Combined Pensioners & Superannuants Association OF NEW SOUTH WALES INC

CPSA

Submission to the Senate Inquiry into Electricity Prices

14 September 2012

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Combined Pensioners & Superannuants Association of NSW Inc (CPSA)

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CPSA was founded in 1931 in response to pension cuts. CPSA is a non-profit, non-party-political membership association which serves pensioners of all ages, superannuants and low-income retirees. The aim of CPSA is to improve the standard of living and well-being of its members and constituents. CPSA has approximately 140 Branches and affiliated organisations with a combined membership of over 29,000 people living in all parts of NSW.

CPSA welcomes the opportunity to make comment to the Senate Inquiry into Electricity Prices.

The steep rise in electricity prices in recent years has had a dramatic, adverse impact on low income households and their ability to cover their electricity costs. Price increases disproportionately affect low-income households, which are least able to absorb the increased cost.

CPSA calls for the Senate Select Committee to not merely focus on the causes of electricity price increases but also the effect that they have on households. CPSA also recommends that the Committee look at capacity to pay as being a key indicator of electricity price unsustainability.

There are currently over 5 million Australians in receipt of an income support payment from Centrelink.[1] These people struggle on low fixed incomes to pay for basic goods and services. In particular, those who rely solely on either a pension or allowance (the majority) are unable to afford essentials, including utilities.

The full rate pension for a single Age Pensioner is currently $377.75 per week (including the Pension Supplement of $3.10 a week to assist people with living expenses such as telephone use and utilities). For a single job seeker on Newstart Allowance, the payment rate is significantly lower, at $245 per week. While those on low incomes may be entitled to energy rebates the value of these has eroded significantly over time. In NSW the Low Income Energy Rebate was raised by $15 on 1 July 2012 bringing it to a flat-rate payment of $215. At the same time, IPART predicts that annual prices for households will rise by between $208 and $427 on an average consumer bill.

According to the Association of Superannuation Funds Australia (ASFA), a single retiree needs to spend approximately $22,000 per annum to sustain a modest standard of living.[2] This budget standard allows for an electricity bill of $35.08 per week or $1824.16 per year. Yet with average bills now coming in at $2876 per annum it is clear that in particular, pensioners on lower fixed incomes are simply unable to pay for their electricity usage. CPSA considers lifting the rebate as crucial to protecting pensioners and other on low incomes from being disconnected from their energy supply.

Despite large spikes in electricity prices, the indexing of the rebate has not changed, with indexing being calculated using CPI alone. The last year has seen a CPI change of 1.2 per cent while NSW electricity prices are rising by an average of 18 per cent. CPSA calls for energy rebates to be indexed to electricity prices rather than CPI alone so that they are able to make a significant impact in reducing the unaffordability of energy.

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[1] The exact figure as of 2011 is 5,011,737 according to FaHCSIA's Statistical Paper No. 10, *Income Support Customers: A Statistical Overview 2011*.

[2] ASFA (June 2012) *ASFA Retirement Standard,* Available at: http://www.superannuation.asn.au/resources/retirement-standard

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CPSA calls on the Committee to recommend independent bodies be given the role of setting electricity concessions. In NSW, for example, the Independent Pricing and Regulatory Tribunal (IPART) would be an appropriate organisation for that purpose.

Pensioners and those on low-incomes already under-use electricity in their homes to reduce utility costs. CPSA regularly receives distressed calls from older people who are refraining from using heaters, taking fewer showers and minimising television and light use from fear of the costs involved. This shows not only that assistance measures to help low-income households cope with bills are inadequate, but also that modest electricity use causes unaffordable electricity bills for these households.

A barrier to people getting the best value for money in terms of their electricity provider is a lack of transparency by retailers. There is a need for clearer requirements restricting door-to-door electricity sales as well as clearer terms and conditions so that consumers do not encounter hidden fees and charges after signing a contract with a retailer or if they decide to exit from one. It should be mandated that these need to be clearly published in easy to understand language and not hidden in fine print.

Importantly, these increases, as a percentage of household income, are not evenly spread with people in rural, regional and outer metropolitan areas often spending a greater proportion of their income on electricity. In NSW the percentage of Country Energy customers who are paying over 10 per cent of their disposable income is set to rise from 8 per cent in 2011-12 to 11 per cent in 2012-13.[3] This reflects the increasing number of consumers who are suffering from energy poverty, defined as spending 10 per cent or more of their income on energy consumption.

Attempts to reduce off-peak electricity use through mechanisms such as smart meters can negatively affect pensioners and older people, who are more likely to be home during the day and therefore less able to restrict their electricity to off-peak times. As a result, CPSA urges the Committee to look at other arrangements to reduce peak demand.

Vulnerable consumers, on low fixed incomes cannot easily absorb additional fixed network charges. Similarly, there is a need to look at the relationship between a number of factors when taking into account a household's vulnerability to being unable to absorb price rises into their budgets. These include issues around housing costs and whether people are still paying off a home or renting on a low income, those living in more remote areas and the impact that higher energy transport costs have on bills and issues that prevent households from reducing their energy use such as living in areas with extreme temperatures, or requiring high energy consuming medical equipment to be running within the home. A better understanding of how these interplay would be beneficial in assessing ways that energy poverty can be tackled and reduced.

Customers have had to absorb steep and recurrent increases in recent years and it seems unlikely that this trend will change for the better in the near future. These rises have had the effect of increasing disconnection rates due to non-payment. In NSW alone, 18,500 people were

[3] IPART (2011) *Changes in regulated electricity retail prices from 1 July 2011; Electricity-Final report and determination,* p. 10.

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disconnected in the last year alone.[4] Disconnection from this essential service creates further hardship for consumers who are already experiencing financial difficulty. Pensioners accounted for 18.5 per cent of residential disconnections in 2010/11, compared with 14.2 per cent in 2009/10.[5]

While hardship charters are a requirement, in NSW at least, requiring energy retailers to provide consumers with the option of paying off outstanding bills in instalments, CPSA regularly hears from people who are unaware that this is an option despite contacting their retailer about their inability to pay. Retailers have a regulatory obligation to ensure payment plans take into account a person's consumption needs and ability to pay. Yet CPSA has heard accounts from consumers being told that they are only able to get onto a payment plan if they pay a substantial portion of the bill upfront, well outside the means of what they can afford, if they are offered the option at all.

CPSA calls for a national scheme to assist low income people to be able to afford more efficient and green alternatives to operate in a way similar to the No Interest Loans Scheme (NILS) that operate in all states to assist people with the purchase of more energy efficient appliances. While NILS is a very helpful initiative, eligibility depends on ability to pay back borrowed funds, which arguably excludes the most needy households from participating.

[4] IPART (2012) *Electricity retail businesses' performance against customer service indicators in NSW: Electricity-Information paper,* p. 8

[5] IPART (2012) *Electricity retail businesses' performance against customer service indicators in NSW: Electricity-Information paper,* p. 13.

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