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Submission to the Senate Select Committee on Electricity Prices

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1. Introduction

1. The St Vincent de Paul Society is a respected charitable Catholic organisation operating in 148 countries around the world. In Australia we operate in every State and Territory with more than 50,000 members and volunteers committed to our work of social assistance and social justice. We are accountable to the people in our community who are marginalised by structures of exclusion and injustice.

2. On 29 August 2012, Ms Sophie Dunstone, Inquiry Secretary invited a written submission from the St Vincent de Paul Society to the Senate Select Committee inquiry into Electricity Prices, by 14 September 2012.

3. The National Council of the St Vincent de Paul Society ("the Society") wishes to thank the Select Committee on the opportunity to make comment to this Inquiry. The Society wishes to make comment on the following Terms of Reference: (a), (c) and (d).

4. By way of background, the Society has been monitoring the increases in electricity prices over many years in various States and is considered an expert in this field. In 2012 the Society released reports in February, July and August comparing electricity prices in Victoria, South Australia, Queensland and New South Wales. Furthermore, the Society sees the provision of energy as a social justice issue and has written many submissions and reports on the matter including changes in electricity and gas pricing across South Australia, New South Wales, Queensland and Victoria (see: http://www.vinnies.org.au/submissions-vic and http://www.vinnies.org.au/energy).

5. The Society believes that the provision of energy through the Australian energy market must be viewed as a crucial and essential service that should be available to all Australians at affordable prices. It is within this context that the Society makes this submission.

2. Executive Summary

(a) Causes of electricity price increases

6. While in some States the key drivers of electricity price increases have been the increases to government owned network charges, in others there have been a number of factors at play that have driven these increases including costs due to the introduction of various government programs. With regard to energy retail pricing the Society believes that one of the key increases in electricity costs has been due to unregulated additional fees and charges. If these charges are not regulated through the National Energy Customer Framework ("NECF"), they will inevitably contribute to the increase in electricity prices into the future.

(d)(i) Low-income consumers

7. The Society believes that the notion that low-income consumers need to be assisted in reducing their electricity costs is misguided as low-income households on average use significantly less electricity than other households. Instead the focus should be on ensuring that low-income households are not disadvantaged but rather beneficiaries of Time of Usage ("TOU") tariffs and other products and pricing strategies that may come to market as the result of new technologies.

(d)(ii) National customer advocacy body

8. The Australian energy market is very different across all of the States and Territories and the notion that consumer views and expectations of the energy market are homogenous and able to be captured by a national advocacy body is ill-advised. Nonetheless, if a national advocacy body were to be established it would need to have some form of direct accountability to consumers which it would represent.

(d)(iii) Technologies and consumer information

9. When considering technology as a means of disseminating information to consumers, it should be noted that many people still do not use technology to access information, such as pensioners and the elderly. Furthermore, the cost of the provision of any information technology needs to be proportionate to the ability of households to benefit form that technology into the future.

(d)(iv) Adequacy of consumer information and benefits of the National Energy Customer Framework

10. There are many shortcomings of the NECF including that it was developed prior to the introduction of smart metering technologies. As such, it is inadequate as we move forward and new technologies, pricing and products are introduced into the energy market. The Society believes that the NECF needs to be enhanced and a robust customer protection framework be developed before new products and services are released.

(d)(v) Low income consumers and the role of dividend distribution from electricity infrastructure

11. Inevitably, State governments will see increasing GST revenue generated from higher electricity prices. The Society submits that this revenue should be allocated to assist households struggling to pay for increased electricity costs. Furthermore, at the federal level, the government should review its underlying social supports and energy concessions and routinely assess their effectiveness in an environment where domestic electricity and gas prices are increase at a rate well above the CPI and new pricing strategies are being introduced.

(d)(vii) reporting by electricity businesses to assist customers to save energy and reduce bills

12. The placement of any obligation by businesses to assist customers to save energy and reduce bills may result in potentially higher system and administration costs for business which will be directly passed down to consumers. How these costs are borne and who bears these costs needs to be ascertained before any obligation is imposed on businesses.

(e) opportunities and barriers to the wider deployment of technologies

13. We do not have any concerns about new technologies coming into the electricity market. However, technologies should only be released where there is a robust and appropriate customer protection framework.

3. Responses to the Terms of Reference

(a) Key causes of electricity price increases over recent years and those likely in the future

1. In New South Wales and Queensland the key drivers of price increases have been due to increases to government owned network charges. This is not the case in Victoria where in some cases privately owned poles and wire costs have in fact declined. However, in all jurisdictions there has been an increase in costs due to government programs which include, smart meter charges, renewable energy targets, energy efficiency schemes and carbon pricing. Each jurisdiction has unique cost drivers and these should be recognised in any evaluation of the causes of price increases.

2. However, with particular regard to energy retail pricing we are concerned about the introduction of:

    (a) Late fees;

    (b) Breakage fees; and

    (c) Other non energy charges.

3. The Society wishes to make a brief point on this which we have previously outlined in our report "New Meters, New Protections: A National Report on Consumer Protections and Smart Meters".[1]

Additional fees and charges

4. In the absence of regulations in the National Energy Customer Framework ("NECF") to limit the ability of retailers to include arbitrary additional charges or market offers, the use of additional retail fees and charges will inevitably contribute to the increase of electricity prices now and into the future.

5. The use of additional retail fees and charges makes it difficult for customers to compare retail market offers. It is also difficult to ensure that the regulatory provisions deliver in terms of adequate disclosure of contract terms and conditions. This often results in consumers not being fully aware of all additional charges prior to signing a market contract.

6. The NECF should encourage retailers to compete on price (fixed charges and costs of energy) and prevent them from exploiting low consumer awareness through additional fees and charges.

7. Additionally, the "Late Payment Fees" which act as a penalty for customers not paying their bills by the due date is an unnecessary practice, particularly as it relates to the provision of an essential service. The NECF allows the retailer to apply both shortened collection cycles

[1] May Johnston, *New Meters, New Protections*: *A National Report on Customer Protections and Smart Meters* (2010), St Vincent de Paul Society National Council <http://www.vinnies.org.au/files/NAT/SocialJustice/NewMetersNewProtectionsFeb2010.pdf>.

and Late Payment Fees to customers who have not paid their bills on time. This practice essentially doubles up on the rights of retailer at the expense of consumers.

(c) Options to reduce peak demand and improve the productivity of the national electricity system

8. The importance of addressing issues of peak demand is dependent upon local factors at play in each distribution network. There are a number of ways to address this issue, some are low-cost while others are high-cost, and price based strategies have the potential to cause significant financial and social harm to some energy consumers.

9. We are concerned that the use of pricing strategies to address this complex area fails to adequately deal with the importance of electricity as an essential service and the need for households to have access to this essential service at an affordable price.

10. As such, any transition to time variant pricing should ensure that the associated concessions are adequately assessed and various pricing options are available to allow consumers to choose the right pricing strategy to suit their unique situation.

(d) investigation of mechanisms that could assist households and business to reduce their energy costs, including:

(d)(i) the identification of practical low cost energy efficiency opportunities to assist low income earners reduce their electricity costs

11. The implication that low-income earners need to be assisted in reducing their electricity costs is one side of a multi-faceted problem, and any solutions should not be viewed in isolation.

12. Low-income households use less electricity than high-income households.[2] Pensioners, people with disabilities and the unemployed are generally low-income households but they are also households that have a greater need to use electricity during the day. Furthermore, they have less discretionary load and therefore less ability to shift the load to off-peak times on (Time of Usage tariffs). [3]

13. Instead, the focus ought to be on ensuring that low-income households are not disadvantaged by the introduction of Time of Usage ("TOU") tariffs.

14. The introduction of measures such as the TOU pricing inevitably creates winners and losers. From an energy affordability perspective, TOU pricing will penalise many households that can ill-afford the price increase. If governments intend on rolling out TOU pricing then they must develop and introduce policies and regulation to mitigate these impacts on low-income earners.

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[2] See for example: May Johnston, *New Meters, New Protections*: *A National Report on Customer Protections and Smart Meters* (2010), St Vincent de Paul Society National Council < http://www.vinnies.org.au/files/NAT/SocialJustice/NewMetersNewProtectionsFeb2010.pdf>, page 39.

[3] See for example: Ibid, page 41.

15. As previously submitted, [4] the potential losers under TOU pricing will be households with low electricity consumption, low income households (households that have little discretionary load that they can shift to take advantage of the low off-peak rate) and households with people at home during the day on weekdays (these include the unemployed, pensioners, people with disabilities and parents caring for young children etc), see paragraphs 36-37 below for further information on this point.

(d)(ii) the opportunities for improved customer advocacy and representation arrangements bringing together current diffuse consumer representation around the country

16. The Australian energy market is very different across all of the States and consumers are very divergent in their views and expectations of the energy market. To suggest that the energy market and consumer views are homogenous is presumptuous.

17. We are unclear as to the purpose or expectation of this question, and we believe that if it is dealt with inappropriately it may result in limiting the diversity of the views expressed by consumers, resulting in worse consumer outcomes.

18. A key factor critical in any proposal for a national advocacy body is some form of direct accountability by the body to consumers generally. Failure to do so would result in any institution being perceived as beholden by interests other than the consumer.

(d)(iii) the opportunities and possible mechanisms for wider adoption of technologies to provide consumers with greater information to assist in managing their energy use

19. The Society supports the dissemination of information to provide consumers with greater information to assist them in managing their energy use.

20. However, it should be noted that many people still do not use "technologies" to access information.

21. Many people such as pensioners and the elderly do not use information technology and online databases for information because they do not have access to relevant technologies, or if they do they do not utilise them. These people and many others still rely on paper information to stay informed.

22. Furthermore, the costs associated with the provision of information technologies can be significant. As such, when considering their introduction, cost appropriate or progressive cost allocation is critical to avoid a situation that currently exists in Victoria where each household regardless of their consumption and energy usage is required to pay the same price for the smart meter technology. The cost of any technologies needs to be proportional to the ability of the household to benefit from any future savings.

[4] See for example: Ibid, page 12.

23. The Society believes that the Committee should consider adopting a wider approach in the dissemination of information to assist a broader spectrum of consumers in managing their energy use. The Society also believes that the Committee should consider the implications of the introduction of any information technology and the disproportionate financial impact it may have on households and their ability to benefit from that technology.

(d)(iv) the adequacy of current consumer information, choice and protection measures, including the benefits to consumers and industry of uniform adoption of the National Energy Customer Framework

24. The NECF was developed thorough an amalgam of a number of States' consumer protection frameworks. Therefore, while the NECF will have the effect of raising the threshold for consumer protection frameworks in some jurisdictions, in others it will result in a reduction of protections.

25. It should be noted that the NECF was developed prior to the introduction of smart metering technologies. In addition, many of the issues and challenges raised by this Senate Inquiry are not covered within the current consumer protection framework. As such, the NECF will be inadequate as we move forward and new technologies, pricing and products are introduced into the energy market.

26. We recommend that as a matter of high importance that, before such technologies are released, a robust consumer protection framework be developed.[5] A number of these concerns have previously been raised by the Society, particularly in relation to direct load control and supply capacity control. [6]

(d)(v) the arrangements to support and assist low income and vulnerable consumers with electricity pricing, in particular relating to the role and extent of dividend redistribution from electricity infrastructure

27. Where governments introduce programs that increase electricity prices, such as smart meter rollouts and renewable energy pricing, they have a responsibility to ensure that low-income households (typically those that are disproportionately disadvantaged by the programs) receive assistance to pay high electricity bills that may result from TOU pricing and the costs of the rollout (in particular smart meters).

28. Inevitably, State governments will see an increase in GST revenue generated from higher electricity prices. The Society submits that this revenue should be allocated to assist households struggling to pay for increased electricity costs.

29. Furthermore, at the federal level, the government should review the underlying social security payments and energy concessions and assess their effectiveness in an environment where domestic electricity prices increase at a rate well above the CPI. We raise this issue as

[5] See for example: May Johnston, *New Meters, New Protections*: *A National Report on Customer Protections and Smart Meters* (2010), St Vincent de Paul Society National Council <http://www.vinnies.org.au/files/NAT/SocialJustice/NewMetersNewProtectionsFeb2010.pdf>, page 56.
[6] See for example: Ibid, pages 17-18 and 20-28.

the rising costs of energy not only affect household budgets but also businesses, resulting in higher charges for goods and services.

(d)(vi) the arrangements for network businesses to assist their customers to save energy and reduce peak demand as a more cost effective alternative to network infrastructure spending

30. Please see paragraph (d)(i) above in response to this question.

(d)(vii) the improved reporting by electricity businesses of their performance in assisting customers to save energy and reduce bills

31. This question presupposes that there is an obligation placed on energy businesses to assist customers to save energy and reduce their bills. While this in itself is not a bad idea and we support it in principle, the placement of such an obligation could result in potentially higher system costs through both the strategies and programs implemented by businesses and also the associated administration and reporting costs.

32. As we have pointed out previously in our submission, who bears these costs and who receives the benefit of the implementation of such obligations should be thoroughly ascertained before they are implemented.

(e) investigation of opportunities and barriers to the wider deployment of new and innovative technologies, including:

(i) direct load control and pricing incentives
(ii) storage technology
(iii) energy efficiency
(iv) distributed clean and renewable energy generation

33. We do not have any concerns about new technologies coming into the market, however, as identified earlier in this submission these technologies should only be released where there is a robust and appropriate consumer protection framework.

34. A framework specifying appropriate minimum terms and conditions of contract has not yet been developed. Furthermore, as new technologies will require capital investment, how those capital costs are raised and allocated within the community should be a key consideration.

35. Finally, where this technology initiates a new pricing product, a regulatory impact statement must be undertaken to identify the impacts of these costs on various customer groups. Where appropriate supports and concession should be provided to ameliorate detrimental outcomes, for example, through the introduction of time variant pricing.

36. From an energy affordability perspective, time variant pricing could penalise many households that can ill-afford price increases. There need to be policies and regulations in place to mitigate the impacts of time variant pricing structures. The Society has previously submitted [7] that time varian pricing structures will have a disproportionate impact on the following households:

    (a) *Households with low electricity consumption* – while higher consumptions households are likely to have electricity loads that naturally attracts off-peak or shoulder rates, as well as higher discretionary load, low-volume households have little discretionary load that they can shift to take advantage of low off-peak rates and will therefore be disadvantaged by the price applied at the time of usage.

    (b) *Dual fuel households* – For the same reason lower consumption households are more likely to be disadvantaged, so are households using reticulated gas. Households that use gas do not generally have a significant off-peak electricity load that can act to offset the more expensive peak and shoulder rates they are charged on a time variant tariff.

    (c) *Households with people at home* – People in full-time employment during normal business hours can naturally avoid domestic consumption during a significant proportion of peak times. Their savings may not be great solely due to this, but they do avoid the higher rates many other households cannot. Pensioners, people with disabilities, the unemployed and parents caring for young children represented households more likely to be severely disadvantaged by time variant tariffs.

37. Furthermore, many households may find themselves significantly worse off when reassigned to a time of usage standing offer. For example in Victoria, the peak rate is applied to all weekday consumption between 7am and 11pm, meaning that many households would have minimal consumption attracting off-peak rates for five days of the week.

[7] May Johnston, *New Meters, New Protections*: *A National Report on Customer Protections and Smart Meters* (2010), St Vincent de Paul Society National Council <http://www.vinnies.org.au/files/NAT/SocialJustice/NewMetersNewProtectionsFeb2010.pdf>, page 12.