

# ENERGY WHITE PAPER

## SUBMISSION COVER PAGE

Name Mark Henley

Address 10 Pitt St, Adelaide, 5000

Organisation (if any) UnitingCare Wesley Adelaide

Phone number (08) 82025135, 0404 067 011(mob)

Email address Mark.Henley@ucwesleyadelaide.org.au

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## Submission

**To: Energy White Paper**  
**From: UnitingCare Wesley Adelaide**  
**Subject: Discussion Papers**

**Date: 12<sup>th</sup> June 2009**

### **Background to UnitingCare Wesley Adelaide**

UnitingCare Wesley Adelaide is an agency of uniting Church and is a South Australian community service organisation with over 100 years experience in providing services to assist low income and disadvantaged people. We work with individuals, families and communities to break the cycle of disadvantage, in a range of settings across South Australia.

Our vision is for a compassionate, respectful and just community in which all people participate and flourish.

Based on Christian ethics and values are:

- respect and compassion for all people
- belief in the innate worth of all people
- Justice, particularly for those disadvantaged in our society
- being a service to others
- restlessness for what could be
- non-violence and peace.

Inquiries about this submission should be directed to:

Mark HENLEY B Ec, JP  
Manager Advocacy and Communications; UnitingCare Wesley Adelaide  
**EMAIL: [Mark.Henley@ucwesleyadelaide.org.au](mailto:Mark.Henley@ucwesleyadelaide.org.au)**  
Phone (08) 8202 5135  
Mobile 0404 067 011  
Ph (h) (08) 8370 1112  
Fax (08) 8202 5842

## Introduction

This brief submission concentrates on four “higher order” issues arising from the six Discussion Papers that have been released to help inform debate about Australia's Energy White Paper.

- Issue 1: the absence of consideration of energy affordability for (household) consumers; this issue being of most relevant to the discussion paper, “Our people: demographics workforce and indigenous participation.”
- Issue 2: concerns about rising energy costs for community service provision; this issue also being most relevant to the discussion paper, “Our people: demographics workforce and indigenous participation.”
- Issue 3: the importance of active public policy support for use of renewable energy, perhaps most relevant to the “realising Australia's Energy Resource Potential” discussion paper.
- Issue 4: community and consumer engagement in policy debate associated with developing the Energy White Paper; this being most relevant to the discussion paper, “Governance, Institutional, Legal and Regulatory Frameworks and Community Engagement”.

We predicate consideration of these four issues with two contextual observations.

### Context 1

Energy, whether standing energy or fuel energy needs to be understood to be an essential service.

The National Consumers Roundtable on Energy has made the following definitional statement, which is supported by UnitingCare Wesley Adelaide.

*“Electricity is an essential domestic service.  
Energy supports fundamental human need including safe food (storage, preparation) and safe shelter (hygiene, lighting, temperature control). Electricity supports equipment that is crucial to well-being and independence (health, communication).  
Beyond these fundamentals, energy supports community engagement and family life (social interactions, employment, education).  
Except in rare and exceptional circumstances, a regular connection to electricity supply is not discretionary or optional. In most instances there is no alternative to electricity.  
A reliable, safe, affordable supply of electricity is a right rather than privilege and access must be guaranteed as far as reasonably possible.”*

The Roundtable Charter of Principles for Energy Supply states that energy supply should be:

- Sustainable
- Accessible
- Affordable

- Appropriate
- Accountable

A copy of the Charter is attached as appendix 1.

## Context 2

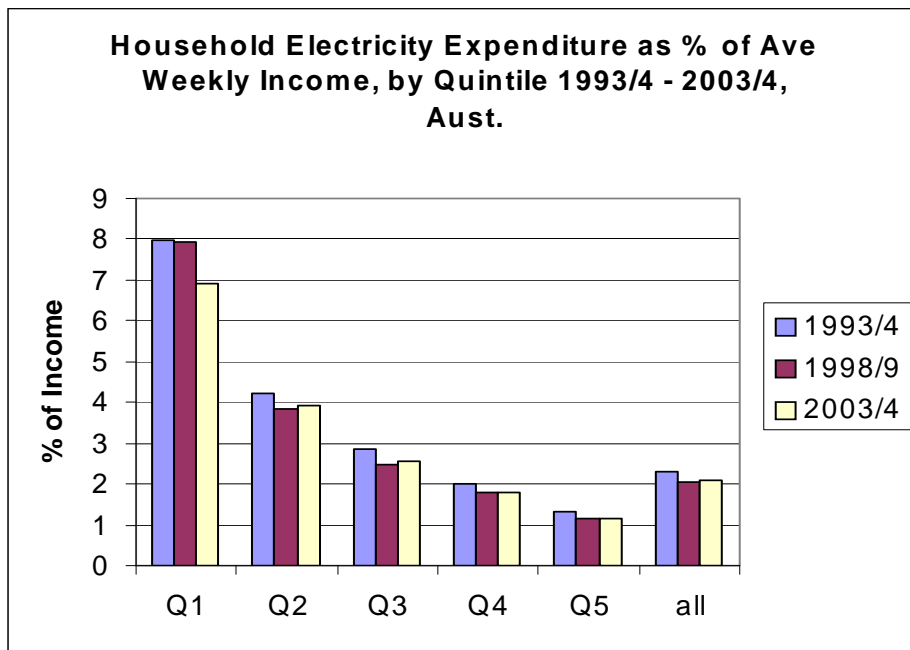
Given the essential nature of electricity, monopoly elements of energy industries (specifically transmission and distribution) and the propensity for markets to become increasingly concentrated on overtime, it is essential that energy markets are closely and carefully regulated, both to avoid market failure and to ensure fairness for consumers in energy markets.

## Issue 1. Energy Affordability.

### Electricity

The following discussion considers current challenges with energy affordability for significant numbers of Australian households. We expect that these pressures will be further exacerbated in coming years as the price of energy increases for a range of reasons.

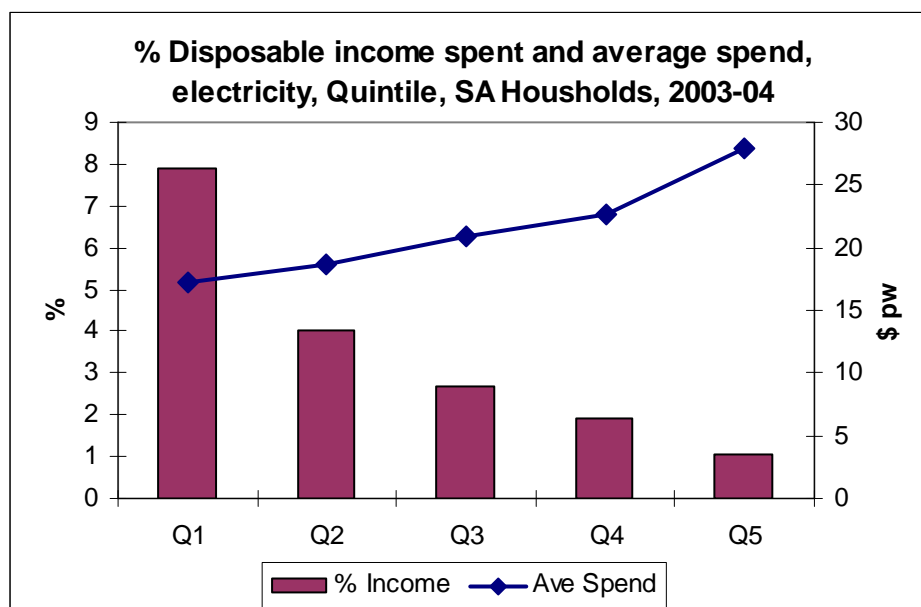
The most recently available Australian Bureau of Statistics (ABS) data on household electricity expenditure is given in Graph 1 below:



Graph 1 Source ABS

A key observation from this graph is that for the poorest 20% of the Australian 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. Indeed, for about half the population, electricity accounts for less than 2½ % of expenditure.

Graph 2 shows the household expenditure data from graph 1, for 2003/4 and overlays average electricity use by quintile.



Graph 2 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.

### Financial Stress

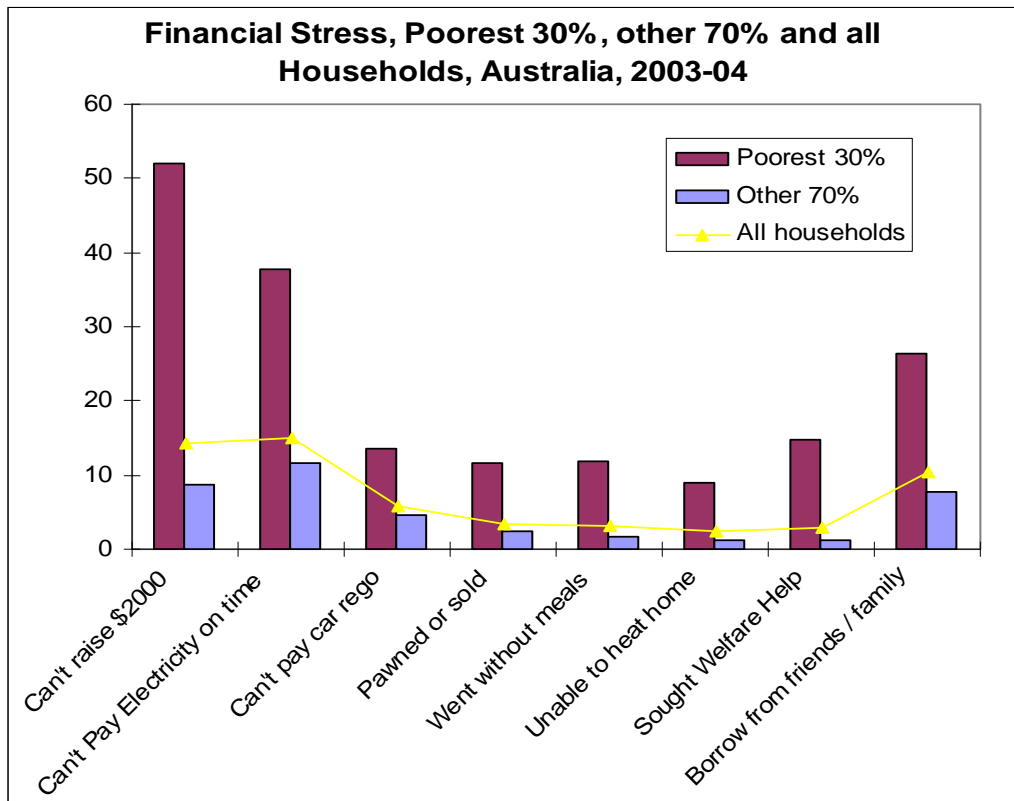
Table 1 shows a number of “financial stress” indicators for Australia, and considers the poorest 30% of the household income distribution, against the remaining 70% of income distribution, using eight financial stress indicators. The data is taken from the 2003/4 ABS household expenditure survey and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

	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	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

Information from this table is presented graphically in Graph 3. Of particular relevance to this discussion is the observation that 38% (rounded) of the poorest 30% of Australia's income distribution 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, a significant indicator of financial stress.



Graph 3 Source ABS

#### Impacts of Full Retail Contestability (FRC)

We note that in South Australia, the introduction of FRC for electricity resulted in almost immediate increases of over 25% in electricity bills for residential consumers. This translates to an even higher increase in proportion of household income required to meet electricity costs for lower quintile consumers. Electricity costs have continued to rise at rates greater than CPI, in the years following the introduction of FRC.

Appendix 2 provides a summary of UnitingCare Wesley Adelaide's experience of FRC, with particular reference to financial counselling clients and the impacts of dramatic increases in electricity costs for them.

In July / August 2004 we conducted a survey of financial counselling clients and one of the questions we asked was: "what of the following items have you reduced spending on due to electricity price increases?" - responses included:

Food	50%
Clothing	87%
Holidays	83%
Movies	80%
Sport and culture	80%
Telephone	53%

We also note that a vast majority of low income households pay utility bills and rent as their priorities, ahead of food and medications. So for some low income households, paying utility bills means being hungry or remaining ill.

#### Updating estimates

With the most recent, rigorous data set of household energy costs now being six years old, we have attempted to estimate current household electricity expenditure in the light of the significant increases in electricity costs that consumers have experienced over the last five to six years.

We suggest that poorest quintile households in South Australia are now likely to be paying 11 to 12% of household disposable income on electricity.

Looking 3 - 5 years into the future, we identify a number of factors that will increase the cost of electricity to consumers, including:

- global demand for energy; in particular gas, which would be an increasingly important fuel for electricity generation, to the price of gas and hence electricity will rise as global demand pushes energy prices higher
- potential ongoing impacts of the drought which has reduced hydro-electricity generation for the national grid, and has increased the cost of operating some generation facilities which need freshwater for effective operation.
- energy efficiency measures; in South Australia this is the Residential Energy Efficiency Scheme, a program supporting energy efficiency which is a regulatory requirement placed on retailers, who then 'smear' the cost of the program across all consumers.
- Feed-in tariffs which encourage households to utilise renewable energy and therefore have an important role to play. However in equity terms, these policies can mean that low income households, who are unable to contemplate the costs of domestic solar or wind generation, end up subsidising higher income households. This occurs where the value of feed-in tariffs are recovered from electricity charges.
- Regulatory costs

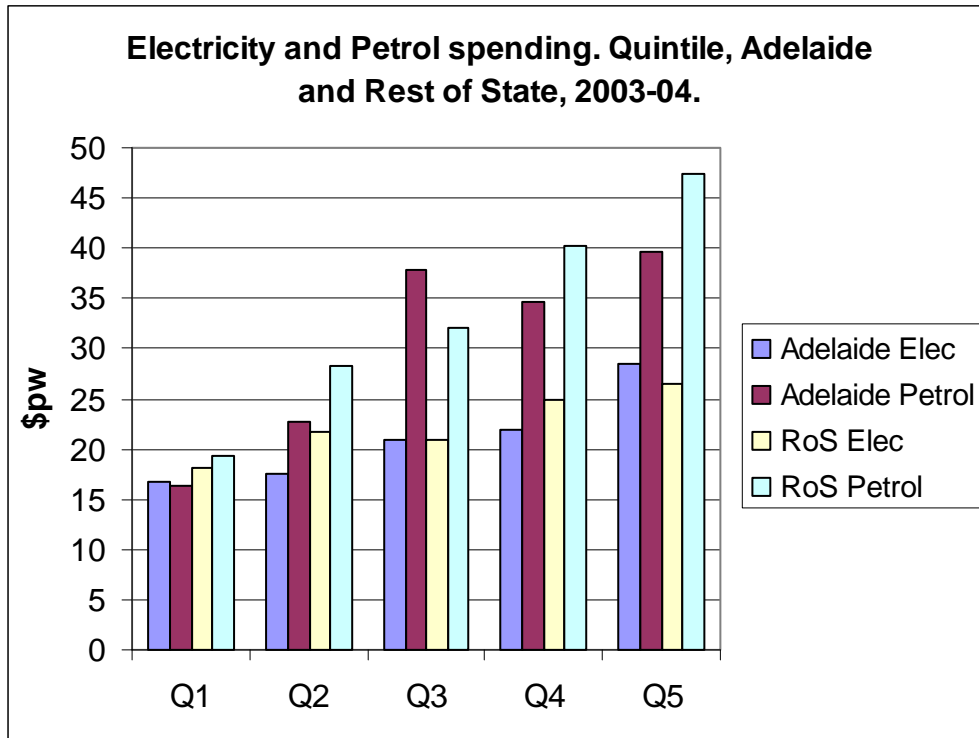
We suggest that average electricity price increases in the range of 20 to 25% over the next three to five-year period, or income increases are likely to be low, in response to the global financial crisis.

This means that potentially, lower quintile households in South Australia will be paying 14 to 16% of their disposable income on electricity costs, while the second quintile households are likely to be paying 7-8% of household disposable income for electricity. We cannot estimate the impact this will have on financial stress measures, but can be certain that increases in energy costs will increase financial stress for more Australian households.

#### Transport Fuels

Using the ABS household expenditure survey from 2003/4, it is evident that spending on transport fuels is equivalent to or greater than spending on

electricity. As with electricity, petrol consumption increases with income, but also decreases as the proportion of household income. Petrol spending is higher in rural areas of South Australia for all income groups except for the third quintile.

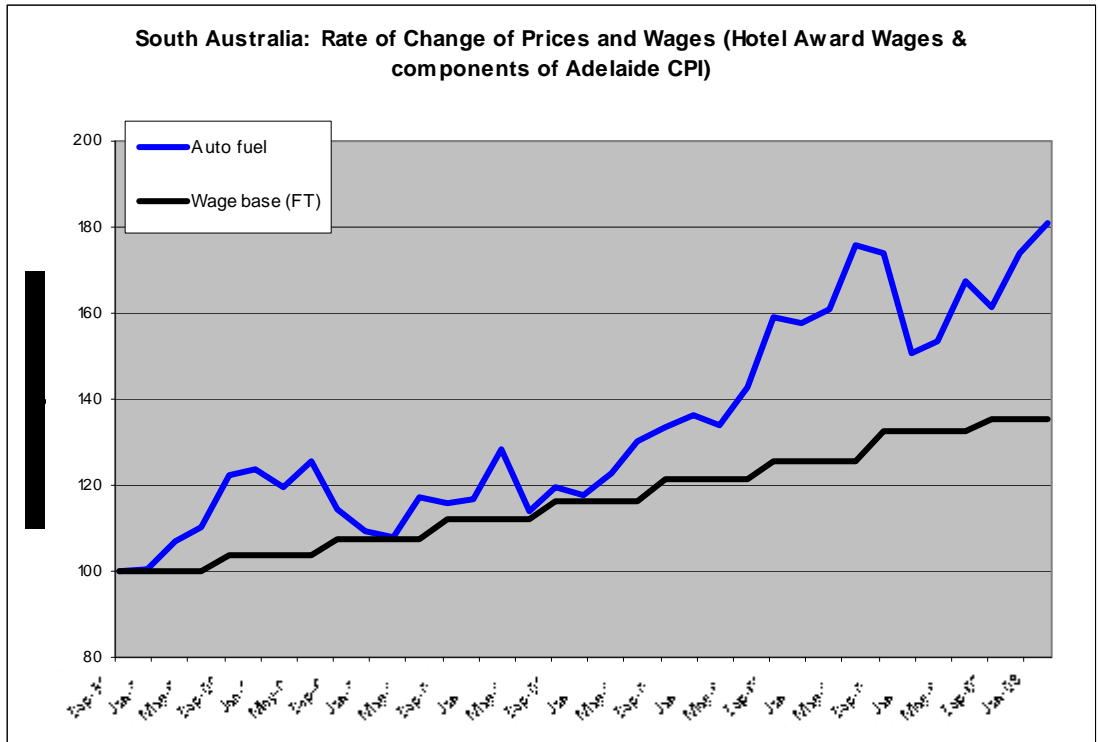


Graph 4, Source ABS

Considering the poorest quintile, we infer that a similar proportion of household income is spent on petrol, as is spent on electricity. Where petrol prices have been high, impacts on household spending have been similar to impacts of electricity rises.

The increasing cost of transport fuels, relative to minimum wages over the past decade, is shown in graph 5. The rising price of petrol is a particular burden on low income households who live in outer suburban areas of Australia's capital cities or in provincial cities and who have very limited access to public transport. So the car is the only way of getting to work, education, health and other services.

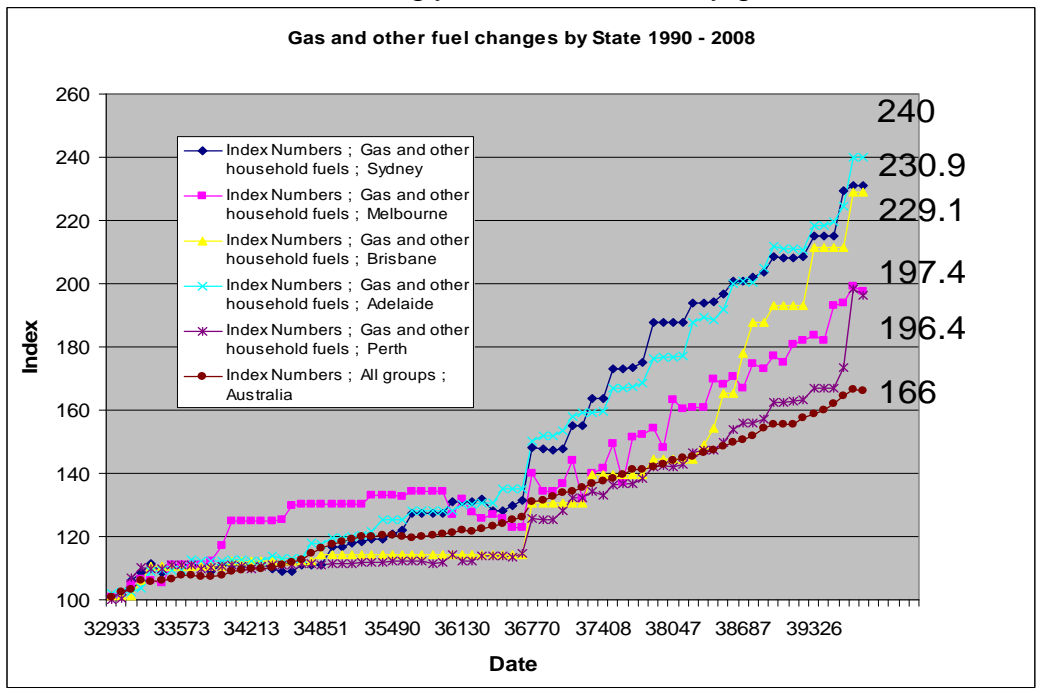
Recognising that petrol prices are likely to rise significantly over the next three to five years, in particular with global demand for fuel rising, we suggest that it is not unreasonable to conclude that the poorest quintile households will also be paying off the order of 12 – 15% of household disposable income for transport fuels.



Graph 5

Gas

As has been the case with electricity prices, gas prices have risen significantly for Australian households over the past decade, as indicated by graph 6, which plots an index for gas prices by state. While gas forms a much smaller proportion of household expenditure than electricity, there can be no doubt that rising gas prices add to 'energy stress' for a significant number of households. Gas is increasingly a fuel for electricity generation too.



Graph 6. Source: compiled by Gavin Dufty, St Vincent De Paul Society

## Pricing Carbon

Australian governments are currently considering various approaches to including the 'cost of carbon' into the costs of household goods and energy. This development, along with the increasing demand for energy internationally, is likely to double the cost of electricity for households over the next few years. Professor Ross Garnaut raises this issue in his recent interim report to the Commonwealth Government, where he wrote:

emissions...the cost of [emissions] permits... will mostly be passed through to consumers in the form of higher electricity and other energy prices... These price rises will disproportionately affect low income households, for whom the affected products make up a larger portion of expenditure and who are less able to afford investment in product with lower energy (and emissions) profiles. (Garnaut 2008a, p. 48)

... Policy instruments for returning rents collected from households could include adjustments to the social security and income tax systems, and, assistance through information or capital subsidies to support efficient household adjustment to higher energy prices. (Garnaut 2008a, p. 48)

...If governments were to decide to assist households for the impact of this on their disposable income, assistance could be provided through the tax and welfare system or by assistance to household's adjustment to greater efficiency in energy use, or through support for new technologies to reduce dependence on emissions-intensive goods and services. (Garnaut 2008b, p. 18)

Quoted from: GARNAUT, Ross (2008a) Garnaut Climate Change Review : Interim Report To The Commonwealth, State And Territory Governments Of Australia, February 2008

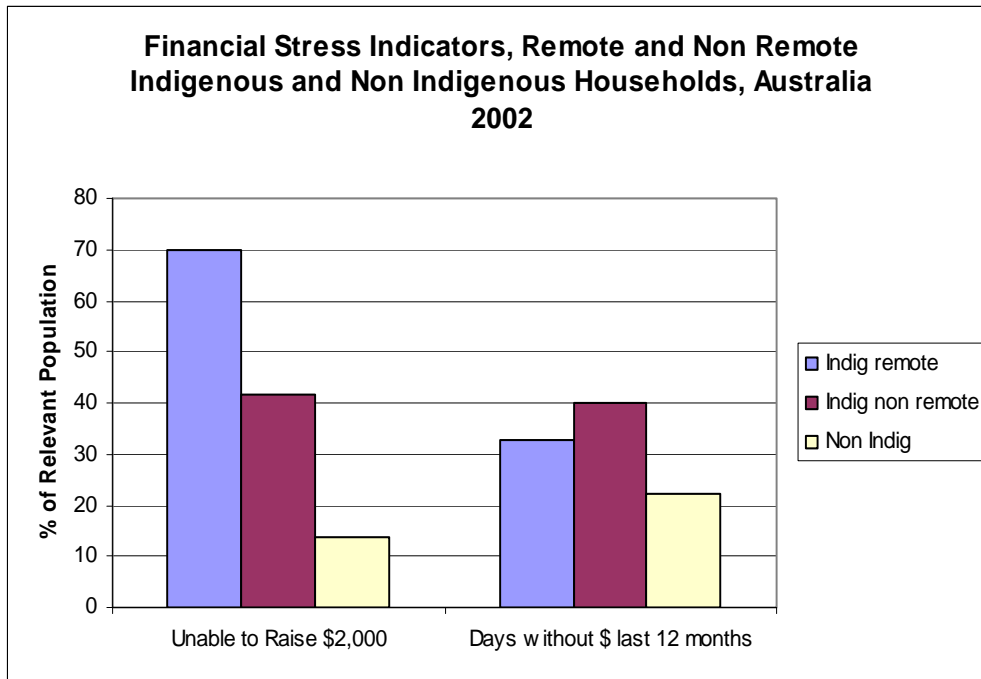
## Aboriginal Communities

Financial stress levels are higher for indigenous communities, and a half or non-indigenous communities, as shown in Graph 7. Aboriginal households are more likely to face problems in paying for energy bills than other households.

Financial stress rates are highest in remote indigenous communities, where energy costs are significantly higher than for capital cities. We note that the South Australian government has committed funds to improve electricity supply for Anangu communities in the APY lands of South Australia. However, in a recent visit to the APY lands, March 2009, by UnitingCare Wesley Adelaide staff, the price of diesel at Amata, was \$2.20 per litre when at the same time, the price of diesel in Port Augusta was \$1.16 per litre, and \$1.53 in Marla.

Remote indigenous communities are already severely disadvantaged in the prices paid for essential goods and services. Current and future policies

simply cannot assume that prices and market structures that apply in capital cities, also apply to remote Australia.



Graph 7

### Conclusions from Issue 1

Energy costs are dramatically higher, as a proportion of household income, for lower income households, while 15% of Australian households are unable to pay energy bills on time, due to financial stress.

We are concerned that rising utility costs will mean that low income households potentially will be paying as much for utilities as for housing costs within five years, with combined housing and utility costs quite possibly accounting for over 50% of household income.

### Implications for Australia's Energy White Paper

In considering any aspect of policy relating to an essential service, specifically energy, consideration must be given to find a balance between three broad parameters:

- market considerations, including adequacy of supply
- social considerations, including affordability
- ecological considerations, specifically carbon emissions for current considerations.

Further, locational considerations must be borne in mind when setting future energy policies. Many people living in rural and remote locations, where they have access to energy services, confront monopoly providers who are able to extract substantial monopolistic profits.

Failure to adequately consider each of these three elements, the triple bottomline, will result in public policy failure and failure to meet the long-term benefits for Australian citizens.

We note that there is a view that says that enabling affordability for low income people can be achieved through concessions and special purpose payments. However this approach is very limited, in practice, because concessions are a part of the budgetary mix, for governments, and invariably are rated as a lower priority than other more politicised expenditure bids that occur with any budget. Concessions are also rarely indexed, so they are invariably both inadequate, particularly for the most disadvantaged households and they fail to keep up with rising energy costs. We therefore believe that, while concessions are part of the response to affordability for essential services, this crucial issue must be considered as a component of all aspects of the policy considerations associated with energy policy.

### **Issue 2: Rising energy costs for community service provision**

Energy costs are also significant for a number of community services, particularly aged care and some services for people with disabilities. Energy policy also needs to take into account the impact of rising energy costs on the essential health and community services sector.

### **Issue 3: Renewable energy**

The discussion paper draws considerable attention to future energy production from high carbon sources, specifically coal, petroleum-based motor fuels and gas. We recognise that gas produces lower emissions than coal. We consider that both shorter and longer-term energy provision must focus on cost effective, renewable energy sources.

We are also persuaded by the argument that says that renewable energy is not just of benefit to the planet, but it is likely to be a serious engine of economic growth. The following extract is from “the Economist” magazine June 21<sup>st</sup> - 28<sup>th</sup> 2008.

*“Wind power is taking on natural gas, which has risen in price in sympathy with oil per wind is closing in on the price of coal, as well....*

*As these alternative start to roll out in earnest, their rise, optimists hope, will become inexorable. Economies of scale will develop and armies of engineers will tweak them to make them better and cheaper still. Some, indeed, think alternative energy will be the basis of a boom bigger than information technology.*

*Whether that boom will happen quickly enough to stop the concentration of carbon dioxide in the atmosphere reaching dangerous levels is moot. Without alternative energy sources such a rise is certain. The best thing that rich-world governments can do is to encourage the alternatives by taxing carbon (knowing that places like China and India will not) and removing subsidies that favour fossil*

*fuels. Competition should do the rest - for the fledgling firms of the alternative energy industry are in competition with each other as much as they are with the incumbent fossil fuel companies. Let a hundred flowers bloom. When they have, China too, may find it likes the look of. Therein lies the best hope for the energy business per and planet.”*

Applying these views to Australia's longer-term energy future means investing in renewable energy now, for longer term environmental, economic and social benefit.

#### **Issue 4: Community and Consumer Engagement**

UnitingCare Wesley Adelaide recognises the importance of the development of an Energy White Paper and in particular the long-term perspectives that are being taken.

We are also concerned that energy costs are likely to be a factor contributing to increasing levels of poverty and income disadvantage to Australian citizens in the foreseeable future.

At the same time, energy markets and associated public policies are complex.

It is imperative that the Energy White Paper process actively seeks input from consumer perspectives including perspectives of lower income households who almost certainly will be the people most adversely affected by future energy price changes.

We therefore encourage the Energy White Paper process to actively seek public input into the crucial questions associated with developing the White Paper. This should occur through:

- well advertised public forums in capital cities as well as regional and remote locations,
- capacity for direct consumer input, for example through website surveys
- supporting the capacity for consumer organisations to participate in key debates.

Questions or further comment related to this submission should be forwarded to:

Mark HENLEY B Ec, JP  
Manager Advocacy and Communications; UnitingCare Wesley Adelaide  
**EMAIL: [Mark.Henley@ucwesleyadelaide.org.au](mailto:Mark.Henley@ucwesleyadelaide.org.au)**  
Phone (08) 8202 5135  
Mobile 0404 067 011  
Ph (h) (08) 8370 1112  
Fax (08) 8202 5842

## **Charter of Principles for Energy Supply**

(As developed by the National Energy Consumers Roundtable)

Energy supply should be:

### **SUSTAINABLE**

Sustainability - Energy supplies should be derived from a secure mix of sources, including renewable energy sources. Energy should be produced, distributed and consumed in an efficient manner so that energy demand is minimised and energy supply provides beneficial social and environmental outcomes.

### **ACCESSIBLE**

Equity - Energy services should be provided to all people equitably so that pricing and service standards do not discriminate against people according to their geographic location.

### **AFFORDABLE**

Affordability - Energy should be affordable for all consumers. Energy supply should not be denied to any consumer on the basis of financial hardship or other circumstances of vulnerability.

### **APPROPRIATE**

- Quality - Energy supply should be of a high-quality appropriate to the intended purpose at its point of consumption.
- Safety - Energy consumers should be protected from any dangers in the provision of energy services.
- Reliability - Energy supply should be reliable and aim to ensure an uninterrupted delivery of supply, as far as practicably possible

### **ACCOUNTABLE**

- Respect - Energy services should be delivered in a way that respects all consumers and their diversity of needs and capacity to participate in an energy market.
- Information - Energy consumers should have access to information about energy services that empowers them to make informed choices and to negotiate their interests with service providers.
- Rights - Energy consumers have rights to use energy for ensuring adequate standards of living and social participation. These rights are recognised in international human rights standards.
- Privacy - Information about consumers held by service providers should be treated with care and shared only with prior permission.
- Redress - Energy consumers should have access to free, fair and independent services for complaints resolution.
- Representation - Energy consumers ought to be supported to have their interests represented and be able to participate in consultation and decision-making processes.

## Appendix 2

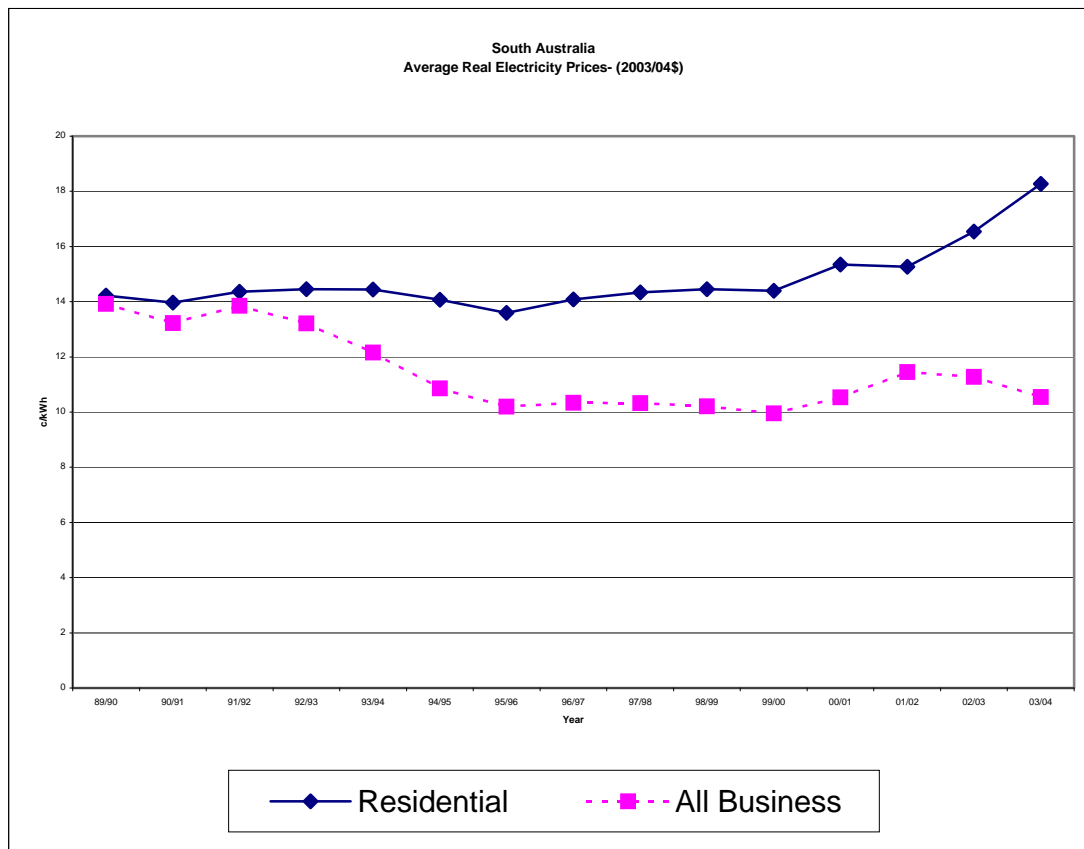
### Impacts of Electricity FRC on Households in SA

(Taken from UnitingCare Wesley Adelaide Submission to AEMC review of Effectiveness of Retail Competition in South Australia)

In considering the effectiveness of competition in South Australian energy markets, it is important to reflect on the introduction of Full Retail Contestability (FRC) and to learn lessons from that experience. Most of this appendix is based on a paper prepared by UnitingCare Wesley in 2004.

The introduction of FRC for electricity in South Australia led to a significant rise in prices for households with domestic energy bills, rising by between 25% and 30%. These price rises were exacerbated by high levels of ancillary fees and charges (disconnection and reconnection fees, meter reading fees, late payment fees, etc) and for bills for some customers being sent out late so that customers were being billed for four or even five months instead of the usual quarterly bill. The 2002-07 Price Path consideration dealt with these issues and we know that the greatest impact of these price shocks have passed, though low income people coming to UnitingCare Wesley services still report considerable pressure in paying electricity bills.

The following graph, taken from ESCOSA data demonstrates the significant price rise for residential customers resulting from the introduction of FRC.



**South Australian consumers were assured by government and industry that the introduction of FRC into South Australian energy markets, starting with electricity, would produce more efficient markets resulting in cheaper electricity bills.**

**Instead, there was an increase in electricity bills of over 25% for average residential customers. FRC was a disaster for SA residential consumers!**

In analysing trends in domestic utilities prices in South Australia from July 2000 July 2004, consulting firm Deloitte Touche Tohmatsu reported the following:

*“the fixed Supply access charge for domestic light and Power has increased by **32.4%** since July 2000, the largest increase was in July 2003 (25.4%)*

*And off-peak controlled low Supply access charge has increased by **93.1%** over the five-year period with a significant increase occurring in July 2003 (144.4%). The Supply charge then decreased the following year by 23.1%*

*A number of miscellaneous charges have also increased since July 2000:*

- *the standard application fee has increased by **37.5%***
- *the connection fee for new customer connections was free until 2002 the fee was reintroduced in July 2003 and increased by **7.2%** in July 2004*
- *the after hours connection fee has increased **348.1%** in the five-year period*
- *a special meter reading charge has increased by **40.4%***
- *the combined disconnection and reconnection fee (business hours) associated with non-payment has increased by **38.7%***
- *delayed payment fee has increased **139.8%** in the five-year period*
- *the increase in the meter testing for single phase and double phase increased by **89.6% and 47.9%** respectively.”*

We have added the emphasis to the percentage increases above, to highlight that not only did increasing competition increase prices for each kilowatt hour of electricity used, retailers took the opportunity to dramatically increase ancillary charges, a majority of which we believe were levied to low income households – the very households struggling most to cope with the increased supply charges.

Another significant change was the reduction in average real prices for business, while prices for residential customers have increased. This is a significant development and is one of the planned outcomes from the application of competition policy to the energy market.

**Impact of High Prices (From FRC) for Lower Income Households:**

Research by Professor Richardson and Peter Travers from the National Institute of Labour Studies showed that 58.7% of the bottom half of South Australia's income distribution are households spending 4% or more of their disposable income on power. About 4.7% of all SA households spent 9% or more of their disposable income on energy, this included the poorest households in the State.

Five per cent of the lowest quintile of households reported being unable to heat their home due to financial stress, this is double the rate for the rest of Australia and was taken for the General Social Survey 2002.

Their analysis was based on the ABS household expenditure survey completed in 1998-9, and while this was the most recent data set, the figures predated the significant increases in domestic electricity charges associated with FRC.

A couple of attempts were made during 2004 to assess the impacts of rising electricity prices on low income households:

- Powering Poverty, by Western Region Energy Action Group
- Survey of Financial counselling clients by David Horton, for UnitingCare Wesley

Powering Poverty was a study based on a 12 in-depth interviews with low income households that was conducted during late 2003. Key findings included:

- on average, participants increased their expenditure on electricity from 2000 to 2003 five \$312 60. In this. Electricity costs increased by an average of 43.16%
- average household expenditure for the participants was 6% of total household income, but this. Significantly
- all participants reported that they could not afford to heat or cool their home to a comfortable level
- 5 of the 12 participants reported that they went without meals due to shortage of money.

Student, David Horton and UnitingCare Wesley Financial Counsellors surveyed 30 financial counselling clients during July / August 2004. Key findings included:

- 83% reported that high electricity prices are having an adverse impact on their finances
- 77% of those surveyed had electricity bills that are considered to be low, that is less than \$350 a quarter
- in response to the question "what of the following items have you reduce spending on due to electricity Price increases?" - responses included:

Food	50%
Clothing	87%

Holidays	83%
Movies	80%
Sport and culture	80%
Telephone	53%

We also note that a vast majority of low income households pay utility bills and rent as their priorities, ahead of food and medications. So for some low income households, paying utility bills means hunger.

These surveys reinforced observations from welfare and community service organisations that rising energy costs in particular, and rising utility charges in general, had a significant impact on low income and vulnerable households. UnitingCare Wesley said in 2004 “that before further moves are made to change energy markets, there needs to be much better understanding of the impacts of the significant recent changes that have been made to the structure of energy markets. For example policymakers and the broader community need a much better understanding of fuel driven poverty.”

While the worst of the FRC led electricity price rise crisis has passed, and we recognise that regulation (through ESCOSA distribution price determination) has reduced real prices for residential customers for electricity over the last couple of years, compared to where they would otherwise have been; we are still concerned that a significant number of low income South Australian households struggle to be able to afford the essential service of electricity.

The higher numbers of households struggling to pay electricity bills now suggests that energy stress levels are growing in the SA community.

## **TRUST**

We recognise that competition was imposed on the South Australian market, through FRC, but this does not mean that consumers were necessarily supportive of the approach or trusted the market.

The Australian Survey on Social Attitudes, (AuSSA), in its first survey in 2003 asked respondents about their preferred ownership of major services. The results for the electricity market were:

- 60% of respondents preferred public ownership,
- 31% preferred a mix of public and private ownership
- 6% favoured a totally private market and
- 4% couldn't choose.

We are not aware of any subsequent surveys of preferred ownership for energy provision.

We raise this issue of trust, not out of some myopic view that all was great when energy supply was a government responsibility. Rather we wish to highlight the experience of a large number of SA consumers that an increased level of marketisation of the electricity market has failed to deliver the promised outcomes, particularly cheaper prices. (We also recognise that

such 'promises' were political rather than market based and were not necessarily appropriate at the time.) This does not alter the fact that residential consumers were expecting some reduction in electricity prices from FRC and in reality were confronted with major increases and disorganised retailers, creating considerable financial stress.

We opine that these factors combined to reduce levels of consumer trust in the electricity market and in the retailers in particular. Retailers are the 'visible face' of the electricity market for residential customers. We also suggest that historically the two state owned energy companies, the Electricity Trust of South Australia (ETSA) and the South Australian gas Company (SAGasCo), were very well regarded members of the South Australian community. These companies were highly regarded and trusted implicitly by South Australians.

We recognise that there have been major cultural and attitudinal shifts over the last 2-3 decades. We also recognise that for energy markets, and the rest of the economy, there is no going back.

However, we are satisfied that in considering the question of effectiveness of competition in SA energy markets, the question of trust of the markets and energy companies is a question that warrants consideration. If there is not widespread trust by customers in the market, then there is market failure. If there is market failure, the market cannot operate effectively and so there is not effective competition.