

**This submission is a response from Somerville Community Services Inc and UnitingCare Wesley Adelaide to the**

**REVIEW OF FULL RETAIL CONTESTABILITY FOR NORTHERN TERRITORY ELECTRICITY CUSTOMERS**

**Issues Paper - August 2009**

**Conducted by the Utilities Commission of the Northern Territory**

Background to Submitting Agencies

Somerville Community Services Inc is a non-government, not for profit, youth, family and community welfare organisation indigenous to the Northern Territory. We maintain strong constitutional links with the Uniting Church in Australia but we are governed by an independent and professional Board of Directors, ensuring that the Agency has the capacity to respond to the needs of people whatever their circumstances.

UnitingCare Wesley Adelaide is an agency of the Uniting Church and is a South Australian community service organisation with over 100 years experience in providing services to assist low income and disadvantaged people. We work with individuals, families and communities to break the cycle of disadvantage, in a range of settings across South Australia.

This submission is based on the experiences of both of these Uniting Care agencies and their experiences in seeking to assist low income and disadvantaged individuals, families and communities

**SUBMISSION OVERVIEW**

Section 1 of this submission provides an introduction to the submitting Uniting Care agencies and section 2 considers a range of contextual matters of relevance to the Review. This section concentrates on electricity affordability particularly for lower income and disadvantaged households. These issues are also regarded as relevant to small business and community service agencies.

Section 3 considers the question posed in the issues paper distributed by the Utilities Commission

**KEY POINTS**

We suggest the adoption of a policy position that “no Northern Territory electricity customer should be disconnected from electricity supply due to an inability to pay”.

Electricity costs are likely to increase dramatically over the next 5-6 years, for a number of reasons, particularly growing fuel costs for electricity generation, but also growing transmission/distribution costs and potentially the impact of pricing for carbon emissions. Restrained electricity prices in the Territory over recent years are likely to rise rapidly if FRC is further implemented

The cost of electricity to households is highly income sensitive

The best approach to FRC in the Northern Territory is to defer consideration of its introduction for residential and small business customers, until at least the attainment of effectively competitive markets for large business customers.

There is merit in further enhancing residential consumer protection in the electricity market, particularly given the likelihood of significant electricity price rises in the foreseeable future. Reviewing and strengthening electricity concessions, reviewing hardship policies and consumer protections against the NECF (once finalised) and establishing utilities ombudsman are suggested as the most important consumer protection measures.

### **OTHER CONCERNS**

The comparatively small size and isolation from the National Electricity Market mean that the residential electricity market of the Northern Territory is unlikely to benefit from application of competition principles

Signed.....  
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Chief Executive Officer  
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Signed.....  
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# Section 1 Introduction

## Somerville Community Services

The vision of Somerville Community Services is to seek the improvement of the human condition in a complex and changing world in which many people are victims, vulnerable or otherwise adversely affected.

To these ends, Somerville will:

- Monitor the social complexities and changes, and their implications for communities, families and individuals.
- Seek to identify and act upon negative social changes in advance of their impact.
- Work in the best interests of those most adversely affected by social change.
- Be an informed voice that promotes the interests of the most vulnerable members of the community.
- Actively contribute to community and professional debate in relation to social justice and community service issues.
- Maintain and extend collaborative working relationships in the community including government, non-government agencies and significant community groups.
- Continue to provide and develop appropriate high quality services that are responsive to community need.
- Draw on its existing expertise and experience and develop the necessary new organisational capacities to carry out its work.
- Embrace its significant local responsibilities in the north of Australia, recognise its wider service and social justice responsibilities throughout Australia and in the South East Asian Region.
- Meet its wider regional responsibilities by strengthening working relationships with organisations throughout Australia and the South East Asian Region.
- Maintain and develop its capacity to fulfil its missions by protecting and enhancing its resource base - financial and human.
- Carry out its work, stay in touch with and be responsive to the needs of the community it serves.
- Facilitate achievement of the Vision, maintain the highest standards of governance and leadership that are expected of a value based organisation.

UnitingCare Wesley Adelaide

The vision for UnitingCare Wesley Adelaide is for “a compassionate, respectful and just community in which all people participate and flourish.”

Based on Christian ethics our values are:

Respect and compassion for all people

Belief in the innate worth of all people

Justice, particularly for those disadvantaged in our society

Being a service to others

Restlessness for what could be

Non-violence and peace

## Section 2

# Context for the Review

### Utilities Commission

Over recent years the Utilities Commission of the Northern Territory has been active in reviewing and investigating a range of aspects of the Northern Territory electricity markets. Network pricing and 'ring fencing' have been significant areas of work as well as providing oversight for moves towards retail contestability for electricity.

### National level energy regulation

National competition policy requires all Australian jurisdictions to introduce competition into energy wholesale (generation) and retail markets.

A national energy market, the NEM, has been established, creating a transmission and distribution grid in South Eastern Australia, from Queensland to Eyre Peninsula in South Australia, with Bass Link connecting transmission systems between Tasmania and Victoria. Geographically more remote jurisdictions remain outside of the NEM, though there is desirability, at least for public policy purposes, in harmonising all Australian jurisdictions towards the objects of the National Electricity Law, the NEL.

Two national bodies had been established to replace independent regulators which previously managed energy markets at jurisdictional level. The Australian Energy Market Commission (AEMC) sets the rules for the market while the Australian Energy Regulator, AER, is responsible for regulation, with current attention particularly focused on distribution price reviews.

Over the last three years the AEMC has conducted reviews into the effectiveness of retail energy competition in Victoria and then in South Australia. Amongst other tasks, the AEMC is currently considering impacts of climate change policy on Australian energy markets.

Three other major areas of energy policy activity are also underway nationally:

- The development of the National Energy Customers Framework, NECF, the second exposure draft is due for release late in 2009, for stakeholder consultation.
- A significant rollout of 'smart meters' is also demanding significant attention, including potential impacts on customers. There is an intersection of policy interest between the NECF and the National smart meter program. Most focus of the Smart meter roll out is in Victoria and New South Wales.
- The development of the National Energy White Paper, with a 'Green paper' likely to be released for public comment early in 2010. The focus of initial discussion papers has been on future energy security for Australia, including the best policy settings to encourage investment in energy.

This brief summary highlights the significant amount of attention that is being applied to energy regulation at the moment, across Australia and including the Northern Territory.

## **Current Situation for Residential Energy Customers**

### Energy Use in the Northern Territory

The data in table 1 shows that average electricity use by households in the Territory is higher than for other states except for Tasmania, reflecting the importance of electricity for cooling (and heating in Tasmania). Significantly, the table shows that the percentage of residential consumption of electricity for the NT is lower than for any other Australian State or Territory. This submission recognises this fact, but focuses on residential and small business perspectives associated with the consideration of extending FRC into Northern Territory electricity markets

### **Jurisdictional differences - consumption<sup>1</sup>**

	VIC	NSW	QLD	SA	WA	TAS	ACT	NT
Number of Residential Connections	2.1mill	2.7mill	1.6mill	679,000	860,000	217,000	n/a	61,500
Average residential consumption (annum) kWh	5990 kWh	7501 kWh	7767 kWh	6185 kWh	5758 kWh	9283 kWh	8194 kWh	8597 kWh
Residential consumption as proportion of total electricity consumption	26%	39%	27%	39%	20%	22%	n/a	14%
Summer or winter peak demand.	Summer	Summer & winter	Summer	Summer	Summer	Winter	Winter	None
Residential AC penetration	69.5%	58.3%	64.6%	85%	80%	35.5%	62.3%	92.9%
Use mains gas for heating purposes	66.5%	17.2%	1%	26.6%	35.1%	1.3%	57.3%	1.3%
Use electric heating	18.5%	43.1%	36.1%	46.5%	30%	63.5%	35.3%	4.8%
Gas water heating	65.7%	25.5%	11.7%	46.2%	58.4%	4.2%	36.4%	5.9%
Peak electricity water heating	6.3%	10.9%	10.6%	3.6%	17.7%	46.8%	21.8%	34.3%

Table 1, Compiled by May Johnson and Gavin Dufty for St Vincent de Paul Society

### Electricity is an Essential Service

Energy, whether standing energy or fuel energy needs to be understood to be an essential service.

<sup>1</sup> Sources: NERA Economic Consulting, *Cost Benefit Analysis of Smart Metering and Direct Load Control*, Report for the Ministerial Council on Energy Smart Meter Working Group (Phase 2, Stream 4), February 2008 for: Number of residential connections in Vic, Qld, SA, Tas and NT, Average residential consumption (all jurisdictions), residential consumption as proportion of total consumption (all jurisdictions) and summer versus winter peaks (all jurisdictions). Independent Pricing and Regulatory Tribunal, *Electricity retail businesses' performance against service indicators in NSW*, Electricity – Information Paper, March 2009 for: Number of residential connections in NSW (using disconnection numbers to calculate total number of domestic connections). Economic Regulation Authority of Western Australia, *2007/08 Annual Performance Report, Electricity Retailers*, March 2009 for: Number of residential connections in WA. Energy Market Consulting Associates (EMCa) report to the Ministerial Council on Energy Standing Committee of Officials, *Smart Meter Consumer Impact: Initial Analysis*, Consultation Draft, February 2009 for AC penetration, use of gas and electricity for heating and gas and electric hot water systems (all jurisdictions).

The National Consumer's Roundtable on Energy has made the following definitional statement:

*“Electricity is an essential domestic service. Energy supports fundamental human need including safe food (storage, preparation) and safe shelter (hygiene, lighting, temperature control). Electricity supports equipment that is crucial to well-being and independence (health, communication). Beyond these fundamentals, energy supports community engagement and family life (social interactions, employment, education). Except in rare and exceptional circumstances, a regular connection to electricity supply is not discretionary or optional. In most instances there is no alternative to electricity. A reliable, safe, affordable supply of electricity is a right rather than privilege and access must be guaranteed as far as reasonably possible.”*

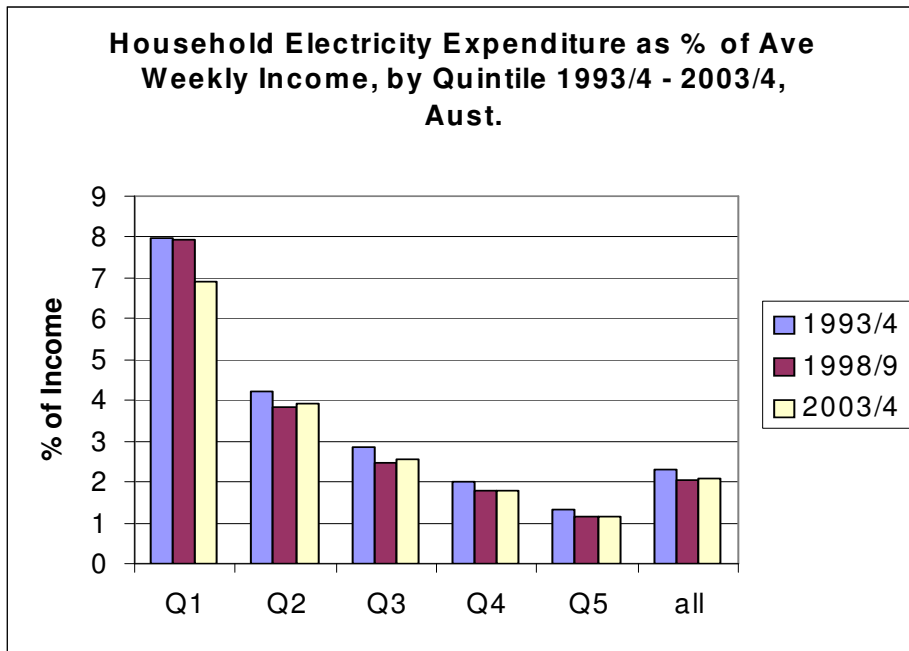
The Roundtable Charter of Principles for Energy Supply states that energy supply should be:

- Sustainable
- Accessible
- Affordable
- Appropriate
- Accountable

#### Energy Affordability

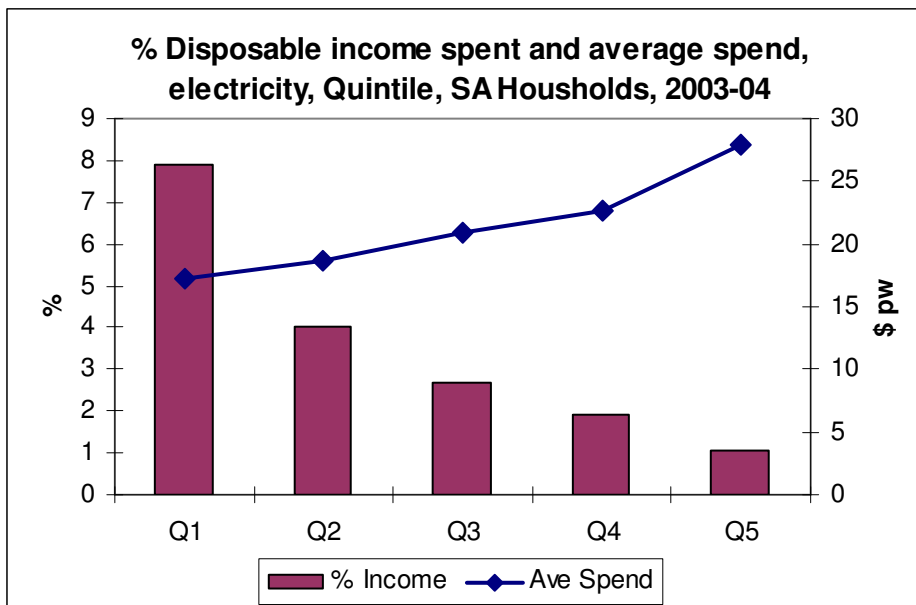
The following discussion considers current challenges with energy affordability for significant numbers of Australian households. We expect that these pressures will be further exacerbated in coming years as the price of energy increases for a range of reasons.

The most recently available Australian Bureau of Statistics (ABS) data on household electricity expenditure is given in Graph 1 below:



Graph 1 Source ABS, Household Expenditure Survey

A key observation from this graph is that for the poorest 20% of the Australian (equivalised) household income distribution, electricity counted for about 7% of expenditure in 2003/4, whereas electricity expenditure was not much more than 1% of weekly income for the richest 20% of households. Indeed, for about half the population, electricity accounts for less than 2½ % of expenditure. Graph 2 shows the household expenditure data from graph 1, for 2003/4 for South Australia and overlays average electricity use by quintile.

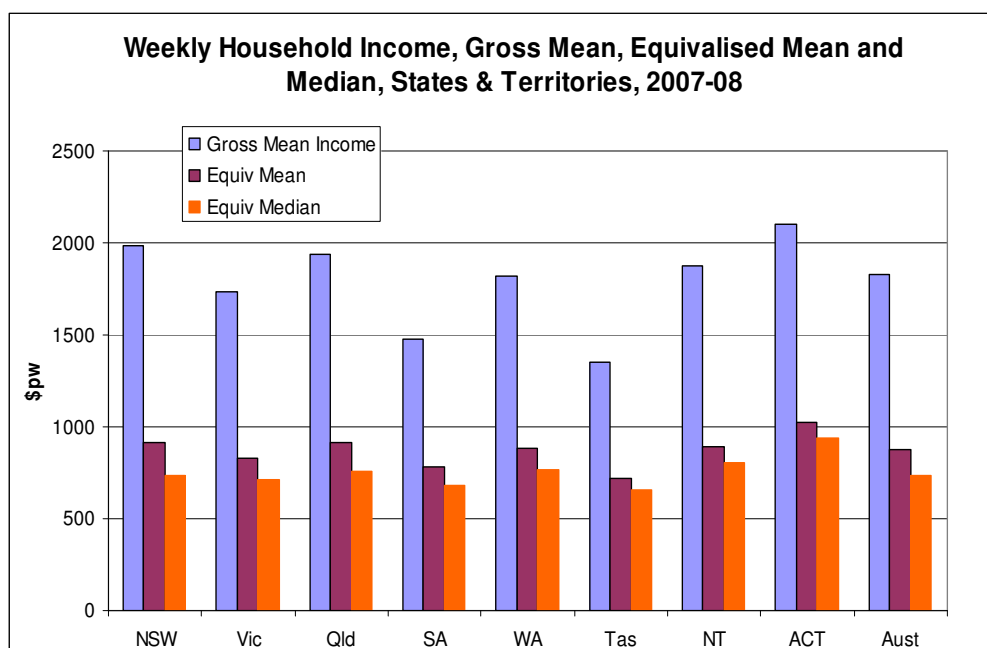


Graph 2 Source ABS

This graph shows that while actual electricity use increases with income, the proportion of household income spent on that electricity decreases sharply with income. We suggest that this is an important observation in considering the likely impacts of further introduction of FRC in the Northern Territory.



Graph 3 shows gross mean household income, equivalised mean household income and equivalised median household income for Australian States and Territories. For the Northern Territory, gross, average household income in 2007-8 was \$1874 dollars per week. This measure is often quoted as 'average income', but this is misleading because a half of all NT households have \$808, or less per week to cover all costs and many everyday costs of living are higher in the Northern Territory than more highly populated parts of Australia



Graph 3 ABS Household *Income and Income Distribution, Australia, 2007-08*, cat no 6523.0

We suggest that this significant difference in household income measures is instructive. It means that large numbers of households struggle to 'make ends meet', because their income is low, or modest at best. Paying energy bills is a struggle for a large and growing number of households. This point is expanded in the next section.

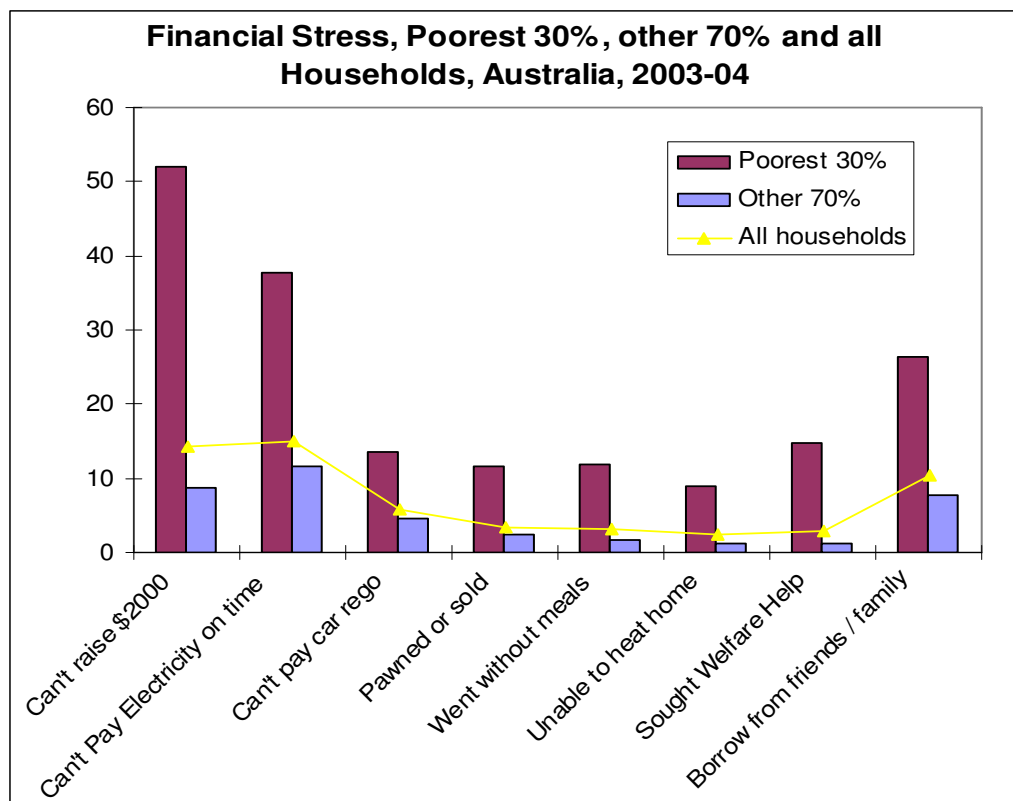
### Financial Stress

Table 2 shows a number of "financial stress" indicators for Australia, and considers the poorest 30% of the household income distribution, against the remaining 70% of the income distribution, using eight financial stress indicators. The data is taken from the 2003/4 ABS household expenditure survey and was reported in Australia's Social Trends 2007.

Financial Stress Measure	Poorest 30%	Other 70%	All households
Can't raise \$2000	52.1	8.6	14.3
Can't Pay Electricity on time	37.8	11.5	14.9
Can't pay car rego	13.5	4.6	5.7
Pawned or sold	11.7	2.3	3.5
Went without meals	11.8	1.8	3.1
Unable to heat home	8.9	1.2	2.3
Sought Welfare Help	14.7	1.2	2.9
Borrow from friends / family	26.4	7.8	10.3

Table 2, Source ABS

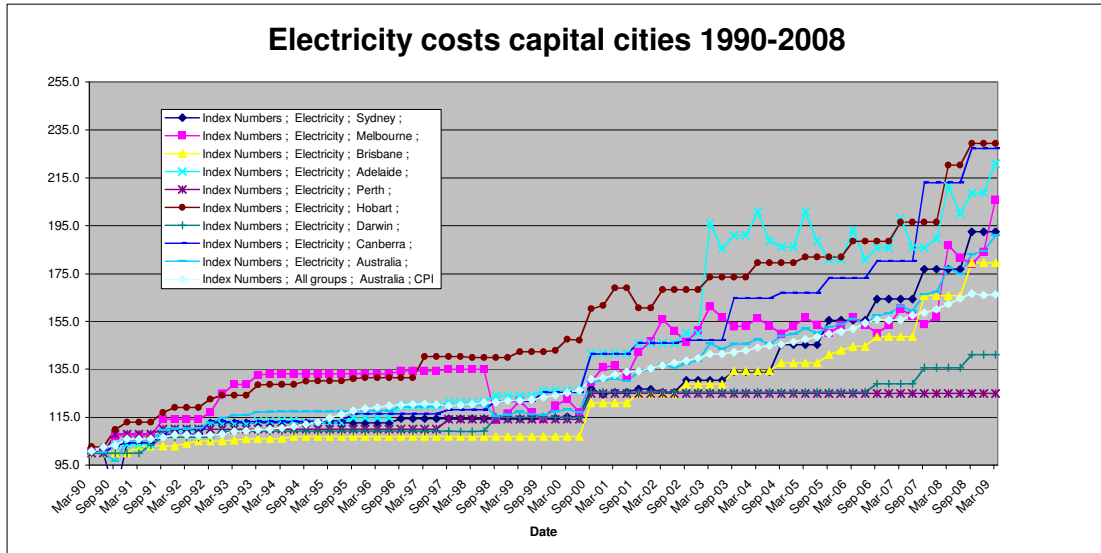
Information from this table is presented in Graph 3. Of particular relevance to this discussion is the observation that 38% (rounded) of the poorest 30% of Australia's households were unable to pay electricity bills on time, due to financial stress, while 15% (rounded) of Australia's total population were unable to pay for electricity on time, a significant indicator of financial stress. Also worthy of note is that, considering the whole Australian population, inability to pay electricity bills on time was the most common indicator of financial stress, in 2003-04. It is most likely that a higher proportion of the population would now be unable to pay electricity bills on time, because electricity costs have grown at a much faster rate than CPI or minimum wages.



Graph 3 Source ABS

## Electricity Price Rises, last decade

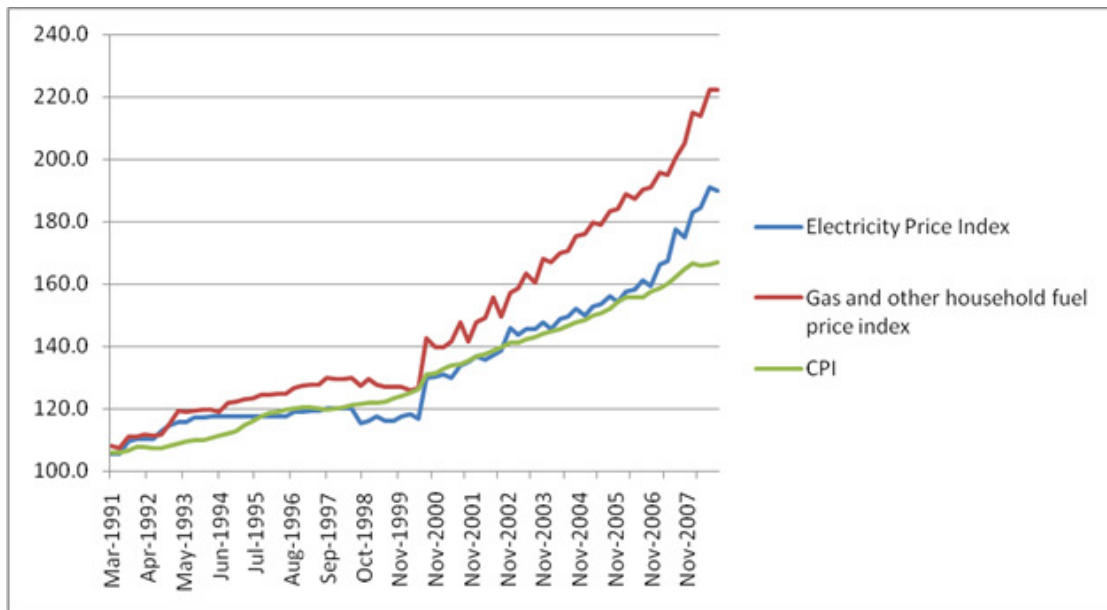
Over the past decade, Australian electricity prices, on average, have risen at a significantly higher rate than the Consumer Price Index, (CPI) which is broadly used to reflect levels of price increases.



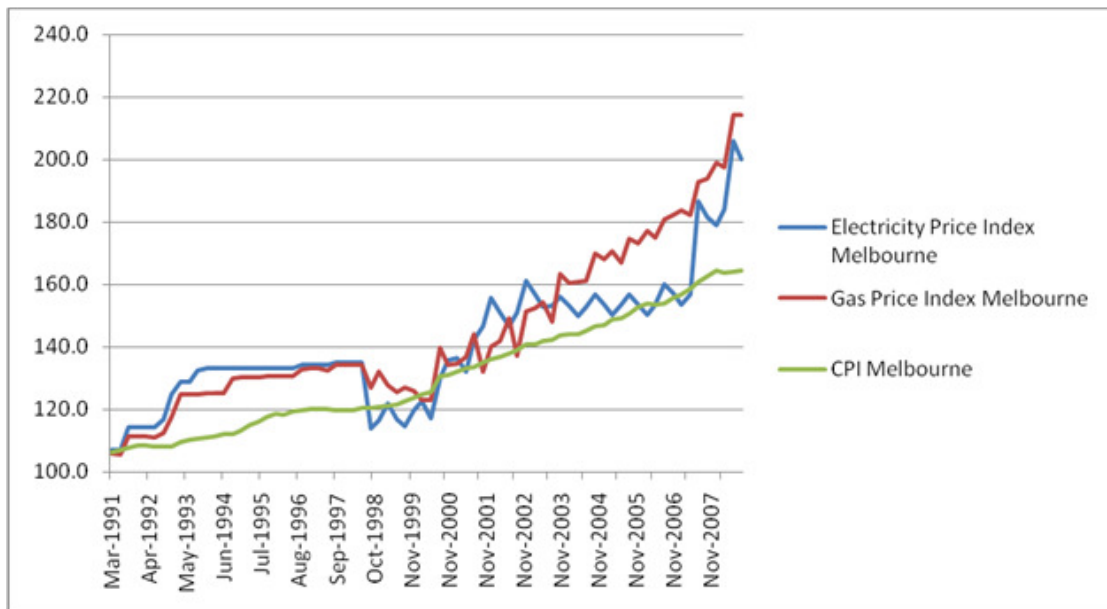
Graph 4 Data Source, ABS, CPI Eight cities, Cat No 6401.0

Graph 4 shows that electricity costs for the 18 years from 1990, grew at a rate greater than inflation for all Australian capital cities except Darwin and Perth, which are outside of the national electricity market and have governments that are active in the provision of electricity services.

The two Australian jurisdictions with the longest experience of FRC for both electricity and gas are Victoria and South Australia. Residential customers in both of these jurisdictions have experienced significant electricity price increases over the past decade. Graph 4a shows electricity price increases, compare to the consumer price index, for the period March 1991 – Nov 2007 for Victoria as a whole, graph 4b is for the city of Melbourne

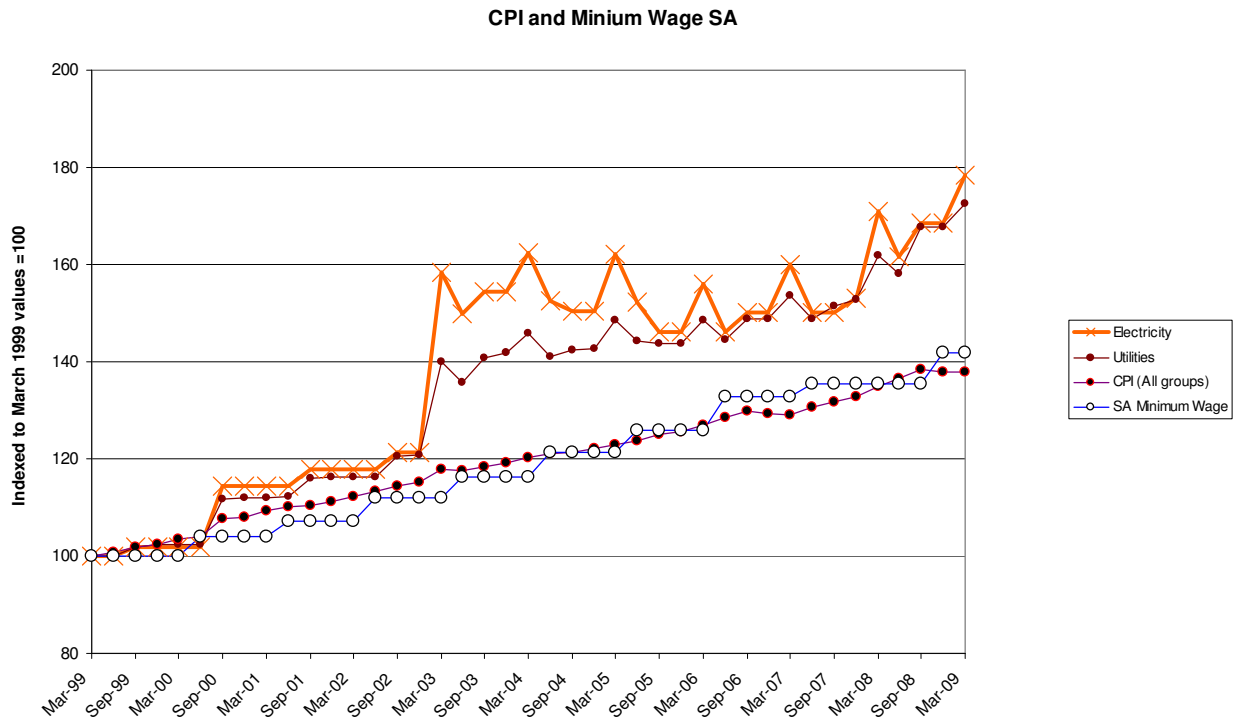


Graph 5a



Graph 5b

Graph 5, also using an index, plots electricity and utilities price changes compared to the CPI and minimum wages, for South Australia, for the decade from March 1999. The series for electricity shows that electricity price rises have risen steadily since 2006. The recurring peaks in the graph reflect the higher bills for electricity associated with summer in South Australia and recorded in the March quarter data.



Graph 6, Data Source, ABS, CPI, Cat No 6401.0

Despite some initial promises, the reality is that the introduction of competition into electricity markets, through FRC, has not reduced energy costs for customers in either Victoria or South Australian, generally regarded as two of the most competitive electricity markets in the world.

#### Updating Estimates of Household Electricity Expenditure

With the most recent, rigorous data set of household energy costs (the Household Expenditure Survey) now being six years old, we have attempted to estimate current household electricity expenditure in the light of the significant increases in electricity costs that consumers have experienced over the last five to six years. We have used both data from the ABS, CPI data and pricing information from the Essential Services Commission in South Australia.

We suggest that the poorest quintile households in South Australia, who were paying about 8% of the household income on electricity in 2003, are now likely to be paying between 11-12% of household disposable income on electricity.

We conclude the following about electricity affordability changes over the past decade:

- The price of electricity for households has grown at double the rate of CPI over the last decade
- Energy prices are highly income sensitive; the lower the household income the more dire the impact of energy price rises.

- Low income households generally use less electricity than higher income households

We suggest this upward pressure on electricity prices has now been felt by Northern Territory residential consumers, small businesses or community services, but that latent price pressure would be released if FRC were introduced over a short time frame.

### Future Electricity Costs

Looking to the end of the 2010-15 period, we identify a number of factors that will increase the cost of electricity to consumers, to varying degrees for different Australian jurisdictions. These price pressures include:

- Global demand for energy; in particular gas, which will be an increasingly important fuel for electricity generation; the price of gas and hence electricity will rise as global demand pushes energy prices higher.
- Growing pressure on transmission and distribution infrastructure, both for new capital expenditure and for replacements
- Potential ongoing impacts of the drought which has reduced hydro-electricity generation for the national grid, and has increased the cost of operating some generation facilities which need freshwater for effective operation. Also there is considerable demand for electricity to pump water.
- Energy efficiency measures; in South Australia this is the Residential Energy Efficiency Scheme, a program supporting energy efficiency which is a regulatory requirement placed on retailers, who then 'smear' the cost of the program across all consumers.
- Feed-in tariffs which encourage households to utilise renewable energy and therefore have an important role to play. However, in equity terms, these policies can mean that low income households, who are unable to contemplate the costs of domestic solar or wind generation, end up subsidising higher income households. This occurs where the value of feed-in tariffs are recovered from electricity charges.
- Regulatory costs
- The introduction of the Carbon Pollution Reduction Scheme (CPRS) or a similar program. UnitingCare Wesley is strongly supportive of strategies to reduce greenhouse gas emissions, and recognises that the generation of standing energy is the single largest contributor to greenhouse gas emissions. However, we also recognise that there are cost impacts, particularly for lower income households from climate change policies. These impacts will be direct, through energy bills and indirect through embedded costs in goods and services.

We suggest that a 'status quo' average electricity price increase for households of 50%, in real terms, over the next five-year period, is highly likely. This excludes any CPRS impact, estimated as an additional 25% price impact. We recognise that the Australian Government has committed to returning CPRS based energy increases to households, but the mechanism is unclear.

**It is not unreasonable to consider electricity price rises of about 100%, in nominal terms, Australia wide over the next 5-6 years.**

Low wage consumers

At the same time, income increases for low and modest income households are likely to be relatively low. The Fair Pay Commission has ruled that workers on minimum wages under national awards, are not entitled to any pay increase over the next 12 months. Significant numbers of casual workers, in particular, are also losing hours of work, with 1.5 million hours of work lost last month (July 2009), nationally. The trajectory for recovery from the global economic crisis is uncertain. While we suggest that GDP growth will be between 3.5% and 5% from around years 2012-15, income growth will lag behind economic recovery, real wages for lower income workers are unlikely to 'catch up' even once economic growth picks up.

It is therefore likely that nominal wages will rise very slowly for lowest income households over the next two to three years. This means that low income households are probably facing a decline in real wages for at least the first half of the price review period

It is not unreasonable, therefore, to suggest that lowest income quintile households in Australia will be paying 16-20% of their disposable income on electricity costs by 2015, while the second quintile households are likely to be paying 7-8% of household disposable income for electricity. We cannot estimate the impact this will have on financial stress measures, but can be certain that increases in energy costs will significantly increase financial stress for more Australian households.

Australia now faces the very real spectre of electricity prices being a significant driver of poverty. This dramatic conclusion cannot be ignored in determining future regulated price paths for energy, particularly the essential service of electricity for which there is no ready substitute

We conclude this section by emphasising the following observations regarding energy affordability and lower income households.

1. electricity is an essential service, it is very difficult for households in 21<sup>st</sup> century Australia to live without electricity
2. the cost of electricity to households is highly income sensitive
3. electricity costs are likely to increase dramatically over the next 5-6 years, for a number of reasons, particularly growing fuel costs for electricity generation, but also growing transmission/distribution costs and potentially the impact of pricing for carbon emissions

## Section 3

### Responses to Review Questions

#### Impacts of Introducing FRC

We note that in South Australia, the introduction of FRC for electricity resulted in immediate increases of over 25% in electricity bills for residential consumers. This is seen in graph 6 which shows a rapid increase in electricity prices from the March Quarter 2003, when FRC commenced. This translated to an even higher increase in proportion of household income required to meet electricity costs for lower income consumers. Electricity costs have continued to rise at rates greater than CPI, in the years following the introduction of FRC, except for 2004-06 when regulation reduced distribution costs

UnitingCare Wesley Adelaide considered the initial experience of FRC, with particular reference to financial counselling clients and the impacts of dramatic increases in electricity costs for them. In July / August 2004 they conducted a survey of financial counselling clients and one of the questions we asked was: "what of the following items have you reduced spending on due to electricity price increases?" - responses included:

Food	50%
Clothing	87%
Holidays	83%
Movies	80%
Sport and culture	80%
Telephone	53%

We also note that a vast majority of low income households pay utility bills and rent as their priorities, ahead of food and medications, so for some low income households, paying utility bills means being hungry or remaining ill.

With this background, we now briefly consider the questions from the Issues paper

#### Question1

*Is the current lack of wholesale price transparency an impediment to FRC and if so, what should be done, if anything, to provide greater wholesale \ price transparency in the Northern Territory, prior to introducing FRC?*

Transparent pricing is important for all aspects of utility pricing, irrespective of the market structure for providing electricity to customers. We suggested a website be established that provides as close to 'real time' as possible prices for generation, transmission/distribution price paths and retail price paths, for residential and business (small and large)customers, for each region of Territory. Transparency is a crucial element of effective markets, irrespective of their structure



## Question 2

*Is the current structure of Power and Water an impediment to FRC and if so, what further changes if any, should be made to the structure of Power and Water prior to introduction of FRC?*

## Question 3

*What actions might government take to provide the retail margins required to improve the prospects of competition?*

We observe that the fundamental issue for considering the introduction of FRC into the Northern Territory is market size. We believe that the Northern Territory markets are too small for the 'text book' competitive markets that are the objective of FRC. Energy generation and distribution are capital intensive industries and transmission / distribution is a natural monopoly and also a significant element of any electricity bill.

UnitingCare Wesley submitted to the AEMC review of effectiveness of retail energy competition in South Australia that the Adelaide market, larger than Darwin but smaller than Melbourne, was not competitive but rather characterised by an oligopoly market. They also said that competition was not, in practice, occurring in many regional communities including lower income postcodes of suburban Adelaide. This is despite the AEMC published opinion that South Australian energy markets (in aggregate) were competitive.

We suggest that the "first best" market structure for residential electricity in the Northern Territory, competitive markets enabled through FRC, is not possible due to lack of 'scale' in small markets. The "second-best" market structure option for electricity in Northern Territory is for an independently regulated, vertically integrated monopoly business.

We recognise that this proposal is contrary to current national competition policy, but suggest that the Northern Territory needs to be regarded as an exceptional market, when considering utilities. We suggest that the application of the National Electricity Law (NEL) objective: operating in "the best long-term interests of consumers", is at odds with competitive markets for electricity in the Northern Territory. We suggest that this is an issue that needs to be referred back to the ACCC.

Given that these observations, we suggest that the Structure of Power and Water, is reasonable for the short to medium-term, with Utilities Commission role as an independent regulator being able to be further developed

Priority roles for the Utilities Commission therefore would be:

- being required to establish regulated price paths and associated standing offers for residential customers and small-business
- publishing and monitoring regulated prices
- reviewing consumer protection and guaranteed service level frameworks
- applying the National Energy Customer Framework (NECF), once established, to Northern Territory markets

#### Question 4

*Should the introduction of FRC be staged on a regional basis? Should unmetered loads be contestable as part of FRC?*

We have stated previously a belief that it is far too early to realistically consider introducing FRC into residential electricity markets in the Northern Territory. However, should there be a decision to proceed with FRC, then starting with the Darwin – Katherine interconnected system (DKIS) would be a sensible approach as this is the largest market in the Territory and probably the easiest region to commence FRC associated processes.

In considering the regional basis of the Northern Territory energy markets we also note the importance of maintaining price parity (postage stamp pricing) for residential customers across the Territory so that there is no substantial disadvantage in electricity pricing for consumers in one region compared to another.

Regarding unmetered loads, we suggest that a majority of these can be regarded as community service obligations (CSO's) with the independent regulator able to identify an appropriate charge for electricity used in the provision of CSO's, on a marginal cost basis. The appropriate authority the Territory Government or local government can then simply be invoiced for the cost of provision of CSO's

#### Question 5

*Should mandatory interval metering be a precondition of retail contestability? Is there any need to defer FRC until NSMP requirements and any implementation in the Territory have been considered?*

We are concerned about the cost of requiring mandatory interval metering on top of the cost increases that residential consumers will confront should FRC be introduced. However, we recognise that there are likely to be benefits to distributors and retailers and potentially customers, from appropriate smart metering / smart network applications.

We suggest that FRC be delayed until well after any national NSMP and associated NECF issues have been identified and resolved. This should occur within the next 12 to 24 months.

There is merit in considering a requirement that all new meters installed for both domestic and small-business customers, be capable of recording electricity use by interval, and have the capacity for demand management measures, including direct load control. This move would be predicated on an assessment that there is a high likelihood that 'smart meter' functionality will be applied to Northern Territory electricity markets in the foreseeable future. We also recognise the potential for 'smart networks' to prove to be more helpful than 'smart metres' in the Territories' electricity markets. We believe it

is best for the Territory to observe smart meter and / or smart grid applications in other Australian jurisdictions before making Territory specific decisions

Question 6

*Is the current bilateral contract market an impediment to FRC and should reform of this market be considered prior to introducing FRC*

The current bilateral contract market is an impediment to FRC, but is a realistic structure for relatively small electricity markets. We suggest that the priority reforms are to strengthen consumer protection arrangements, and to delay considerations of introducing FRC for residential and small business electricity customers.

Question 7

*Should Power and Water Generation's wholesale pricing be subject to oversight and what form should this oversight take?*

Question 8

*Should Power and Water Generation be required to publish further prices for specified terms and products?*

Power and Water Generation's wholesale pricing should be subject to oversight from an independent regulator, eg Utilities Commission. Prices for standing and market contracts respective terms and products should be specified in a listing on a readily accessed web site. Generation prices will need to be published for at least standing contracts for residential electricity customers and for small business

Question 9

*Do you have any comments on the load profiling regime proposed for use in the Northern Territory – i.e. simple net system load profiles defined for each regulated network?*

The Simple net system suggested for low load profiling is reasonable

Question 10

*Are there any Territory specific terms you think should be included in the standard contract?*

We suggest that the NECF will specify a minimum set of protections for residential and some small business electricity customers and this should be the starting point for the standard supply contract for any Territory energy customer. We are not aware of any Territory specific terms that may need to be added to those that will be specified in the final approved version of the NECF, so we suggest revisiting this question when the NECF second exposure draft is released late this year.

The discussion paper specifically mentions "security deposits" which we are aware is an issue likely to be covered by the NECF. UnitingCare agencies had argued against requiring residential customers to provide a security

deposit suggesting that a better approach for retailers to offer new customers entering a supply contract the options of commence on a shortened collection cycle, ie, paying monthly rather than quarterly for initial bills. This approach reduces the retailer's exposure to the potential of bad debts, while enabling customers to demonstrate capacity and ability to pay, without enduring what could be an onerous security deposit charge.

We also note the importance of maintaining a regulated price path for standard contract customers. This provides certainty for both customers and retailers and also defines a 'price to beat' for market contracts, where they are offered.

#### Question 11

*Should an electricity ombudsman's office be established at the time FRC is introduced?*

We strongly support the establishment of an electricity ombudsman's office, and suggest that this function may also include "water". Utility ombudsman provide an excellent approach for addressing any customer problems that arise and also help to provide clear, credible information, particularly in times of change and heightened customer anxiety

#### Question 12

*Do you have comments on these options and dear other options this review should consider?*

In considering the introduction of FRC, or any other market reform to the Territory electricity market, we suggest that the primary objective needs to be the provision of a reliable electricity supply at a price that all customers can afford.

The experience of the introduction of FRC in Australian States has been for an almost immediate and dramatic increase in prices paid by residential and small business customers. This suggests to us some priorities that we suggest the Northern Territory government consider.

As a policy position we actively encourage the government to adopt a policy statement that "no customer should be disconnected from electricity supply due to an inability to pay".

We suggest that this would then give rise to the following priorities for action, should FRC be introduced:

1. retailers would need to be able to demonstrate billing systems that would ensure that bills were issued in a timely manner with the customer given and acceptable time period in which to pay. (we know that in South Australia, hardship was exacerbated at time of introduction of FRC, by poor billing systems of retailers which meant that many customers received bills for a period much greater than three months, as well as a kilowatt hour rate that was, on average, 25% higher than it had previously been.)

2. transition arrangements for customers experiencing difficulty in adjusting to higher prices would need to be established.
3. all retailers would need to have hardship programs established and have these is approved by independent regulator., in line with NECF hardship provisions
4. government energy concessions need to be reviewed and extended to cope with increased prices.
5. it would be useful to establish a customer reference group to provide advice to government, the regulator and the electricity industry and that impacts on low income and disadvantaged households, as well as providing suggestions to remedy any emerging problems.
6. Establishing a Utilities Ombudsman

### **Summary**

The submitting agencies do not believe that it is in the best interests of Northern Territory electricity consumers to move to the introduction of FRC for electricity markets, in the near future. The best approach is to defer consideration of the introduction of FRC for residential and small business customers, until a least the attainment of effectively competitive markets for large business customers.

We suggest that the “second-best” approach is for a regulated, vertically integrated monopoly business to provide electricity to Northern Territory consumers. The independent regulator will need to ensure that prices are determined in the best interests of consumers and published so that they readily accessible for consumers.

This is also capacity to further enhance residential consumer protection in the electricity market, particularly given the likelihood of significant electricity price rises in the foreseeable future, we suggest:

1. Reviewing and strengthening electricity concessions,
2. reviewing hardship policies and consumer protections against the NECF (once finalised) and
3. establishing utilities ombudsman regarded as the most important consumer protection measures.