



COTA Seniors Voice  
Council on the Ageing (SA) Inc  
ABN 28 426 218 581

16 Hutt Street  
Adelaide SA 5000

GPO Box 1583  
Adelaide SA 5001

Telephone (08) 8232 0422  
Country Callers 1800 182 324  
Facsimile (08) 8232 0433

[www.seniorsvoice.org.au](http://www.seniorsvoice.org.au)

27 April 2011

Mr Warwick Anderson  
General Manager  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Via email to: [qldsagas@aer.gov.au](mailto:qldsagas@aer.gov.au)

Dear Mr Anderson

**Re: Envestra Ltd Access Arrangement for the SA Gas Network 2011-2016**

COTA Seniors Voice (CSV) is pleased to provide comment on the AER's Draft Decision on Envestra's Access Arrangement Proposal (the Proposal) and on Envestra's Revised Proposal.

This brief submission should be read in the context that CSV is a member of the South Australian Energy Consumers' Council (ECC) and as part of that group supports the submission by the Energy Consumers Coalition of SA (ECCSA).

In summary, CSV's main concerns for older people arising from the Draft Decision and the Revised Proposal are:

- Rising fixed cost components unfairly disadvantage older person households who consume less gas – since 2003/04 fixed costs have risen by over 300% while consumption costs have risen by 6-17%;
- If significant increases are allowed by the AER, gas will become less attractive as a fuel option and the business case for network extensions will be compromised;
- Many older people do not have a choice in whether they have a gas connection due to their housing status (public or private rental, retirement village) or an inability to replace gas appliances with electric; and
- Envestra's Revised Proposal includes an increase in total revenue of around \$83 million or 7% - this is a significant increase which CSV believes cannot be justified.

In general CSV supports the AER requesting Envestra to revise down its total revenue in its Draft Decision and is concerned by Envestra's Revised Proposal which calls for even higher total revenue. While CSV shares the view that the AER has erred on some points in its Draft Decision (refer ECCSA submission), it is clear that the long term interests of energy consumers are better served under the national gas objective (National Gas Law (NGL)<sup>1</sup>) and AER regulation than under the economic imperatives of energy monopolies.

<sup>1</sup> [www.aemc.gov.au/Gas/National-Gas-Market.html](http://www.aemc.gov.au/Gas/National-Gas-Market.html)

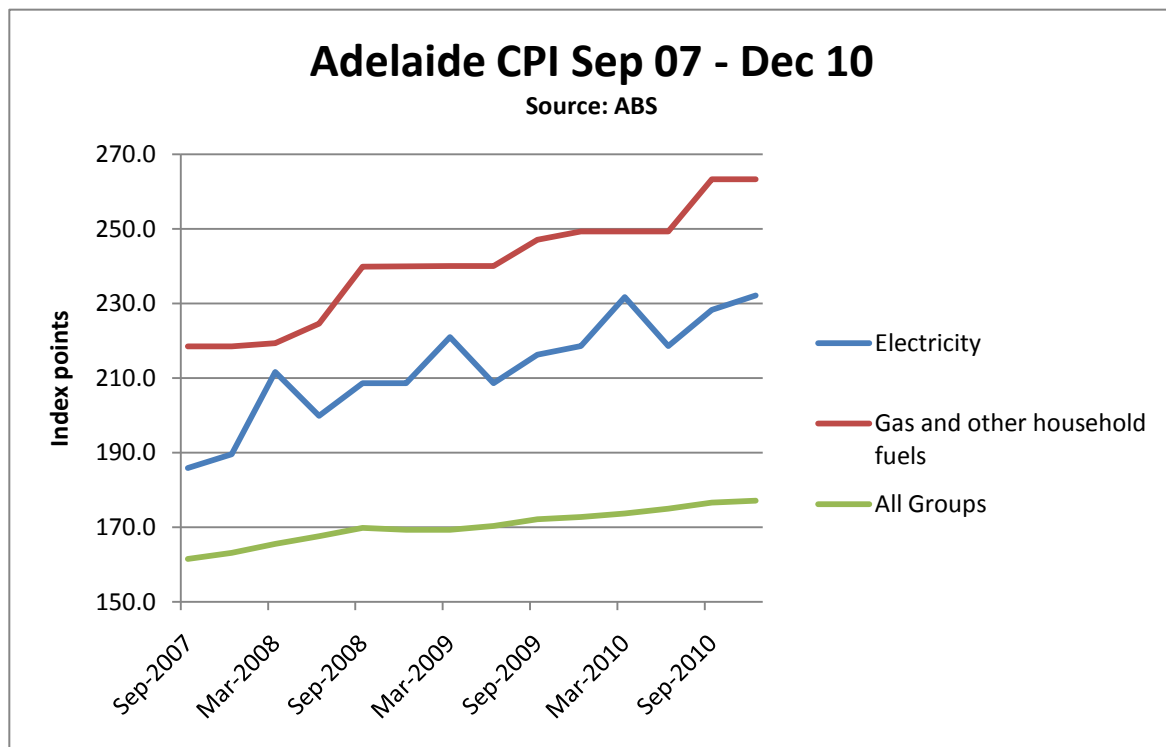
### About COTA Seniors Voice (CSV)

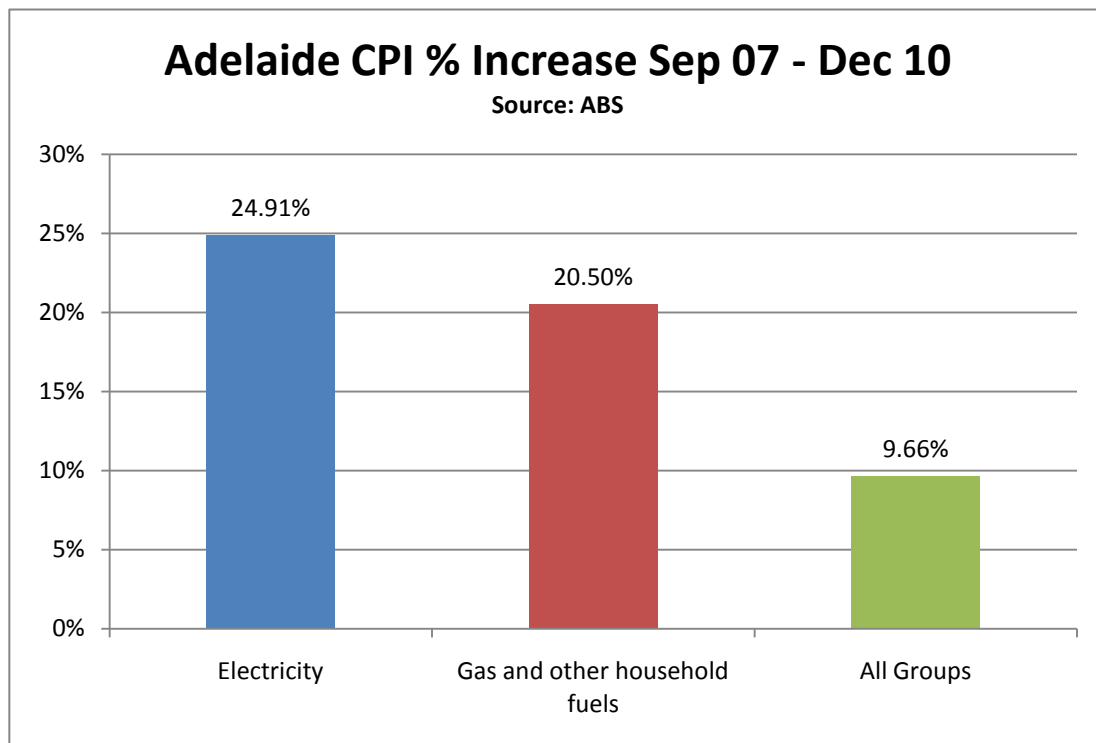
CSV is South Australia's peak seniors' organisation with an individual membership of around 20,000 and over 250 seniors' organisation members with a combined membership of more than 60,000. In addition, CSV has 80 associate members who are aged care providers, local government bodies, health units and other service and educational institutions. CSV membership networks and programs are state-wide.

CSV is concerned that older people's access to affordable quantities of essential services such as energy and water is under threat from rising prices, and supports the view that everybody should have affordable access to sufficient quantities of essential services for health, wellbeing and social participation.

### Gas costs

It is no secret that energy costs are rising. ABS data shows that the costs of both electricity and gas are rising well above changes to the CPI. From September 2007 to December 2010, CPI for electricity rose by 24.9% and for gas and other household fuels by 20.5%, while all groups CPI rose by 9.7% (see graphs below). The rise in energy costs reflects the fact that energy is putting significant pressure on household budgets and driving changes to financial decision making.





However unlike electricity, gas is not essential to health and wellbeing. Historically a preferred energy option (where available) for hot water, cooking and space heating, rising prices are likely to inhibit the increased take-up and use of gas. This is likely to become more pronounced if fixed charges continue to make up a large proportion of total bills, particularly for low usage customers.

As part of its retail price reset, the Essential Services Commission of SA (ESCOSA) identified the cost increases in total residential (standing contract) gas prices from 2003/04 to 2010/11, including a breakdown of fixed and consumption charges (see below<sup>2</sup>).

**Table 4.2: Residential gas retail tariffs**

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Origin Energy Retail Residential Tariffs (GST Exclusive, \$ 2010)								
Supply Charge \$/QTR	6.93	13.58	17.21	18.35	19.07	19.41	22.50	21.31
First 4500 MJ (c/MJ)	0.87	0.88	0.89	0.89	0.93	0.94	0.93	0.92
Additional MJ (c/MJ)	0.75	0.76	0.77	0.79	0.82	0.83	0.85	0.88
Origin Energy Retail Residential Tariffs (GST Exclusive, \$ Nominal)								
Supply Charge \$/QTR	5.73	11.44	14.84	16.30	17.35	18.41	21.87	21.31
First 4500 MJ (c/MJ)	0.72	0.74	0.77	0.79	0.84	0.90	0.90	0.92
Additional MJ (c/MJ)	0.62	0.64	0.67	0.70	0.74	0.79	0.83	0.88

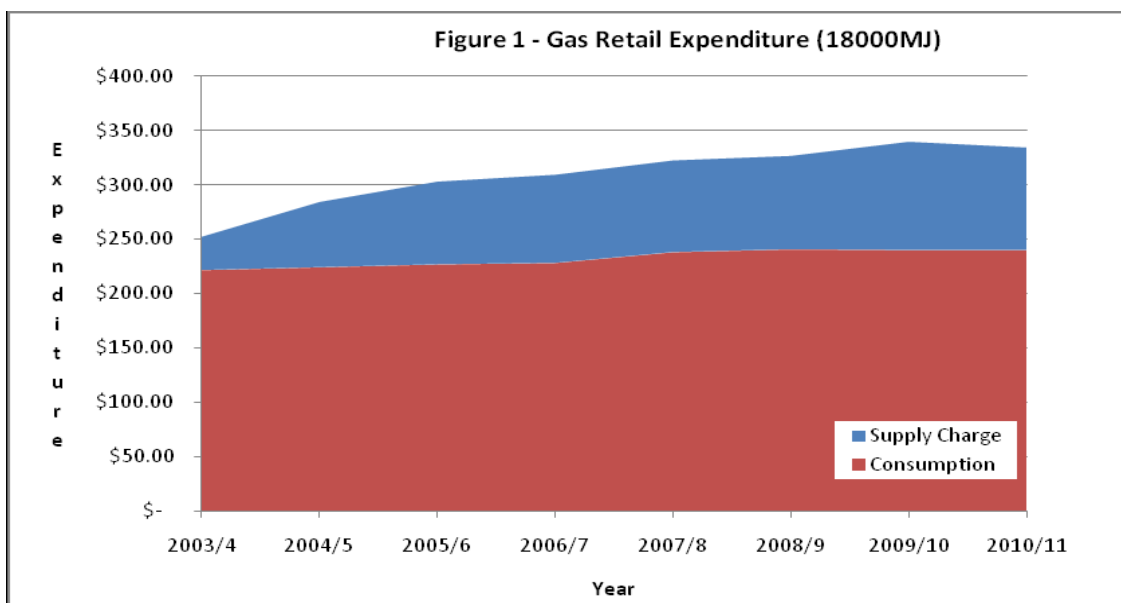
In its analysis of the relative price changes shown in Table 4.2 above, the South Australian Council of Social Service (SACOSS) highlighted the increase in the fixed charge as compared with consumption charges. According to SACOSS:

Of particular note from ESCOSA's Table 4.2 is the overall increase in supply charge. Whilst the price for the first 4500MJ supplied per quarter has risen by 6% and the price of subsequent consumption increased just over 17%, supply charges have increased by over 300%. Figure 1

<sup>2</sup> ESCOSA (2010), 'Review of Gas Standing Contract Prices, 2011/12 – 2013/14', November 2010, <http://www.escosa.sa.gov.au/Publications/DownloadPublication.aspx?id=1905&versionId=1958>, p. 16

below illustrates the rising costs and the dramatic increase of supply charges for residential gas retail tariffs.<sup>3</sup>

This was also shown by SACOSS (p. 3) in graphic form:



What this shows is that the fixed charges for having a gas connection to the home are making maintaining this connection less attractive for those who consume little. In general, the effects are both immediate (driving up the cost of gas and acting as a disincentive for energy efficiency) and long term (potentially lowering numbers of future gas customers).

The increasingly prohibitive cost of gas is a significant issue for tenants in the private rental market who do not have a choice of energy connection or fixed appliances. It is also a concern for public housing tenants, many of whom are connected to gas due to the historically low cost and who are on low incomes. Most significantly, older people in public or private rental are likely to feel the impact of higher gas prices more than others due to lower incomes, lack of choice of fuel and the need to keep warm in winter months to maintain health and wellbeing.

In its draft determination on the South Australian Gas Standing Contract Price Path Inquiry, ESCOSA estimated the impact on customers' bills due to both retail and distribution draft decisions.<sup>4</sup> It was estimated that for a medium usage customer, the impact would be around \$44 p.a., or 7.33%. For age pensioners and others on low incomes, this represents an unwelcome price rise that can be difficult to factor in to tight household budgets.

For low usage households including households with older people, the percentage rise will be even more significant due to the high proportion of fixed charges: a rise of \$40.55 from 2010/11 to 2011/12, or 12.72% in total. The Envestra (network) component of this rise will be nearly 20% under the AER's draft determination, which Envestra has rejected in favour of proposing even higher total revenue for the regulatory period.

CSV once again notes that older people will be disproportionately impacted, not only by rising costs generally but by the ongoing increases in the fixed component. The growth in fixed

<sup>3</sup> SACOSS (2010), 'Submission to ESCOSA's 2010 Gas Standing Contract Prices', December 2010, p. 3

<sup>4</sup> ESCOSA (2011), '2011 Gas Standing Contract Price Path Inquiry: Draft Inquiry Report and Draft Price Determination', April 2011, <http://www.escosa.sa.gov.au/Publications/DownloadPublication.aspx?id=1961&versionId=2022>, p. A-98

charges will continue to disadvantage low usage older person households who maintain gas connections and who often cannot afford to replace ageing gas appliances with energy efficient electric appliances in order to avoid paying two fixed cost components.

ESCOSA's estimations of residential customer bill impacts are provided below<sup>5</sup>:

**Table 12.1 - Indicative impact of the Commission's Draft Price Determination on annual gas bills (GST exclusive)**

	2010/11BILL (\$)	2011/12 BILL (\$)	CHANGE (\$)	CHANGE (%)
<b>RESIDENTIAL CUSTOMER - LOW USAGE (6GJ ANNUALLY)</b>				
ORIGIN ENERGY – RETAIL COMPONENT	\$ 137.99	\$ 142.51	\$ 4.52	3.27%
ENVESTRA – DISTRIBUTION COMPONENT	\$ 180.65	\$ 216.68	\$ 36.03	19.94%
<b>TOTAL</b>	<b>\$ 318.64</b>	<b>\$ 359.19</b>	<b>\$ 40.55</b>	<b>12.72%</b>

	2010/11BILL (\$)	2011/12 BILL (\$)	CHANGE (\$)	CHANGE (%)
<b>RESIDENTIAL CUSTOMER - MEDIUM USAGE (21GJ ANNUALLY)</b>				
ORIGIN ENERGY – RETAIL COMPONENT	\$ 274.91	\$ 283.91	\$ 9.00	3.27%
ENVESTRA – DISTRIBUTION COMPONENT	\$ 331.22	\$ 366.67	\$ 35.45	10.70%
<b>TOTAL</b>	<b>\$ 606.13</b>	<b>\$ 650.58</b>	<b>\$ 44.45</b>	<b>7.33%</b>

	2010/11BILL (\$)	2011/12 BILL (\$)	CHANGE (\$)	CHANGE (%)
<b>RESIDENTIAL CUSTOMER - HIGH USAGE (45GL ANNUALLY)</b>				
ORIGIN ENERGY – RETAIL COMPONENT	\$ 485.27	\$ 501.16	\$ 15.88	3.27%
ENVESTRA – DISTRIBUTION COMPONENT	\$ 456.02	\$ 466.27	\$ 10.25	2.25%
<b>TOTAL</b>	<b>\$ 941.29</b>	<b>\$ 967.42</b>	<b>\$ 26.13</b>	<b>2.78%</b>

CSV submits that these indicative prices (if reflected in the retail and distribution final decisions/determinations) will not only negatively impact on current gas customers, but will also affect the business case(s) for network extensions to Tanunda, McLaren Vale and elsewhere. Many older residents of these areas who have been awaiting network extensions may well reconsider connecting gas in light of the proposed price rise, bringing in to question the business case for these extensions.

### *Total Revenue*

While CSV does not intend to enter the debate regarding elements of the total revenue requirement for Envestra, it is concerning that in its Revised Proposal Envestra has proposed a total revenue requirement that not only exceeds the AER's Draft Decision, but exceeds its own original Proposal by around \$83 million or 7%.

If allowed, the revised total revenue will further burden residential gas customers – whether they choose to remain connected or they are in a position of no choice. CSV cannot support Envestra's Revised Proposal on these grounds.

<sup>5</sup> ESCOSA (2011), '2011 Gas Standing Contract Price Path Inquiry', p. A-98.

For further information regarding this submission please contact Tom Stead, Policy Officer, on (08) 8224 5515 or email [tstead@seniorsvoice.org.au](mailto:tstead@seniorsvoice.org.au).

Yours sincerely

A handwritten signature in black ink, appearing to be 'Ian Yates', written over a vertical line.

**Ian Yates AM**  
**Chief Executive**