

Synthesis Paper for Consultation

“Energy Access and Affordability Policy Research – by Andrew Nance”

Foreword

Rising energy prices hurt people experiencing poverty and disadvantage, as do climate change impacts. At the moment Australia is failing to address either. Change is urgently needed.

It's being called an 'energy crisis', with energy prices skyrocketing and reliability being compromised in some places and no end in sight. A decade of policy change, inaction, lack of national coordination and finger pointing between the federal Government and the States is a central cause. According to the Australian Energy Council the lack of national climate and energy policy certainty is now the single biggest driver of higher electricity prices, equivalent to a carbon price of \$50 a tonne.¹

There is hope. The COAG Energy Council has asked the Chief Scientist, Alan Finkel, to examine the solutions to what's been dubbed the “energy trilemma” – security and reliability, affordability and emissions reductions. The Finkel Review will feed into the Federal Government's Climate Change Review this year.

Now is the time to ensure the interests of the whole community are captured in this debate – including people living on low incomes, people experiencing housing stress, people living with a disability, sole parents, Aboriginal and Torres Strait Islanders, and other disadvantaged groups.

Electricity is an essential service. But for more than three million Australians experiencing poverty and disadvantage, electricity is already unaffordable. Prices have increased 65% in real terms from 2007 to 2016. In some States there has been a threefold increase in electricity disconnections as a result of non-payment due to hardship since 2008. Others are forced to ration energy, foregoing heating or cooling, risking their health and wellbeing.

We know that it is not just the price of electricity that hurts vulnerable households. It is the total cost of securing their energy needs, influenced by housing circumstances; how much and when energy is used; the ability to access information; energy market design; eligibility for concessions; access to technology, and more. We know vulnerable households do not have the same choices as other consumers.

The transition to a modern, clean electricity sector is already happening and is desirable, but there is a real risk that vulnerable households will be left behind and further disadvantaged. **The transition must be inclusive and equitable.**

The Climate Institute, the Australian Council of Social Service and Brotherhood of St Laurence commissioned “Energy Access and Affordability Policy Research”, a report by Andrew Nance of The Energy Project, available at [here](#), to inform the consultations for our joint project *Empowering low income households through electricity decarbonisation*.

The purpose of the project is to better understand the issues and solutions for low income and disadvantaged households in addressing the energy trilemma of security, affordability and emission reductions.

What follows is a 12 page summary of the Research Report along with a series of questions we are seeking answers for, to help us develop a suite of policy recommendations to feed into the Federal Government's Climate Change Review and COAG Energy Ministers Finkel Review.

This research paper should be treated as a discussion paper, to kick-start a conversation. The paper’s framework was developed by Andrew Nance. The solutions presented here are drawn from a literature review; they are far from conclusive and do not necessarily reflect the views of any of the project partners. We look forward to hearing the views and priorities from you and your organisation.

Participation and input can be provided:

- By attending one of the many forums being held around Australia in April and May 2017, go to <http://www.acoss.org.au/consultation-registration/> to find one near you; or
- Go online and complete the online consultation form at <http://www.acoss.org.au/consultation-questions/>; or
- Contact one of the project partners:
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Raising the issues relevant to low income and vulnerable households, and identifying the most important potential solutions, will strengthen the voice of these consumers and their advocates and ensure that their needs are at the centre of policy solutions to decarbonise and modernise our energy system.

Yours sincerely



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Energy Access and Affordability Policy Research

FINAL REPORT 17 March 2017

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The Full Report is available at available at <http://www.acoss.org.au/wp-content/uploads/2017/03/EnergyAccessandAffordabilityPolicyResearchFINAL20March2017.pdf>

This project was funded by Energy Consumers Australia Limited (www.energyconsumersaustralia.com.au) as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas.

Context

The purpose of the report is to better understand the issues and solutions for low income and disadvantaged households in addressing the energy trilemma of universal access to affordable energy services, emissions reductions and secure reliable supplies.

Understanding the key factors contributing to the energy trilemma is critical to developing appropriate and effective solutions.

The energy market is in transition, driven by the need to reduce emissions, ageing generation infrastructure and technological changes. In December 2015, 195 countries, including Australia, adopted the first international climate deal to bind all countries to take action to reduce emissions, referred to as the Paris Agreement (UNFCCC 2015). The core element of the agreement is to limit global warming to well below 2°C above pre-industrial levels, and pursue efforts to limit warming to 1.5°C. This will require Australia to do its fair share, with analysts arguing Australia will need to reduce its emissions in the electricity sector to roughly zero by 2040. For the first time, the agreement also obliges signatories to consider children, persons with disabilities and other people in vulnerable situations when taking action to address climate change.

People affected by poverty and disadvantage will be the first and hardest hit by the impacts of a changing climate; they are also the people with the least capacity to cope, adapt and recover. If unmitigated, this will lead to significant social justice issues and increase pressure on the need for financial and services support. Acting to reduce emissions is therefore critical.

The electricity sector is the single largest source of greenhouse gas emissions in Australia, producing around one-third of total national emissions. Emissions in the sector are increasing following the repeal of the carbon price. However, access to clean technology allows the electricity sector can make the biggest short to medium term contribution to Australia’s international commitments to reduce emissions. Much of the existing coal generation fleet will need to be refurbished or replaced by 2030 anyway. The choices made about what will replace them will largely determine the sector’s emissions profile and prices paid by consumers. Recent analysis has found that renewable energy with storage is now cheaper to install than coal and gas.

However if the transition to clean energy is not managed well, with appropriate policies and measures in place, vulnerable households will be further disadvantaged.

Despite public policy in Australia recognising that electricity is an essential service, the current system is already failing many vulnerable households. Electricity prices have increased 65% in real terms from 2007 to 2016 and the number of disconnections has grown.

The largest single driver of higher electricity prices since 2009 was expenditure on distribution networks. In Victoria, retail charges have also been a major driver of price increases. State renewable energy schemes increased prices to varying degrees across different jurisdictions. For the two years that it was in place the carbon price increased retail prices by 9 per cent on average, however unlike other price increases, low and middle income households were compensated for the impact of the carbon price. Over the next few years, the Australian Energy Market Commission finds key price drivers will be retirements of Northern and Hazelwood coal-fired power stations, the increased cost of gas driven by export demand and the increasing role of gas generators as price-setters, and an upward trend in network prices.

In addition, the opportunities and benefits of distributed energy (i.e rooftop solar and battery storage) have not always been inclusive and equitable for households experiencing poverty or disadvantage. While renewable energy investment has led to downward pressure on wholesale prices, renters for example are often unable to access new technology, while many people on low incomes cannot afford new technology, however, both are required to pay for renewable energy subsidies though increases in energy bills. It will be important to design policies to ensure the future energy system is inclusive of all households.

The Research Report reviews a range of public policy responses have been proposed to reduce emissions or *decarbonise* Australia’s electricity sector. Some have been modelled and their impact on electricity prices compared. The modelled options, even the option of ‘no new measures’, suggest there will be upward

pressure on electricity prices, but this will be dependent on:

- how and at what pace we respond to the risks of climate change;
- the technologies used to produce electricity;
- the market designs we use; and
- how we manage significant increases in the price of natural gas;

For example, research by the CSIRO has shown that a portfolio of measures can result in lower energy bills, deliver a more secure and reliable electricity supply, while taking strong action on reducing emissions from the energy sector.

Understanding what makes a household vulnerable to changing electricity prices and systems can help us better design policy solutions.

In 2014, 3 million people (13.3% of the population) including over 730,000 children (17.4% of all children under the age of 15) were living below the poverty line after taking account of housing costs. Having such low incomes risks vulnerability in the energy market. Poverty is only one measure of vulnerability, and therefore the number of households vulnerable to changing electricity price and system will be significantly higher.

Some of the groups more likely to be considered vulnerable are those living on unemployment or student allowances, single parent families, the working poor, indigenous households and those with someone having a disability.

There is a close relationships to the costs of other essentials – such as housing and transport - and ability to afford energy bills. Housing circumstances in particular is a key indicator of vulnerability. The cost of housing determines how much room exists in household budgets to pay energy bills. Ownership whether you rent determines the scope of actions available to change consumption, such as energy efficiency or accessing solar.

The Research Report concludes that vulnerable households are very diverse, but two common factors are:

- a) they need to respond to electricity cost pressures, and;
- b) they can't.

So while some argue that consumer choice will drive change and lead to downward pressure on price, consumers experiencing poverty and disadvantage do not have the same choice as others. And as will be discussed in a later section, the various safety nets to support low income and disadvantaged households are inadequate.

Given the essential nature of energy, it is important that outcomes for vulnerable consumers are explicitly considered when ‘solutions’ to our energy security and climate challenges are put forward. The following sections explore five policy outcomes, derived from the Research Paper, that reflect the interaction between household energy bills and energy, climate and social policies. It is proposed that these five outcomes, pursued in broadly equal measure can ensure effective decarbonisation of the electricity supply chain while preserving universal access to affordable energy services.

- Electricity priced efficiently (including integrated climate policy);
- Informed and engaged consumers;
- Energy consumed efficiently and productively;
- Robust consumer protections; and
- All households have a capacity to pay their energy bills.

Outcome 1 - Electricity priced efficiently

Key Issues

There are many factors and policy levers that can influence how efficiently **energy is priced**. They can include policies that minimise upward pressure on price, by, for example, making coal generator retirements more predictable; or tariff reforms that put downward pressure by minimising the need for future network builds.

Understanding the ‘building blocks’ that comprise an electricity bill can help better understand where costs are coming from and where future cost reductions can be made. The percentages discussed below represent averages and will vary across jurisdictions.

- Network costs – the transmission of electricity from large generators and distribution to and between customers - represent around 45% of the average residential retail bill.
- Wholesale costs – the production of electricity from large generators - are around 23% of the bill.
- Retailer controlled costs – the costs of billing, administration of customer accounts and risk management – represent around 16% of the bill.
- Australia’s renewable energy target, state-based feed-in tariffs and energy efficiency schemes represent around 8% of the average bill.
- GST adds 10% to the above costs and therefore represents around 9% of the final bill.

Networks costs are the biggest proportion of the bill and have been one of the main causes of higher electricity prices since 2009, due to “gold plating of the network”. Grids are built to meet points of maximum demand, and parts of the grid can sit idle for most of the time. The CSIRO has identified things we can do with emerging technologies like electric vehicles and batteries to increase grid utilisation and therefore put downward pressure on price. In the future, rooftop solar and battery could contribute to maintaining the network, reducing the costs of upgrading and building new infrastructure. In addition the Australian Energy Markets Power of Choice reform program (discussed further in outcome 2 below) will directly affect existing network costs such as Network Pricing and Competition in Metering Rule changes. The implications of these changes for low income and disadvantaged households are discussed in a later section.

Wholesale markets is where climate policies have the most direct impact. The majority of Australia’s existing fleet of coal fired electricity generators will need to be refurbished or replaced with new generation sources by 2030. However, the way this occurs, what replaces those that retire and a range of other factors will determine how large and sudden the changes are to electricity prices. For example the rapid closure of coal-power stations in South Australia and Victoria have contributed to large jumps in wholesale electricity prices, not to mention repercussions for workers and communities. A planned and managed transition could avoid significant pressure on prices.

The Australian Energy Council has warned that ongoing climate policy uncertainty is currently adding 4-6c/kWh to wholesale costs, equivalent to a \$50 tonne carbon price. Some analysts argue that policy will continue to remain uncertain or unstable if it is inconsistent with the objectives of the Paris Agreement. Continued inaction is not sustainable.

The Research Report reviewed a number of modelling reports of different climate and energy policies (including market mechanism, regulation, subsidies), finding that most climate policy options, would add around 5c/kWh to electricity prices from 2020 to 2030 (approximately 20%), **assuming no changes to any of the other cost drivers**. And as noted in the previous section upward pressure on electricity prices will be dependent on: how and at what pace we respond to the risks of climate change; the technologies used to produce electricity; the market designs we use; how we manage significant increases in the price of natural gas. The research by the CSIRO has shown that a portfolio of measures can result in lower energy bills.

Modelling consistently finds that market mechanisms have lowest total economic costs, while subsidy schemes can deliver lower electricity prices. A caveat to this is that the costs of the subsidy need to be recovered from somewhere; however, where incentives are provided out of government revenues rather than as a direct uplift in energy prices, consumer exposure to costs then aligns more with the progressive nature of Australia’s tax and transfer system rather than electricity prices. Each option has advantages and drawbacks that should be considered when developing policy responses.

There is recent evidence that the retail component of an energy bill is higher in deregulated retail markets compared to regulated markets. Some of this is due to a lack of competition and some to retailers’ pricing and marketing structures. Evidence shows that disengaged consumers are paying much higher retail prices, despite disengagement often being no fault of their own. The common design of retail contracts with limited ‘benefit period’ discounts allowing retailers to price discriminate against the disengaged. Similarly, the prevalence of ‘pay-on-time’ discounts discriminates against those that are unable to pay their power bills on time due to dire financial circumstances. These discounts (up to 30 per cent of consumption charges) are really masquerading as hefty and unfair late payment penalties

The RET and State-based energy schemes have expanded production of renewable energy. These schemes are **considered regressive by some** because they recoup the incentive through energy bills, and vulnerable households who cannot access the schemes still pay the cost. Better mechanisms to provide incentives would be through direct Government budget or tax system.

It’s been suggested that the revenue the Government receives from the **GST portion of the Bill** could be redistributed (and potentially raised) to alleviate the worst impacts on vulnerable households.

The Research Report also touches on whether expanding the objectives of the National Energy Market or requiring the Australian Energy Market Commission to have regard to emissions reduction and social policy (in addition to price, reliability and security), could help drive more efficient, inclusive and equitable solutions and measures.

Finally, the **gas market** is under significant pressure at the moment with very high prices and concerns around supply. In some States that are reliant on gas as a peaking or reliability fuel in the electricity market are experiencing significant price spikes. There is ongoing debate as to the issue some arguing it’s resulted from large volumes going to overseas markets restricting domestic access, and shortage of supply due to state moratoriums on coal seam gas predominantly. Prices will remain high in the short term.

Possible solutions

Policies could focus on:

Minimise upward pressure on energy prices

S1.1 Irrespective of the mechanism(s) chosen, it is essential to minimise climate policy uncertainty. Stable climate policy is essential to efficient investment throughout the energy transition. This implies long-term consistency with Australia’s international commitments.

S1.2 Manage the refurbishment, replacement or retirement of existing coal fired generators in ways that promote the consumer interest, public interest and the interests of affected communities.

S 1.3 Reconsider the extent to which decarbonisation costs are taken ‘off market’

Maximise downward pressure on energy prices

S 1.4 Accelerate reform of Australian east coast gas markets

S 1.5 More aggressively pursue the efficiency of retail markets

S 1.6 Promote greater competition where possible

S 1.7 Encourage shift of vulnerable households away from standing offer tariffs

S 1.8 Promote improved grid utilisation to lower unit prices

Influence the redistribution of costs by changing pricing

S 1.9 Carefully remove cross-subsidies with a focus on encouraging vulnerable consumers who would be better off to opt-in to smarter metering and more cost reflective tariffs.

S 1.10 Consider incorporating broader policy objectives into the National Electricity Objective.

S 1.11 Consider GST as a funding source for measures to support vulnerable consumers

S 1.12 Implement agreed Consumer Impact Principles for tariff reform – including a specific focus on fixed charges`

S 1.13 Support the development of a vibrant Community Energy sector in Australia

Consultation Questions

Q 1.1 Which of the solutions outlined under **outcome 1 - Electricity priced efficiently** do you agree with?

Q 1.2 Are there any you disagree with?

Q 1.3 What’s missing?

Q 1.4 What’s most important?

Outcome 2 - Informed and engaged consumers

Key Issues

Increasingly consumers are required to engage in their home’s energy usage if they want to lower their energy bills and access potential benefits. Engagement can take many forms, from getting the best deal in the retail market to using data from a smart meter to change your energy consumption habits. Many benefits can flow to informed and engaged consumers.

However, it is essential to recognise and address the barriers some households face to engagement, which may include lack of capital, language barriers, or geography.

Households need to regularly engage with the retail electricity market to ensure they are receiving a competitively priced supply. However, there is limited choice of retailer in the ACT and no effective choice in regional QLD, TAS, WA and NT.

Competition should contribute to affordability by encouraging consumers to find the best priced electricity and gas supply available to them. However, research suggests that, even where competition is available, it is failing to drive down retail energy prices and a large majority of households are disengaged from the energy market and paying more than necessary.ⁱⁱ In responses to concerns about the impact of the Victorian retail energy market on household energy bills the State government is conducting a bipartisan review.

The AEMC’s Energy Consumer Research found around 55% of all customers had not switched electricity retailer or plan in the last five years. This suggests that these households are paying significantly more – typically 15-20% more - than customers who actively pursue a better offerⁱⁱⁱ.

The common design of retail contracts with limited ‘benefit period’ discounts allow retailers to price discriminate against the disengaged. Similarly, the prevalence of ‘pay-on-time’ discounts discriminates against those that are unable to pay their power bills on time due to dire financial circumstances. These discounts (up to 30 per cent of consumption charges) are masquerading as hefty late payment penalties.^{iv}

Smart meters and network tariff reform offer new ways of engaging with households and managing consumption. But they also add a new layer of distinction between customers.

Smart metering can provide more frequent billing and real time consumption and cost information. This can help reduce energy bills and/or minimise bill shock, which has significant potential to soften vulnerability. However, despite the rollout of smart metres in Victoria, the expected consumer benefits have yet to be realised.^v A report by VCOSS, *Making Energy Visible*,^{vi} identified a number of technical and costs barriers, including lack of energy literacy, lack of internet access, and poor data functions.

AEMC *Power of Choice* reform package aims to unwind cross-subsidies and open up competition for metering, energy storage and other customer-side aspects of energy markets. The *Distribution Network Pricing Arrangements Rule Change* (AEMC 2014) is a key component of *Power of Choice*, often referred to as ‘cost reflective pricing’. The rule change compels network pricing to better reflect network congestion (peak demand). However there have been no trials of cost reflective pricing with low income and disadvantaged households, and the only comparable comparison found certain households (families with children) found it difficult to adjust energy use and responded better to non-price signals such as ‘peak alerts’. For those unable to exercise the ‘*Power of Choice*’ there is a risk of being ‘left behind’ and the emergence of a ‘two tier energy market’.

Possible solutions

Policies could focus on:

S 2.1 Development of NEM-wide awareness and engagement programs to make it easier for customers to access the best options for their circumstances and improve customer confidence in the energy markets.

(AEMC 2016a).

S 2.2 Targeting vulnerable customers who are not engaged with the energy market or support services (AEMC 2016a).

S 2.3 Strengthen the relationship between vulnerable consumers, their advocates (e.g. community workers, financial counsellors) and energy retailers (National Energy Affordability Roundtable 2013, SACOSS 2016).

S 2.4 Improving the ability of advanced metering to provide more frequent billing and near real time consumption and cost information that can minimise bill shock.

S 2.5 Expand information and engagement beyond purely online resources (Chester 2013, National Energy Affordability Roundtable 2013, AEMC 2016a).

S 2.6 Incorporate Behavioural Economics into policy considerations (Stenner et al 2015).

S 2.7 Requiring statements and bills to clearly separate market-based charges (retail and wholesale) from other charges, such as regulated network charges and policy costs that apply to all customers within a jurisdiction/network (Vinnies 2016a).

Consultation Questions

Q 2.1 Which of the solutions outlined under **outcome 2 – Informed and engaged consumers** do you agree with?

Q 2.2 Are there any you disagree with?

Q 2.3 What’s missing?

Q 2.4 What’s most important?

Outcome 3 - Energy consumed efficiently and productively

Key Issues

Energy efficiency is essential for low income households because they are more likely to live in inefficient homes and have less efficient appliances. As a result they end up paying more to get the basic services energy provides such as heating and cooling. Renters are in a particularly difficult position because they have limited ability to make changes to the properties they live in and landlords have little incentive to invest in upgrades which do not benefit themselves.

Ensuring (low income) households have more efficient homes and appliances contributes to affordability by ensuring consumers to get the best ‘value’ from their energy use (this does not necessarily mean using less energy; the same amount or even more energy may be put to better use, such as higher living standards and improved health). An earlier focus on *energy efficiency* has evolved to a focus on *energy productivity* in recognition of these broader benefits.

Commonwealth and State Governments are taking some action to address this issue.

The Australian Government’s ‘*National Energy Productivity Plan 2015–2030*’ (NEPP), identifies a measure ‘Support best practice services for vulnerable consumers’.

Working from the Low Income Efficiency Program (LIEEP), Energy Consumers Australia is developing “*a best practice voluntary guideline for service providers...which will seek to reduce the barriers to vulnerable consumers effectively engaging with energy productivity measures and services.*”

Housing energy performance has been the focus of a number of policy recommendations. In Victoria, raising a home from a 2-star to 5-star energy rating can result in a 32% total energy saving, or up to \$600 in annual household savings a year.^{vii} However, people on low incomes are more likely to live in energy inefficient houses, with lower incidence of insulation and higher rates of ownership of inefficient appliances that are cheap to buy but expensive to run.^{viii} The key barriers are lack of access to capital, inability of tenants to take action in rental properties, and information barriers.

There has been an increasing focus on energy efficiency disclosure for all residential buildings and the setting of minimum standards for rental properties (ACT has this in place and NSW and Vic Governments are currently consulting), as well as how to overcome the landlord-tenant split incentive in rental properties.

Upgrading the public and housing stock is essential to improve affordability for some of the most disadvantaged in the community. There are some promising recent initiatives.

The Clean Energy Finance Corporation Community Housing Program is providing finance to fund improvements in energy performance of community housing.^{ix} Similarly the NSW Office of Environment and Heritage and the Victorian Department of Human Services are running pilots for energy efficiency upgrades in the social housing stock. More action is needed.

Ensuring low income and disadvantaged households have access to distributed energy is essential.

Distributed Energy Resources (DER) are technologies such as solar power, batteries, electric vehicles, smart meters and home energy management systems that can be ‘orchestrated’ to shift demand and lower costs. Energy Innovation thinktank the Rocky Mountain Institute cites Distributed Energy Resources for Low Income households as one of eight key electricity innovations to watch in 2017.^x

“In 2017, with the decrease in the costs of DERs coupled with smartphone-enabled engagement pathways (including pay-by-phone, electronic billing, and pre-pay), utilities, regulators, and others are revisiting whether they can serve these customers better with DERs than with subsidies.”

Locally, the STUCCO Student Cooperative provides an example of a consumer-led solar plus storage embedded network that lowers the electricity bills of 40 student residents.^{xi}

However, these DERs are emerging as another potential driver of a ‘two tier’ electricity market. Solar has not been an option for households living on the poverty line or in rental housing, in addition recouping the subsidy through energy bills puts additional pressure on already struggling families, creating further disadvantage and inequity. With the arrival of battery storage, households and business could increasingly choose to leave the grid preferring to be self-sufficient and avoid network costs. The flipside of this is that those who can’t leave the grid will be left to foot the bill for maintaining the grid and paying off past and future investments through higher network charges.

Governance of activities in this space tends to fall on state and territory energy or environment departments. Concerted policy leadership is missing: there is no obvious champion of energy productivity programs for low income and vulnerable households.

Possible solutions

Policies could focus on:

- S 3.1** Overcoming landlord-tenant split incentives in rental properties (public and private).
- S 3.2** Regulation of dwelling energy performance - minimum standards for rental properties.
- S 3.3** Regulation of dwelling energy performance - disclosure for all residential buildings at point of sale.
- S 3.4** Regulation of dwelling energy performance – tougher minimum standards for all new properties.
- S 3.5** Supporting access to Distributed Energy Resources for vulnerable households.
- S 3.6** Jurisdictions coordinating the development of NEM-wide awareness and engagement programs to make it easier for customers to access the best options for their circumstances and improve customer confidence in the energy markets (AEMC 2016a).
- S 3.7** Coordination of state-based programs, incorporation of the implications of tariff reform and the pursuit of best practice.
- S 3.8** Increased support for vulnerable households to access more efficient capital items.
- S 3.9** Pursuing best practice in energy efficiency and productivity programs for vulnerable customers (including supporting ECA’s Power Shift project).
- S 3.10** On-going funding for effective energy programs that target vulnerable consumers.
- S 3.11** A National Energy Efficiency and Productivity Agency.

Consultation Questions

- Q 3.1** Which of the solutions outlined under **outcome 3 – Energy consumed efficiently and effectively** do you agree with?
- Q 3.2** Are there any you disagree with?
- Q 3.3** What’s missing?
- Q 3.4** What’s most important?

Outcome 4 - Robust consumer protections

Key Issues

The need for robust consumer protection for vulnerable households reflects the fact that electricity is recognised as an essential service, and some form of *universal access to energy services* is required.

However, household disconnection rates have grown, and around 160,000 households are disconnected from electricity or gas each year.^{xii}

In 2008 the Productivity Commission recommended

... Australian Governments should agree to the longer term goal of a national consumer protection regime for energy services, with a single set of requirements to apply in all jurisdictions participating in the national energy market. Those requirements should be enforced by the Australian Energy Regulator.

This recommendation led to the National Energy Customer Framework (NECF). The NECF complements the generic consumer protections provided by Australian Consumer Law in the jurisdictions that choose to adopt the framework. However the NECF does not currently apply in Western Australia or the Northern Territory, only applies in a limited manner in Victoria, and Tasmania hasn't applied the gas rules. In addition the Framework is often implemented differently in each state as some have made their own variations, with some good derivations in some States not applied in others.

Developments in Victoria – where virtually all households have a smart meter – represent the most advanced version of the Framework: a new regulatory objective, a Hardship Review and a draft Payments Difficulty Framework. In January 2016, Victoria's energy industry legislation was amended to include a new objective for the Victorian Essential Service Commission:^{xiii}

To promote protections for customers, including in relation to assisting customers who are facing payment difficulties.

The Hardship Review conducted by the Victorian Essential Services Commission in 2016 and the subsequent development Payment Difficulties Safety Net project can be regarded as a test case in robust consumer protection. This sits alongside recent work by the Australian Energy Regulator under the NECF on a Sustainable Payment Plans Framework.^{xiv} Both initiatives are aiming for 'best practice' in the way customers are treated.

However, the existing frameworks are under strain from rising prices and new technologies – particularly smart meters. A growing market 'behind the meter' for solar and storage as a service and embedded networks is also testing the boundaries between Australian Consumer Law and Energy Retail Law.

The Consumer Action Law Centre notes “different people will have different needs in the new energy market. Strong innovation policy may be sufficient to support some, while others may be more reliant on effective competition, clear education campaigns, or more traditional essential service regulation.”^{xv} CALC has outlined the issues that will need to be addressed in an updated framework (see table 1).^{xvi}

Table 1 Potential detriment for consumers in the new energy market

Detriment	Example
1. Lack of access to basic consumer protections	Many new products and services may fall outside of the current regulatory framework, and protections that ensure a right to supply, hardship arrangements and access to Ombudsman schemes may not apply
2. Buck-passing and blame shifting	When disputes arise in new products and services which may require a network of relationships to deliver, the potential for buck-passing and blame shifting between parties is high
3. Mis-selling	As products get more complex, some companies may turn to sales tactics relying on product complexity to mask inappropriate or unsuitable products and services
4. Poor decision-making	Consumers may find it difficult to make decisions in their own interests when the number of choices, and complexity of those choices, increases
5. Long lock-in contracts	Long lock-in contracts (e.g. 15 years for a solar lease) reduce consumer choice and flexibility
6. Complex financing tools	New financing arrangements for products and services (e.g. solar leases and power purchase agreements) are complex and may include unclear costs and inconsistent regulatory oversight
7. Inability to access the new market	Some consumers may face systemic barriers to participation in the new, personalised electricity market; this may include those with low incomes, poor literacy skills, language barriers and renters
8. Difficulty comparing products and services	Bundled products and services which are increasingly marketed to individuals based on their personal usage profiles may become difficult to compare where inclusions, exclusions and terminology differ
9. Market failure due to segmentation	Downward pressure on energy prices through mass market competition may be undermined in a market where retailers can increasingly identify and target active, affluent households with individual deals
10. Exclusion through complexity	People who could benefit from switching to new products and services may not engage if information and price signals are too complex, or the reason for participating is not clear
11. Hardship in off-grid scenarios	Off-grid households may experience reduced supply or loss of supply if they fall into hardship, or during a dispute with their technology provider
12. Reduced choice in off-grid communities	Consumers in off-grid communities may have reduced ability to choose their preferred electricity provider and may face higher costs where retail competition is reduced

Possible solutions

Policies could focus on:

S 4.1 Policies addressing the vulnerability of children to living in poverty as has been highlighted in ACOSS’ Poverty in Australia 2016 Report - consistent with many disconnection case studies.

S 4.2 Expanded monitoring and consistent reporting of key indicators (Vinnies 2016, National Energy Affordability Roundtable 2013).

S 4.3 Nationally consistent approach to life support equipment (National Energy Affordability Roundtable 2013).

S 4.4 Pursuit of best practice consumer protections including concessions at a national level (National Energy Affordability Roundtable 2013, Vinnies 2016).

S 4.5 Policy focus on those customers identified through Payment Difficulties or Hardship initiatives that are unable to pay for ongoing consumption.

Consultation Questions

Q 4.1 Which of the solutions outlined under **outcome 4 – Robust Consumer Protection** do you agree with?

Q 4.2 Are there any you disagree with?

Q 4.3 What’s missing?

Q 4.4 What’s most important?

Outcome 5 - All households have a capacity to pay their energy bills

Key Issues

This chapter considers the social welfare policy objective of ensuring all households have a capacity to pay for essential goods and services. In the energy context, this refers to income measures and energy-specific concessions applied at the jurisdictional level. This discussion overlaps with broader issues of poverty and housing affordability and represents a very complex area of public policy.

According to *Poverty in Australia 2016* (ACOSS 2016),^{xvii} 13.3% of the Population (3 million people) lived below the poverty line in 2013-14. Of those people, 57.3% relied on income support payments as their main source of income. Most income support payments are set below the poverty line, and indexed to price inflation rather than wage inflation. People on allowances such as Newstart, for example, are particularly vulnerable because their allowances have not increased in real terms since 1994.

Income inequality is magnified when the context is an essential service such as electricity. Energy concessions provide an important buffer against high prices, but, they vary in amount and coverage from jurisdiction to jurisdiction.

For example, Victoria’s energy concession is often held up as the most equitable and comprehensive. It provides a proportional electricity concession of 17.5% of bills for the entire year (after discounts). As a result it scales to the household's energy usage. On the other hand, some of the lowest income households – such as those on Newstart – miss out on the Commonwealth utility support (pension supplement or utility allowance). Unfortunately those on Newstart also miss out on State energy concessions in some jurisdictions. Households who are working but on relatively low, or variable incomes, may also miss out on concessions altogether.

The shift towards monthly billing, promotion of payment plans and bill smoothing products all contribute towards the capacity to pay an electricity bill.

AEMC’s 2016 Retail Competition Review recommended that jurisdictions review concessions to improve and align these measures nationally and to improve targeting. Concession reform is widely supported but no policy champion has been identified.

Figure 1: Average Household expenditure on housing, energy, transport and health by Equivalised Disposable Income Quintile

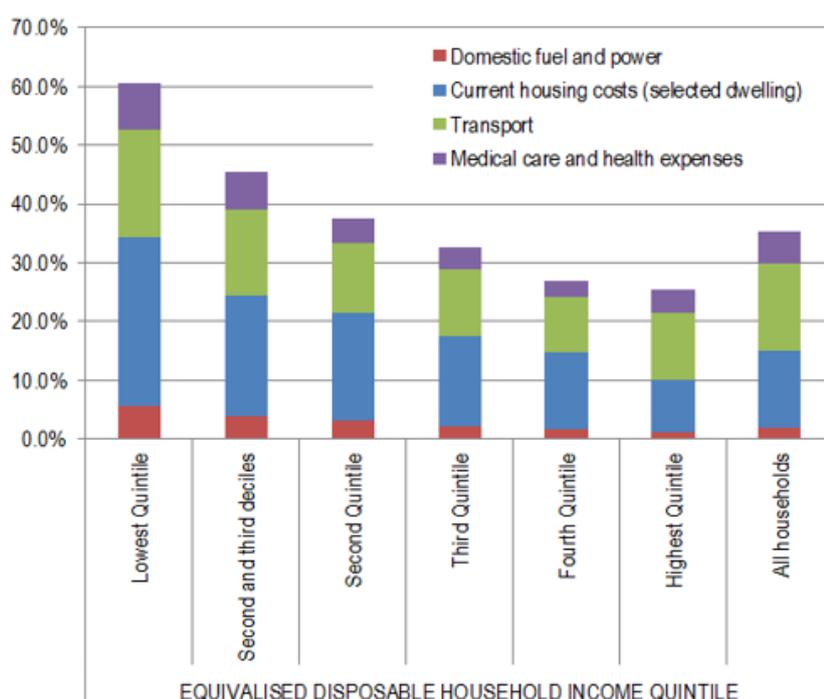


Figure 1 shows that not only do households on the lowest income spend a greater proportion of income on energy than other higher income levels, but the relative capacity to pay for energy of these low income households is clearly compromised by their expenditure on other necessities.

As the most significant fixed cost to the household budget, housing has a direct impact on the affordability of all other costs. While various issues impact on housing costs, the core challenges include housing tenure, quality of residence, and number of people in the home.

The Anglicare member network surveyed 75,410 rental properties across Australia and found just 21 properties were affordable for single adults living on Newstart, and only one was suitable for young people living on Youth Allowance. Despite the higher level of pensions compared to allowances, affordable rentals were extremely limited for a single person living on any government payment. A further 780 properties were affordable for those on a parenting payment and 389 for those on Disability Support Payment. Once the level of income reaches two people on the minimum wage in a household, they can access 26.2% or over 19,000 properties.

Policy links to housing access and affordability are evident, yet there is little evidence of institutional interaction with energy policy. Opportunities exist to align energy affordability research with housing and poverty research when the ABS release data from the most recent Household Expenditure Survey later in 2017.

This policy outcome has roles and responsibilities spread between Australian, State and Territory Governments and between Treasury/Finance, Human Services and Housing Portfolios.

Possible Solutions

Policies could focus on:

S 5.1 A national review of energy concessions (National Energy Affordability Roundtable 2013, AEMC 2016a, Productivity Commission, Chester 2013, Owen 2013) to assess opportunities to better target them to customers most in need (including extending supports to the working poor) and to harmonise their structure across jurisdictions, where substantive differences exist.

S 5.2 A national review of emergency payments (National Energy Affordability Roundtable 2013)

S 5.3 Improving adequacy of some income payments such as Newstart and Youth Allowance. (Vinnies 2016, ACOSS 2016)

S 5.4 Forging stronger links between concession payments and energy efficiency/productivity schemes (Chester 2013) and/or funding for Distributed Energy Resources.

S 5.5 Aligning research into energy affordability and vulnerability with the methodologies and publication of the ACOSS Poverty in Australia series.

S 5.6 Align policy, advocacy and research initiatives with corresponding housing affordability initiatives. Expand scope to include stronger integration with understanding of transport costs.

Consultation Questions

Q 5.1 Which of the solutions outlined under **outcome 5 – All households have a capacity to pay** do you agree with?

Q 5.2 Are there any you disagree with?

Q 5.3 What’s missing?

Q 5.4 What’s most important?

Summary of Consultation Questions

Q 1.1 Which of the solutions outlined under **outcome 1 - Electricity priced efficiently** do you agree with?

Q 1.2 Are there any you disagree with?

Q 1.3 What’s missing?

Q 1.4 What’s most important?

Q 2.1 Which of the solutions outlined under **outcome 2 – Informed and engaged consumers** do you agree with?

Q 2.2 Are there any you disagree with?

Q 2.3 What’s missing?

Q 2.4 What’s most important?

Q 3.1 Which of the solutions outlined under **outcome 3 – Energy consumed efficiently and effectively** do you agree with?

Q 3.2 Are there any you disagree with?

Q 3.3 What’s missing?

Q 3.4 What’s most important?

Q 4.1 Which of the solutions outlined under **outcome 4 – Robust Consumer Protection** do you agree with?

Q 4.2 Are there any you disagree with?

Q 4.3 What’s missing?

Q 4.4 What’s most important?

Q 5.1 Which of the solutions outlined under **outcome 5 – All households have a capacity to pay** do you agree with?

Q 5.2 Are there any you disagree with?

Q 5.3 What’s missing?

Q 5.4 What’s most important?

Q 6. Are the issues raised in the research paper the key issues for low income and disadvantage people? Is there anything missing?

Q 7. Do you agree with the 5 key outcomes proposed in the paper, as guiding principles to develop policy solutions under? What’s missing?

Q 8. Can you share examples of good policies and programs that help ensure inclusive and equitable outcomes for low income, vulnerable, renters, CALD or other priority groups as we transition to zero emissions?

References

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- ^{xvi} Consumer Action Law Centre, *Power Transformed*, July 2016 <http://consumeraction.org.au/wp-content/uploads/2016/07/Power-Transformed-Consumer-Action-Law-Centre-July-2016.pdf>
- ^{xvii} The poverty line is drawn at 50% of median after-tax income