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Senate Select Committee on Electricity Prices
Parliament House CANBERRA ACT 2600
Via e-mail: electricityprices.sen@aph.gov.au

Dear Committee members,

United Voice is a union of 120,000 workers organising to win better jobs, stronger communities, a fairer society and a sustainable future. Our members include some of the lowest paid workers in industries like aged care, health care, early childhood education and care, cleaning, hospitality, security, school education and manufacturing.

The Committee has requested some answers to additional questions on notice. Please find below a response to these questions from United Voice :

1. *Do you believe the AEMC's draft proposal for a three-tiered tariff system would adequately protect vulnerable and low-income consumers?*

United Voice is concerned that that a proposal for a three-tier tariff system will not adequately protect vulnerable and low income consumers for the following reasons:

- a. Inability to change energy demand

Chester and Morris identify “a real and growing problem for Australia’s 3.5 million poorest households” and define energy poverty in the context of low-income households living with rapidly escalating energy prices. They note, “A low-income household’s capacity to meet escalating energy costs will be influenced by the ability to change its energy demand and housing tenure... Low-income households have much less capacity to influence housing energy efficiency to reduce their energy demand and stem the growth of energy bills as prices rapidly rise.”¹

There is an inherent assumption that households can substantially change energy consumption patterns and that households will respond to price signals on an hourly/immediate basis via time-of-use pricing.. Low income and vulnerable consumers have the least ability to change their energy usage to fit in with peak, shoulder and off-peak periods including:

- those with young children cannot avoid essential activities during the peak period from 2pm-8pm;
- those with poorly insulated homes (either owned or rented) cannot avoid cooling homes during the hottest period of the day, the afternoon, also during the peak period;

¹ Chester, L & Morris, A. Energy poverty: An escalating outcome of liberalised energy markets’, in Chester, L., Johnson, M. and Kriesler, P. (eds), (2010), *Heterodox economics: Addressing perennial and new challenges*, Refereed papers, Proceedings of the 9th Australian Society of Heterodox Economists Conference, 6-7 December 2010, University of New South Wales

- those who rent have limited ability to adapt homes to ensure that energy efficient appliances and equipment can assist peak demand reduction;
 - that they often live in the hottest geographical areas of cities , for example in Sydney, low income households are more likely to live in Western Sydney than in the eastern suburbs where sea breezes mean that temperatures are often several degrees cooler in summer.
- b. Education strategies essential to a three tiered structure will not reach low income and vulnerable consumers

In order for time-of-use pricing to be effective in assisting consumers to save on their bills, it will be necessary for homes to have smart meters and in-home display systems accompanied by a comprehensive education program for consumers. There are significant barriers to delivering a broad based education program to vulnerable people and people on low incomes. Some of these barriers include:

- Literacy, including English literacy;
 - Poor access to internet as source of information and education (due to internet being an additional household cost);
 - Inadequate time – a significant proportion of United Voice members report being time-poor in that some work more than one job, often two and in some reported cases up to four jobs to make ends meet.
- c. A flat network tariff with a higher price provides no protection

Small to medium consumers in Band 3 proposed by the Australian Energy Market Commission (AEMC) are likely to face a ‘flat network tariff’ that is **higher** than the time varying tariff.

Evidence from United Voice members show that their household budgets are tightly managed due to their low incomes, including for the payment of electricity bills. A low income consumer may be less likely to choose a time varying tariff (and hence a lower tariff) in the management of a tight budget. This is because a time varying tariff means that a quarterly electricity bill is less predictable, that is, the bill varies with usage and a low income household has less capacity to absorb these variances. This could also mean that low income households stay with a flat network tariff and bear the burden of higher prices.

2. Do you support the AEMC's draft proposal for a three-tiered tariff system?

United Voice supports the retention of **a single government regulated tariff** over the AEMC’s draft proposal for a three- tiered tariff system. We remain unconvinced that the three-tiered tariff system will protect low income and vulnerable consumers. Many United Voice members are either low income consumers or vulnerable consumers or could be considered both low income and vulnerable. For example, we know that amongst United Voice members:

- Are distributed up to the third income quintiles of the population (based on a recent demographic survey of United Voice members);
- Many have English as a second language and a proportion are unable to hold a conversation on the telephone in English. The ability of a national or state-based education scheme to reach this group of Australians is extremely limited;
- A significant proportion are unable to read, write or have low literacy levels;
- Some report not having access to the internet simply because it is a cost they cannot afford;
- Many are already reporting experiencing financial stress in the payment of electricity bills and cannot bear any further increase in these bills. We are concerned that the solutions being posed in varying tariff arrangements are costly (to roll out smart meters and in-home display units), will add to electricity bills and while they may deliver bill reductions for some Australians, low income and

vulnerable consumers including many United Voice members will face increased rather than reduced bills.

We are concerned that evidence from NSW suggests that only 70% of consumers will make savings under time-of-use pricing, thereby implying that 30% of consumers will either be worse off or whose situation will remain the same.² It is clear that low income and vulnerable consumers are those most likely to fall into this 30% group and it is not equitable that they either miss out or bear the cost of any scheme to improve energy affordability.

Research contracted by the Victorian Government suggests that the bill impacts of flexible pricing are a “reduction of 6.1% (assuming a response to the price signals) and an increase of 1.8% across customer groups (assuming no response to the price signals)”.³ The study further indicates that “for a small number of customers, there was the potential for a significant increase in bills”.

3. *Are there any ways in which the AEMC's three-tiered tariff system could be improved to offer better protections to vulnerable and low-income consumers?*

United Voice members are concerned that increases in electricity bills are now so significant that solutions to bring down high bills for those who can least afford them must be far-reaching and visionary. It is difficult to see how small reductions to bills that may be achieved through time-of-use pricing can make a large difference to energy affordability for those who most need it. Together with a new set of costs that come with time-of-use pricing (smart meters, in-home display systems), low income and vulnerable consumers run the risk of further cost increases or electricity disconnection.⁴

We support the regulation of electricity pricing as a key component of protecting low income and vulnerable consumers. Further, in the context of any decision to shift to time-of-use pricing, the principle of regulated pricing is absolutely essential. We note that consumer representatives in Victoria where electricity prices are de-regulated view that “unregulated time of use pricing is likely to be the most significant driver of increased complexity for residential energy consumers”.⁵

Yours faithfully,

Louise Tarrant
National Secretary

² <http://www.switchwise.com.au/electricity/smart-meters/>

³ <http://www.dpi.vic.gov.au/smart-meters/publications/reports-and-consultations>

⁴ Sydney Morning Herald, ‘Power cut-offs soar as families struggle with bills’, November 16 2011, www.smh.com.au/environment/energy-smart/power-cut-offs-soar-as-families-struggle-with-bills-20111115-1nh5o.html

⁵ <http://consumeraction.org.au/wp-content/uploads/2012/10/Consumer-Action-submission-to-AEMC-Power-of-Choice-Draft-Report-Oct-2012.pdf>