



Northern Territory Council of Social  
Service Inc.

*'Growing the NT fairly'*

## **NTCOSS Submission to the Legislative Assembly of the Northern Territory**

**12<sup>th</sup> Assembly, Public Accounts Committee**

# ***Inquiry into Splitting the Power and Water Corporation***

**April 2014**

Wendy Morton  
Executive Director  
PO Box 1128, Nightcliff NT 0814  
1/18 Bauhinia Street, Nightcliff, NT 0810.  
Ph 08 8948 2665 Fax 08 8948 4590  
Email: [wendy.morton@ntcoss.org.au](mailto:wendy.morton@ntcoss.org.au)  
Website: [www.ntcoss.org.au](http://www.ntcoss.org.au)  
ABN: 19 556 236 404

## **NTCOSS Submission to the Public Accounts Committee (April 2014)**

### **Introduction**

NTCOSS is a peak body for the community sector in the NT and is a voice for people affected by social and economic disadvantage and inequality. The community sector in the NT is made up of community managed, non-government, not for profit organisations who work in social and community service delivery, sector development and advocacy. The community sector plays a vital role in creating social wellbeing for all Territorians and in building safe and healthy communities by providing services that enable people to access and participate in health services, education, employment, economic development, and family and community life.

Access to utilities for Territorians is an issue which NTCOSS has highlighted in the past five years, since the significant electricity and water price rises were announced in early 2009 by the then Labor Government, and more recently in late 2012, when the current Government announced the most significant price rises in the Territory's recent history. More recently NTCOSS has released a Cost of Living (CoL) Report: *"Tracking changes in the cost of living, particularly for vulnerable and disadvantaged Northern Territorians -The Cost of Utilities in the Territory (Issue No. 1, October 2013)*, which highlights a range of issues in relation to:

- The movement of utilities prices over the last 15 years in the Northern Territory
- The rapid increase in the consumer price index for utilities prices in the NT, when compared with the general CPI rate<sup>1</sup>
- Average household expenditure for NT households on electricity, water & sewerage, and household gas
- The disproportionate impact that utilities price rises have on low income households in the NT (2013a)

The ability to access affordable electricity and water services is critical to the health and wellbeing of all Territorians. NTCOSS is particularly concerned about low income and disadvantaged Territorians in this context.

### **Inquiry into Splitting the Power and Water Corporation**

NTCOSS therefore welcomes the opportunity to provide some input into this inquiry process in relation to the Northern Territory Government's proposal to split up the Power and Water Corporation into three separate entities. NTCOSS appreciates the complex nature of power and water generation and retail issues, and the range of stakeholder input which require consideration by the Public Accounts Committee. NTCOSS also acknowledges that we are not experts as far as the technical side of the power and water system is concerned. However, NTCOSS has a long history as an advocate for low income and disadvantaged Territorians, and links with other State COSSes and ACOSS, and seek to draw attention to concerns in relation to vulnerable Territorians, and to highlight lessons learned in other jurisdictions across the country.

The splitting of the Power and Water Corporation (PWC) into separate entities will see the PWC restructured to separate its monopoly and competitive businesses into stand-alone Government-owned corporations with separate boards. (Minister Tollner, 2013b). NTCOSS acknowledges that the Government's "primary objective of

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<sup>1</sup> Use of Darwin CPI with NT figures: State CPI figures are not available through the ABS, and so Darwin CPI figures are used to calculate current expenditure figures from the 2009-10 HES Expenditure Data. Given the relatively similar expenditure figures for Darwin and the NT as a whole, and the same pricing structure for electricity and water across the NT, the use of the Darwin CPI provides an accurate basis for deriving the figures.

the restructure is to make PWC more efficient and financially sustainable and to ensure it can operate effectively in the new competitive electricity market.” (Minister Tollner, 2013b)

NTCOSS supports efforts to create a more efficient and financially sustainable power and water structure, and supports the goal of increased transparency and accountability. NTCOSS also supports the NT bringing its regulatory arrangements more into line with those in other jurisdictions (and NTCOSS has previously argued (2013b) for the same consumer protections afforded people in other jurisdictions be put in place in the NT.

NTCOSS does however, have concerns about the splitting of power and water if it is a first step towards the privatisation of power and water. NTCOSS acknowledge that the NT Government has made statements indicating that privatisation is not being considered, and that “the corporations will remain government owned and will not be sold off” (Chief Minister Giles, 2014). However the NT Government has indicated it wishes to encourage competition in power generation, transmission and retail, and concerns remain about the prospect of future privatisation down the track – even if it is not an immediate aim, as there are provisions in Amendment Bill 2014 serial 63, allowing for the possibility of “transfer of all or part of the business of a Government owned corporation to a relevant entity.”, which we refer to in greater detail on page 11 of this submission.

Privatisation in other states, for example in South Australia (1999), has led to higher electricity prices for households, with the CPI for electricity rising 175% in Adelaide since 2000 (SACOSS, 2013). NTCOSS’ concerns centre on the needs of low income and disadvantaged Territorians, and how they will fare under a system of competition (and possibly privatisation at a future date).

NTCOSS also acknowledges the NT Government’s intention “to improve the regulatory framework in the energy sector to encourage competition in the utilities market” and... “to provide electricity at the lowest possible tariff to consumers” (Minister Tollner 2013). Having access to affordable utilities like electricity, water and sewerage is a crucial and basic right of people living in a modern society. Those services are important to health and wellbeing, and lack of access to those services is a barrier to social participation. However, the costs of providing such services to an area as vast as the Northern Territory is an incredibly expensive exercise. The Northern Territory Government has historically subsidised the costs of power, water and sewerage, to ensure a level of affordability to all Territorians – and, in particular, by providing a consistency of charges, regardless of whether someone lives in a main centre, or a remote community. This entails a substantial Community Service Obligation (CSO) budget commitment by the NT Government given the high energy generation costs. NTCOSS is concerned that, while the Government will continue to set the tariff, if there are private electricity suppliers, entering the market, for example, there could eventually be pressure on Government to raise tariff levels (especially in remote areas) to reflect the cost of supply of electricity.

From an environmental sustainability perspective, price increases may provide the necessary (dis)incentive to change patterns of use of Territorians, where we have the highest rate of water usage per household in the country, and the most expensive electricity production costs (but until recently the cheapest retail price for electricity). However, all of this must be considered in light of the NT already facing very high costs of living, due in large part to its remoteness, reflected in the cost of housing, fuel and food – which particularly impact on low income and disadvantaged Territorians, and senior Territorians. Electricity and water price rises must be balanced against this background.

In this submission NTCOSS highlights the impact of household expenditure on utilities for low income and disadvantaged Territorians, provides some feedback on experiences in other jurisdictions, before making some more specific comments in relation to the proposed splitting up of power and water.

Many in the NT are already doing it tough and low income Territorians and seniors can least afford to purchase energy and water saving devices, or high energy rating appliances – such as efficient washing machines, or solar panels. The NT Government has a difficult task trying to strike a balance between recovering the costs of producing power for Territorians families and keeping the cost of living down. The significant increase in power costs in 2009 and the even larger increase in 2013 hit many Territorian families very hard. Agencies across the NT saw a marked increase in requests for PowerWater hardship vouchers as a result of the price rises. The needs of low income and disadvantaged Territorian households must be paramount in any reforms, and provisions, therefore, must be made to ensure there is targeted assistance to ensure that those who people on low incomes are not plunged into further hardship.

The various price rises introduced by the NT Government since 2009, have been deemed necessary to bring the retail price closer to the true cost of providing services. But other factors need to be considered including incentives to put in place energy saving devices and mechanisms, and knowledge and education provision – particularly to vulnerable households.

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## Price of Power and Water vs Household Expenditure

The Northern Territory Government has highlighted in recent public information about plans to split power and water (Centralian Advocate 2014; Chief Minister (2014)) the fact that the price Territorians pay for electricity is lower than the national average, as per the graphs here below (Figures 1a 1b 1c) and that our electricity prices are the fifth highest in the country. The NT also has the fifth highest price in the country for water<sup>2</sup>, which is also below the national average. However, the price of sewerage in the NT is the second highest in the country, and is above the national average.

### Australian Utility Tariffs - Comparison

### Australian Household Utilities Expenditure - Comparison

Figure 1a Price - Electricity

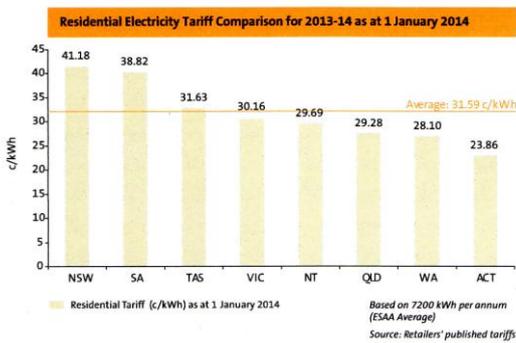


Figure 1b Price - Water

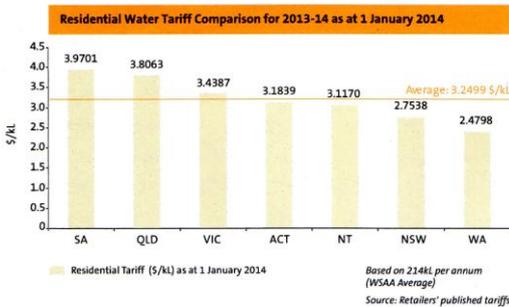
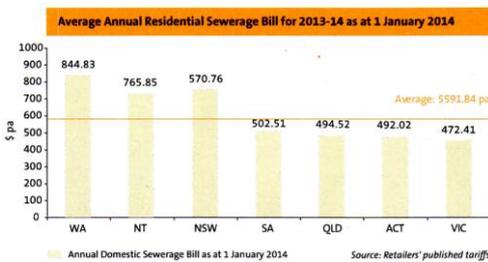
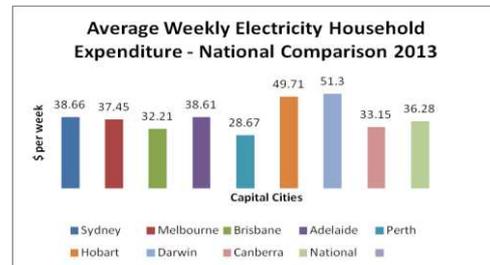


Figure 1c Price - Sewerage



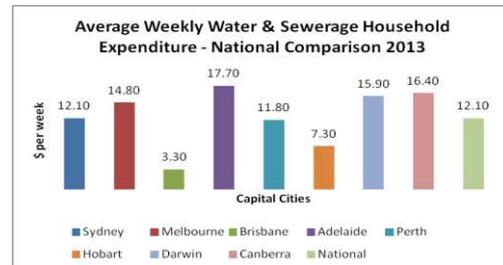
Graphs from Power and Water Corporation (2014)

Figure 2a Expenditure - Electricity<sup>3</sup>



Darwin figures show it has the highest expenditure on electricity in the country, and the third highest on water and sewerage - despite the lower prices for electricity and water.

Figure 2b Expenditure - Water



Figures derived from ABS (2011b Table23A); and ABS (2013d Table 13)

The accurate assertion by the NT Government that the price of electricity is less than the national average must be balanced by the fact that expenditure by Darwin and Territorian households is significantly greater than the national average.

<sup>2</sup> The NT is 5<sup>th</sup> out of 7 States and Territories listed – as Tasmanian figures are not included in this national comparison for water

<sup>3</sup> NT HES figure for electricity (\$46.40 p/w) indexed to 2013 prices is lower than the Darwin figure (\$51.30 p/w), but is still above the national state average. The NT HES figure for water (\$15.80 p/w) indexed to 2013 prices, is almost identical to the Darwin figure (15.90 p/w). See Footnote 1 & Table A (Appendix)

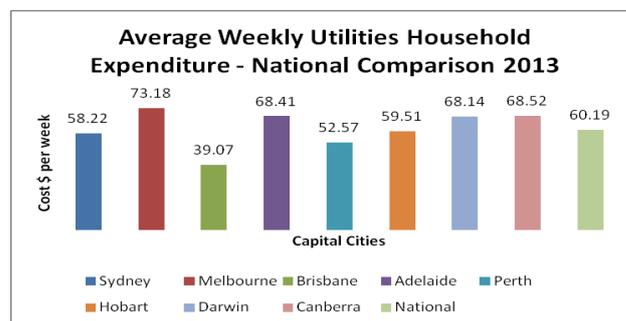
## Overall Expenditure on Utilities in the NT - NTCOSS Cost of Living Report

It is critical, therefore, to examine not just tariff rates but actual expenditure by households, and the differences in expenditure for particular household income levels, as well as consideration for the particular climatic conditions present in different parts of the NT (tropical; desert). It is also important to look at overall expenditure on utilities (including gas) as some states have higher gas usage and lower electricity than others, and in terms of this overall expenditure, the NT is hovering around the second highest expenditure in the country – with expenditure in Darwin at \$68 per week, on par with Adelaide and Canberra, and just below Melbourne.

The recent NTCOSS Cost of Living Report (October 2013, No.1) which focused specifically on utilities, highlighted the following factors:

- Households in the NT have consistently had the highest expenditure on electricity in the country over the last 15 years
- Households in the NT now have the 3<sup>rd</sup> highest expenditure on water in the country – see Appendix
- Utilities prices in Darwin (and the NT<sup>4</sup>) are rising much faster than the general inflation rate - with water prices having risen at 3x the inflation rate between 1998 and 2013; and electricity prices at 2x the inflation rate' (See Table 1)
- Over the last 3 years (to June 2013), the CPI for utilities has risen 45% (Figure 4 above), faster than the rise in all other states and territories, bar Adelaide. (Electricity has risen by 40.1%, water by 70.6% - while the general CPI for Darwin has only risen by 8.7%).
- Territory households are now spending an average \$187 per quarter more on utilities, than they were a year ago – that's \$748 per year extra (see Table A in Appendix)
- Utilities prices hit lowest income households the hardest – those who have the least ability to pay; and
- Poorer households spend proportionately more of their incomes on utilities than richer households.

**Figure 3: Comparison of Utilities Expenditure in Capital Cities 2013 (Indexed from 2009-10 HES Figures)**



Figures derived from ABS (2011b Table23A); and ABS (2013d Table 13)

Between June 2012 and June 2013, utilities bills for families in the NT went up \$187, on average for the quarter, **comparing the June 2013 quarter with the June 2012 quarter, equating to an increase of around \$748 per year.**

<sup>4</sup> The same rate of increase has effectively occurred across the whole of the Territory, as the same standard meter and pre-paid tariff rates apply across the whole of the NT

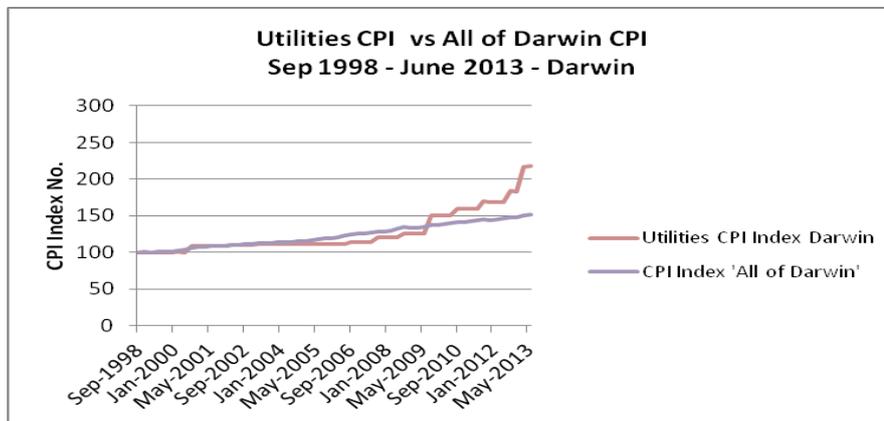
**Table 1: Utilities Expenditure increases over the last year, Northern Territory June 2012-June 2013**

(NT 2009/10 base figure \$)	NT Estimated Average Weekly Expend \$ June 2012	CPI Increase Darwin for each utility % (June 2012-June 2013)	NT Estimated Current Average Weekly Expend \$ June 2013	Increased expenditure per week \$ in past year	Increased expenditure for whole quarter (13 weeks) \$	Actual expenditure for whole quarter (13 weeks) \$
Electricity (33.15)	35.60	30.6	46.40	10.80	140.40	603.20
Gas: Bottled and Mains (1.59)	1.68	12.4	1.89	0.21	2.73	24.57
Water & Sewerage (9.28)	12.40	27.3	15.80	3.40	44.20	205.40
<b>Totals</b>	49.68	-	64.09	14.41	187.33	833.17

Source: Derived from (ABS 2011b Table 27A; ABS 2013d Table 13, Data 4) NOTE: Darwin CPI used as state CPI figure not available in ABS data See Technical note 4 re use of Darwin CPI with NT figures (NOTE: Not all households use gas)

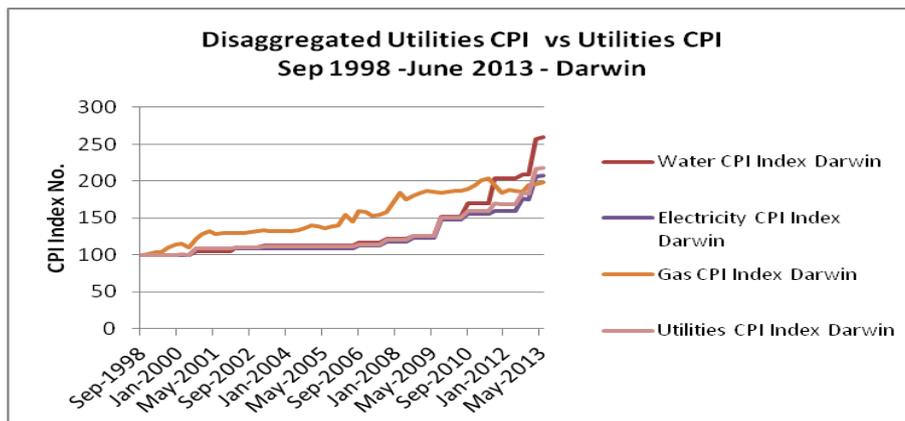
An added factor to the high expenditure is that prices are rising at an alarming rate, as the following figures show.

**Figure 4a: Utilities CPI vs All Groups CPI Sep 1998 - June 2013 for Darwin**



Source: ABS (2013d Table 13)

**Figure 4b: Disaggregated Utilities CPI vs Utilities CPI 1998 – June 2013 for Darwin**



Source: ABS (2013d Table 13)

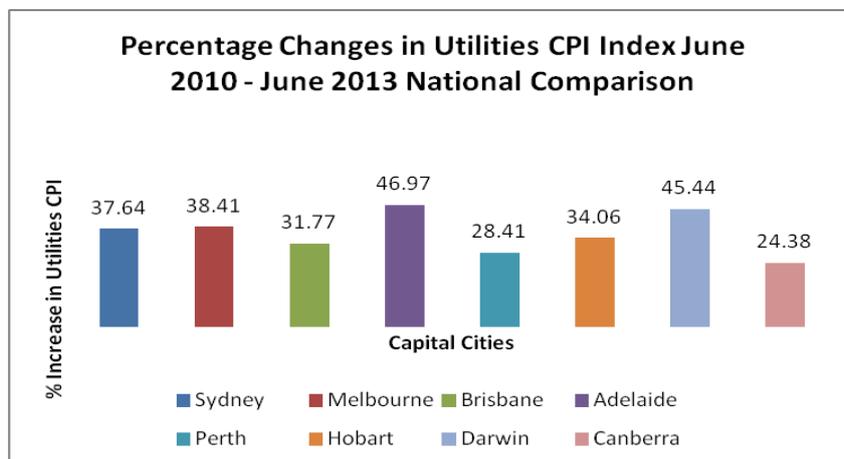
**Table 2: CPI increases for Utilities over the last 15 years, Darwin**

	% Increase Sept 1998-June 2013
Electricity	107.6
Gas	98.9
Water	159.70
Utilities	118.5
CPI – All Groups	51.8

Source: ABS (2013d Table 13, Data 4)

**Over the last 15 years in Darwin, water prices have risen at a rate three times the general CPI rate, and electricity prices have risen at double the rate.**

**Figure 5: Percentage Changes in Utilities CPI Index in Capital Cities June 2010 - June 2013**



Source: Figures derived from ABS (2013d Table 13, Data 4)

### The Importance of Utilities Expenditure

Utilities bills can drive economic hardship and make budgeting difficult, because they are not a regular weekly expenditure and come in big amounts, causing “bill shock” both because they are large expenditures when they do come and because in recent times they have gone up considerably.

In 2009/10, some 14 % of Northern Territory households had at least one experience of not being able to pay their utilities bills on time (ABS, 2011c, Table 30), a marker for financial stress. Interestingly, national figures (ABS, 2011b, Table 31A) show that the average weekly expenditure on electricity was about the same for those who experienced multiple indicators of financial stress throughout the year, as for those who experienced none, while expenditure on water and gas was less for those with multiple financial stress indicators.

**This suggests that those who are experiencing financial stress are not using more electricity than others (and are using less water and gas), it is just that, faced with rapidly rising prices their ability to pay may be compromised.”**

## Utilities as a Proportion of Household Expenditure

Lower income households (the bottom two quintiles) clearly spend more on utilities as a proportion of their income than the average or higher income households – see Table 5. Therefore any further price increases are going to be particularly felt by lower income households, in the bottom two quintiles.

**Table 3: Utilities Expenditure by Household Type, Northern Territory (2009-10)**

	Domestic Fuel & Power (NT) 2009-10	Water (National*) 2009-10
	% of H/hold Expend	% of H/hold Expend
Lowest Income Quintile	3.00%	0.87%
Second Income Quintile	3.30%	0.78%
Third Income Quintile	2.53%	0.68%
Fourth Income Quintile	2.46%	0.64%
Highest Income Quintile	1.93%	0.57%
All households	2.35%	0.66%

*Source: Domestic Fuel & Power figures taken from 2011c (Table 3);*

National figures are used for the breakdown of figures water and sewerage, as not available at the state level

## Cost of Living Pressures on Low Income Households in the NT

Residents of the Northern Territory face well documented high costs of living, in terms of housing, food, and transport. Up until 2009, the NT residents enjoyed some of the lowest utilities prices in the country but now household expenditure on utilities in Darwin is around \$68 per week – roughly the same as Canberra and Adelaide, and effectively behind only Melbourne (\$73 per week).

Former and current NT Governments have, in some ways, recognized cost of living pressures on low income households brought about by utilities price rises. In 2009, the former NT Government altered the Northern Territory Pensioner and Carer Concession scheme to protect pensioners and carers from the then price rises. And more recently, the current Government reduced the severity of the initial price rise introduced in January 2013. But despite such measures, expenditure on utilities by Territorian households continues to rise – with the greatest impact being felt by low income households – for whom utilities expenditure makes up a much greater proportion of their income.

## Lessons from Interstate

NTCOSS has liaised with other Councils of Social Service around the country and it is interesting to note some of the experiences of other states. It is particularly interesting to note that in South Australia, where disaggregation has occurred, there have been moves to re-aggregation of generation and retailers. Now 99% of retailers have their own generation arm (SACOSS, 2014). Retailers have found that (re)combining retail and generation seems to be more efficient and means that they don't rely on another generator to manage risk, and have enough generation to manage demand. It is also crucial that the NT looks at interstate experiences to look at the impact of deregulation across the board, as what might work for large energy users (whose expenditure can justify the resources needed to engage with the market) may not be in the best interests of households and small businesses and these needs must be balanced.

## **The South Australian Model of Disaggregation**

Price regulation in South Australia ceased 12 months ago, however for the previous ten years, the SA Government allowed one provider (AGL) to have the whole distribution market (all of the customers) when electricity was first disaggregated, and this has created problems. It was then up to everyone else to chip away at the market held by AGL, who also bought the biggest generator in SA. Since then, twenty per cent of customers have stayed with the regulated price, while another thirty per cent switched contracts, but not suppliers (i.e. took up different offers with AGL, who had to retain a regulated price, but could make competitive offers). This means that AGL still has around 50% of the market. It has taken a lot to make the market competitive in SA. **SACOSS' experience is that it is hard to tell if competition means that people are better off or not. (SACOSS, 2014)**

It is also important to note that disaggregation can negate incentives for demand management and energy efficiency. Peaks in demand are key drivers of cost across the NEM (i.e. poor network utilisation and expensive generation that only runs for short periods of time). However, one of the key barriers to demand management is aligning the incentives of the elements of the supply chain. For example SA Power Networks have found in previous studies that things like Direct Load Control (DLC) of air conditioners is cost effective (i.e. cheaper than the supply chain costs and therefore delivers the most efficient result for consumers) but just not for the Power Networks so the initiative has stalled. It only works if you can combine the benefits to the generators/retailers with the benefits of avoided network costs. NTCOSS is interested to know if the NT Government will explore this issue as part of the proposed restructure of power and water. (SACOSS, 2014)

## **The Victorian Model of Disaggregation**

The situation in Victoria appears better – partly helped by the fact they have a bigger market, with five distributors and fifteen retailers - but also by the fact there was no distributor with a monopoly when disaggregation occurred. The greatest market share any of the distributors currently has is around thirty per cent. There are increasingly lower network charges in Victoria, but that has been about regulation, and this is backed up by research done by Hodge, (2009) that "... it is regulatory sophistication & integrity that matters most. There are lots of layers of complexity with lots of players in the market when a monopoly is disaggregated. VCOSS report that the disaggregation of water has worked better – than the disaggregation of electricity in Victoria, as disaggregation occurred but not privatisation (which was never part of the plan) so there have been less private profit interests involved (VCOSS 2014).

## **Size of the Market**

The size of the market is definitely a key factor, with the bigger market in Victoria a key factor, and South Australia and Tasmania, with their smaller (relative population) struggling. The Northern Territory with a population base less than half that of Tasmania, will clearly face enormous challenges to create a competitive market. The NT would want to avoid the risk of the development of a duopoly, if only two retailers were in the market. In Victoria – the big distributors have much the same price and it is with the smaller players where you see the aggressive discounting. The quality of customer service also varies with the smaller retailers. Even within a larger jurisdiction, such as Victoria, there are fewer options of providers in geographic areas that can't support a market

## **Deregulation of Price – A Challenge for Consumers**

Price regulation in South Australia has presented a real challenge for consumers, particularly more vulnerable consumers who are reluctant to move. While competition can be a positive thing for consumer protection, there are barriers to many people switching contracts. These barriers include not having all of the required information; not being connected to broadband and being proficient with internet use (which is the case for a number of older senior consumers<sup>5</sup>). The Victorian experience suggests that if a customer is good at searching – you can get low price - if you can put in the time and effort and you have the nous – you can get lower prices. In Victoria more consumer information has become available which has made things better.

## **Response to Specific Aspects of the Inquiry into Splitting the Power and Water Corporation**

NTCOSS has a number of comments to make about the proposed changes to power and water. The move to split power and water into separate entities has many precedents around the country and in, and of itself is not cause for concern, although there will be some additional costs associated with the establishment of the separate entities which will each need separate administrative structures and separate boards, which will involve set up costs as well as ongoing long term costs - which will not be a cheap exercise. These costs will need to be absorbed into the overall costs for the provision of services and could arguably lead to these costs being passed on the consumer.

## **Concern about the possibility of Future Privatisation and Sale of Government Assets**

NTCOSS has previously expressed concerns about whether the splitting up of power and water was the first step towards privatisation at a later date in the future (NTCOSS (2013b), Submission to Utilities Commission). NTCOSS notes that the NTG has been very clear in its public statements that the proposed changes are not about privatisation, but there are some aspects of the proposed changes to the legislation that are cause for concern – namely the reference in the Power and Water Corporation Legislation Amendment Bill 2014 serial 63 – to “**Division 2 Transfer regulations, 53B Transfer regulations, (1) Regulations may be made under this section for the purpose of effecting the transfer of all or part of the business of a Government owned corporation to a relevant entity.**” (See Explanatory Notes)

NTCOSS would be very concerned if down the track, the sale of a profitable arm(s) of the Power and Water Corporation was seen as a one-off cash advantage. (The proposed legislation lends itself to this possibility). Currently the profitable arms of PWC effectively subsidise the arms that are financially unsustainable on their own – and this helps keep prices relatively low (compared to the national average). If these profit generating arms were to go, there are concerns that the NTG may not still be able to subsidise prices to the current extent.

**RECOMMENDATION: NTCOSS therefore seeks a guarantee from the NTG to the people of the Northern Territory that it will not sell off any profit making portions of the PWC**

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<sup>5</sup> See Explanatory Notes in Appendix ‘Specific issues affecting older consumers of electricity’

## **Competition and Utility Prices**

NTCOSS is concerned about the following assertion in the Department of Treasury and Finance, (2014) Northern Territory Electricity Market Reform Information Paper, where it is stated: “To this end, nothing is more effective in capping costs and prices than promoting competition in the Territory’s electricity supply industry.” (p.2).

NTCOSS is concerned about this assumption being one of the driving forces behind the proposed reforms in a relatively small electricity market, as the benefits for consumers as a result of competition in other jurisdictions have been questionable, as what might work for large energy users may not be in the best interests of households and small businesses and these needs must be balanced.

A study published by the Consumer Action Law Centre and Monash University’s Centre for Privatisation and Public Accountability (2006) about outcomes of electricity reforms for Victorian consumers, found that price benefits as a result of competition have not been equally distributed, and discounting goes to high and industrial users, rather than household and low-consumption users. More relevantly, it found that there is little reliable consumer price data under new competitive market contracts – and it is thus really difficult to determine what the price benefits are. Since this study, however, this situation has been improved somewhat, with some reporting now by regulators such as the AEMC, although the level of reporting is minimal).

There has also been a recent report by the Essential Services Commission Victoria (2013) about retailer margins, and this report suggests that following deregulation of retail energy prices, retailer profit margins in Victoria have actually increased. Competition cannot come without a cost – i.e. attracting and retaining customers. The high switching rate in Victoria makes this issue starker than may be the case elsewhere.

The question as to whether the potential benefits of competition exceed the costs is an important one (Electricity Market Reform Information Paper p2). However, from our enquiries, it is not possible to know for sure what would have happened to prices in Victoria or South Australia, as examples, if competition hadn’t been introduced.

It is also vitally important to be clear on the objectives of the reform process, and to acknowledge that the reforms in the NT do not appear to be driven in response to consumer demand for choice in an energy supplier (This is not a priority for everyone – as the South Australian experience testifies, with 50% of household consumers remaining with incumbent retailer AGL 11 years after the option to change supplier was introduced (though 60% of these customers switched contracts, but not suppliers). If the NT Government’s objective is attracting private capital (as stated at Electricity Market Reform Information Paper p2) – it is important to ask if retail competition the only path to this end? There may be other avenues worth exploring such as a Government bond issue as a lower risk option than seeking private capital based on a hope that competition emerges.

## **Service Outcomes**

There also needs to be a focus in the Northern Territory on service outcomes as well as pricing and efficiency issues. It is interesting to note from Victoria that it is estimated that there will be 100,000 complaints to the Energy & Water Ombudsman Victoria, the vast bulk about energy. This equates to 1 complaint per 25 households. Similar levels of consumer dissatisfaction did not exist before the introduction of competition. There needs to be a discussion and planning around what pre-conditions are necessary for consumers to benefit from competition, which might include consideration of the following:

- Strong consumer protections – bans on unsolicited sales (door-to-door and the like); simple and clear information requirements around pre-contractual, contract terms and conditions, and billing; fair terms and conditions – bans on late payment fees/pay on time discounts, bans on exit fees, bans on unilateral price changes within fixed period contracts etc; strong disincentives against disconnection and/or legal debt recovery, including hardship policies; measures to encourage consumers to identify contracts that suit them etc (see also section on Consumer Advocacy below)
- Quality and reliability standards – this will be particularly important in more remote areas of Territory
- Effective dispute resolution – such as the establishment of an industry ombudsman service
- Regulator with a strong retail market compliance and enforcement culture, and prepared to use its enforcement powers
- Strong regulation of distribution networks

### **Private Sector Investment**

NTCOSS is also concerned about the following statement in the Department of Treasury and Finance, (2014) Department of, Northern Territory Electricity Market Reform , Information Paper, February 2014; **“In addition, the Government is intent on doing all that it can to encourage the Territory’s continuing growth, but limits on the Government’s borrowing capacity mean that the private sector has to step up to the mark when it comes to new investment in the electricity sector, especially generation.” (p.2)**

Private entities do not have the opportunity to access capital at the same rate or lower rate than Government. If the NT Government is hoping for the efficiency gains to offset the higher cost of capital that the private sector will face, this creates a situation of significant risk to the private sector and ultimately the Northern Territory. It is not clear that the Government has presented a case for the level of efficiencies likely to be gained. And the ability of private sector to raise capital and investment at the scale required is not a foregone conclusion. NTCOSS is not aware that the level of efficiency gains to be made have been fully articulated, nor is it clear how the private sector will get a guaranteed return on investment better than what’s currently on offer.

To attract competition generally means that you need the regulated price to have some room to move in terms of price to make it work. If there is a regulated price for electricity in the NT –competition will only be possible if electricity can be supplied at less than the regulated price. That means everyone who remains with the regulated price will be paying more than they need to [see below re ‘Deregulation of price – a challenge for consumers’]

It appears to NTCOSS that the NT Government is pursuing efficiencies while adding risk to the market through opening up competition at both the generation and retail levels, and at the same time asking investors to contribute very significant levels of capital. Economies of scale considerations will be critical for the NT, as a very small population base across a very large expanse.

**RECOMMENDATION: For the NT Government to present a financial analysis showing the difference between the rate of return the PWC is currently receiving, with the rate of return that they hope the private sector will make in the future when the power and water split takes place and competitors can enter the market.**

## Consumer Advocacy

NTCOSS is encouraged by the proposal (p.4) that “at an appropriate time, introduction of the National Energy Retail Law in the Territory will also see the regulation of the Territory’s retail energy market – apart from retail price regulation – being transferred to the AER”, [who] will then be responsible for consumer protection, retail competition and performance monitoring. NTCOSS has previously asserted that “Residents of the NT should be able to expect at least the same protections as those in other States, the majority of whom have funded consumer advocacy in place (NTCOSS 2013b). The reality is that any new entrants into the NT market are likely to already be operating subject to the National Energy Market (NEM) rules interstate (unless from WA), which can give NT consumers confidence.

NTCOSS also reinforces its recommendation from October 2013 (and its Cost of Living Report), that if disaggregation occurs in the NT, that consumer protections be put in place, to ensure the necessary consumer protections accompany any such changes similar to other jurisdictions<sup>6</sup>. In particular we recommended the following:

### Recommendation 5 from NTCOSS Cost of Living Report

**5. Consumer Advocacy resourced in the NT.** If disaggregation occurs as a result of Government decisions around the splitting up of the Power and Water corporation, funding for consumer advocacy must be established to ensure the necessary consumer protections are put in place to accompany such reforms. Such advocacy would include incorporating consumer perspectives on network price determinations (transmission and distribution), and consumer engagement in the power of choice recommendations relating to the introduction of smart meters, amongst other measures, to find the best solutions for the Northern Territory. The electricity industry is well resourced to provide their perspective on the myriad of issues in the energy space, but it can be easy for consumer interests to be overlooked. The consumer must have a legitimate voice.

## Energy Efficiency Schemes

While there have been energy saving schemes available in parts of the Northern Territory over the last decade, low income households have generally not had the financial means to take advantage of them. This makes it very hard for low income households to improve their energy efficiency, which often leads to reliance on older and inefficient appliances, which are often subject to poor maintenance regimes. In addition renters in older accommodation often face poor thermal efficiency in their homes, and there is little incentive for landlords to make energy efficiency related improvements.

The PWC 2014 Network Price Determination, Initial Regulatory Proposal (1 July 2014 to 30 June 2019, p.48), highlights the fact that “The number of solar PV installations connected to the network is rapidly increasing...These installations are predominantly at domestic and small commercial premises”. The growth in installations in recent years is certainly encouraging, but these installations are not occurring amongst low income households, so the efficiency gains are being made by middle and high income earners, which is bringing down the cost of their electricity bills. However, low income households simply do not have the financial means to make large capital purchases such as for solar PV, and therefore miss out on such opportunities to make savings on

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<sup>6</sup> See Explanatory Notes in Appendix

their bills. It is imperative that the Northern Territory finds creative solutions to make energy efficiency measures more accessible to low income households (See Recommendation 1 from NTCOSS Cost of Living Report, below).

NTCOSS is pleased that there are now programs nationally which are directly working with low income households to address energy efficiency issues – including the Low Income Energy Efficiency Program (LEEIP) in East Arnhem Land – and believe that further steps can be taken.

Any discussion about movement towards competition measures in the Northern Territory must take consideration of the needs of low income and disadvantaged groups, such as seniors (especially those in dual fuel households), and those in rental accommodation. Measures addressing the barriers to improving energy efficiency for particular households must be developed. NTCOSS makes some recommendations in its Cost of Living Report, in relation to these issues, including:

**Recommendation 1 from NTCOSS Cost of Living Report**

**1. Provide mechanisms to enable low income households to improve energy and water efficiency.** This could take a number of forms and include initiatives such as:

- Incentives for private and public housing landlords to improve energy and water efficiency; and
- The establishment of low-interest loans and/or more rebates for solar power, solar hot water - which need to be targeted in a way to be accessible to low income households.
- Access to information, education and workshops to enable households to take control of their energy and water usage, including increasing the ability of tenants to advocate to landlords to report damage that may contribute to higher living costs. This could also include education for landlords.

## Conclusion

NTCOSS values the opportunity to provide some input into this inquiry process, and while some of the issues highlighted may be outside of the capacity of the current inquiry, but we highlight these issues here in the hope that they can be brought to the attention of other decision makers, and inform the discussion and debate around these significant issues.

NTCOSS urges the Public Accounts Committee and the Northern Territory Government give due consideration to the needs of low income and disadvantaged Territorians as the NT Government embarks on the splitting of power and water, and the introduction of competition. With cost of living pressures already high for many Territorians, it is imperative that any measures implemented as a result of disaggregation, do not lead to further price rises to these essential services, to ensure there is no adverse impact on low income and disadvantaged Territorians.

## Attachments:

*Power Water, 'Some Facts about Power and Water' (Centralian Advocate, 28 March 2014)*

*Tracking changes in the cost of living, particularly for vulnerable and disadvantaged Northern Territorians – the cost of utilities in the Territory, (Issue No. 1, October 2013)*

## **Appendix:**

### **Explanatory Notes**

#### **Interstate Comparisons – Further Information**

Using data in the ABS *Household Expenditure Surveys* and CPI it is possible to compare utilities expenditure in different states – which are expenditure figures and are not price comparisons (for price comparisons see Figures 1a, 1b, 1c above).

While electricity in one state may be more expensive than another, expenditure on electricity may be less because of greater use of gas (or solar or other technologies). For a meaningful cost of living measure, it is important therefore to do a comparison based on a combined figure for all utilities (electricity, water and sewerage and gas), as what ultimately matters for consumer affordability is how households need to spend to get the necessary power and fuel - not the fuel mix or price per unit.

In the last *HES (2009-10)*, Darwin average household electricity expenditure was the highest in the country; gas expenditure was the lowest in the country, while water was 6<sup>th</sup> highest.<sup>7</sup> However, the price rises since the 2009/10 HES survey suggests that water expenditure in the NT has gone up significantly and is now the third highest in the country. Electricity expenditure in the NT, which has consistently been the highest in the country, has gone up even further.

The data in Figures 1a and 1b and Figure 2 show the comparative capital city expenditures indexed to the June 2013 quarter using the relevant CPI rises (capital city data is used because there is no whole-of-state CPI) for electricity as well as water and sewerage – and for utilities as a whole. (Household Gas expenditure not highlighted specifically here in a figure, as it is such a minimal part of the average household expenditure figures).

#### **Specific issues affecting older consumers of electricity –Further Information**

“Older people represent a unique segment of the electricity market by virtue of their patterns of usage and household budgeting habits. In brief, older consumers are more likely to display the following characteristics:

- more likely to spend considerable amount of their time in their own homes and be reliant on their residential energy supply to meet the majority of their energy needs (unlike people who spent parts of their day in a work or school environment);
- more likely to suffer from chronic conditions which may intensify their reliance on electricity (for example, to maintain life support equipment or to assist them with temperature regulation or to charge electric mobility devices);
- more likely to forgo other consumption or activities in order to pay their energy bills on time and in full;
- likely to experience significant hardship in their efforts to meet the rising cost of energy which have increased disproportionately to their fixed incomes;
- less likely to apply for available energy rebates or concessions being unaware of their entitlement or believing that others have a greater need; and
- less likely to be able to take advantage of solar generation opportunities because of the high cost of infrastructure.” (COTA 2012)

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<sup>7</sup> In 1998 Darwin had the highest average weekly expenditure on electricity; the lowest on gas and the 3<sup>rd</sup> highest water expenditure among Australian states and territories (ABS, 2001, Table 5). In 2003/04 *HES*, Darwin’s electricity expenditure remained the highest in the country, and gas expenditure remained the lowest; while water sat as the 4<sup>th</sup> highest in the country.

## Consumer Advocacy – Further Information

All jurisdictions – bar the NT and WA – are part of the National Energy Market (NEM), and subject to the National Energy Customer Framework (NECF). Under the NECF<sup>8</sup>, residential (and small business) energy customers are supported by a range of robust customer protections including

- *Guaranteed access* to an offer of supply for electricity and gas;
- *A customer hardship regime*, requiring retailers to develop customer hardship policies that must be approved by the AER, with certain prescribed elements to assist residential customers experiencing longer-term payment difficulties;
- *Limitations on disconnection*, including processes to follow, restrictions on when disconnections can occur, additional protections for customers experiencing hardship for financial difficulty and a prohibition on disconnecting premises where life support equipment is required;
- *Mandatory minimum terms and conditions* for retail and connection contracts for residential customers
- *Energy marketing rules* that build on the requirements set out in the Australian Consumer Law to ensure customers receive full information before they enter an energy contract, and ensuring retailers are held accountable for marketing that is conducted on their behalf.

The PWC's 2014 Network Price Determination, Initial Regulatory Proposal (1 July 2014 to 30 June 2019, (p.22) makes reference to the need for 'improved Engagement with the Wider Community', and the establishment of strong consumer advocacy presence in the NT would also assist in working towards this aim. NTCOSS recommended the following in its Cost of Living Report No. 1:

## The Power and Water Corporation Legislation Amendment Bill 2014 serial 63 – Excerpt

### Division 2 Transfer regulations

#### 53B Transfer regulations

(1) Regulations may be made under this section for the purpose of effecting the transfer of all or part of the business of a Government owned corporation to a relevant entity.

(2) The regulations may do one or more of the following:

(a) transfer all or part of an asset or liability of a Government owned corporation or a subsidiary to a relevant entity;

(b) in relation to a transferred asset – require the transferee to provide consideration for the transfer to the Government owned corporation or subsidiary from which it was transferred or to the Territory;

(c) in relation to a transferred asset or liability, do one or both of the following:

(i) ascribe a value to the asset or liability or provide a method for how the value is to be determined;

(ii) provide for the manner in which the asset or liability is to be dealt with in a relevant entity's accounts;

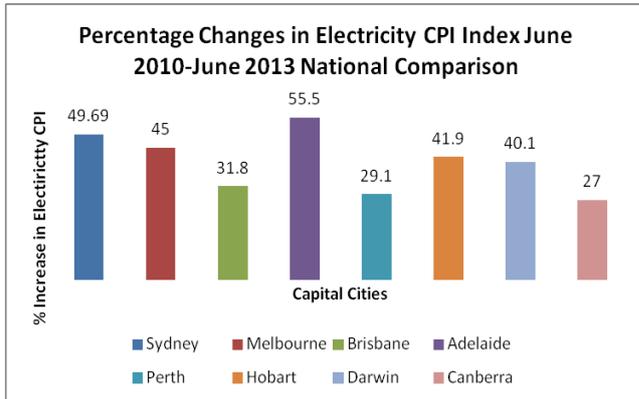
<http://www.austlii.edu.au/au/legis/nt/bill/pawclab2014506/>

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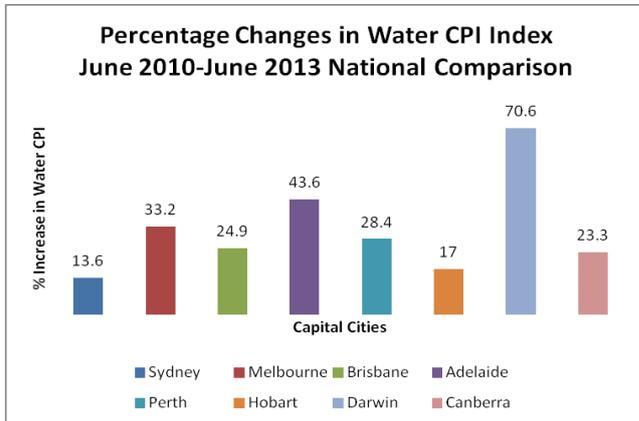
<sup>8</sup> <http://www.scer.gov.au/workstreams/energy-market-reform/national-energy-customer-framework/>

## Further Interstate Comparisons

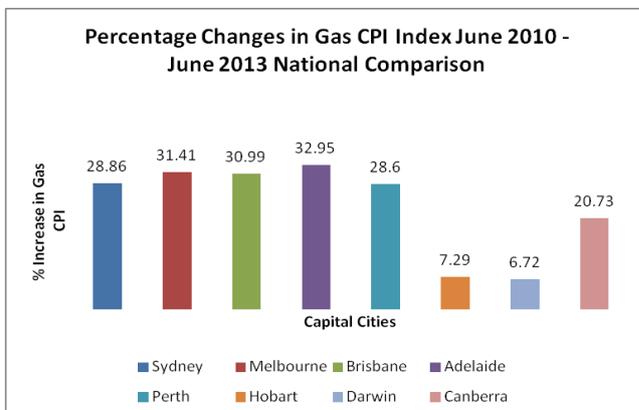
**Figure A: Comparison of Percentage Changes in Electricity CPI Index in Capital Cities: June 2010 - June 2013**



**Figure B: Comparison of percentage changes in Water CPI Index in Capital Cities: June 2010 - June 2013**



**Figure C: Comparison of percentage changes in Gas CPI Index in Capital Cities: June 2010- June 2013**



All figures derived from ABS (2011b Table23A); and ABS (2013d Table 13, Data 4)

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*NOTE: The majority of tables in this submission come from the NTCOSS (2013a) Cost of Living Report No.1*