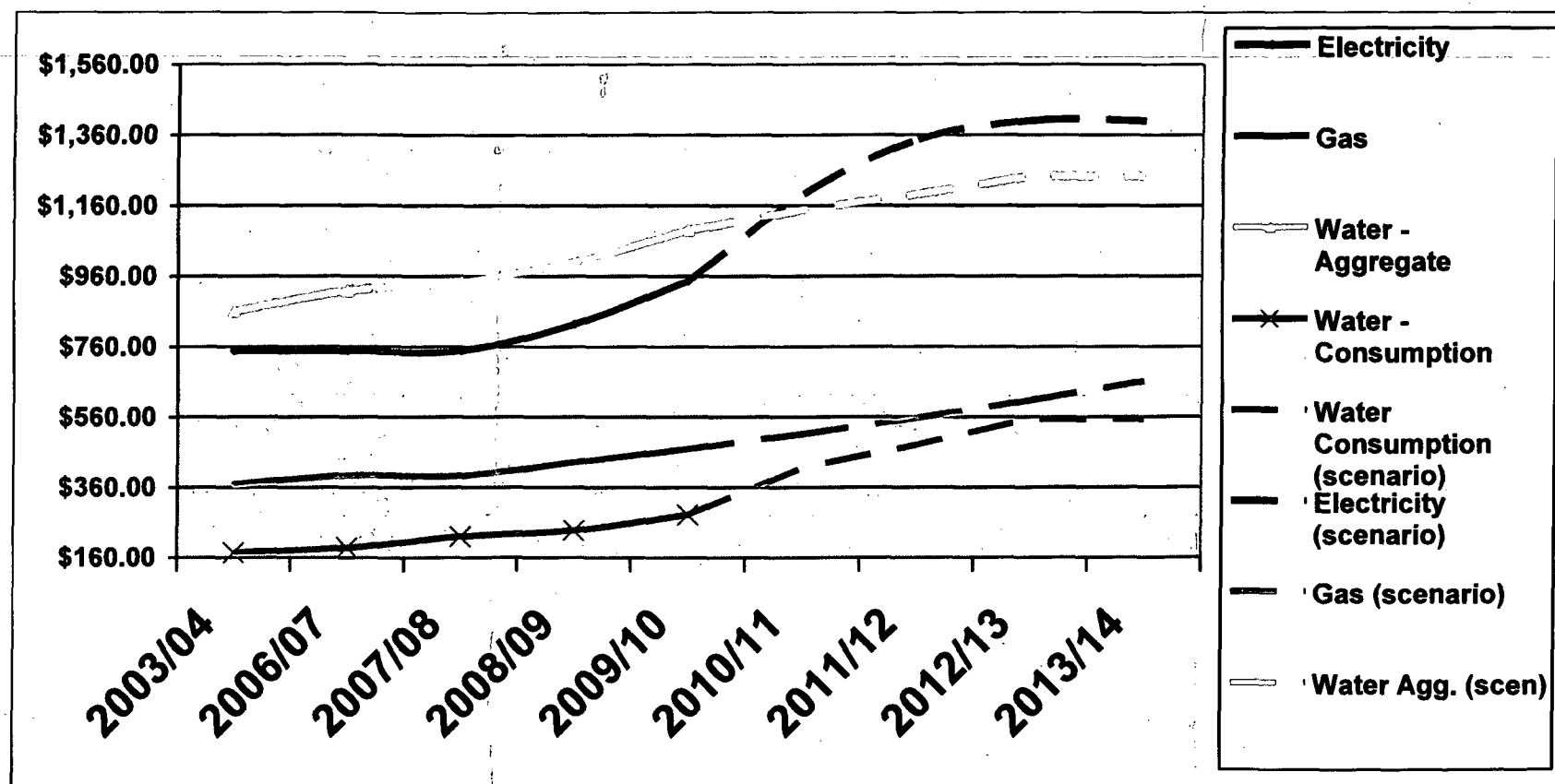
Conclusions:

Projected total increase in electricity from 2003/4 (\$748.51) to 2013/14 (\$1401.04) is \$652.53, or 87%

Projected total average Increase from 2003/04 (\$1975.84) to 2009/2010 (\$2505.93) is \$470.09, or 27%

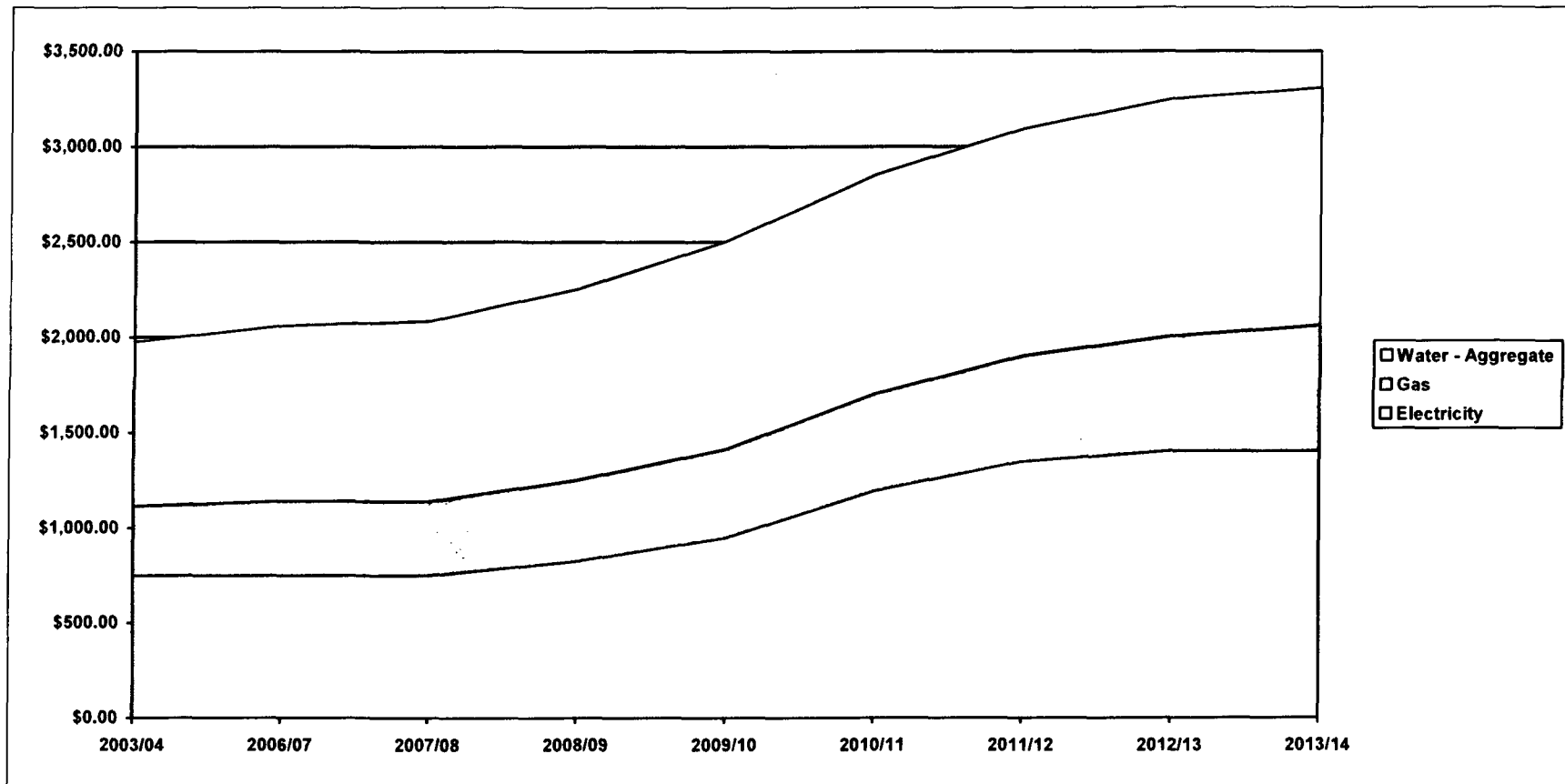
Projected total average increase from 2003/04 (\$1975.84) to 2013/14 (\$3305.47) is \$1329.63, or 67%

Figure 2.2: Graphed data and projections from Figure 1.



Note: All costs are calculated in 2008 dollars. There is a clear upward trend in increases for all values beyond 2007/08.

Figure 3. Stacked costs for aggregate water, electricity and gas.



Figures based on assumptions from Figure 1 and Figure 2.

Conclusion

The most recent rises in the cost of essential services, along with substantial rises in the cost of accommodation, food and petrol have made it increasingly difficult for low income families in Western Australia to maintain a satisfactory standard of living. With electricity potentially set to rise by up to 57.9%⁴, phased in over a number of years, and water prices also predicted to rise, these families are set to face even more financial strain.

This paper shows a possible increase in average household utility costs from \$2505.93 in 2009/10 to \$3305.47 in 2013/14 – or 32%. Given the inherent limitations in creating future pricing scenarios, it is possible that the prices referred to in Figures 2 and 3 of this paper are actually quite conservative.

Additionally, natural gas is, increasingly so, an internationally-traded commodity. This, coupled with system capacity constraints – as demonstrated by gas shortages following the recent Varanus Island gas explosion – are also likely to place significant upward pressures on residential natural gas prices, far exceeding those of inflation. Furthermore, a recent announcement from the Minister for Energy's office has confirmed that there will be a median price increase in the South-West and Mid-West of the State of 9%, effective July 1 2008.⁵

To alleviate some of this pressure, the State Government has announced increased assistance for utility consumers experiencing financial hardship. This assistance includes a commitment to increasing support for financial counselors, as well as increased funding for the Hardship Utility Grant Scheme and an Energy and Water Efficiency Scheme. WACOSS recognises that these schemes will be significant in addressing hardship felt by consumers.

Given the scale of utility hardship currently being experienced in WA, and the likely additional cost increases, WACOSS has called on the State Government to address the issue of essential service affordability in order to prevent people from falling further into poverty and debt cycles. A centralised rebates and concessions unit would allow consumers to access all their relevant entitlements through one simple application process, rather than having to apply to a number of different government departments.

A social impact assessment should be undertaken in considering how to appropriately structure and price the full range of electricity and water tariffs for different classes of consumers, and particularly for low-income consumers. In addition, price rises should be introduced far more gradually with a longer, smoother glide path, rather than large increases which cause price shocks and tend to increase disconnections. We need to better plan for energy and water affordability into the future in order to keep people connected to these essential services.

For further information, please contact Sue Ash, Chief Executive Officer on 9420 7222.

⁴ The Government of Western Australia. 2009/10 State Budget Paper no.3. 2009.

⁵ See <http://www.mediastatements.wa.gov.au/Pages/Results.aspx?ItemID=130391>