



Ethnic Communities' Council of NSW Inc.

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Mr Richard Khoe
Australian Energy Market Commission
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Dear Mr Khoe

Response to Directions Paper: ERC0143

This letter is Ethnic Communities Council of NSW (ECC)'s submission to the AEMC on its Directions Paper. The ECC is a network of members representing culturally and linguistically diverse (CALD) communities in NSW and is a member of the Federation of Ethnic Communities Council of Australia (FECCA).

The problem

The majority of CALD community members in Australia live in Sydney. An initial recent survey of newly arrived migrants and refugees in Sydney has indicated that they are 'more likely to need to use payment options for those in financial difficulties' when paying their energy bills. However the majority of all respondents did not know about the availability of financial help for a consumer who has difficulty paying their energy bills.

The December 2010 *NSW Electricity Network and Prices Inquiry* Report noted that since 2008 electricity prices in NSW have been growing at a faster rate than average weekly earnings. This suggests that a greater proportion of household expenditure is now being spent on electricity bills. During the same time the electricity businesses, whether government owned or privately, gained large profits.

Electricity prices are made up of approximately 10 % retailer, 45% generation and transmission and 45% for distribution. The distribution price is determined by the Australian Electricity Regulator (AER) and it is the regulator's determination that impacts on the consumers.

The current regulatory framework is failing consumers and consumer advocates are unable to become involved in the determinations. The proposals submitted to the AER by the huge network and distributor business

are both detailed and complex requiring expensive expertise to assess the information provided. There needs to be an onus on the distribution businesses to assist consumers in understanding their proposals early in the process to demonstrate that business proposals are in the interests of consumers.

The national electricity objective as stated in the national electricity law is ***to promote efficient investment in and efficient operation and use of electricity services for the long term interest of consumers of electricity with respect to:***

- * ***Price, quality, safety, reliability and security of supply of electricity***
- * ***Reliability, safety and security of the national electricity system***

Response

In response to this objective and to the **Directions Paper: ERC0143, the ECC is** concerned about the direction that the AEMC seems to be heading. From our perspective, the changes that the AEMC has the authority to introduce through these reviews could significantly reduce electricity prices and also ensure that shareholders rather than consumers bear the consequences of weaknesses in regulation and industry governance. We think it is critically important that the AEMC rises to this challenge, however unpopular this may be with the monopoly network service providers. For this reason we attach great importance to these rule change reviews and the important contribution that the AEMC can make to ensuring productive and efficient network service providers and fair prices to for consumers.

The AEMC seems to be somewhat unconcerned by the outcomes that the industry has delivered. To be clear, the people that we represent have felt very directly the pain of rising electricity prices. Even without further price increases in the pipeline, the rise in real electricity prices since 2006 (and in real utility prices more generally) is without historical precedent, being about double the increase that occurred in the last episode of rising prices, that in the early 1980s followed the rapid growth in electricity capacity to fund the expansion of the aluminium industry. The AEMC's own analysis shows that rises in network costs account for most of these price rises. If ever there is a time for a thorough review of regulatory arrangements, this must surely be it.

We call on the AEMC to adopt a holistic, evidence-based approach to this review. The AEMC should establish evidence itself and must also be able to review and critique the analysis and information provided to it by stakeholders with sectional interests to protect. We also think there would be great benefit in extending the involvement of Professors Littlechild and Yarrow to advise the AEMC on all aspects of the regulatory arrangements, including the allowed rates of return.

Specific comments on the Discussion Paper are as follows:

1. The main problem with the “capex and opex framework” is that the onus of proof that regulatory expenditure allowances are efficient, rests with the AER instead of the NSPs. This is an easy issue to resolve and is one of the most important changes that we think the AEMC should make.
2. We think the power of efficiency incentives need to be significantly strengthened to ensure that shareholders, rather than consumers are exposed to the consequences of lax expenditure controls. While the AER’s 60/40 split bears further detailed examination we suggest that the AER’s proposals are directionally sound and should be considered further.
3. There may be a case for greater intra-period adjustment of expenditure allowances, but such changes need to be considered carefully. They can potentially diminish incentives to control costs, and can result in more laborious regulatory processes which further diminish the ability of consumers to contribute to the debate.
4. We agree with the AEMC that arrangements for the determination of the rate of return should be subject to review, like other AER regulatory decisions. However we also believe that elements of the rate of return calculation that can reasonably be specified in the Rules, should be specified in the Rules. This will promote investment and price certainty, will simplify the regulatory process and will guard against further dispersal of end user advocacy.
5. We do not agree with the reasons that the AEMC has provided for rejecting the Energy Users’ Rule Change Committee’s suggestion that the return on debt for government-owned network service providers should be related to the cost of debt to the jurisdictional governments. We request that the AEMC reconsiders this.
6. We think that the regulatory process concerns that the AER has raised are valid, but that these concerns will evaporate once the onus of proof of efficient expenditure is correctly reestablished on network service providers.

Thank you for the opportunity to participate in the AMEC’s consultation. If you have any queries please do not hesitate to contact Helen Scott at (02) 9319 0288 or 0425 833 892.

Yours sincerely



Mark Franklin
Executive Officer
Ethnic Communities Council of NSW