

20 June 2017

Ms Anne Pearson
Chief Executive
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Anne

AEMC Reference ERC0210 – Participant derogation – NSW DNSPs revenue smoothing, Draft Rule Determination

Thank you for the opportunity to comment on the Australian Energy Market Commission’s *Draft Rule Determination National Electricity Amendment (Participant derogation – NSW DNSPs revenue smoothing) Rule 2017*.

The Energy & Water Ombudsman NSW (EWON) investigates and resolves complaints from customers of electricity and gas providers in NSW, and some water providers.

The rule change request from the NSW DNSP’s seeks to reduce price volatility that may occur as a result of the outcome of the judicial review proceedings in relation to their 2014-19 regulatory determinations. The AEMC’s preferred rule change seeks to minimise price volatility for customers while allowing the distributors to recover revenue that they are entitled to for the current regulatory period. The result of the preferred rule would be that the DNSPs will be able to recover some of the outstanding revenue due in this regulatory period over the remaining time of this period, with the balance recovered in the subsequent regulatory period.

Pricing and affordability

In trying to address the impact of a price spike on customers EWON looked at complaint statistics from the period of the last significant distribution price surge. When the last price spike hit customers, both complaints coming to EWON about affordability issues and also complaints about high bills rose sharply. These complaints declined during the last determination period as distributors charges stabilised or even slightly declined.

Table 1 Affordability Related Complaints

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017*
Number of complaints	4,103	4,433 (+8%)	5,963 (+35%)	7,610 (+28%)	9,720 (+28%)	8,512 (-12%)	6,644 (-21%)	3,336 (4,003)

*Actual figure from July 2016 to April 2017, extrapolated figure in brackets to end June 2017

Table 2 High Bill Related Complaints

	2009 - 2010	2010- 2011	2011- 2012	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017*
Number of complaints	3,581	3,900 (+9%)	5,182 (+33%)	7,115 (+37%)	7,498 (+5%)	7,428 (-1%)	6,262 (-16%)	4,955 (5,946)

* Actual figure from July 2016 to April 2017, extrapolated figure in brackets to end June 2017

The issues that customers encountered due to affordability included build-up of arrears, disconnection, credit listing and difficulty in arranging payment options. Some issues (such as disconnection) reflected the immediate impact while others (such as credit listing) have a longer timeframe, with impacts remaining high until 2016.

Table 3 Affordability Related Issues

Issues	2009- 2010	2010- 2011	2011- 2012	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017*
Arrears/utility debt	2,084	2,003 (-4%)	2,381 (+19%)	2,777 (+17%)	3,267 (+18%)	3,437 (+5%)	2,393 (-30%)	1,332 (1,598)
Facing disconnection due to non-payment	1,389	1,502 (+8%)	1,931 (+29%)	2,056 (+6%)	2,023 (-2%)	1,719 (-15%)	983 (-43%)	399 (479)
Disconnected due to non-payment	689	813 (+18%)	1,090 (+34%)	1,293 (+19%)	1,702 (+32%)	1,489 (-13%)	949 (-36%)	503 (604)
Contacted by debt collectors	561	650 (+16%)	977 (+50%)	1,467 (+50%)	1,942 (+32%)	1,575 (-19%)	1,239 (-21%)	718 (862)
Credit rating affected	280	439 (+57%)	710 (+62%)	1,116 (+57%)	1,705 (+53%)	1,638 (-4%)	1,676 (+2%)	906 (1,087)
Payment arrangement declined	463	386 (-17%)	409 (+27%)	703 (+43%)	1,151 (+64%)	1,368 (19%)	868 (-36%)	505 (606)

* Actual figure from July 2016 to April 2017, extrapolated figure in brackets to end June 2017

With projections of price rises driven by the wholesale cost of energy over the next few years, it is likely that there will be a similar impact on customers, especially where price increases are significantly above the CPI. Any further price volatility due to distributor charges will exacerbate the affordability issues that consumers will face.

Disconnections

The last price spike saw residential disconnections for credit reasons in NSW rise from 15,835 in 2009-10 to 32,940 in 2013-14. Since then disconnection numbers have dropped slightly to 30,065 in 2015-16. If there is another price spike then it is possible that disconnections could rise again because of energy affordability. Measures to reduce price volatility will assist in reducing disconnections and are therefore welcome.

Consumer Impact

EWON notes the submission from the Ethnic Communities Council¹ which calls for further research to be undertaken into consumer impacts of price rises. It may be that some consumers would be better off with an increase of costs happening in a short, sharp once-off hit. However at this point in

¹Page 2 [ECC Submission on The National Electricity Amendment \(Participant derogation - NSW DNSPs Revenue Smoothing\) Rule 2016 December 2016](#)

time, without additional information, EWON complaint data indicates that sharp price rises have an adverse impact on those consumers who are already struggling to cope with energy costs.

Given these considerations, EWON supports the draft rule determination.

Draft Rule

The AEMC has developed a draft rule that varies the original proposal. This draft rule provides a much greater role for the AER in deciding how revenue adjustments are to be made. Given the uncertainty about the price impact of the judicial review, the provision in the draft rule for the AER to make decisions on revenue recovery, in consultation with the DNSPs and other stakeholders, ensures that real impacts will be adequately taken into consideration. This provides assurance that any final decision on revenue recovery will occur in the long term interests of consumers, rather than the priorities of the DNSPs.

If you would like to discuss this matter further, please contact me or Rory Campbell, Manager Policy & Research on (02) 8218 5266.

Yours sincerely



Janine Young
Ombudsman
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