

WesleyVoice

Energy Affordability

The cost of electricity for residential customers in South Australia has doubled (approximately) over the past decade, and prices are highly likely to double again over the coming 4-5 years.

The proportion of household income paid for energy by low-income households is much greater than the proportion paid by higher income households, even though energy use increases with income.

With the very real likelihood that energy prices will contribute significantly to household financial stress and even poverty over coming years, the issue of affordable energy is a crucial, current policy concern. This edition of Wesley Voice summarises some of the issues, background and current developments in this complex policy arena.

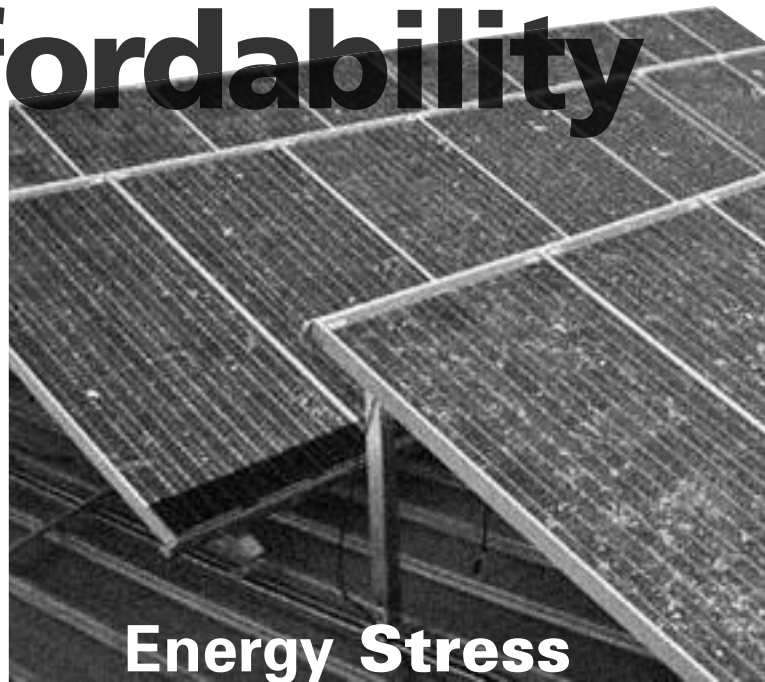
Why Energy Matters

Energy is significant because it is an essential service that meets basic needs of shelter, food and health and also contributes to education, social participation and recreation.

Affordability and universal access for consumers must always be a prime consideration of policy makers because citizens' health, wellbeing and social participation is compromised without supply.¹

There is no substitute for electricity, unlike most market goods and services. A social justice perspective says that essential services are just that - essential - and must be accessible and affordable for all citizens.

1 Taken from "Charter of Principles for Essential Services" produced by national energy consumers Roundtable



Energy prices continue to rise at a much faster rate than income for lower income households so that for the poorest 20% of the Australian (equivalised) income distribution, electricity counted for about 7% of expenditure in 2003/4, whereas electricity expenditure was not much more than 1% of weekly income for the richest 20% of households. UCW Adelaide estimates that currently (Feb 2010), poorest quintile households are likely to be paying about 10-12% of their income on electricity, highest income households still pay about 1% of income. Graph 1 shows the household expenditure data for 2003/4 and overlays average electricity use by quintile, a quintile is 20% of a data set, in this case, the South Australian population as measured by households income.

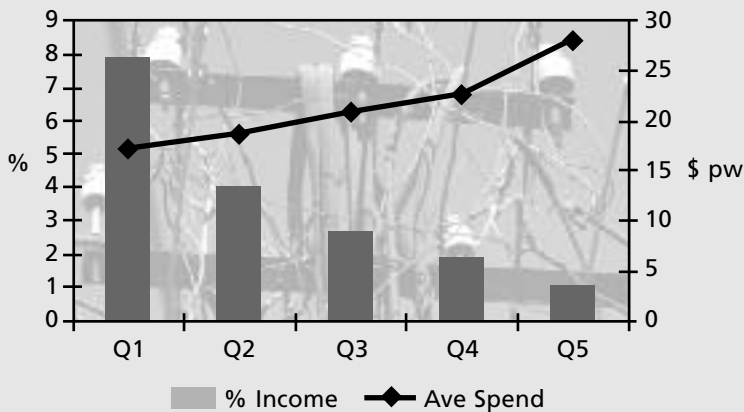
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Energy Stress

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% Disposable income spent and average spend, electricity, Quintile, SA Households, 2003-04



Graph 1: Source ABS

This graph shows that while actual electricity use increases with income, the proportion of household income spent on that electricity decreases sharply with income. Energy prices are highly income sensitive, which is why affordability is a major concern for lower income households, but of minor consequence for middle and higher income households.

Table 1 shows a number of "financial stress" indicators for Australia, and considers the poorest 30% of the household income distribution, against the remaining 70% of the income distribution, using eight financial stress indicators. The data is taken from the 2003/4 ABS household expenditure survey and was reported in the ABS publication, Australia's Social Trends 2007.

Financial Stress Measure	Poorest 30%	Other 70%	All households
Can't raise \$2000	52.1	8.6	14.3
Can't pay electricity on time	37.8	11.5	14.9
Can't pay car rego	13.5	4.6	5.7
Pawned or sold goods	11.7	2.3	3.5
Went without meals	11.8	1.8	3.1
Unable to heat home	8.9	1.2	2.3
Sought welfare help	14.7	1.2	2.9
Borrow from friends / family	26.4	7.8	10.3

Table 1: Source ABS

Of particular relevance to this discussion is the observation that 38% (rounded) of the poorest 30% of Australia's households were unable to pay electricity bills on time, due to financial stress, while 15% (rounded) of Australia's total population were unable to pay for electricity on time, the most common indicator of financial stress. It is most likely that now about 20% of households are unable to pay electricity bills on time.

Environment and Energy Affordability

Increasingly, environmental implications of essential service (over)use are being recognised too. The generation of electricity accounts for about half of Australia's greenhouse gas emissions. People with economic or environmental perspectives often say that current pricing for utilities is too low and that prices should increase to reflect scarcity and/or environmental impacts, so that consumers are more judicious in their utility use, because prices are high.

It is highly likely that this tension between the triple, competing objectives of market driven efficiency, affordability and environmental sustainability for utilities, will be at the centre of many debates over the coming months and years.

A focus of this policy debate has been the Carbon Pollution Reduction Scheme (CPRS), which will reduce greenhouse gas emissions, by capping Australia's carbon dioxide emissions and requiring 'emitters' to trade for licenses for their emissions. The Australian Government has made the commitment that low income households will be compensated for increased costs associated with the CPRS. The expected doubling of energy prices over the next 5 years, is from a mix of cost pressures other than the CPRS.

Energy affordability and environmental sustainability are different (albeit related) policy priorities, but it is possible to have both. Renewable Energy Targets (RET) are widely accepted with South Australia a world leader, having a RET of 33% of energy generation by 2020.

Wind generation is well established, accounting for about 20% of current generation and solar hot water and photovoltaic cells are being installed on a daily basis. Significant potential is seen in geothermal and solar thermal generation as well as other emerging technologies.

Changing Energy Markets

In 2002 the Council of Australian Government (COAG) received the Parer Review of Australian energy markets which made over 50 recommendations including the establishment of a national energy regulator, developing a national energy market (NEM) planning function, recommending that all States and Territories establish FRC (full retail contestability) within three years and giving the Ministerial Council on Energy sole responsibility for energy policy direction.

This reinforced the competition policy direction of energy supply moving from State and Territory based public provision, to a national energy market, with energy services being provided by competing companies.

What is UCW Adelaide Doing?

UnitingCare Wesley Adelaide's Energy Services program works in partnership with Origin Energy and Kildonan Uniting Care in Victoria to provide customers of Origin Energy's "Power On" (hardship) program with Home Energy Audits. Home Energy Audits assist householders to reduce their energy consumption and therefore their bills. Together with the householder the energy worker identifies opportunities for energy savings and implements realistic strategies to help realise these potential savings. Assistance is available to help purchase energy efficient goods with low cost loans.

The key program aims are:

- To increase energy affordability for individuals and households, particularly those who are disadvantaged or in hardship
- To assist individuals and families increase energy efficiency and reduce energy consumption, where this is practical and not compromising well being or health
- To enhance consumers' rights and access to utilities
- To enhance client's comfort, health and quality of life as relating to their energy consumption.

Noting that affordability of essential services is likely to be a significant 'driver' of poverty over coming years, UCW Adelaide has supported UnitingCare Australia in establishing a national energy project to focus on the social justice aspects of energy policy, particularly energy affordability for low income and disadvantaged households, through policy advocacy with governments, businesses and regulators.

South Australia followed Victoria to introduce FRC, whereby electricity provision (previously undertaken by ETSA) was split into four different functions: generation, high voltage transmission, distribution from substations to consumers and retail. Competition has been enabled for generation and retail functions while transmission and distribution, being natural monopolies, are regulated.

Regulation of energy markets has moved from state based regulators, eg Essential Services Commission South Australia (ESCoSA), to a national structure with the Australian Energy Market Commission (AEMC) being established as the national energy market "rule maker" and the Australian Energy Regulator (AER) having national regulatory responsibilities, including compliance with regulation and codes. It is worth noting that the electricity bill received by customers has five elements, the "price stack";

Policy for Energy Affordability

Recognising that there is no simple solution to the challenge of maintaining affordable and prudent use of energy, UnitingCare Wesley is suggesting that there are four broad policy and program instruments that, in combination, can help to make energy affordable particularly for lower income and disadvantaged households. These four elements being:

1. Consumer Protection

Regulation and compliance arrangements are needed to ensure that energy provision is safe. Consumer protection requires standards to be met in areas including; billing, information provision, metering, marketing and complaints.

2. Energy Efficiency

This relates to both demand management strategies - using energy more efficiently, and to energy-efficient design, particularly for housing and appliances.

3. Pricing

This set of policies relates to tariff design and tariff structure and will be a compromise between the objectives of:

- efficient collection of revenue for both regulated and competing energy businesses
- price signals to reflect the real cost of electricity, including the "cost of carbon" in energy generation
- affordability for essential service, specifically for lower income and other disadvantaged households.

4. Concessions

UnitingCare Wesley Adelaide believes that concessions should be adjustments that occur to ensure affordability, once energy efficiency and pricing factors have been utilised as effectively as possible. Concessions invariably lag real costs to customers and can be politically 'difficult' to manage with relatively 'better off' groups seeking concessions that most efficiently should be targeted to households more in need.

generation costs account for about 34% of the bill, transmission 8%, distribution 36%, retail 13% and GST 9%.

There are significant cost pressures in each element of the price stack, which is why the energy bills received by customers are rising significantly, despite careful regulation.

UnitingCare Wesley Adelaide is committed to providing services and policy input to national energy policy makers and regulators.

Current Developments

The last major piece of legislation associated with the national 'energy reform process' is the establishment of the National Energy Customers Framework 'NECF' which covers every aspect of consumer protection and relationships with energy markets, including metering, hardship policies, payment arrangements, supply responsibilities, marketing and "what information should be on customer bills?" It's a substantial legislative package, of considerable importance to residential consumers and small business. Since there are emerging expectations that rapidly rising utility prices are likely to be a major factor contributing

to poverty in coming years, getting the NECF right is vitally important.

UnitingCare Australia is responding to the second and final exposure draft of NECF, through the energy project, in two ways. Firstly, we are contributing to a national energy consumer's Roundtable joint response, by cooperating with the small number of residential energy consumer advocates Australia wide. Secondly, we will be supporting the joint response and supplementing it with emphasis from the UnitingCare network, particularly noting impacts for rural and remote communities and ageing households and services.

Priority Issues in NECF2

Hardship provisions for consumers having payment difficulties are the top priority. Retailers will need to have regulator endorsed hardship programs that will identify customers having difficulty in paying for energy and then provide agreed responses to assist with affordability.

A major debate continues about the objective for national energy law which gives the 'long term benefit of consumers' as the dominant objective for all energy law. It is assumed that this is achieved by competitive markets. Uniting Care services, and others, strongly believe that the objective needs to be expanded to include affordability and sustainability as legislative objectives too.

Other priority areas include:

- Customer information (including, what information should be on the bill?)
- Marketing
- Compliance and Enforcement
- Future proofing (ie mechanisms to review and update legislation and regulation over time, so that consumer protections stay current)
- Service standards and guaranteed service levels

Advocacy over the last year has resulted in enhanced consumer protection measures from earlier drafts, NECF2 includes important provisions for:

- Explicit Informed Consent – relating to marketing
- Disconnections processes
- Approvals for Hardship Plans
- Establishing a Small Claims compensation Scheme for small customers.

Distribution Price Review

The Australian Energy Regulator (AER) is currently reviewing distribution prices for the next 5 years for South Australian and Queensland distribution businesses, ETSA Utilities in South Australia. Since distribution costs are a substantial component of the total bill customers receive, setting the regulated revenue is a critical component of future electricity prices. ETSA Utilities needs enough money to build new infrastructure, maintain current assets and replace failing equipment. The distribution system also needs to be maintained so that outages are few and repaired promptly, but costs need to be constrained so that final prices remain affordable. This is a 'tricky' balancing act that is being undertaken in good faith by all parties.

UCW Adelaide is focussing attention on the tariff structures that are developed, once the total revenue for the Distributor is determined. This too is difficult as tariffs need to be simple to administer, easily understood and fair, in that lower income households don't pay proportionately more than other households. The main variables in pricing are the mix between fixed supply charges and use charges as well as the prices for different times, including peak and off-peak.

SA Retail Price Review

Regulated retail 'standing contact' prices are also about to be determined for the 3 years from 2011 in South Australia, by ESCoSA. UCW Adelaide is actively involved in discussions about the fairest way of setting these prices.

Further Information

Any congregations or communities interested in discussion energy affordability issues are encouraged to contact Mark Henley: mark.henley@ucwesleyadelaide.org.au

Useful websites

www.ecc.sa.gov.au South Australian Energy Ministers Energy Consumers Council
www.mce.gov.au Australian Ministerial Council on Energy
www.ucwesleyadelaide.org.au UCW Adelaide submissions

Coming soon: www.energyadvocacy.org.au – soon to be launched UnitingCare Australia hosted energy website