

Response to ACT Independent Competition and Regulatory Commission Review of Electricity Pricing Method and Model

The ACT Council of Social Service believes there are improvements that could be made to the method used by the ICRC to determine regulatory settings for pricing of supply of electricity to small customers in the ACT, as recommended by Frontier Economics.

We have responses to three of the questions posed by the ICRC in their paper inviting consumer feedback on the pricing method and model.

Our responses to these questions are informed by analysis of costs of living and experiences of hardship in the ACT, conducted to inform our annual Cost of Living reports, the latest report is available here:

<https://www.actcoss.org.au/publications/advocacy-publications/act-cost-living-report-2018>

We have also gained insights from our review of energy affordability and hardship data for ACT households and small businesses, summarised here:

<https://www.actcoss.org.au/publications/advocacy-publications/factsheet-energy-hardship-act>

In 2019 ACTCOSS will be conducting a more in depth analysis of available data on energy affordability and hardship in ACT households. This analysis will be published in the second half of the year.

Responses to ICRC questions

Issue 1

The Commission's model currently applies a 23-month averaging period in calculating forward prices. The 23-month averaging period smooths out price fluctuations in forward prices and results in more stable prices. Should the Commission continue to calculate forward prices averaged over a 23-month

period or adopt a different averaging period that may better reflect retailers' electricity purchase behaviour?

ACTCOSS would support calculation of the averaging period to maximise reduced costs to consumers. Consumers consistently report preferences for price stability, but this is in the context of significant price rises over the past decade. Consumers are looking for a smoothing out of price rises rather than step changes in price. As the price of electricity production and distribution is expected to reduce over the coming decade, there will at some point be an opportunity for price reductions by retailers. Low and middle income consumers, and small and medium enterprises in the private or community sectors would all value early pass through of price reductions rather than smoothing these out over a longer timeframe.

Issue 2

The Commission's model currently estimates the energy purchase costs using historical electricity load data since 2003–04. In Frontier Economics' view, basing load data on historical outcomes back to 2003–04 is less likely to account for important changes in the electricity market. Should the Commission adopt a shorter averaging period in determining an appropriate load profile for the ACT?

The Commission should adopt a shorter averaging period for determining the load profile, as current energy policy settings in the ACT are expected to reduce the increase in prices experienced over the past 15 years.

Issue 3

The Commission has been applying the current version of the energy purchase cost model since 2012. Can you comment on the Commission's current model and its continuing appropriateness given the changes in the market environment since 2012?

Comments have been provided above regarding changes in the energy market environment for producers, distributors and retailers.

ACTCOSS would also highlight changes in household spending power because this impacts significantly on the capacity of households to cope with increases in the cost of electricity.

Consumer confidence is reported as low¹. From the ACTCOSS perspective this reflects our findings from analysis of cost of living data that shows a growing gap between the costs of essential items in households budgets and the income households can secure to meet these costs.

¹ Moodys Analytics, Economic Indicators OECD Consumer Confidence Index January 2019
<https://www.economy.com/australia/consumer-confidence> Sourced 26 February 2018

There are additional barriers to meeting the costs of living in the ACT because relatively high average incomes set a relatively high cost of living environment – the market operates to respond to higher income households rather than modest and low income household demands.

Our 2018 Cost of Living report noted:

Disadvantage in the ACT tends to be hidden behind high averages across indicators such as income, education, and employment. Closer analysis reveals that a sizeable number of people in the ACT do experience poverty and disadvantage, with many experiencing multiple disadvantage.² The most recent estimate found that there were 34,543 people living in poverty in the ACT in 2015-16 (representing 9.2% of the total ACT population).³ Of these, 8,897 were children (representing 12.7% of the 0-14 age group).⁴

Other findings from the 2018 Cost of Living report relevant to consumer confidence and spending power are:

Rising cost of living continues to hit Canberra's low income households hardest

For the fourth consecutive year, ACTCOSS cost of living analysis shows that living costs in the ACT have increased disproportionately for those households that can least afford it – particularly those receiving a government transfer payment such as Newstart or Youth Allowance.

Canberra's CPI continues to increase above the national rate

Over the past year the **CPI in Canberra rose 2.2 percent** – the second highest rate of rise in the country, along with Sydney and Melbourne, behind only Adelaide (2.3%). This was above the national rise of 1.9 percent.

Utilities prices in Canberra rose the most and well above the national rate

There were significant rises in utilities prices over the year. The most significant rise in utilities costs was **gas and other household fuels which rose by 17.8**

2 R Tanton, R Miranti & Y Vidyattama, *Hidden disadvantage in the ACT: report for ACT Anti-Poverty Week*, NATSEM, Institute for Governance and Policy Analysis (IGPA), University of Canberra, Canberra, October 2017, accessed 13 April 2018, <<http://www.actcoss.org.au/publications/advocacy-publications/hidden-disadvantage-act-report-anti-poverty-week-2017>>.

3 Calculated by The National Centre for Social and Economic Modelling (NATSEM), The Institute for Governance and Policy Analysis, University of Canberra, using ABS Household Expenditure Survey 2015-16 data. Note: After housing cost poverty rates calculated as the proportion of people living in households in the ACT with an equivalised disposable household income after housing costs of less than half the national median equivalised disposable household income after housing costs.

4 *ibid*.

percent in the past year (with the whole of the rise occurring in the September quarter), which was markedly above the national rise (+7.8%). This was the largest single increase in one quarter since CPI records started being kept for this item in December 1989. **Water and sewerage prices increased by 8.3 percent** – this was well above the national rise of 3.2 percent. **Electricity prices increased by 10.6 percent**, which was below the rise seen across the country (+12.4%).

Other essential service prices in the ACT rose above the national rate

The **CPI for transport rose by 4.2 percent**, above the national rise of 3.3 percent. **Automotive fuel prices increased by 10.5 percent** over the past year, just below the rate of increase at the national level (+11.1%). **Public transport prices rose by 1.5 percent**, above the national level (+0.6%). **Health prices rose by 5.4 percent**, above the national rise (+4.0%), with the price rise largely driven by **the rise in medical and hospital services (+7.3%** vs national rise of 5.4%). In addition, **education costs rose (+3.1%)** which was similar to the national rise (+3.2%), while **housing (which includes utilities) rose by 5.3 percent**, above the national rise (+3.4%). **Rents rose by 2.3 percent**, which was above the national rise (+0.7%).

Income support is inadequate to meet essential living costs in Canberra

These significant increases in essential living costs impact disproportionately on low income households who spend a higher proportion of their income on these expenses than other households. **All households whose income is derived from income support payments or from minimum wage work struggle to cope with the cost of living in Canberra.** Figure 3 in this report clearly illustrates why working-age income support payment recipients are more financially at risk than people receiving other payment types.

Households whose income is derived from a minimum wage do not have access to most of the concessions offered by ACT Government and other sources, so their relatively higher income can fail to translate into a better capacity to cope with the cost of living in Canberra.