ACOSS BRIEF

Health of the NEM - Current and emerging energy affordability issues for people on low incomes

December, 2019

Who we are

The Australian Council of Social Service is a national advocate supporting people affected by poverty, disadvantage and inequality, and the peak council for community services nationally.

What we do

ACOSS leads and supports initiatives within the community services sector and acts as an independent non-party political voice.

By drawing on the direct experiences of people affected by poverty and inequality and the expertise of its diverse member base, ACOSS develops and promotes socially and economically responsible public policy and action by government, community and business.

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1 Introduction

Each year the Energy Security Board is required to report on the Health of the NEM, including on current and emerging affordability issues.

ACOSS views access to affordable, clean, and reliable energy as essential - it is critical to the health, wellbeing, economic participation and social inclusion of people.

As noted in last year's 2018 Health of the NEM report, energy affordability is a significant issue for people on low incomes:[1]

> *While energy costs are estimated to account for around 2.5% of average household expenditure in 2018, cost increases disproportionately impact some sectors of society. Low-income households spend more than four times as much of their income on electricity and gas as high-income households, despite using less energy overall. A quarter of those on low incomes are*

[1] ESB (2018) Health of the NEM http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/the%20health%20of%20the%20national%20electricity%20market%20-%202018.pdf, pg. 21 citing ACOSS and BSL (2018) Energy Stressed in Australia https://www.acoss.org.au/wp-content/uploads/2018/10/Energy-Stressed-in-Australia.pdf

spending more than 8.8% of their income on electricity and gas, and a quarter of people receiving Newstart and similar allowances are spending more than 9.7% of their income on energy.

It is important to note that we are not just talking about a few customers; there are 3 million people living below the poverty line in Australia today.[2] And these energy affordability figures are after energy concessions have been applied.

ACOSS research finds that people most vulnerable energy stress include people on Newstart and Youth Allowance, sole parents, lone pensioners and renters.[3]

SACOSS recently released a report[4] looking at people in paid work on low incomes (referred to as 'waged poor') that adds further depth to our understanding of people struggling with energy affordability.

Their research found that "on average, waged poor households spend 5.5% of their disposable income on energy, less than the 6.7% spent by the households in poverty relying on income support, but more than double the proportion spent by all households. However, the actual average expenditure per household across all groups was relatively similar (especially when household size is taken into account), suggesting a limited ability to reduce energy expenditure with declining income (i.e. a high income inelasticity of demand)."[5] The research identified couples with children who were renters as most at risk. The SACOSS research highlights that some of the methods currently used to relieve energy stress (for example, energy concessions) do not reach this group.

ACOSS members have also identified specific energy affordability challenges for people from culturally and linguistically diverse backgrounds, because they often struggle to access appropriate information regarding the best energy offers available, energy concessions and hardship programs.

ACOSS also views tackling the climate crisis and pursuing a rapid, fair transition to a clean economy as essential to tackling poverty and inequality. The impacts of the climate crisis is felt first and hardest by people on low incomes or experiencing disadvantage, as they are least able to cope, adapt and recover.

Climate change will lead to an increase in demand for cooling and heating, as extreme weather will increase in severity and frequency.[6] Extreme weather will disproportionately affect people on low income or experiencing disadvantage and put additional pressure on people already vulnerable to energy stress.

ACOSS supports the reduction of greenhouse gas emissions in line with global goals to limit warming well below 2 degrees and pursue a limit of 1.5 degrees, and believes the energy sector has the technology and community support to transition to zero emissions first and fastest.

While the energy transition presents opportunities to actively improve the lives of people, there are risks that if not managed in a fair, inclusive and sustainable way, it will leave people on low incomes behind. This is because people on low incomes pay disproportionately more of their incomes on energy and lack the choice and control to reduce their bills.

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[2] Davidson, P., Saunders, P., Bradbury, B. and Wong, M. (2018), Poverty in Australia, 2018. ACOSS/UNSW Poverty and Inequality Partnership Report No. 2, Sydney: ACOSS.
[3] ACOSS and BSL (2018) Energy Stressed in Australia https://www.acoss.org.au/wp-content/uploads/2018/10/Energy-Stressed-in-Australia.pdf
[4] SACOSS (2019) Working to make ends meet: Low-income workers and energy bill stress https://www.sacoss.org.au/sites/default/files/public/191120_SACOSS%20Waged%20Poor%20Full%20Report_FINALv2.pdf
[5] SACOSS (2019) Working to make ends meet: Low-income workers and energy bill stress https://www.sacoss.org.au/sites/default/files/public/191120_SACOSS%20Waged%20Poor%20Full%20Report_FINALv2.pdf
[6] Climate Council (2017) Cranking up the intensity: Climate change and extreme weather events https://www.climatecouncil.org.au/uploads/1b331044fb03fd0997c4a4946705606b.pdf

A number of measures were either implemented or committed to in 2019that have and will improve energy affordability for some, including a proportion of those on low incomes. However, the evidence suggests there is still a long way to go.

The 2018 Health of the NEM report assessed the current status of affordability in the NEM as “critical” with a forward outlook as “moderate”. ACOSS considers that affordability is still critical for people on low incomes and will remain so until key measures that contribute to reducing the price of electricity, the size of electricity bills, improving energy access and improving the capacity to pay energy bills, are implemented.

ACOSS has therefore developed this brief, in consultation with members, on the Health of the NEM with respect to current and emerging energy affordability issues for people on low incomes. The brief:

- Outlines improvements observed in the past 12 months;
- Outlines current outstanding issues and emerging issues; and
- Makes recommendations for further reform.

2 Observed improvements in last 12 months

There have been a number of measures introduced at jurisdictional or NEM wide level that have contributed to improving the affordability of energy bills for some people on low incomes in the last 12 months.

In the Australian Capital Territory:

- The ACT Government utilities concession was increased by $46 a year to $700/year from 1 July 2019.
- The ACT Government announced that the Energy Efficiency Improvement Scheme would be extended from 2020 to 2030 with an increase in low-income household participation from 20% to 30%.
- The recently released ACT Climate Change Strategy 2019-2025 includes an action to 'By 2021 introduce legislation for staged minimum energy performance requirements for rental properties to come into force in 2022–23'.

In Victoria:

- The Victorian Default Offer (VDO) was introduced to provide standing offer customers in Victoria with universal access to a ‘fair’ price. Consistent with these objectives, the VDO is currently set at a level that is lower than the Default Market Offer (DMO) introduced in South Australia, New South Wales and South East Queensland. Initial ACCC findings suggest that the median residential flat rate standing offer has decreased by between $310 (Citipower distribution zone) and $430 (AusNet distribution.[7] In addition to price reductions for those on previously high standing offers the VDO makes it easier for energy users to compare energy prices, for example:

  “The VDO has given financial counsellors the ability to outline a clear option for a fair price which all can access.”

[7] ACCC (2019) Inquiry into the National Electricity Market https://www.accc.gov.au/system/files/Inquiry%20into%20the%20National%20Electricity%20Market%20report%20-%20August%202019.pdf

- A new Payment Difficulty Framework was also introduced, which entitles all people who have difficulty paying their bill to minimum levels of assistance that are tailored to their needs by their electricity or gas retailer. The framework's purpose is to make disconnection a last resort for households who cannot pay their bills. Early analysis by Consumer Action Law Centre (CALC) has found that:

  > *"Since the policy was implemented, zero disconnections have shown up in our sample of calls to the National Debt Helpline. Our data also shows that there has been a reduction in people with very large bills contacting our service and less inappropriate referrals since the new requirements were introduced. This does not demonstrate causation but is nevertheless a positive result. "*

  And analysis by the Victorian Essential Services Commission has found the disconnections are down by more than half.[8]

- The Victorian Government Increased to the amount of the Utility Relief Grant.
- The Victorian Government changed the Solar Homes program to make it more accessible for people on low incomes.

In Tasmania:

- The Tasmanian Government introduced the Electricity Supply Industry Amendment (Price Cap) Bill 2018, which was passed in November 2018. The Bill extended the expiry date of the current price determination by two years to 30 June 2021.
- The Tasmanian Climate Change Office – Power$mart program - commenced offering low income Tasmanians that own or rent their homes access to a range of free, energy efficiency upgrades such as LED lights, shower heads and draught sealing and free expert energy efficiency advice including home assessment.
- The Tasmanian Energy Concessions Scheme increased by 2%.

In South Australia:

- The SA Government negotiated an increase in the SA Concession Energy Discount Offer (SACEDO) with Origin Energy from 18 to 20% for both usage and supply charges. The SACEDO was initially rolled out in 2017 after a tender process whereby the SA Government sought expressions of interest from energy retailers to provide an affordable deal for low-income households receiving the State Government energy concession.
- Extension of the Tesla Virtual Power Plant (VPP) to 1,100 Housing SA properties (https://www.sa.gov.au/topics/housing/public-and-community-housing/tenants/virtual-power-plant

In New South Wales:

- In October 2019, the NSW Government introduced Solar for Low Income Households for up to 3,000 applicants to access free solar in exchange for forgoing their energy rebate, which may result in benefits in 2020 and beyond.
- The NSW Government also released an energy strategy on the 22nd of November 2019[9], which may result in benefits for people on low incomes in 2020 and beyond. We have not been able to

[8] https://www.esc.vic.gov.au/media-centre/energy-disconnections-down-more-half

[9] https://energy.nsw.gov.au/media/1926/download

detailed analysis of the Strategy in the time available, but note that suggests the measures will reduce household bills by $40 a year.

To our knowledge, there were no new Queensland Government specific measures introduced in 2019 that have contributed to improving the affordability of energy bills for people on low incomes.

At a broader NEM level:

There have been some improvements to energy affordability for some people as a result of:

- The introduction of the Default Market Offer (DMO).
- The implementation of the AER's Customer Hardship Policy Guidelines in April 2019.

The ACCC inquiry into the National Electricity Market August 2019 report,[10] noted that the introduction of the DMO in New South Wales, South Australia and South East Queensland has led to average savings on standing offers of between $130 (NSW Ausgrid distribution zone) and $190 (SA Power Networks distribution zone) a year for households.

According to the ACCC report, prices for many standing offer customers have fallen, often significantly, but the ACCC report also notes that market offers continue to provide opportunities for a better deal, with smaller retailers providing some of the cheapest offers available.

As shown above, the Victorian Default Offer (VDO) is creating twice the savings as the DMO. However, it has been observed that in Victoria the number of market offers below the VDO has declined and that these are linked to direct debit online payment options which can create a barrier for some people on low incomes to access best market offers.

A number of ACOSS members have called for the methodology used to determine the DMO price to be reviewed to utilise a bottom up method (similar to the VDO). The bottom up method is more likely to determine a "fair price" based on actual costs to deliver rather than a top down method currently used to determine the DMO.

A clear benefit of the DMO is the utilisation of the DMO as a "reference price" by which all market offers can be compared to, so customers are better able to determine if an offer will leave them better off.

In November 2018, new obligations were introduced to the National Energy Retail Rules to strengthen requirements on retailers to implement and maintain a customer hardship policy. As discussed below while most ACOSS members see the new Hardship Policy Guidelines as an improvement on the current regime, significant gaps remain. It is too early to tell whether there have been any benefits as a result of the policy.

The ACCC report also notes that retailers are moving away from advertising conditional discounts based on inflated and inconsistent base rates, enabling customers to more easily identify a better deal for their circumstances and gain the benefits of competition. We expect to see more change as new rules limiting conditional discounts are currently being developed. This is very welcome.

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[10] ACCC (2019) Inquiry into the National Electricity Market
https://www.accc.gov.au/system/files/Inquiry%20into%20the%20National%20Electricity%20Market%20report%20-%20August%202019.pdf

3 Current and Emerging Issues

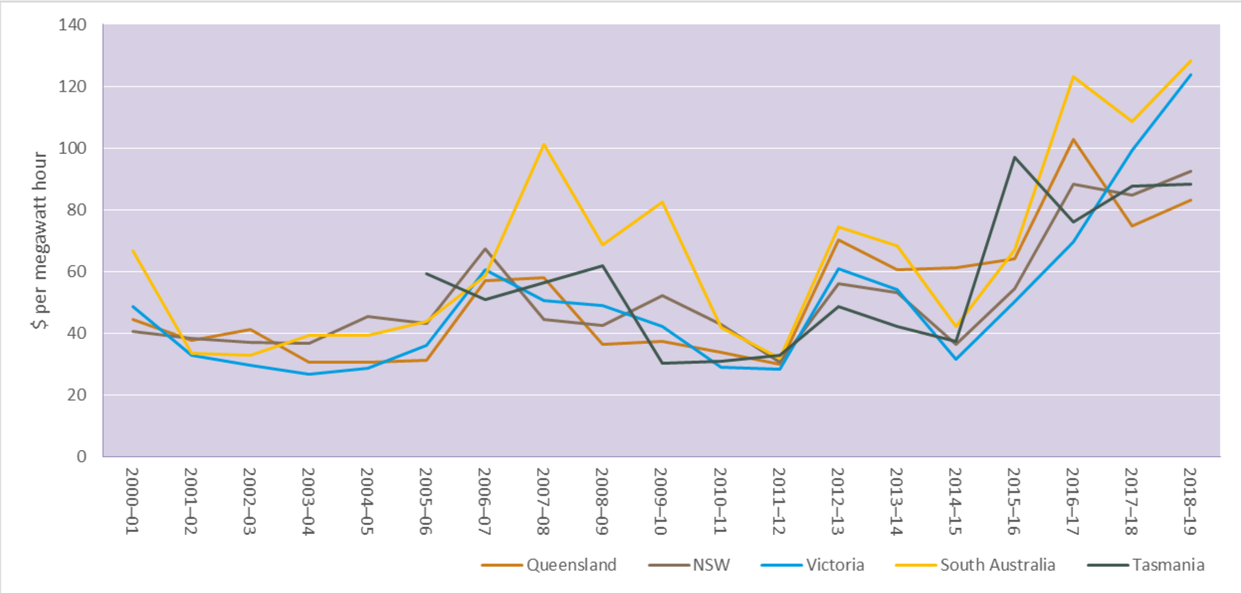
3.1 Energy data shows energy affordability still critical for people on low income

3.1.1 Electricity prices went up in 2019

While measures implemented or committed to in 2019 have and will improve energy affordability for some, including some people on low incomes, the evidence suggests we have a long way to go to make energy more affordable for all.

AER data released at the beginning of November 2019 shows that with the exception of Tasmania, electricity prices in the NEM have risen since 2018, after falls the year before in NSW, Queensland and South Australia (see figure 1).[11]

Figure 1 Annual NEM Electricity Prices



Source: AER State of the Energy Market Repot data update 7 November 2019.

While we might see reductions in energy bills for some low-income households as a result of the introduction of the DMO/VDO, given the increase in electricity prices, it's highly unlikely we will see reductions in the average proportion of incomes people on low incomes spend on their energy bills.

AER retail performance data for Q3 2018-2019[12] shows that tens of thousands of people are clearly struggling to afford their energy bills. The data finds that 76,413 electricity customers and 15,414 gas customers are on hardship programs. The number of customers on hardship programs for electricity has increased by over 4,000 customers over the past year. The AER were unable to determine the cause and whether this was due to better take-up of hardship programs or an increase in the number of people struggling to pay their bills.

The average hardship debt for Q3 2018-2019 was $1,210 electricity and $654 gas, there were 6,420 electricity customers with a debt of more than $1,500. This is a very high debt for someone on a very low income struggling to pay current energy use let alone pay off a significant debt (e.g. those living on

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[11] AER (2019) State of the Energy Market – Data update November 2019 https://www.aer.gov.au/publications/state-of-the-energy-market-reports/state-of-the-energy-market-%E2%80%93-data-update-november-2019

[12] AER (2019) Retail energy market performance update for Quarter 3, 2018-2019 https://www.aer.gov.au/retail-markets/performance-reporting/retail-energy-market-performance-update-for-quarter-3-2018-19

the $39 a day Newstart Allowance). The AER's new Annual Retail Markets Report 2018-2019 found the average debt owed by electricity hardship customers was significantly higher in 2019.[13]

The AER data also finds persistently high levels of disconnection of people not on hardship programs, with 53,201 homes disconnected from electricity in the first three quarters of 2018-2019. Typically these are people who were unaware they could join a hardship program or who defaulted on their hardship payment plan and were no longer on a hardship program.

What remains unknown is the number of people depriving themselves of essential energy, forgoing heating, cooling or cooking, to the detriment of their health, to afford their energy bill and avoid hardship and disconnections.

The recent energy data clearly shows that energy affordability is still a critical issue for people on low incomes.

3.1.2 Future electricity price direction unknown

The AEMC annual report on electricity price trends released on the 9th of December 2019,[14] predicts overall residential electricity prices out to 2022 will fall off the back of increasing supplies of new energy generation in the electricity market and lower regulated prices for networks.

The report estimates the following savings:

- Wholesale costs are estimated to fall by around $62 from FY19 to FY22 for the representative consumer as more supply comes into the market and demand remains flat.
- Network costs are estimated to decrease by $11 over this period.
- Environmental costs are estimated to fall by $21 over this period.

However, the report does note there may be regional differences, with highest forecast drops in Queensland with potential 20% fall, and the lowest fall in South Australia of only 2%. And in Victoria the AER approved on the 11th of November an increase in network charges which is estimated to increase average bills between $26 and $53 per annum, so any savings predicted for Victoria by the AEMC may now not occur.

Further, the AEMC Chairman John Pierce also warns that the energy market could deviate from the projections due to unexpected developments "It's important to note that over a decade of analysis we have seen trends change sharply in response to factors such as sudden generator closures and implementation of new policies. As such, all price projections should be seen as just that, projections."[15]

While any fall in electricity price is welcome for people on low-incomes the data shows people on low incomes will still be paying significantly more of their income on energy and will have the least choice and control to manage energy bills compared to other energy consumers.

3.2 Current Issues impacting on energy affordability for people on low income

ACOSS surveyed and consulted with members to identify the key current affordability issues for people on low incomes. In addition to reducing energy prices generally, the following were identified as key priorities for people on low incomes.

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[13] AER (2019) Annual Retail markets report 2018-2019 https://www.aer.gov.au/system/files/AER%20Annual%20Retail%20Markets%20Report%202018-19_0.pdf

[14] AEM (2019) Residential Electricity Price Trends 2019 https://www.aemc.gov.au/sites/default/files/2019-12/2019%20Residential%20Electricity%20Price%20Trends%20final%20report%20FINAL.pdf

[15] https://reneweconomy.com.au/electricity-prices-set-to-plummet-as-strong-wind-and-solar-investment-kicks-in-77816/

3.2.1 Access to energy information for people who may be experiencing disadvantage

Increasingly, energy users are being required to engage actively to manage their home energy usage and navigate the market if they want to lower their energy bills. While there is some evidence that some at-risk households do engage actively in the energy market to find the best deals, other people face limits and barriers.

Some of the limits and barriers to engage with the market include:

- lack of capital
- lack of access due to rental or geography
- language and literacy barrier
- health issues or disability
- low trust in the energy market and new services
- confusion and lack of transparency
- increased market and system complexity

These limits and barriers increase people's vulnerability to high energy costs.

ACOSS members identified access to energy information for people who may be experiencing disadvantage as one of the key outstanding issues that needed urgent attention. Some of the examples provided by members, included:

> *"Older consumers in particular are uncertain about the changes in the energy markets and unsure about how they can benefit from them."*
>
> *"Consumers are often not aware of hardship provisions provided by Energy companies."*
>
> *"Consumers are often not aware of utility relief grants provided by Governments, which would help significantly reduce energy debt and avoid disconnections."*
>
> *"Language and cultural barriers can exclude CALD consumers from more traditional information pathways and the full suite of communication channels needs to be utilized."*

ACOSS members pointed to the Switched on Communities grants program administered by QCOSS, which provided grants to community sector organisations to provide targeted energy literacy and education programs to vulnerable groups. The program, which was partly funded by AGL and the Queensland Government, was viewed as beneficial by recipients and participants. The ACCC in its final report to the Retail Electricity Price Inquiry,[16] also recommended the Australian Government co-fund with relevant state or territory governments a similar grant scheme for consumer and community organisations to provide targeted support to assist vulnerable consumers to improve energy literacy (see recommendation 38). ACOSS has included this recommendation in our 2020-12 Budget Priorities Statement.

3.2.2 Improve amount of and access to energy concessions

ACOSS members cited inadequate energy concessions as another key outstanding issue that needed urgent attention to improve affordability of energy bills for people on low-incomes. Low-income

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[16] ACCC (2018) Restoring electricity affordability and Australia's competitive advantage https://www.accc.gov.au/publications/restoring-electricity-affordability-australias-competitive-advantage

households spend on average 6.4% of their income on energy bills, with over a quarter spending more than 8.8%, these figures are after energy concessions are taken into account.[17]

> *"Access to payment plans are helpful, but do not address the problem of energy bills simply being unaffordable on a very low income. Many respondents spoke of 'playing catch up' with bills and having to choose which bill to pay."*

There are 3 million people who live below the poverty line,[18] and there are approximately 2 million people who access energy concessions. The ACCC found that roughly 14% of people who are eligible for an energy concession do not receive one. There is also considerable variation between states, which add to higher administrative costs, inequity between household types, and inequity between states.

The SACOSS report *Working to make ends meet: Low-income workers and energy bill stress*, notes that 'wage poor' households are not always eligible for energy concessions and recommends eligibility be extended to a Health Care Card (Family Tax Benefit). [19]

Finally, the ccurrent flat rate concession model in all jurisdictions, accept Victoria, is problematic because it:

- Creates inequity between high and low energy users, with flat rate concessions disadvantaging high energy users i.e. Households with children or multiple occupants and households in regional areas that often face high electricity prices;
- Does not adjust as energy prices increase or when there is seasonal variation; and
- Requires a "building-block approach" for additional assistance.

The ACCC in its final report on the retail electricity price inquiry, also found the energy concessions schemes inadequate and recommended that the COAG Energy Council improve concessions schemes across the NEM, to the extent possible, to ensure there is a uniform, national approach to electricity concessions (see ACCC recommendation 37).[20] The ACCC recommendation included a shift to a hybrid concession of part flat and part percentage based.

We note the COAG Energy Council has not progressed the ACCCs recommendation, and we urge COAG to prioritise action to progress the recommendations and consult with the social sector and other key stakeholders on solutions.

Improving the amount of Newstart was also seen as critical to helping the most vulnerable to avoid energy stress and improve their capacity to pay.

3.2.3 Inadequate hardship policies

As outlined at 3.1 above the number for people in hardship and experiencing disconnections is too high, although recent changes in Victoria and nationally to hardship guidelines could have a positive effect.

The early analysis of the Victorian Payment Difficulties framework by CALC[21], suggests it is contributing to a significant drop in disconnections and providing better support to people struggling with energy debt. However, CALC has identified that non-compliance with the payment difficulty framework is an

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[17] ACOSS and BSL (2018) Energy Stressed in Australia https://www.acoss.org.au/wp-content/uploads/2018/10/Energy-Stressed-in-Australia.pdf

[18] Davidson, P., Saunders, P., Bradbury, B. and Wong, M. (2018), Poverty in Australia, 2018. ACOSS/UNSW Poverty and Inequality Partnership Report No. 2, Sydney: ACOSS.

[19] SACOSS (2019) Working to make ends meet: Low-income workers and energy bill stress https://www.sacoss.org.au/sites/default/files/public/191120_SACOSS%20Waged%20Poor%20Full%20Report_FINALv2.pdf

[20] ACCC (2018) Restoring electricity affordability and Australia's competitive advantage https://www.accc.gov.au/publications/restoring-electricity-affordability-australias-competitive-advantage

[21] CALC (2019) Energy Assistance Report: tracking how Victoria's changing energy policies are impacting households in the state https://consumeraction.org.au/energy-assistance-report/

ongoing issue with retailers arranging unfair payment plans and support despite regulatory requirements.

> *"Unfortunately, it appears that energy retailers regularly fail to play their part. They often do not offer the URGs form to those who are eligible, offer it too late, provide no assistance to fill out and return the form or incorrectly tell people that they are not eligible. This conduct results in unacceptable consequences for people experiencing payment difficulty and puts avoidable strain on the community sector's resources. It also results in costs to retailers (passed on and spread across other customers' payments) where compounding payment difficulty leads to additional bad debt. The most recent figures from the ESC show that more than half of URG forms that are sent out by retailers never arrive at DHHS for processing. Some retailers' form return rates are worse and indicate that the ESC should investigate whether these retailers are clearly failing in their obligations to support those experiencing payment difficulties."*[22]

In other jurisdictions the AER has developed a new Customer Hardship Policy Guideline (Hardship Guideline) for retailers which was finalised on 1 April 2019. While most ACOSS members see the new Hardship Policy Guidelines as an improvement on the current regime, they believe it is not up to the same standards as the Victorian Payment Difficulty Framework, and consider significant gaps remain. For example QCOSS has noted the following:

> *"Improvements are necessary to improve early access and improve uptake of retailer hardship policies:*
>
> - *Customers should not have to 'apply' for entry into a hardship program but should be automatically entered when they request assistance and be supported to access the most appropriate assistance.*
> - *When a consumer experiencing payment difficulties mentions personal circumstances to the retailer, they should be offered assistance by the retailer without having to explicitly name the circumstances.*
> - *The sole criterion for entry to a retailer hardship program should be that a customer is experiencing payment difficulties. We do not support a checklist of conditions that must be met in order to 'qualify' for assistance.*
> - *Entry into hardship support could be simplified by introducing a debt trigger. The Victorian Essential Services Commission's Payment Difficulty Framework specifies that a customer who has missed payment of a bill and owes in excess of $55 must be provided with advice on the assistance the customer is entitled to.*
> - *The onus should always be on the retailer to justify why a customer should not access the hardship policy, rather the other way around.*
> - *We strongly recommend removing the phrase "due to hardship" wherever it occurs in the Hardship Guideline and instead refer simply to "customers experiencing payment difficulties". This description more fully encompasses the broad spectrum of consumers experiencing payment difficulties – from those giving the earliest indications of potentially being at risk, through to those who are experiencing severe financial stress and crisis."*[23]

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[22] CALC (2019) Energy Assistance Report: tracking how Victoria's changing energy policies are impacting households in the state https://consumeraction.org.au/energy-assistance-report/

[23] QCOSS (2019) Rebooting our approach to energy hardship: priorities for addressing financial hardship for Queensland energy consumers.

ACOSS and its members are urging the AER to review the new Hardship Guidelines within 12 months with a view to strengthening early access and improving uptake of retailer hardship policies.

3.2.4 Inadequate consumer protections

ACOSS members noted the need for fairer energy contracts and discounts, For example:

> *"Contracts can mislead people and be more expensive than they expect. For example, discounts can be for a fixed period then contracts revert to very high price."*

> *"Default pricing protections require engagement. Those on standing offers are automatically protected by the VDO but those on expensive market offers who don't engage won't necessarily be protected by the regulated price despite this being within its objective."*

Organisations like VCOSS, CALC and COTA have outline a range of policies to provide fairer contracts and discounts for Victorians, see for example https://www.vcoss.org.au/policy/fairer-energy-contracts-and-discounts-for-all-victorians/ which could be applied to other NEM jurisdictions.

Concerns were also raised with inadequate protections with respect to emerging products and services, for example:

> *"The differences between NECF and ACL consumer protections, especially with emerging new products and services is a problem for consumers. In particular, CALD consumers have additional hurdles to overcome when language and cultural challenges are considered."*

> *"Our legal team regularly hear of issues with the poor provision of new energy technology to vulnerable and disadvantaged consumers. Unsolicited sales and inappropriate finance cause the biggest concerns."*

3.2.5 Improving affordability across the board

A number of members noted that reducing energy bills across the board was also critical and pointed to recommendations that have been made in a number of independent reviews that have to date not been acted upon, including:

- Shift small scale renewable energy scheme (SRES) and remaining state-based feed-in-tariffs off energy bills and on to Government budgets. These schemes have provided broad benefits such as emissions reductions and downward pressure on wholesale prices, while avoiding new peak generation and job creation. However, allocating costs of these schemes through electricity bills is regressive because low-income households pay disproportionately more of their income on energy. The scheme should eventually be transitioned to provide subsidises for solar and batteries to low-income households.
- Address past over-investment in networks by writing down asset values or providing rebates on network charges for privatised assets. According to the ACCC retail price Inquiry, such measures would save average residential customers in those states at least an extra $100 a year.
- Introduce a plan to reduce emissions in the NEM (for example, the Finkel Review recommendation 3.2 suggested a Clean Energy Target. The ACCC Electric Retail Price Inquiry recommendation 5 suggested implementing the National Energy Guarantee).

3.3 Emerging issues impacting on energy affordability for people on low income

ACOSS surveyed and consulted with members to identify the key emerging affordability issues for people on low incomes. In addition to reducing energy prices generally, the following were identified as key priorities for people on low incomes.

3.3.1 Energy Efficiency for existing homes

Increasingly ACOSS members are viewing the poor energy performance of existing homes as a major cause of unaffordable bills for many people on low-incomes, especially as energy costs continue to rise and extreme weather, like heatwaves, fuelled by the climate crisis, increase.

This means that a significant and growing proportion of the population are now living in homes that are unaffordable to run, and are too cold in winter and too hot in summer.

The problem is the vast majority of Australia's 9.5 million homes were built before adequate minimum energy efficiency standards were introduced for residential buildings in 2005. Recent data released by the Department of Environment and Energy found new homes have an average rating of 6.1 stars whereas existing homes have an average rating of only 1.7 stars. The performance lags behind other major economies.

People on low-incomes, especially renters are more likely to be living in energy inefficient homes and have inefficient appliances. For example, in the ACT where disclosure laws at point of sale and lease are in place, data analysis finds that 40% of rental properties are 0 star rating.

People on low incomes who spend on average more than 4 times their income on energy bills than high income earners, cannot afford to invest in energy efficiency measures and if they rent they have no ability to do so.

Modelling undertaken by ANU for ACOSS and BSL found that a one off investment of $5,000 on efficiency upgrades such as hot water system, heating and cooling appliances, insulation, lighting for the average house could cut energy bills by up to $1,139 per annum depending on the region.[24] St George Community Housing retrofitted 1400 community housing places across NSW, saving tenants an average of $570 each year.

More than 60 consumer, community sector, industry, environment and research groups have joined together to advocate for the implementation of policies and measures to improve the energy efficiency of existing homes.[25] In our view, this should be a high government priority.

On the 22nd of November 2019, the COAG Energy Council agreed to a work plan to progress energy efficiency measures for existing homes.[26]

However there was no commitment to implement any of the measures being considered in the work plan, despite the proven multi-benefits to investing in energy efficiency for existing homes, including reducing energy bills, improving health and well-being, reducing homelessness, reducing peak demand on the energy grid, creating jobs and reducing emissions.

We believe the following polices and measures should be prioritised to make energy bills more affordable for people on low-incomes.

- Introduce mandatory disclosure of home energy performance at point of sale.[27]
- Introduce mandatory energy efficiency standards for rental properties.
- Prioritise financial support for low-income owner occupiers to improve energy efficiency of their homes and agree to establish an ongoing scheme to support low-income owner occupiers to undertake energy efficiency audits and upgrade the energy efficiency of their homes.

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[24] ACOSS and BSL (2019) Energy Stressed in Australia. https://www.acoss.org.au/wp-content/uploads/2018/10/Energy-Stressed-in-Australia.pdf

[25] https://www.acoss.org.au/wp-content/uploads/2019/09/Joint-statement-for-Healthy-Affordable-Homes.pdf

[26] http://coagenergycouncil.gov.au/publications/trajectory-low-energy-buildings

[27] Noting we will need to eventually move to mandatory energy efficiency standards for owner occupier homes to realise all the benefits.

- Prioritise improving the energy efficiency of all public, Aboriginal and community housing and agree to work with housing Ministers on a plan including to collect data, set targets, and provide additional funds to upgrade or replace energy inefficient housing with more energy efficiency housing.

3.3.2 Distributed Energy Resources (DER)

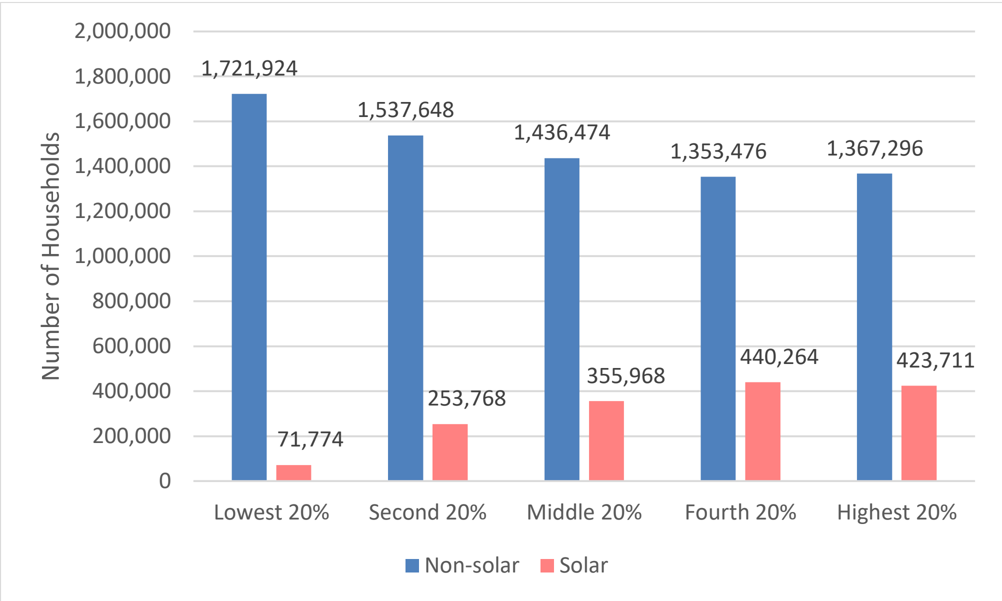
While there are over 2 million homes that already host rooftop solar and 80,000 with batteries, reducing their energy bills by an average of $400 per annum,[28] there are millions of people who are currently locked out of DER. This particularly affects people on low incomes who already pay significantly more of their incomes on energy bills and contribute disproportionately to DER subsidies and system costs, but either cannot afford or do not have access to energy solutions.

The CSIRO predict up to 66 per cent of households will generate some energy by 2050.[29] While such a shift is modelled to provide greater efficiency in the system and save the average household $414 annually compared with a future based on business as usual, the CSIRO research noted some will benefit more than others. The report also examined the difference between 'active participants' – those who could access solar and batteries – and those who could not or did not. The report showed that all were better off under the roadmap scenario (cheaper bills) than the counterfactual scenario. Active participants were better off than passive, and the gap between active and passive narrows by between 30 to 66 per cent depending on household type.

The report confirms that it is low-income/low-wealth households and renters who are most at risk.

ANU research commissioned for ACOSS and BSL found that low-wealth household are less likely to own solar (see figure 2).

Figure 2 Solar Panel Households by Wealth Quintile



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[28] ACOSS and BSL (2018) Energy Stressed in Australia https://www.acoss.org.au/wp-content/uploads/2018/10/Energy-Stressed-in-Australia.pdf

[29] Energy Networks Australia and CSIRO (2017) 'Electricity Network Transformation Roadmap: Final Report', http://www.energynetworks.com.au/sites/default/files/entr_final_report_web.pdf

A report by QCOSS *Choice and Control*,[30] found that approximately 40% of owner-occupiers have solar power, while only 4% of renters do.

Put plainly, there are concerns that, without significant policy and regulatory reform, the future energy market will create a two-tiered system between those who can access and afford distributive energy resources and those who cannot, further widening the gap between the haves and the have-nots.

Current policies are exacerbating the affordability and accessibility problem.

- Some subsidies, like the Small Scale Renewable Energy Scheme (SRES) and feed-in-tariffs are being funded through bills.
- Many DER subsidies and rebates are poorly targeted and not aimed at people on low-incomes who would benefit the most from the technology.
- Non-solar owners are paying more for network costs as network cost recovery is primarily through consumption pricing.

3.3.3 Energy user focused transition

Changes in technology and the shift to more distributed energy resources (DER) such as rooftop solar, batteries and electric vehicles, is changing how people can engage with energy, the energy market, and other energy participants.

The inevitable growth in DER in Australia presents huge opportunities, providing energy users with more agency, improving efficiencies and reliability, and cheaper energy for all.

But there are also challenges. Market structures, regulations and network operations do not enable the benefits of DER to be maximised. DER exporting is creating technical issues for networks restricting exports and or increasing costs. There are inadequate customer protections for emerging products and services. And as noted above there are major equity issues

To ensure the new energy system is equitable and the benefits are maximised for all customers will require new technologies, business models, policies, regulatory and market reforms, and will need the energy industry to engage differently with energy users.

ACOSS believes a new energy compact, defined by a new vision and set of principles, is needed to guide the energy market reform. The focus just on price, reliability and security is no longer fit for purpose. We need a new framework that puts people at the centre, and delivers affordability, sustainability, equity and fairness.

3.3.4 Other emerging issues

- Older consumers unable to participate in the DER risk being left behind, bearing disproportionate costs and unable to share the benefits of new markets.
- The lack of enforcement action for energy retailer compliance breaches.
- The need for support for low-income and other at-risk households in the transition to no or renewable gas.

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[30] Queensland Council of Social Service (QCOSS) (2017) *Choice and Control? The Experiences of Renters in the Energy Market*, https://www.qcoss.org.au/choice-and-control-experiences-renters-energy-market.

4 Recommendations

We make the following recommendations to address affordability in the NEM for people on low incomes:

1) The Federal Government shift the Small Scale Renewable Energy Target (SRES) off consumer bills and onto the Commonwealth Government budget. The scheme should be transitioned to provide subsides for solar, hot water and batteries **for low-income homes only**, including public, Aboriginal and community housing and low-income owner occupiers.
2) The NEM State and Territory Governments should shift any remaining solar feed-in-tariffs off electricity bills and on to State and Territory budgets.
3) COAG Energy Council progress ACCC recommendation 38 that the Australian Government and the relevant state or territory government should fund a grant scheme for consumer and community organisations to provide targeted support to assist vulnerable consumers to improve energy literacy.
4) COAG Energy Council progress ACCC recommendation 37 to improve energy concession schemes across the NEM to ensure that, to the extent possible, there is a uniform, national approach to electricity concessions.
5) The Federal Government increase the rate of Newstart, Youth Allowance and related payments by a minimum of $95 a fortnight. Index the payments to wages, a representative basket of goods, or the CPI (whichever is higher) to ensure they maintain pace with community living standards.
6) The AER undertake a review of the new hardship guidelines by May 2020, with a view to further strengthening early access and improving uptake of retailer hardship policies.
7) NEM State and Territory Governments review their home energy assistance schemes or equivalent to improve access, uptake, and better meet the needs of those most vulnerable.
8) COAG Energy Ministers commit to implement measures to increase energy efficiency of existing homes:
   - Introduce mandatory disclosure of home energy performance at point of sale.
   - Introduce mandatory energy efficiency standards for rental properties.
   - Prioritise financial support for low-income owner occupiers to improve energy efficiency of their homes and agree to establish an ongoing scheme to support low-income owner occupiers to undertake energy efficiency audits and upgrade the energy efficiency of their homes.
   - Prioritise improving the energy efficiency of all public, Aboriginal and community housing and agree to work with housing Ministers on a plan including to collect data, set targets, and provide additional funds to upgrade or replace with more energy efficient housing.
9) COAG Energy Council undertake a public consultation to progress Finkel Review recommendation 6.6 "*identify ways to improve access to DER and energy efficiency for low income households*", with a focus on DER (assuming COAG Energy Council progress the energy efficiency asks above). Policies should include:

Noting we will need to eventually move to mandatory energy efficiency standards for owner occupier homes to realise all the benefits

- Renewables subsidies and schemes should be targeted at people who would otherwise be locked out;
- Federal and State governments invest in solar (and potentially energy efficiency) programs for public and community housing;
- Federal and State governments partner to establish a Clean Energy for Aboriginal and Torres Strait Islander Communities Fund to invest in solar energy and battery storage (and potentially energy efficiency improvements) for regional and remote Aboriginal and Torres Strait Islander communities.
- The Federal Government develop a funding mechanism (like the Solar Cities program) in conjunction with State governments, local councils and energy retailers, to install solar photovoltaic technology and batteries (and energy efficiency measures) for households with low incomes or who are otherwise disadvantaged.

10) Government introduce specific regulation for new energy technology consumer protections or incorporate these into expansions of current regulation for traditional energy supply. Including:[32]
    - Unsolicited sales should be banned for new energy technology products and services.
    - Energy Ombudsman's jurisdictions should be extended to include the retail sale of new energy products and services.
    - A default fund should be established to provide compensation to those entitled to compensation but unable to access it due to the insolvency of a new energy technology retail business.
    - The national consumer credit laws should be amended so that all buy now, pay later finance arrangements fall within their ambit.
11) COAG Energy Council agree to a plan to reduce emissions in the NEM. We note the electricity sector can and should reduce its emissions faster than other sectors. A 2030 emissions reduction target of 45% reduction below 2005 levels should be seen as an absolute minimum and should preferably be higher. Implementing energy affordability measures outlined here for example would make a 65% emission reduction target more achievable.
12) NEM states progress ACCC recommendation to remedy past over-investment in networks, through a write-down of the regulated asset base in Queensland and Tasmania, and rebates on network charges in New South Wales.
13) Develop and implement better metrics to measure energy affordability. There is a need to better measure energy affordability and do so more frequently. ACOSS recommends using a range of primary and secondary indicators (like the EU does) to measure energy stress. Having a range of measures will capture different circumstances and behaviours including deprivation of energy, they will enable the development of more targeted and fit-for-purpose policy solutions.

    ACOSS recommends a minimum **five primary** indicators.

    - ***Low-Income High-Cost (LIHC)*** – looks at low-income households (for example bottom 40% of incomes) and "modelled" energy needs. **The HES or HILDA data could inform this analysis, however a figure would need to be determined independently on what 'energy needs' should be for different household types**

[32] See for example https://consumeraction.org.au/wp-content/uploads/2019/06/1904_Sunny-Side-Up-Report_FINAL_WEB_NEW-1.pdf

- ***Inability to keep home warm/cool - not able to keep home adequately warm or cool***. This measure taps into households who are reducing energy use because they cannot afford their energy bills, often to the detriment of their health. **The HES and HILDA surveys currently asks about inability to keep home warm, these surveys would need to change their question to include 'cooling'** which is more important for households in northern parts of Australia, and increasingly all parts of Australia with increase prevalence of heatwaves.
- ***Arrears on bills - arrears on energy bills.*** This measure taps into households that are struggling to pay bills and other essential services, and could be an indicator of households who might ultimately go without food, medicine and other basic essentials services to pay energy bills. The HES and HILDA surveys currently ask this question.
- ***Hidden Energy poverty (HEP)*** - The HEP indicator presents the share of households whose absolute energy expenditure is below half the national median. This metric captures households whose energy expenditure is unusually low for national standards, which is crucial when using actual expenditure data. **This metric identifies and importantly quantifies households that are forgoing a basic level of consumption and potentially dangerously so**. It **can help identify where targeted policies might be needed.** The HES or HILDA survey could be used to determine this figure.
- **Share of expenditure (2M)** - The 2M indicator presents the proportion of households whose share of energy expenditure in income is more than twice the national median share. This metric captures households that dedicate an unusually high share of their income to energy expenditure. **This metric identifies and importantly quantifies households that have little control over energy consumption either through medical needs or inefficient housing or appliances. Paired with income quintiles, this can help identify where targeted policies might be needed.** The HES and HILDA survey would provide this information.

5 Contact

If you have any further questions please contact

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