

Mr John Pierce
Chair
Electricity Supply Industry Expert Panel
GPO Box 123
HOBART TAS 7001

8th February 2011

Dear Mr Pierce,

Anglicare welcomes the opportunity to respond to the Statement of Approach released by the Electricity Supply Industry Expert Panel in December 2010. Anglicare has had a long involvement in advocacy on electricity issues, culminating in the release of our four point plan on electricity pricing *Making electricity affordable*, which we co-published with the Tasmanian Council of Social Service late last year (Anglicare & Tasmanian Council of Social Service 2010). A copy of the four point plan is attached to this letter (although we assume you are familiar with it already as it is cited in the Statement of Approach).

Anglicare provides a wide range of services to Tasmanians, particularly Tasmanians living on low incomes. These include financial counselling services, emergency relief and other forms of crisis support. These services are increasingly identifying electricity bills as one of the main causes of financial stress among their clients. Anglicare's Social Action and Research Centre has also conducted extensive research on financial hardship, the cost of living and income poverty. This research too has identified the cost of electricity as a significant issue. The insights obtained from our direct work with households in crisis and our research inform this response to the Statement of Approach.

Capacity to pay

In the debate about rising electricity prices, the main focus of Anglicare's advocacy has tended to relate to the issue of 'capacity to pay'. We are concerned about the way in which the Statement of Approach appears to treat this issue. The document includes, in a footnote, a quote from Anglicare and TasCOSS's four point plan: 'Tasmania is facing a crisis in the affordability of electricity... Rising prices are already causing financial crisis for some Tasmanians and the problem will only grow along with the cost of electricity' (Expert Panel 2010, p. 5, n. 4). However, in the body of the text, this quote is interpreted as follows: 'concerns have been expressed about the ability of some sections of the Tasmanian community to manage their household budgets to accommodate cost of living increases, including higher energy costs' (Expert Panel 2010, p. 5). Anglicare is concerned that not only does this statement misrepresent the statement in the four point plan — which is that people are in financial crisis because of unaffordable prices, not that they are in financial crisis because of poor budgeting skills — it is also misinterprets the reality facing Tasmanian households on low incomes.

One in three Tasmanian households depends on income support payments from the Commonwealth as their main source of income. The table below (which is compiled using a range of information sources as detailed in the notes), shows the fortnightly essential expenditure for particular households on these payments and the balance they would have left over. Not all 'essential' items of expenditure are included in the table, so as well as covering discretionary or 'luxury' spending (e.g. a meal out, books or magazines, Christmas presents for family members), the balance shown would have to cover essential items such

as clothing, personal care and communications; the single parent included in the table would also need to cover all the costs associated with having a school-aged child.

The rent component in the table is based on what such a household would pay in the public housing system. Rents in the private rental market, where most low income earners live, would be (even with the additional entitlement of Commonwealth Rent Assistance) much higher and the disposable income available to households would therefore be less. The other costs in the table are approximations, based on average expenditures by households in the lowest income quintile in the Australian Bureau of Statistics' Household Expenditure Survey. The method is imperfect, but the trend is quite clear.

People on low incomes have very limited capacity for discretionary expenditure and almost no capacity at all to absorb increasing costs. In fact, the single Youth Allowance recipient in this example would be unable to spend even average amounts on essentials like food or heating and would need to ration these items or go without in order to pay less-flexible items in their budget such rent.

Table 1. Fortnightly income and essential expenditure for people dependent on income support payments — selected examples¹

Household	Single person on Youth Allowance ^d	Single person on Newstart Allowance ^e	Single parent with one child ^f
Rent (public housing) ^a	\$83.57	\$100.99	\$167.64
Food ^b	\$145	\$145	\$145
Fuel & power ^b	\$45	\$45	\$45
Medical care ^b	\$35	\$35	\$35
Transport ^b	\$125	\$125	\$125
Total expenditure	\$433.57	\$450.99	\$517.64
Income^c	\$388.70	\$469.70	\$763.56
BALANCE	—\$44.87	\$18.71	\$245.92

The information in the table above matches Anglicare's service delivery experience and is backed up by our substantial body of research into poverty and disadvantage (see most recently Madden 2004; Cameron & Flanagan, J 2004; Madden & Law 2005; Hinton 2006; Hinton 2007; Hughes 2009; Flanagan, K 2010). Simply put, for many households on low incomes, it is not that they lack 'ability' to 'manage their household budgets' — it is that their household incomes are simply inadequate to cover all the living costs they incur.

This day-to-day reality for one in three Tasmanian households must be considered in any deliberations by the Expert Panel which relate to the pricing of electricity services.

Price determination process

¹ Notes for Table 1:

^aCost of rent calculated using Housing Tasmania's standard rent-setting formula.

^bCost of food and non-alcoholic beverages, domestic fuel and power, medical care and transport taken from the ABS' Household Expenditure Survey 2003-04 (average expenditure by Tasmanian households in the lowest gross income quintile) (ABS 2006). All costs have been converted to fortnightly figures and then rounded to the nearest \$5. The contribution of any concessions (such as the electricity concession) has not been taken into direct account because it is assumed that this would be reflected in the expenditure levels of people on low incomes.

^cIncome levels and eligibility information for income support payments taken from Centrelink's website, <www.centrelink.gov.au>, on 19 January 2011.

^dPeople on Youth Allowance include jobseekers aged 16-20 and full time students or apprentices aged 16-24. The Youth Allowance rate given here is for single people with no children, aged 18 or over and not living at home.

^eNewstart Allowance is paid to people aged over 21 (and under Age Pension age, which is 65 for men and between 60 and 65 for women depending on their date of birth) who are looking for paid work.

^fFor the purposes of calculating income, it is assumed the child in this household is aged 10 years old. The age of a child affects the household's Family Tax Benefit entitlement, which is included in this household's income. It also affects whether a parent is entitled to the higher Parenting Payment (available for single parents until the youngest child turns 8) or the lower Newstart Allowance (paid thereafter).

As the Statement of Approach observes, electricity prices for non-contestable customers are 'set through an independent and highly transparent process' (Expert Panel 2010, p. 5). Anglicare welcomes the commitment by the Tasmanian Economic Regulator to consultation with stakeholders, including community organisations. The decision during the most recent, highly-publicised price determination process to provide an open public hearing at which members of the community were able to express their distress and anxiety about future price increases was a particularly welcome one.

However, as the Economic Regulator has noted (e.g. OTTER 2010, p. 10), whether people on low incomes can afford to heat their homes is not something that the Regulator is empowered to address through the price-setting process. This is the responsibility of the Tasmanian Government — a responsibility that, in Anglicare's view, has been inadequately taken up to date. Affordability is not a key consideration in the price-setting process under the current regulatory arrangements. This means that even though the price-setting process is independent and transparent, there is no guarantee that the prices set through that process will actually be affordable.

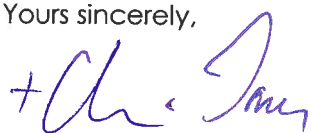
The terms of reference for the Panel's review of the industry include 'actions that would guide and inform the development of a Tasmanian Energy Strategy particularly in relation to the Government's primary objectives of minimising the impact on the cost of living in Tasmania and ensuring Tasmania's long term energy sustainability and security' (Expert Panel 2010, p. 16). Given the essential nature of electricity services and the Government's stated objectives in relation to cost of living, Anglicare believes it would be appropriate for the Panel to include in its reporting detailed recommendations relating to the affordability of electricity to ensure that all Tasmanian households, including those on very low incomes, are able to access adequate electricity supplies to meet their basic needs for light, power and warmth. These recommendations could include policy recommendations to the Government.

Anglicare's recommendations on an appropriate pricing regime and concessions system are contained in the four point plan document attached to this letter, and we submit them to the Panel for their consideration. We have also provided copies of the plan to Government and to other relevant stakeholders.

The four point plan is also currently under consideration by Tasmania's Social Inclusion Commissioner, who is developing the Tasmanian Cost Of Living Strategy. An interim report is due at the end of January 2011, with the final report by the middle of the year. Measures to address the consequences of rising electricity prices will be an important part of the Strategy, and particularly of the interim report.

Once again, we welcome the opportunity to provide feedback on the Panel's Statement of Approach. We also look forward to participating in future rounds of consultation as the Panel's review proceeds.

Yours sincerely,



Chris Jones

Chief Executive Officer

enc. Making electricity affordable: a four point action plan

References overleaf

References

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