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Submission to the Senate Select Committee Inquiry into Electricity Prices

Introduction

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.

Our union welcomes the opportunity to make a submission to the Senate Select Committee Inquiry into Electricity Prices based on the experiences, concerns and views of members.

With energy prices rapidly on the rise, United Voice members want to see urgent action in this area by the Federal Government.

While there are various processes underway considering a range of reforms, we particularly appreciate the wide Terms of Reference of this inquiry and the focus on the causes and solutions to rising electricity prices.

United Voice also welcomes the comments by Prime Minister Gillard in August 2012 to the Energy Policy Institute of Australia. We agree that the last four years' price rises cannot continue; that we need to examine peak demand and reliability standards; and that we need more renewable energy and distributed generation.

United Voice wants to work toward a future where energy is affordable, renewable and in public hands. Our submission to the Senate Select Committee Inquiry into Electricity Prices will focus on the issues of energy affordability, privatisation of energy assets and deregulation of energy prices. These comments are also based on our previous submission on the draft Energy White Paper. If there are public hearings of the Senate Select Committee, we are keen to participate with members who are participating in the union's Price Patrol campaign.

United Voice campaign: Price Patrol

In November 2011, United Voice launched Price Patrol, a campaign of members from across Australia tracking the cost of living, particularly electricity bills. We are currently assessing the findings of the campaign in relation to rising energy bills, in conjunction with an independent and in depth demographic study of United Voice members, and would be happy to share results of the campaign with the Committee.

In addition, United Voice recently conducted over 600 conversations with members about electricity bills, the carbon price and renewable energy. Overwhelmingly, members were concerned about the rising cost of living, particularly electricity bills. Many workers remarked that wages are not keeping pace with rising bills. Union members want to access affordable renewable energy to bring down bills, and 83% of members said they wanted to see more government investment in renewable energy from the sun and wind.

Jacqui was among the first United Voice members to sign up for Price Patrol, for one simple reason: "You can't complain about things if you're not prepared to actually stand up and express your opinion. Through Price Patrol I can do something about my concerns on the cost of living."

Jacqui is a teacher aide living south of Brisbane with three of her four children, aged from 16 up to 28.



She says it's a 'constant struggle' to live on her wage. She manages to pay for 'the essentials' but luxuries such as holidays are out of the question. Electricity bills take up a big chunk of her income every quarter. She has a water tank at home but cannot afford to install solar power.

Electricity prices are rising – with big impacts for households

We are entering a new era of energy unaffordability for many Australians. The cumulative changes to electricity prices from 2007-08 to 2011-12 demonstrate increases in excess of 60% in four states and territories.¹ Price rose further in July 2012 with further increase anticipated in coming years.

¹ Based on published price increases on state and territory regulators' websites.

In NSW, electricity prices will have risen by almost 80% in the five years from July 2007 to June 2012; on average rising a further 18% in July 2012. In 2010-11, disconnection rates in NSW increased by 18%.² Similar patterns are emerging in other states.

State-based Ombudsmen are responding to big spikes in customer complaints and disconnection rates in several states. In particular, some are finding a new demographic of households are unable to pay their bills – low-paid workers who have not traditionally accessed support for paying bills or lowering energy use.³ In July 2011, the NSW Energy Ombudsman said their statistics showed low income working people were the largest new group of people facing electricity and gas disconnection. Recent research from the customer base of AGL suggests those in the ‘family formation years’ – are a new emerging group facing disconnections.⁴

Energy poverty in Australia

Australian Bureau of Statistics data found nearly 40% of the two lowest household income quintiles were unable to pay electricity, gas or telephone bills on time during 2010.⁵ Simshauser et al estimate the average household in the lowest quintile of household income distribution will be experiencing energy poverty by 2014-15.⁶

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.⁷ 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.”⁸

Many households – particularly those of low-paid workers – are missing out on renewable and efficiency schemes that are already limited in scale and scope. Chester and Morris find “[t]he majority of measures are so tightly targeted that they do not ‘capture’ all those experiencing energy poverty. There is a high prevalence of reactive, temporary financial

² 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

³ For example, <http://www.theaustralian.com.au/national-affairs/power-cut-off-rates-soar-as-poor-battle-with-bills/story-fn59niix-1226205400342b>

⁴ Simshauser, Paul, Nelson, Tim and Doan, Thao, 2010, ‘The Boomerang Paradox: how a nation’s wealth is creating fuel poverty - and how to defuse the cycle’, AGL Applied Economic & Policy Research Working Paper No.17, available at <http://www.aglblog.com.au/wp-content/uploads/2010/10/No.17-Boomerang-Paradox-Final-Oct-20102.pdf>

⁵ Australian Bureau of Statistics, 2011, *2010 General Social Survey: Summary results, Australia*, www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/4159.02010?OpenDocument

⁶ Simshauser, p22

⁷ Chester, p2

⁸ Chester, p8-9

assistance measures for vulnerable household in preference to measures providing widespread and long-term improvements to the energy efficiency of housing.”⁹

The current reviews and inquiries underway in the Productivity Commission, the Australian Electricity Market Commission, the Energy White Paper, COAG and state-based reviews do not sufficiently address the growing crisis in energy affordability. Instead, in many process there is a perverse push to further privatise the electricity market and deregulate electricity prices, under the false assumption that ‘more competition’ will result in lower prices for consumers.

West Australian Education Assistant and Price Patrol campaigner Kim says, “People are concerned about food prices going up, and electricity bills going through the roof.

“I work in education, and every day with kids I can see the pressure that rising costs are putting on families.”



Investing in renewables for an affordable energy future

United Voice argues that a suite of solutions is needed to ensure efficient use of energy, peak load management and renewable energy generation to reduce the need for expensive centralised power stations, power lines and substations – as examined in the Institute of Sustainable Future’s (ISF) report, The Australian Decentralised Energy Roadmap.¹⁰ That report found network operators are planning \$45 billion in spending on network upgrades in the current five-year period, with a similar amount in the next five years. ISF says one third of this expenditure — \$15 billion in the current period — could be avoided if Australia adopted decentralised energy technologies. They found the lowest-cost deployment of decentralised energy could achieve more than \$2.8 billion in savings every year in consumer energy costs, as well as cut carbon pollution by 4.5% below ‘business as usual’ – with much more that could be achieved in a more ambitious program.

As well as savings in network upgrades, reducing carbon pollution, small-scale renewable energy could directly contribute to alleviating energy poverty in Australia. Recent research from the UK demonstrates the usefulness of small-scale renewables in alleviating fuel and energy poverty.¹¹ The two year study examined the effectiveness of programs in reducing fuel poverty in the UK by installed solar photovoltaic systems, ground source heat pumps, and solar thermal hot water systems - one of very few published studies of actual performance of such schemes. The UK report found home solar photovoltaic systems to be an effective measure for helping to alleviate poverty. The measure particularly became cost-

⁹ Chester, p14

¹⁰ Dunstan, December 2011

¹¹ O’Flaherty, Fin and Pinder, James, ‘The role of micro-generation technologies in alleviating fuel poverty’, December 2011, available at <http://www.eagacharitabletrust.org/role-domestic-renewable-energy-technologies-alleviating-fuel-poverty>

effective with the introduction of feed-in tariffs, which guarantee payments for electricity generated from renewable sources.

The current reviews and inquiries underway in the Productivity Commission, the Australian Electricity Market Commission, the Energy White Paper, COAG and state-based inquiries and process are underestimating the capacity of renewable energy to compete with fossil fuels, and do not pay sufficient attention to emerging research and modelling that shows renewable energy can be highly effective in bringing down energy prices. For example, the Australian Electricity Market Commission noted Victorian electricity prices will not increase as much as NSW and Queensland because of positive effect of new wind power to come online in Victoria in 2012-13.¹² Windlab Systems modelling suggested the proposed 700MW Kennedy wind farm in Queensland could cause pool prices to fall by about 9%. They found this would translate to savings of around \$330 million for consumers (plus further benefits by reducing transmission losses because of the proximity of the wind farm).¹³

Millions of Australians have solar panels on their homes. For households, rooftop solar is competing with the retail price of electricity, rather than large-scale solar installations that must compete with coal at the wholesale price, and can make a big difference to household bills.



Tom goes solar to save

When his quarterly electricity bill arrives, Tom takes a deep breath before opening the envelope. “It’s always going up and there’s always some excuse we’re given for that,” says Tom, who works in detention security. “Power bills are taking such a big slice of our budget that we decided we had to reduce our electricity bills to save money.”

Tom and his wife, aided by a State Government rebate, installed solar panels on the Brisbane house they share with two adult children. “That seems to be working. It helps us afford it. But we probably wouldn’t have got the solar if we hadn’t had the subsidy.”

Tom says households on modest incomes should receive government support to install solar panels and other cost savers.

¹² Australian Electricity Market Commission, December 9 2011

¹³ *Climate Spectator*, 6 September 2011, www.climatespectator.com.au/commentary/why-wind-cutting-energy-costs

Privatisation of energy assets

We note the September 2012 comments on Energy Minister Martin Ferguson recommending that “governments should minimise policy intervention” in the electricity market; further privatise public assets; and “move away from inefficient price regulation.”¹⁴

United Voice opposes these recommendations. There is strong evidence both within Australia and internationally that privatisation and deregulation is not in the interest of the public, the environment or residential energy consumers.¹⁵ Specifically, we are concerned that privatisation and deregulation will lead to an increase in carbon pollution, higher energy prices and vulnerable people being more at risk of energy poverty.

We believe energy policy and publicly owned electricity infrastructure must serve the public interest, which includes to:

- provide affordable electricity resulting in health, economic and social benefits;
- provide renewable energy which results in job creation, health, local environment, global climate and affordability; and
- curb peak demand and increase energy efficiency to deliver significant savings to government and customers, and benefits to the global climate.

Price deregulation

A range of prominent voices in politics and business have been calling for retail price deregulation on the basis that it is required to stimulate competition in the market in order to lower prices and promote consumer choice and empowerment.¹⁶

However, we argue that within Australia retail price deregulation has failed consumers. Chester and Morris note the “escalation in prices started about a decade after restructuring commenced. Electricity price increases well above 50% were experienced by most households within a few years. The electricity sector’s ‘liberalisation’ has not delivered price benefits to households.”¹⁷

Victoria is the only jurisdiction to have deregulated retail energy prices, moving to do so in 2009. While the draft White Paper argues that Victoria is “now one of the most competitive

¹⁴ Ferguson, Martin, Speech to the Australian Institute of Energy (South Australian Branch) Luncheon, 7 September 2012, Ayers House, Adelaide, available at <http://minister.ret.gov.au/MediaCentre/Speeches/Pages/AustralianInstituteEnergySA.aspx>

¹⁵ For example, Beder, Sharon, 2003, *Power Play: The fight for control of the world's electricity*; Professor Steve Thomas, ‘The New South Wales Energy Reform Strategy: A critique’, PSIRU, University of Greenwich, London, Nov 2009; Riedy, C & Daly, J, 2007, *Electricity Supply in NSW: Alternatives to Privatisation*, Research Report, prepared by the Institute for Sustainable Futures for the Public Interest Advocacy Centre, November.

¹⁶ Ferguson, Martin, 7 September 2012; ‘States to blame for electricity bills: AGL’, *Sydney Morning Herald*, 17/09/2012

¹⁷ Chester, Lynne and Morris, Alan, 2012, ‘A new form of energy poverty has become the scourge of ‘liberalise electricity sectors’, p2. An earlier version of this paper was presented to the 2010 Annual Conference of the Society of Heterodox Economists, p5.

markets in the world”, the most recent report from the Victorian Essential Services Commission¹⁸ highlights the outright failings of the deregulated price model:

1. Victorian customers do not have access to a ‘competitive market’ in that the three incumbent retailers (AGL, Origin Energy and TRUenergy) dominate the market for residential customers in holding close to 75% of the electricity market and 77% of the gas market. The Commission argues this market dominance is “affecting pricing strategies adopted by the top three”, indicating they may be “adopting somewhat less aggressive pricing strategies” and “AGL and TRUenergy are consistently pricing at the higher end of the range across most tariff types and distribution zones”.

This example is reminiscent of the situation within the United Kingdom, with the “big six” energy retail companies dominating the residential energy market having been accused by the national regulator, Ofgem, of manipulating prices by being quick to pass on increases, but slow to pass on falls in wholesale prices. EDF Energy's recent record profit sits against a steadily growing problem of fuel poverty in the UK.

2. Prices in electricity and gas in Victoria continued to increase in 2010-11. Price deregulation has been unable to address rising energy costs which the Commission attributes to “higher costs associated with wholesale energy, distribution and retail operations”. The Commission notes that the one-off increase in distribution costs due to ‘smart meter’ installation actually occurred in the previous year and yet private retailers were able to factor these costs into justifying price increases in 2010-11.

3. Retailers in deregulated Victorian market are able to rely on the supply charge, rather than customer usage charge, in order to maximise profit. In 2010-11, electricity retailers increased this charge in every distribution zone in Victoria. A consumer wanting to reduce energy consumption to manage bills can do nothing about this charge and attempts to reduce consumption will have a smaller impact on the bill. This has implications for both energy affordability as well as demand management strategies being sought, but due to deregulation, unable to be influenced by the government.

4. The rate of complaints by Victorian customers has increased significantly since the introduction of deregulation. In the 2010-11 financial year, Victorian customer complaints reported by electricity retailers doubled (up from 54,134 to 111,047). Complaints investigated by the Energy and Water Ombudsman of Victoria increased by 57%. Complaints to the Ombudsman related to affordability increased by 79%.

Similarly, the reported performance by the Victorian retailers’ call centres deteriorated in 2010-11. Privately owned retailers with control over price setting were not able to answer 44% of calls within 30 seconds, while the price-regulated Victorian water services were able to answer 90% of calls within 30 seconds.

¹⁸ Essential Services Commission 2011 *Victorian retail energy market overview 2010-11* December 2011, Melbourne.

5. Unlike their public owed counterparts, privatised energy retailers are motivated to maximise profit and as such do not want to carry liabilities of customers in hardship. The Commission notes that in 2010-11, results appear to indicate the Victorian retailers are taking a “tougher stance on helping customers in financial hardship”. This comment relates to a 33% increase in electricity disconnections, an increase in disconnections and reconnections to the same address, a reduction in participation in hardship programs, and the rate of customers on budget installment plans stagnating.

Deregulation of prices is regularly touted as a leading solution to rising electricity prices, yet this assumption is rarely tested and the results of deregulation rarely examined. Evidence from the deregulation of the Victorian market suggests price setting through the market has in fact ‘stifled competition’ leading to dominance in three major retailers. Consumers have not been provided with increased ‘choice and empowerment’; instead they have borne the brunt of retailers seeking to maximise profit by pushing the boundaries of price increases and pushing back against reasonable payment policies.

This Senate Inquiry and the December COAG meeting provide an opportunity to examine the multiple cost pressures building in the electricity supply chain that need to be addressed through progressive policies. Our union believes Australian workers want and deserve a future where energy is affordable, renewable and in public hands.

Yours faithfully,

Louise Tarrant
National Secretary