



Energy & Water  
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16 April 2004

Ms Hilary Schofield  
User Participation Working Group  
c/o Office of Energy Planning and Conservation  
GPO Box 936  
Hobart TAS 7001

Dear Ms Schofield,

Thank you for the opportunity to comment on the Ministerial Council on Energy Standing Committee of Officials' Discussion Paper, *Improving User Participation in the Australian Market*.

The Energy & Water Ombudsman NSW investigates and resolves complaints from customers of electricity and gas providers in NSW, and water customers of Sydney Water, Hunter Water and Australian Inland. We have provided comments on the Tribunal's review in relation to our experiences with customers in the NSW energy market.

Please contact me or Amanda Hamilton-Foster, Policy Officer, on 8218 5266 if you would like to discuss this matter further.

Yours sincerely

A handwritten signature in cursive script that reads 'Clare Petre'.

Clare Petre  
Energy & Water Ombudsman NSW

## **Introduction**

We note that the purpose of this paper is to seek comments on the Discussion paper *Improving User Participation in the Australian Energy Market*.

While we are not in a position to comment on all areas raised in the Discussion Paper, in this submission we have raised issues from the perspective of EWON's experience as an independent dispute resolution mechanism for customers of electricity and gas providers in NSW, and water customers of Hunter Water, Sydney Water and Australian Inland.

We note that this paper requests comments only on three topics: demand side response, interval metering and retail pricing. We suggest that user participation in the market is broader than these three issues, and we encourage the Ministerial Council on Energy to look more widely at the needs, experiences and expectations of small energy consumers in the retail market.

## **2. Options to Encourage Demand Side Response**

The Discussion Paper focuses largely on the types of potential demand side bidding models, and the mechanisms required to implement these models. There appears to have been limited consideration of small residential users, and the solutions required for these customers to participate effectively in demand side response. However, we note the SCO's proposals to further consider demand side response programs for small consumers, and we offer the following comments.

In recent pricing reviews, demand management has become an important issue in the NSW energy market,<sup>1</sup> and EWON has previously commented that tools other than price signals are required if demand management options are to be successfully implemented for small customers.

In particular, EWON believes that greater awareness amongst customers about their own consumption patterns is an essential tool to promoting demand side response. EWON receives a number of complaints from customers who feel that their bill is too high. From our experience investigating these matters, it seems that there is a lack of understanding by many customers as to the ways in which their own consumption impacts on their bill. While most customers understand that high usage can cause a high bill, many customers cannot identify which appliances cause the highest usage, or the running costs of their different appliances. For example, many customers are surprised that a small bar heater can contribute to high consumption in the winter months, as there appears to be a belief that a small appliance will be cheaper to run than a large one.

In addition, many customers do not know how to monitor their own usage by checking their meter. In fact, a lot of customers do not even know how to locate their meter. We suggest that customers would benefit from much greater education about their consumption habits and the running costs of their appliances. We suggest that

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<sup>1</sup> IPART pricing reviews - Distribution Pricing and Regulated Retail Tariffs

this is important not only in relation to demand management, but also to enable customers to better manage their own usage and the payment of their accounts.

In order for demand side response to be effective for small energy consumers, these consumers will need to be better informed about the nature of the pricing signals they receive. Our experience suggests that customers do not fully appreciate what constitutes the network element of their bill, nor the basis on which it is charged. For example, retailers refer to the charge by different names, for example service availability charge and service access charge, and the network charges are all bundled together on the bill. Even where customers are on a negotiated contract, and the contract states that there will be a pass-through of network charges, when the network component is increased EWON still receives complaints from customers who do not understand why their rates have increased.

For many customers, the financial impact of their high consumption occurs well after the event. Most retailers bill quarterly, so that customers receive their bill weeks after their high usage. Demand management that relies solely on billing to signal prices to customers lacks the immediacy necessary to impact on consumption habits. We suggest that this may still be the case with time-of-use meters. Even if customers are alarmed at the size of the bill and understand that it was caused due to higher network tariffs for that season, this is occurring well after the fact of the actual consumption. EWON suggests that demand management based on pricing signals alone may not sufficiently link consumption with charges in the customer's mind, and may not have the desired effect.

EWON would be happy to provide the SCO with further information on the above issues if required. We encourage the SCO to consult more widely with small retail customers to promote greater understanding of demand side issues facing them.

#### **4. Retail Tariffs**

It appears from the Discussion paper that the SCO regard regulated retail tariffs as a transition mechanism only, and not as an integral consumer protection measure. EWON notes the SCO's comments that "Once effective competition has developed, the consumer protection function of price regulation may no longer be necessary."<sup>2</sup> EWON's experience in the NSW energy market indicates that there are certain customers who are not able to participate in the competitive market, regardless of their desire to do so, and these customers appear wholly reliant on receiving their energy supply through standard regulated retail contracts.

In our experience, there are some customers who are not able to obtain a negotiated contract for their energy supply, either because retailers do not consider them as desirable customers, or because their living arrangements make it difficult to accept the terms of negotiated contracts currently offered by retailers.

The first category includes customers with poor credit history, who have their applications rejected when the retailer conducts a credit check. This group also includes customers who have low consumption, and who are unable to obtain quotes

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<sup>2</sup> Discussion paper, p.19

for negotiated contracts. We note that a significant number of customers who raise this issue with EWON identify as pensioners. Some customers have advised EWON that they were not offered contracts by retailers because they were not connected to natural gas and retailers would only offer them dual fuel contracts, or that they only wanted to change the supplier of one of their fuels, and the retailer would not offer a single fuel contract. A number of customers in rural areas have complained that retailers will not offer them contracts; many of them advised EWON that retailers said it was too expensive to supply them, or they were simply "out of area."

The second category includes tenants, both public and private, many of who feel they are unable to sign an energy contract for three years, as their housing situation is less permanent. EWON has received complaints from customers who have been forced to move residence during the term of their contract, and have then been charged a termination fee. Customers of exempt retailers, such as residents of residential parks, have also been excluded from the competitive market in NSW.

An understanding of the situation of these customers is important to inform the role of the regulated tariff in the energy market. For some customers, it appears that the standard form contract is not a step in their transition to participating in a fully competitive market, but the only means by which they can obtain energy supply. We are happy to explore this issue further with the SCO if required.

EWON is also concerned that the Discussion Paper promotes the policy of full pass through of costs, yet it does not appear to give much consideration given to the effects of this potential price rise on small energy consumers. The Discussion Paper suggests that cost-reflective tariffs are required to induce more customers to enter into a negotiated tariff, but there does not appear to have been a review of the economic and social effects this pricing policy may have for small consumers.

In the current NSW price reviews, EWON has stated that limits on price movements are appropriate for residential customers in order to ensure that an essential service such as electricity remains affordable. Our experience with customers who are experiencing difficulty paying their accounts suggests that for some low income households, the smallest alteration in either income or expenditure can expose them to financial difficulties. In particular, customers who are on fixed or low incomes are vulnerable to the smallest of price increases.

The Smith Family has reported that the second highest reason that clients sought emergency assistance was for the payment of utility bills.<sup>3</sup> This suggests that certain customers are already struggling to pay their utility bills, and that any increase could affect these customers adversely. The SCO may wish to consider wider community consultation regarding the capacity of small retail customers to absorb the potential price rises that cost-reflective tariffs would bring.

EWON further notes the SCO's proposal for a website that enables consumers to compare contract offers from different retailers. EWON agrees that there is a need for small consumers to be able to access more detailed information about energy offers and the energy market in general. However, we do not believe that a website

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<sup>3</sup> *Research and Advocacy Briefing Paper No5*, October 2000, The Smith Family

dedicated to generating price comparisons will effectively meet the information requirements of small customers in NSW.

EWON is frequently contacted by small retail customers who are uncertain about the effects of retail competition, and are seeking further details about how to access the market. In addition, we receive complaints from customers who have not fully understood the nature of the energy contract they have signed, and have subsequently encountered difficulties. For example, many customers do not appear to understand that their contract is for a set period of time, and that if they move property in that period their contract will be terminated and they could be liable to pay termination fees.

We suggest that any consumer awareness campaigns need to go beyond price comparisons, and focus on providing a more broad-based understanding of the nature of a negotiated contract. A review of the types of queries and complaints that the various Ombudsman schemes receive may provide an indication of the information that small consumers require. EWON would be happy to provide further information on this is required.