

Submission
No 33

**INQUIRY INTO THE SUPPLY AND COST OF GAS AND
LIQUID FUELS IN NEW SOUTH WALES**

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When and how to make the switch?

PIAC submission to the Inquiry into the supply and cost of gas and liquid fuels in New South Wales

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Introduction

The Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues.

PIAC identifies public interest issues and, where possible and appropriate, works co-operatively with other organisations to advocate for individuals and groups affected. PIAC seeks to:

- expose and redress unjust or unsafe practices, deficient laws or policies;
- promote accountable, transparent and responsive government;
- encourage, influence and inform public debate on issues affecting legal and democratic rights;
- promote the development of law that reflects the public interest;
- develop and assist community organisations with a public interest focus to pursue the interests of the communities they represent;
- develop models to respond to unmet legal need; and
- maintain an effective and sustainable organisation.

Established in July 1982 as an initiative of the (then) Law Foundation of New South Wales, with support from the NSW Legal Aid Commission, PIAC was the first, and remains the only broadly based public interest legal centre in Australia. Financial support for PIAC comes primarily from the NSW Public Purpose Fund and the Commonwealth and State Community Legal Services Program. PIAC also receives funding from the Trade and Investment, Regional Infrastructure and Services NSW for its work on energy and water, and from Allens for its Indigenous Justice Program. PIAC also generates income from project and case grants, seminars, consultancy fees, donations and recovery of costs in legal actions.

Energy + Water Consumers' Advocacy Program

This program was established at PIAC as the Utilities Consumers' Advocacy Program in 1998 with NSW Government funding. The aim of the program is to develop policy and advocate in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to the program from a community-based reference group whose members include:

- Council of Social Service of NSW (NCOSS);
- Combined Pensioners and Superannuants Association of NSW;
- St Vincent de Paul (NSW);
- Ethnic Communities Council NSW;
- Retirement Villages Residents Association;
- Physical Disability Council NSW; and
- Affiliated Residential Park Residents Association.

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1. Summary

PIAC welcomes the opportunity to contribute to the NSW Legislative Council's Inquiry into the supply and cost of gas and liquid fuels in New South Wales Inquiry into the supply and cost of gas and liquid fuels in New South Wales. The current and future cost of gas is a significant issue for many NSW households, especially given the high cost of electricity. PIAC has chosen to focus its submission primarily on one item in the terms of reference for the inquiry:

(b) the impact of tight supply and increasing cost of natural gas and liquid fuels on New South Wales consumers, including manufacturing, agriculture, energy production, small business, public services and household consumers;

This submission also considers item (g), any other related matter, focusing on non-regulatory responses to assist NSW households with the cost of gas.

PIAC is deeply concerned about the rising cost of gas, especially for low-income and vulnerable consumers. However, there is insufficient data available on the extent to which gas is used in public and community housing or low-income rental housing and so PIAC recommends this be examined, along with the cost impacts for residents. Research is also needed into the barriers and opportunities related to disconnecting from gas for residential consumers, especially public and community housing tenants and low-income renters.

PIAC suggests several non-regulatory responses to the rising cost of gas, including supporting the development of a National Productivity Plan, developing and funding further energy efficiency and renewable energy policies and programs to support low-income consumers. In addition, PIAC recommends the NSW Government not subsidise new or existing residential gas connections and instead develop programs that directly address energy affordability in regional areas.

2. The past, present and future increasing cost of gas for NSW household consumers

Currently, over one million NSW households have some form of gas supply for cooking and/or heating¹ and have suffered significant cost increases in the last four years. The typical increase to the annual gas bill of households with an average gas consumption level over the period July 2009-12 was \$205 or 33 per cent.² This is compounded by the fact that after a long period of relatively stable electricity prices, the last regulatory period (2009/10 – 2013/14) saw an extraordinary and unprecedented escalation in NSW electricity prices. It is estimated that network prices alone have led to an increase in average household prices of some \$500 - \$600 per year each year since 2007/08.³ This has amounted to a doubling over five years.

Analysis for the St Vincent de Paul Society shows that for the last financial year (2013/14), the annual energy cost for dual-fuel households with typical consumption levels increased by

¹ NSW Government, NSW Gas Plan (NSW Government, 2014).

² Gavin Dufty, *Creating fairer energy and water markets for all* (PIAC Conference presentation, 9 October 2013, St Vincent de Paul Society).

³ Independent Pricing and Regulatory Tribunal, *Review of regulated retail prices for electricity from 1 July 2013 to 30 June 2016* (Final Report, IPART, 2013), 18.

between \$125 and \$230 (16-22%).⁴ While dual-fuel households with an average consumption of electricity and gas in wealthier parts of the state (Inner and Eastern Sydney, Sydney's North, Swansea and Newcastle) typically experienced an increase in energy costs of around \$165 since July 2013, the increase in gas costs has hit households in many regions harder; for example, dual-fuel households in Goulburn, Boorowa, Yass and Young typically experienced an increase in energy costs of \$200 while the highest increases of \$230 were in Tamworth.

While past gas price increases have been significant, there is no short-term relief. This year, in its price determination for the cap on regulated retail gas prices in NSW, the Independent Pricing and Regulatory Tribunal (IPART) agreed to proposals by retailers to increase prices for 2014/15 by 17-21% (varying by region).⁵

IPART stated that the development of export facilities on the east coast was the 'main driver' of the price increases.⁶ For example, IPART agreed to an increase in AGL's regulated price cap of 17.3% in 2014/15, 11.5% of which was due to increases in wholesale prices.⁷ While the repeal of the carbon price has removed one small component of final gas prices paid by residential consumers, this is relatively insignificant in the face of rising wholesale prices.⁸

According to the Customer Overview of Jemena's regulatory proposal to the AER, gas wholesale costs currently make up 20% of a typical residential bill of around \$1000 dollars per year.⁹ Over the medium term, Jemena expects wholesale costs to double from \$200 to \$400 per year by 2020.¹⁰ Therefore, overall gas prices are expected to continue to rise for NSW households. PIAC welcomes Jemena's efforts to reduce the network charges to counteract the impact of these rising wholesale prices. Jemena's current proposal is to reduce network prices for residential consumers by 20% in real terms over the course of the price determination period from 2014-2019.¹¹

It is also worth noting that there are only four gas retailers in New South Wales and according to St Vincent de Paul Society's analysis, 'Compared to electricity offers, the difference between the best and the worst stand alone gas market offers is very small',¹² suggesting there may be insufficient competition in the retail gas market.

3. Impact of increasing cost of gas on NSW household consumers

Clearly past, present and future rising gas prices are of concern for NSW household consumers, particularly for renters, low-income and other vulnerable consumers. Gas, while an optional fuel,

⁴ May Mauseth Johnston, *New South Wales Energy Prices July 2013 – July 2014: An Update Report on the NSW Tariff Tracking Project* (Report, St Vincent de Paul Society and Alviss Consulting Pty Ltd, 2014).

⁵ IPART, *Fact sheet: Regulated retail gas prices from 1 July 2014 to 30 June 2016* (IPART, 2014) 2.

⁶ *Ibid*, 3.

⁷ *Ibid*.

⁸ IPART, *Fact sheet: Removing carbon costs from regulated gas prices*, (IPART, 2014) 1.

⁹ Jemena, *Jemena's 5-year plan: Customer overview* (Jemena, 2014) 4.

¹⁰ *Ibid*, 7.

¹¹ Jemena, *Jemena's 5-year plan: Customer overview* (Jemena, 2014) 8.

¹² Johnston, above n 4, 29.

is for most households providing an essential service to residential customers, be it via heating, hot water or cooking.

The NSW Energy and Water Ombudsman's (EWON) 2013/14 Annual Report noted, 'The full impact of the considerable rises in 2011 and 2012 is still unfolding for those consumers who face mounting arrears and, in some cases, debt collection or credit listing.'¹³ Fifty percent of gas concerns raised with EWON in 2013/14 related to billing. In addition, EWON recorded a 37% increase in retail gas complaints and an 11% increase in dual-fuel complaints over the last year.

The Alternative Technology Association (ATA) recently undertook a research project to understand in detail the impact of projected retail gas price rises on energy consumers – particularly, low income and vulnerable consumers – across the National Energy Market (NEM), and to identify cost-effective alternatives for household energy management, where they may exist. ATA's Report, 'Are we still Cooking with Gas? An Analysis of Cost Effective Energy Options',¹⁴ found that in some circumstances (especially in homes with LPG and in mild climates where there is an air conditioning system that can also be used for heating), it is already cost effective for households to disconnect from gas and replace gas appliances with electric ones.

3.1 The need for more detailed analysis

PIAC is concerned that despite the ATA's excellent research, there is insufficient publicly available information regarding the number and nature of gas connections in NSW households, particularly in terms of public and community housing and rented dwellings. Therefore, PIAC believes that detailed analysis needs to be undertaken of the impacts of rising gas prices on low-income and vulnerable households in NSW.

Recommendation 1

PIAC recommends that the NSW Government undertake detailed, segmented analysis of the financial impacts of rising gas prices on low-income and vulnerable households in NSW. This analysis should include detailed analysis of the extent to which gas is used in:

- *NSW public housing and the cost impacts for residents (over 5 and 10 year timeframes)*
- *community housing and the cost impacts for residents*
- *low-income rental housing and the cost impacts for residents.*

The ATA research considered that many households are unlikely to switch from gas to electric appliances because they still prefer gas, or they are not able to justify the immediate cost of switching or they are confused by the competing choices. Clearly, where it is financially beneficially, low-income households should be supported to switch from gas to electricity as a means of lowering the costs of essential services. However, there are multiple barriers to households upgrading to more efficient appliances, switching from gas to grid-electricity or PV.

¹³ NSW Energy and Water Ombudsman (EWON) 2013/14 Annual Report (EWON, 2014), 6.

¹⁴ Alternative Technology Association, *Are we still Cooking with Gas? An Analysis of Cost Effective Energy Options* (Report, ATA, 2014).

Recommendation 2

PIAC recommends that the NSW Government undertake detailed research into the barriers and opportunities related to disconnecting from gas for residential consumers, especially public and community housing tenants and low-income renters.

4. The need for a revised concessions regime

As a result of the dramatic increase in electricity and gas costs over the last five years, PIAC believes that a review of the energy concessions regime in NSW is urgently needed. PIAC has argued consistently for the need for percentage-based rebates to ensure low-income and vulnerable consumers are receiving adequate financial assistance.

PIAC notes the findings from ACOSS's Discussion paper, *Preventing shocks and addressing energy poverty*,¹⁵ released earlier this year, which highlights:

- A proportional rebate that reflects actual energy bills would better assist families on low incomes, and give large families with higher base energy needs a higher rebate.
- This proportional rebate could be funded by combining funding for the Family Energy Rebate and Low-Income Household Rebate.
- Low-income regional households are paying more, but getting the same rebate, even when they use the same amount of electricity.

PIAC recommends concession rates be changed to be proportional rebates as soon as possible. However, at present all rebates are attached to the electricity bill and, therefore, the rebates need to be extended to gas bills as well. Without this extension, a proportional rebate may disadvantage dual-fuel households, especially given the rising cost of gas.

Recommendation 3

PIAC recommends the NSW Government change energy concessions to a proportional rebate at least equivalent to that offered in Victoria to address the cost of living impact of current and projected gas price increases on low-income and vulnerable consumers. Energy concessions need to be extended to include gas so as to not disadvantage dual-fuel households.

5. The need for energy efficiency and renewable energy policies and programs, especially to support low-income consumers

PIAC is strongly supportive of energy efficiency as a cost-effective means of reducing residential bills, improving comfort and creating employment. PIAC supports the proposal for a National Productivity Plan outlined in the recent Energy Green Paper:

A comprehensive national approach to energy productivity could be achieved through a National Productivity Plan that includes:

¹⁵ Australian Council of Social Service, [Preventing shocks and addressing energy poverty](#), (Report, 2014, ACOSS)

- increasing appliance minimum energy performance standards on a continuous improvement basis, including a focus on standby power and peak demand
- considering more consistent national regimes for energy efficiency standards, including buildings
- ensuring best practice information on energy management and use is widely available
- encouraging market driven productivity through labelling and accessible information
- rewarding innovation by recognising market leaders in energy efficient products
- directly driving productivity by aligning with international energy efficiency standards, raising domestic standards and introducing new standards for appliances covered under the GEMS Act 2012
- strengthening international cooperation on energy productivity to share best practice and foster technology exchange
- improved vehicle energy efficiency.¹⁶

PIAC recommends the NSW Government support the development of a National Productivity Plan via its membership of the COAG Energy Council and that the NSW Government provide resources and expertise as required.

PIAC supports the NSW Gas Plan's commitment to 'support households and businesses to use gas more efficiently to help reduce their bills and release pressure on overall gas supplies'.¹⁷ Specifically, PIAC recommends that the NSW Government develop policies and programs to support improved energy efficiency by NSW households, especially dedicated support for low-income households following the end of both the NSW Home Power Savings Program and the Commonwealth Home Energy Saver Scheme (HESS). Anecdotal evidence suggests that community welfare organisations are well placed to deliver home energy audits and similar programs, often in conjunction with other welfare services. Financial counselors can play a vital role in assisting households to budget for their energy bills and the No Interest Loans Scheme (NILS) could be given additional support to fulfill its vital role in providing interest-free loans for more energy efficient appliances such as fridges and washing machines. In addition, the fundamental issues around the quality and thermal performance of low-income housing (such as the quality of insulation and glazing in public and community housing) and inbuilt appliances (especially hot water services) need to be addressed.

Recommendation 4

PIAC recommends the NSW Government develop policies and fund programs to support improved energy efficiency by NSW households, especially dedicated support for low-income households.

There are also major barriers to low-income consumers accessing renewable energy technologies including information, education and capacity barriers; split-incentives (especially between landlords and tenants) and a lack of access to capital. Therefore, alongside policies and programs to support the uptake of energy efficiency by low-income and vulnerable households, policies and programs are needed to support access to renewable energy technologies. One example of a successful program that could be trialed in NSW is Darebin Council's Solar Saver

¹⁶ Commonwealth of Australia, 'Energy Green Paper' (Commonwealth of Australia, 2014).

¹⁷ NSW Government, above n 1, 14.

program which, to date, has provided loans to almost 300 pensioners to install solar PV systems that are being repaid through a special rate charge over 10 years.¹⁸

Recommendation 5

PIAC recommends the NSW Government develop policies and programs to support improved uptake of renewable energy technologies by low-income households.

6. Residential gas network expansion

The ATA's research identified that there are no climate zones in NSW where it is cost effective for new homes to be connected to mains gas when efficient electric appliances are an option. Given this, PIAC is concerned both that Jemena is budgeting to expand its customer base by 150,000 customers over the next five years and that the State and Regional Development Committee report, 'Downstream gas supply and availability in NSW',¹⁹ recommended that NSW adopt a policy termed 'Gas for the Bush'. Effectively, if adopted, this recommendation would see the NSW Government subsidise private companies to connect regional communities to mains gas. Given that this is likely to lock in higher overall energy costs for those regional households, PIAC is very concerned about this recommendation.

Consistent with the ATA report, PIAC recommends that the NSW Government not subsidise new residential gas connections and instead develops programs that directly address energy affordability in regional areas.

Recommendation 6

PIAC recommends the NSW Government not subsidise new or existing residential gas connections and instead develop programs that directly address energy affordability in regional areas.

¹⁸ Neelima Choahan, *Darebin pensioners enjoy solar energy savings with new program* (Preston Leader, 9 December 2014) <<http://www.heraldsun.com.au/leader/north/darebin-pensioners-enjoy-solar-energy-savings-with-new-program/story-fnglenug-1227148745951>>

¹⁹ State and Regional Development Committee, *Downstream gas supply and availability in NSW*, (NSW Parliament, 2014)