The South Australian Council of Social Service (SACOSS) Submission to

Essential Services Commission of SA — South Australia's 2011 Gas Standing Contract Price Path Draft Decision

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Scope of interest

The South Australian Council of Social Service (SACOSS) is the peak body for social services in South Australia, and is an independent non-government organisation with a sixty year history of advocating for disadvantaged and vulnerable South Australians. SACOSS is a not-for-profit independent organisation whose members represent a wide range of interests in social welfare, health and community services. SACOSS is part of a national network assisting low income and disadvantaged people, and shares with its members the vision of *justice, opportunity and shared wealth for all South Australians.*

In its role as a peak body for community services in South Australia, SACOSS covers a broad range of policy areas including the impacts of disadvantage on the most vulnerable South Australians. In recent years SACOSS has led or participated in debate and advocacy in the areas of consumer credit, electricity and gas, telecommunications, water management, financial counselling, payday lenders, food security, and gambling.

Introduction

SACOSS made a comprehensive submission to the Gas Standing Contract Price Path Inquiry and this submission does not intend to replicate the issues raised.

SACOSS has also participated in the Australian Energy Regulator's Inquiry into Envestra's proposed Gas Access Regime (for 2011-2016). While a final determination is yet to be made on gas distribution prices and tariff structures, it is clear that a significant increase in distribution charges is imminent. As a result SACOSS is forming a view that a natural gas connection is likely to become a far less desirable attribute of a residential property – for renters and homeowners alike.

ESCOSA's draft determination for this Gas Retail Price Path Inquiry can be found here:

www.escosa.sa.gov.au/library/110408-GasPricePath_2011-DraftDetermination-PublicVersion.pdf

At the outset, there are three pivotal issues for low income and disadvantaged consumers:

- Regulatory processes involving the gas industry are notoriously difficult due to the lack of disclosure of relevant information due to claims of commercial sensitivity. This leaves consumers in a position of having to trust that the regulator will ensure their interests are well protected and the regulated entities will always bear their interests in mind. Unfortunately, this information asymmetry leaves an air of scepticism over any decision and it makes it impossible for groups such as SACOSS to seriously review or test any of the claims and supporting information of commercial operators. This may be particularly problematic when seeking to specifically ensure that people most vulnerable to price increases have their interest sincerely protected.

- SACOSS' recent experience with ESCOSA price determination processes raises grave concerns about the status accorded to consumer issues following the release of draft determinations. SACOSS is extremely anxious to ensure that consumer concerns merit full and ongoing consideration.

- The 'choice' of using gas is a myth for a significant number of householders – especially renters – who have significant hurdles to overcome to replace gas appliances with electrical equivalents.

The Commission's approach

> *"In fixing the gas standing contract price, the Commission has sought to determine the costs of an efficient gas retailer, on the basis that a prudent retailer sells both gas and electricity."*[1]
>
> *"A further consideration for this review is the way in which the energy retail market has developed in South Australia. As highlighted in Chapter 3, a competitive market has developed in both electricity retailing and dual-fuel retailing. However, there has been no new entry to the gas-only retail market, nor has the Commission seen any evidence of retailers actively marketing gas as a stand-alone product.*
>
> *… It is the Commission's view that no prudent retailer would choose to enter the gas only retail market whilst the opportunity exists to market dual-fuel to every gas consumer. This has been reflected in the development of the energy retail market to date."*[2]

SACOSS fully supports the Commission's approach to setting the gas standing contract price as being a secondary product to retail electricity offers.

CARC Allowance

> *"… the Commission's Draft Determination is that the acquisition costs of the second fuel in dual-fuel marketing is 30% lower than the first fuel. A reduction of 30% has therefore been applied to the acquisition component of the stand-alone CARC."*[3]

SACOSS is of the view that this is a conservative decision and that Origin Energy should be thankful for the result. It is SACOSS' view that consumers should reasonably expect the cost of retailing to capture meaningful efficiency gains over the coming years.

SACOSS acknowledges the difficulties in evolving Customer Management Systems, particularly for national retailers who have acquired other businesses and particularly acknowledges Origin's efforts in keeping the community sector informed and engaged in its most recent 'transformation' project.

Wholesale Gas Costs

> *" There is significant doubt over the cost of wholesale gas in 2013/14 due to uncertainties around the timing and impact of any move towards EPP. It is noted that the SACOSS submission supports this view.*
>
> *Due to these uncertainties, the Commission has decided not to include any specific amount in the final year of the price path to reflect a possible transition to EPP. The Commission's preference is to set the 2013/14 ACQ benchmark at the same amount as the 2012/13 ACQ benchmark in real terms ($4.11/GJ), and to address any claimed increase in wholesale gas costs in 2013/14 under the following approach:*
>
> - *Given that the impact on costs is likely to be for only the remaining 6 months of the price path, the Commission would undertake to reflect the new costs in the following price path (should regulation of standing contract prices continue), with any under-recovery of costs from that final 6 month period to be recovered in the subsequent price path.*

[1] ESCOSA Draft Determination 2011 page A-6
[2] Ibid page A-74
[3] Ibid page A-83

- *To the extent that wholesale gas costs increase so significantly during the price path period that it is not feasible to defer the recovery of the increased costs to the next period, the Commission would consider a special circumstances review, and re-open the price path."*[4]

SACOSS supports the Commissions approach to dealing with the uncertainties of wholesale gas costs in the final months of the regulatory period.

Tariffs

> *"In preparing the standing contract tariffs as part of the Final Price Determination, the Commission will be mindful of the SACOSS submission to the Commission's Issues Paper, which commented on the fact that fixed supply charges have been increasing at a rate that exceeds the increase in variable charges, which creates a higher cost burden on small users of gas.*
>
> *… A key consideration when the Commission makes its Final Determination in June 2011, will be whether or not the existing balance between fixed and variable charges remains appropriate."*[5]

SACOSS welcomes this acknowledgement of its concern by the Commission. SACOSS is of the view that this will be particularly relevant in light of the likely outcome of the AER's final determination of Envestra's Gas Access Arrangements which is likely to see significant increases loaded into the fixed supply charge and initial consumption band.

[4] ESCOSA Draft Determination 2011 page A-61
[5] Ibid page A-99