



COMMENT

On the Independent Competition and Regulatory Commission's Discussion paper on efficiency carryover mechanism and service incentive scheme.

**May
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INTRODUCTION

ACTCOSS acknowledges that modern day Canberra has been built on the traditional lands of the Ngunnawal people. We pay our respects to their elders and recognise the displacement and disadvantage they have suffered since European settlement. ACTCOSS celebrates the Ngunnawal's living culture and valuable contribution to the ACT community.

The ACT Council of Social Service Inc. (ACTCOSS) is the peak representative body for not-for-profit community organisations, people living with disadvantage, and low-income citizens of the Territory. ACTCOSS is a member of the nationwide COSS network, made up of each of the state Councils and the national body, the Australian Council of Social Service (ACOSS).

ACTCOSS's objectives are representation of people living with disadvantage, the promotion of equitable social policy, and the development of a professional, cohesive and effective community sector.

The membership of the Council includes the majority of community based service providers in the social welfare area, a range of community associations and networks, self-help and consumer groups and interested individuals.

ACTCOSS receives funding from the Community Services Program (CSP) which is a program of the ACT Government.

Monopoly competition?

In ACTCOSS' submission on water and wastewater pricing¹ the following point was made:

The commission seeks comments on the ways in which customer preferences and priorities can best be reflected in a service quality incentive mechanism.

The commission seeks views about appropriate measures of customer service performance.

ACTCOSS does not believe that there should be any move to provide a price incentive for reliable service in the area of water and wastewater provision. Perhaps service quality improvements can be factored into the value of "X" in the formula for the adjustment of revenues. But ACTCOSS strongly urges the ICRC to avoid setting prices to reward neglect of low income households, or to allow ACTEW to use ability to pay as a gauge of service delivery.

The objection is based on our stated position that utilities industries are old industries with mature products. Supply has become very reliable and the ICRC paper points out that ACTEW AGL often exceeds benchmarks of customer service. It is of concern that the only proposed way to improve service for some consumers is to reduce service to others, or to impose premium costs for what have always been essential services. Both propositions have implications for low income households.

ACTCOSS and Care Financial Counselling made a joint submission on electricity distribution pricing² that addressed the issue of the CPI-X formula and the issue of the FALL in distribution prices that would take place over the current regulatory period. That submission also raised the issue of generous provisions in the existing pricing formulas.

Recent analysis of distribution pricing in Victoria by Marsden Jacob Associates (MJA) for a consortium of energy advocates in Melbourne³ has shown that the legal avenues for what MJA calls "strategic behaviour" and ICRC calls "gaming" are many and varied and would require rigorous and extensive monitoring. The paper

¹ ACTCOSS submission to the ICRC Inquiry into water and wastewater pricing, 2003. Available at: <http://www.actcoss.org.au/publications/submissions.html#suburban>

² ACTCOSS and the Consumer Law Centre of the ACT Submission to the ICRC Inquiry into Electricity Distribution Services in the ACT, 2004. Available from: <http://www.actcoss.org.au/publications/submissions.html#suburban>

³ Washusen, Dr Jeff. "Comment on issues arising from the Victorian Electricity Distribution Price Review 2006-2010 A report prepared for submission to the Essential Service Commission on behalf of: EUAA, EAG, St Vincent De Paul, VCOSS, VECCI, AiG", April 2005, chapters 2&3. Copy attached.

ACTCOSS comment: efficiency rollovers and service incentives

queries how the Victorian Essential Services Commission will ensure that consumers get the benefit of the increased profits derived by distribution businesses since the 2001 introduction of incentive mechanisms. The paper highlights the difficulties encountered in trying to realise those benefits in the face of forecast cost increases for the next period.

It also raises a related issue, that providing carryover and incentive mechanisms give utilities an inappropriate role in price setting through gaming. By moving expenditure into other years, utilities can inflate the price they receive, as demonstrated by the examples in the ICRC's discussion paper.

ACTCOSS is unaware of any independent analysis of other efficiency carryover mechanisms or service incentive schemes in other states, but believes the problems outlined in the MJA paper would be common across jurisdictions. These include the difficulty with forecasts of operating and capital expenditures, the complexity of the business arrangements of the distribution businesses (even where there is only one!), and the control of information by the businesses that allows an accurate assessment of efficient costs.

While the ICRC also canvasses the United Kingdom regime, it appears that the data collection and intensity of regulation may pose problems for a small jurisdiction such as the ACT. The MJA paper also canvasses the costs of regulation and how these are born by consumers.

The ICRC paper raises an additional issue of whether the regulatory period should be extended. However, ACTCOSS believes that providing carryovers would itself become a de-facto extension of the period by influencing decisions into the next period. ACTCOSS feels this will reduce the ICRC's responsiveness to changes in technology and other influences on pricing decisions.

The proposed mechanisms also make the regulatory regime complicated and obscure as there is little clarity in the way that rollovers would affect pricing in the short and long term. ACTCOSS believes that simplicity and transparency are necessary in the regulatory process, particularly in terms of pricing.

ACTCOSS therefore believes that there are few, if any, benefits for consumers in introducing carryover and incentive schemes in utilities.