Australian Council of Social Service

Submission to the Select Committee on Energy Prices

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1 Introduction

The Australian Council of Social Service is the peak body of the community services and welfare sector and the national voice for people affected by poverty and inequality. Our membership represents over 3000 organisations plus additional individuals through the combined network of the Councils of Social Service.

ACOSS' vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life. Our interest in energy markets, carbon reduction and energy efficiency is primarily the result of our interest in matters affecting low income and disadvantaged people in Australia. Electricity is an essential service and should be supplied equitably, affordably, reliably and sustainably.

People living on low incomes are experiencing significant pressures as a result of substantial increases in the cost of electricity, without a concomitant increase in income. Low income people are most likely to live in poorly-insulated and inefficient rental accommodation, and spend a higher proportion of their income on energy, water and fuel than others. They are least able to respond to increases in prices and to invest in more efficient homes. Given that energy is an essential service, energy price rises leave the most vulnerable households with little option but to pay the extra.

ACOSS has been active since 2006 as an advocate on behalf of low income and disadvantaged consumers in development and reform of the national energy market, and we welcome the Senate Inquiry into Electricity Prices as an opportunity to look at the broader drivers, protections and opportunities in energy regulation and policy.

2 Identification of the key causes of electricity price increases over recent years and those likely in the future

Network capital spending and peak demand has been the main drivers in energy price rises. Networks build transmission capacity to meet 100% of peak demand, which only occurs for a short period of time through the year, usually on the hottest summer days. Peak demand is growing, mainly due to the increased use of air conditioners. Network revenue is primarily to cover the cost of their debt to

finance new infrastructure to meet peak demand, however there is evidence that forecast demand profiles and infrastructure investment needs are overestimated by network service providers.

The National Electricity Rules are based on a voluntary industry code from the 1990s, and have been inadequate in enabling the AER to challenge network revenue claims and new infrastructure project proposals. This has led to over-investment in energy networks, which has resulted in significant price rises for consumers.

While the carbon price and other "green schemes" have contributed to energy costs in 2012-13, the contribution of these initiatives has not been significant compared to price rises resulting from increased network infrastructure spending. ACOSS has supported the introduction of putting a price on carbon pollution and the Clean Energy Future package, and the compensation provided to consumers for the impact of the carbon price.

3 Legislative and regulatory arrangements and drivers in relation to network transmission and distribution investment decision making and the consequent impacts on electricity bills, and on the long term interests of consumers

3.1 National Electricity Objective

The National Electricity Market was established by the South Australian parliament under the National Electricity (South Australia) Act 1996, and sets out the National Electricity Law (NEL) endorsed for establishment by COAG members. Section 7 of the NEL sets out the National Electricity Objective (NEO) as:

> *"The objective of the law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –*
>
> *a. price, quality, safety, reliability, and security of supply of electricity; and*
>
> *b. the reliability, safety and security of the national electricity system."*

These objectives frame the decision making by the AEMC and the AER, and essentially provide an economic lens through which the 'long term interests of consumers' can be assessed. However, the continued growth in peak demand and household bills suggest that there may be a disconnect between the objectives of the

NEL, and the long term social and sustainable development needs of Australian consumers.

Given the failure of the current system to restrain growth in peak demand, and maintain affordable energy prices for the most vulnerable households, it is worth examining whether amendment of the NEO would provide stronger foundations for the regulator to ensure better social outcomes (energy affordability and equitable access to an essential service for all Australians) and also ensure network development that is consistent with Australia's environmental commitments (such as carbon emission reduction targets). Certainly, from a low income household point of view, policy settings are needed to require regulators to assess the affordability of energy, as well as unit price.

Regulation and Resources

The Australian Energy Regulator needs to have sufficient resources to take a thorough analysis of revenue claims and new infrastructure proposals. In addition, the regulatory framework needs to be as strong as possible to prevent investment that is above efficient levels, so that consumers do not pay more than is necessary for an essential service. ACOSS welcomes the opportunity to provide input to the review of the Rules, and will be making a full submission to the AEMC in October.

The institutional arrangements should entrench and guarantee consumer and small user participation in relevant decision-making processes. This would require adequate resourcing of consumer participation to ensure that small user interests are adequately represented, and balanced, recognising the very powerful other stakeholder interests involved in the regulatory arrangements.

For example, at the present time, the AEMC Draft Rules do not adequately guarantee the nature and extent of consumer participation, nor do they develop an understanding about what consumer engagement really means. In good regulatory re-design, processes for both the regulator and consumer need to be clearly specified so that they do not contribute to asymmetry in processes.

Alternative models should also be explored to identify other meaningful ways that consumers can participate in the regulatory process for determining network price controls. This could draw on the experience of other jurisdictions such as federal and provincial energy utility regulation in Canada and the United States, where energy users have been involved through the introduction of negotiated settlements

between users and network service providers on issues such as prices, revenues, expenditures and service standards.

4 Options to reduce peak demand and improve the productivity of the national electricity system;

The AEMC Power of Choice draft report (released September 6 2012) has outlined options for network businesses to reduce peak demand and delay investment in generation and networks. The report proposes demand side participation as an effective way to reduce peak load and empower consumers. There is certainly a need to set targets for networks to invest in energy efficiency, rather than further investment in networks. However we would urge careful implementation so that changes do not cause upward pressure on electricity prices and further cost impacts on consumers.

4.1 Time variant pricing

Time variant pricing has the potential to reduce peak demand. However it is important that it is carefully implemented to ensure that vulnerable consumers are not disproportionately impacted. One of the fundamental changes enabled by interval/smart meters is time of use (TOU) pricing, which is supposed to 'allow' consumers to make 'informed choices' about when they use electricity. This might be true, but you can only make choices if your circumstances are such that options are available for changing the time or the way you use energy.

Price signals are not an effective way of shifting consumer behaviour if the consumer is unaware of the price signal, or is unable to change their consumption because of their circumstances (eg someone on life support equipment that has to run 24 hours a day). We are moving from a time when energy was a basic product, charged at a predominantly flat rate, to a range of variable pricing structures. Without education, consumers will not be aware of the cost impact of their habitual consumption patterns, and may face much larger than expected bills. If the current level of householder tariff awareness is any indication, there is a long way to go in educating people about the variable charges they are paying. In phasing in time varying network tariffs, consumer education and effective safeguards are vital to ensure that households are properly informed of the cheaper times for discretionary energy use.

We are concerned that many low income households will have higher bills because they are unable to shift or reduce consumption. With time of use tariffs, the highest

priced time for use of electricity is likely to be hot weekday summer afternoons, and this will impact disproportionately on people who are at home during such periods, especially those with inefficient air conditioners cooling poorly insulated homes. Families and individuals who are not home at such times may well experience reductions in electricity prices, but people who are unemployed, parents of young children and older people are likely to experience increased bills as a result.

Consideration should be given to special arrangements for low income households (large and small) so that they can remain on flat network charges where their circumstances prevent them from shifting or reducing consumption. Upgrading the insulation, shading and draught sealing of the homes of affected groups, and replacing inefficient air conditioners when introducing smart meters would also be potentially important equity measures.

4.2 National Energy Savings Initiative (NESI)

ACOSS supports the introduction of a NESI to reduce energy demand and the intensity of energy usage across the economy, and thus reduce the need for new infrastructure. The NESI should also be designed with appropriate measures to ensure low-income and vulnerable households are able to share in the direct benefits of the scheme.

Energy efficiency schemes are likely to provide more support for middle and upper-income households than for low-income households unless they incorporate specific design factors. This is because, unlike wealthier households, low-income households have very little capital to make co-payments on larger capital items offered by the scheme. This can result in an accumulation of smaller items such as showerheads and door snakes in disadvantaged households, while wealthier households access the more substantial energy efficiency items and resulting energy savings. This inequity will become particularly important as the lowest cost measures (such as light bulbs and showerheads) are exhausted. In addition, a generic scheme may not be targeted to reach disadvantaged or culturally diverse households.

A national ESI should therefore ensure greater uptake of energy energy efficiency measures by low-income and financially stressed households and the proportion of savings in low-income households should be stipulated in the scheme design. In the UK's Carbon Emissions Reduction Target (CERT) scheme, 40% of savings must occur within the priority group. Within the priority group, a further 12% of savings must come from a super-priority group of households that are vulnerable to fuel

poverty. In addition to operating efficiently, the scheme has helped thousands of households to move out of fuel poverty.

The ESI should be designed to include provision of higher value items such as insulation, efficient hot water systems, draft sealing, curtains and window shading. To enable uptake of larger capital items by low income households, a finance mechanism must also be included to support those who would have little capacity to meet co-payments for these installations.

4.3 Funding for energy efficiency upgrades in low income households

Targeted national programs should be explored as a way to support energy efficiency upgrades of low income households, and this could be a complementary program to a national ESI to enable low income households to meet co-payments for larger items.

A large proportion of low income homes are uninsulated, with gaps in doors and windows, and with old inefficient fixed appliances (such as air conditioners and hot water systems). In Victoria alone, 65% households with the lowest household annual income had insulation in 2005, but a much larger proportion (81%) of households with the highest annual household income had insulation. Due to capital constraints, low income homes are also least likely to have been renovated to improve thermal performance.

By targeting the least energy efficient homes, upgrade programs could deliver cost-effective peak demand reduction, and the cost of upgrade programs provide additional benefit of reducing energy concession payments, particularly in states where concessions are proportional to energy bills, and public health expenditure for people living in extreme climate zones.

5 Investigation of mechanisms that could assist households and business to reduce their energy costs, including

5.1 The identification of practical low cost energy efficiency opportunities to assist low income earners reduce their electricity costs,

While energy price rises have caused hardship across the board it should be recognised that low income households are not a homogeneous group, and there are any number of technical, structural, social and climatic factors that can influence the way energy is used in the home. A household in energy stress could resemble the following:

- a single pensioner living in a single room, public housing bed sit with a bar fridge and a transistor radio;
- a 12 person refugee household, new to Australia and living in a draughty, uninsulated private rental and were signed onto an energy contract they don't understand;
- a person with Multiple Sclerosis requiring constant temperature control of their living space.
- a large Aboriginal family living in poorly maintained, uninsulated social housing an extreme climate area;
- a Pensioner couple living in their own home, frugal with energy but have old, inefficient appliances;

Energy efficiency measures are most cost effective when they are delivered to the households where they will make the biggest difference. Home energy audits have the potential to facilitate the targeted delivery of the most appropriate energy efficiency products because they are assessing individual circumstances, and can help households to access products that will make the biggest difference to their energy use. ACOSS can see the value in collecting data through audit programs to understand where opportunities are for the next stage of energy efficiency programs, and this data can also provide the evidence base for future program development.

Some of the practical energy efficiency opportunities include:

Low cost:

- Draught sealing around door and window gaps
- External shading/awnings
- Curtains and pelmets

- Clearer bill information explaining specific tariff structures would assist households to avoid expensive tariffs where possible.
- Education through home energy audits.

Medium cost:

- Insulation
- Upgrading of inefficient refrigerators and air conditioners

Higher cost

- Replacement of inefficient electric hot water systems

Incentives for property owners to upgrade low income households

If the Commonwealth is serious about including low income people in a clean energy future, it needs to find effective ways to incentivise landlords to upgrade the thermal efficiency of their properties. One in four Australian households are in private rental or public housing, and do not have rights or incentives to make capital improvements (such as insulation or efficient hot water systems). Poverty rates are much higher for renter households (21.9 per cent of private renter households are in poverty, while 47.9 per cent of public housing households are in poverty) compared to purchaser households (10.9 per cent) and outright owners (7.2 per cent).

Landlords do not benefit from the bill savings or thermal comfort improvement energy efficiency improvements, and this split incentive has resulted in some of the most vulnerable households living in the most inefficient properties in Australia. The need to target split incentives is most starkly illustrated by data about people living on the New Start Allowance (NSA). Half of NSA recipients live in private rental properties, and 40% of NSA recipients could not afford to pay a utility bill on time in the past year. Even with a $60 weekly rental supplement, the financial and structural barriers to energy efficiency are immense for NSA recipients living on $43 a day.

One measure that could assist in incentivising landlords is mandatory disclosure of the energy efficiency of rental properties at the point of lease. This is under review by the Select Committee on Climate Change, and ACOSS looks forward to the outcomes of the review in December. Other possible mechanisms include rebates or tax incentives to encourage landlords to upgrade their properties, providing that

regulatory obligations are included to ensure landlords do not pass costs on to tenants through substantial rent increases.

There is also an urgent need to address the inefficiency of social housing, and ACOSS strongly recommends that the Government work with States and Territories to find ways to fund energy efficiency upgrades in public and community housing. At 30 June 2011, there were at least 389,000 Australian households occupying public and community properties. Over half of these properties were allocated to tenants with special needs (that have either a household member with disability, a principal tenant aged 24 years or under, or 75 years or one or more Indigenous members). Given that these households have little flexibility in their budget or energy consumption patterns, it is vital that the Commonwealth and State/Territory Governments work together to ensure that these households have access to real savings on their energy consumption by improving the energy performance of their existing housing stock.

Other measures to help vulnerable households with energy costs

Current bill payment options are limited to customer assistance programs, payment options and emergency assistance payments. While these are all helpful for vulnerable households, these options only become available once a consumer has received a bill that they cannot afford to pay. ACOSS recommends that consideration be given to more flexible billing options to help low income households control their expenditure, such as offering monthly billing to reduce bill shock often caused by the current quarterly billing in arrears.

ACOSS also recommends that people on Allowances should receive the Utilities Allowance to which people living on pensions are entitled.

5.2 The opportunities for improved customer advocacy and representation arrangements bringing together current diffuse consumer representation around the country,

We strongly welcome opportunities for improved customer advocacy and representation arrangements to balance the supply side's promotion of its interests and ensure that consumer interests are effectively taken into account by decisions makers in governments, regulators and energy supply businesses.

While there are strengths in current arrangements for consumer advocacy relating to energy, there is a need for a stronger national voice, increased resources and more technical expertise for energy consumer advocacy.

We have joined a number of consumer advocacy organisations to establish a working group tasked to support the creation of a national energy advocacy body. The working group will identify an appropriate governance model for the proposed body, develop a business plan, and provide an implementation plan for the consideration of the Standing Council on Energy and Resources at its December meeting.

An effective, well-resourced national energy consumer advocacy body can operate to ensure consumer interests are central to decision-making by governments, regulators and energy businesses. Working closely with existing advocacy and community agencies to leverage existing skills, knowledge and experience, a new body focused on national key priorities can contribute to more responsible, effective, sustainable and fair energy markets. We call on Senators to support this important initiative.

5.3 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,

ACOSS has called on all jurisdictions to urgently embrace improved protections and information for Australian energy consumers, and we are disappointed with the decisions of the four largest states to delay implementation of the National Energy Customer Framework (NECF), which was due begin from 1 July this year following more than six years of negotiation, compromise and significant expense incurred by regulators, retailers, advocates, Ombudsman and others.

Australian electricity consumers are facing unprecedented price increases, aggressive marketing and product complexity, and reforms are urgently needed to help inform and protect consumers in this challenging market. Only the ACT and Tasmania adopted the NECF on its 1 July start date, meaning consumers outside these jurisdictions are denied:

- Use of the new unbiased Energymadeeasy.gov.au comparison website run by the Australian Energy Regulator;

- Access to standardised fact sheets, helping consumers compare complex energy products;
- Comprehensive, consistent and properly enforced consumer protections; and
- The cost-savings of a nationally consistent regulatory framework.

While all states should adopt the NECF without delay, it is also important that the NECF encourage continued innovation and improvements in consumer protections, and allow for state-based issues and fact sheets to be provided on the website. In addition, it is worth examining whether the NECF could be strengthened, based on strong consumer protections that have been achieved in states such as Victoria.

5.4 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

The AEMC Power of Choice draft report (released September 6 2012) outlines a range of proposals for greater demand side participation. Given the significance of network investment in the rise of energy bills, all jurisdictions should commit to mandating targets for networks to invest in demand side participation as a way to delay and avoid investment in network infrastructure and assist consumers to reduce levels of peak demand.