ON THE WIRE

May 2011, edition 27.

Editorial - NECF Transitional Issues

Australian energy consumers face an uncertain period ahead. Energy prices are rising, smart technologies are advancing, and the overall market structure is evolving with an increasing focus on renewable energies and a carbon price.

Increasingly, consumers will require a level of protection that addresses the inherent power imbalances in the energy market and which are further exacerbated by local market variations. In Victoria for example, the perception of competition, price deregulation and the roll out of smart meters are highly topical.

To ensure their consumers are not worse off under the national laws however, governments will need to ensure the laws continue to meet the needs of consumers in their jurisdiction. In addition to the content of the National Energy Customer Framework, there will need to be obligations placed on retail and distribution businesses to deliver these protections. Again in Victoria, key issues will be around the wrongful disconnection payment and voltage variation, the ban on late payment fees and prepayment meters and specific smart meter protections

These factors combine to represent a derogation from the national energy laws, plus additional responsibilities for the businesses - and also for the regulator. The result will be a complex and multi layered environment of compliance and enforcement. One question is still remains and that is who will enforce these derogations changes. There are several contenders: the tried and tested, jurisdictional regulators, who are most likely in the process of winding down their energy focus. Another option will be the Australian Energy Regulator, which is currently undergoing considerable change as it stands to inherit responsibility for an entire retail function, complete with new laws and real live consumers. How it can handle piecemeal jurisdictional derogations is a tantalising question.

No matter what the government's decision, it's clear the complexity of issues to be considered will require a strong focus on maintaining consumer protections. This will only be achieved by providing full support and direction to the regulator who will be ultimately entrusted with the role. It will be essential that the chosen regulator can effectively fulfil its role in the energy sector by sending clear signals to energy businesses while, simultaneously making sure consumers are adequately prioritised and protected.

We welcome feedback on the information provided in *On the Wire*. Further, we encourage you to forward the newsletter throughout your networks. Production of *On the Wire* is funded by the Consumer Advocacy Panel. To subscribe to *On the Wire*, please email info@consumeraction.org.au with the words

"Subscribe to On the Wire" in the subject line. The next edition of *On the Wire* is scheduled for release at the end of June 2011.

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1. Regulatory developments

1.1 Ministerial Council on Energy

The Ministerial Council on Energy (**MCE**) met for the 24th time on Friday 10 December 2010, in Brisbane. A copy of the meeting communiqué can be found here. The next meeting will be held on Friday 10 June 2011 in the form of the new Standing Council on Energy and Resources.

With a full agenda the MCE still managed to get through a range of issues, including agreeing to:

- The **Intergovernmental Agreement (IGA) on Energy Supply Industry Safety** to enhance public and energy industry safety and the subsequent establishment of an Energy Supply Industry Safety Committee, to implement a harmonised energy safety framework; and

- Improve **energy efficiency standards for air conditioners** from October 2011, which will improve air conditioner energy efficiency by more than 10 percent on average. The new standards will now also apply to multi split air conditioners.

Ministers also welcomed the passage of the **National Energy Customer Framework** legislation package through the lower house in South Australian Parliament, agreeing to work towards a target commencement date of 1 July 2012 and on other matters, the Ministers noted the MCE's continuing role in develop and delivering energy efficiency policy and implementation measures as part of the National Strategy for Energy Efficiency, including recognising the need for a harmonised approach to minimise costs on businesses and customers.

The MCE also agreed to recommend changes to the Australian Energy Market Agreement to clarify the process by which the Australian Energy Market Commission conducts **reviews of competition in retail energy markets** in jurisdictions. Linked to that was the agreement to bring the review of competition in Queensland before that of the New South Wales.

The MCE will also request the Australian Energy Market Commission to identify barriers to the efficient uptake of **electric and natural gas vehicles**.

In addition, the ministers noted the commencement of the **Short Term Trading Market** in Sydney and Adelaide on 1 September 2010 and they discussed the progress of the National Stakeholder Steering Committee in relation to **smart meters**, who are nearing completion of their mandated responsibilities.

The MCE has also released a number of Energy Market Reform Bulletins since our last edition, including:

The National Energy Customer Framework – Credit Support Settings (Bulletin 192)
The purpose of this bulletin is to provide stakeholders with information on the NECF credit support arrangements, (ie the provision of financial guarantees by retailers against outstanding network charges, that may be drawn upon by distributors in the event of a retailer defaulting on these payments).

The National Energy Customer Framework – policy and procedure for managing retailer transition (Bulletin 191)
The purpose of this Bulletin was to communicate to existing retailers and other parties a clear statement on the policies and procedures for managing the retailer transition during the NECF implementation phase. This follows the MCE SCO view that in adopting a transitional approach for 'authorisation' existing retailers (as at 12 April 2011) operating under the licensing regime of their state or territory need not apply for authorisation from the AER from scratch. The Bulletin outlines two major policy goals, as well as the processes, for managing retailer transition.

Implementation of the National Energy Customer Framework (Bulletin 190)
On 17 March 2011 the NECF Bills received the Royal Assent after passage through the South Australian Parliament unamended. This Bulletin advises arrangements that the Joint Implementation Group have been approved to provide regular updates on NECF implementation, informing stakeholders of recent and upcoming implementation activities by both national bodies and individual jurisdictions.

Smart Meter Initial Rule and Release of Standing Committee of Officials (SCO) Final Policy Response to submissions on the second exposure draft of amendments to the National Electricity Law (NEL) in relation to smart meters. (Bulletin No. 189)
This Bulletin announced that on 1 January this year, the smart meter initial Rule came into effect as Part ZF of Chapter 11 of the National Electricity Rules, supporting the *National Electricity (South Australia) (Smart Meters) Amendment Act 2009.* The Rule implements the policy decision made by the MCE in June 2008 that electricity distribution businesses should be exclusively responsible for meter provision and meter data services for the period of a mandated roll-out in a jurisdiction. The Rule also enables State and Territory Ministers to

require distribution businesses to conduct pilots of smart meters or related technology, including direct load control, or to roll-out smart meters

Release of the Response to Submissions on the Smart Meter Customer Protection and Safety Review– Draft Policy Paper One (Bulletin No. 188)
This Bulletin announces the release of MCE SCO settled policy positions in relation to smart meter customer protections and also indicates where further work is required.

Working paper number 2 is due for consultation any day now, and will include any issues not resolved in Draft Policy Paper One.

Release of study into costs and benefits of smart metering in off-grid and remote areas (Bulletin No. 186)
Following the National Smart Meter Cost Benefit Analysis, completed in 2008, this Bulletin announced the release of the final report on the *Costs and Benefits of Smart Metering in Off-Grid and Remote Areas.*

The report is based on eight case studies, believed to be representative of off-grid communities in Western Australia, Queensland and the Northern Territory, with the purpose of providing a basis for comparisons between on- and off-grid costs and benefits; and further to highlight the costs and benefits of smart meters in different types of off-grid communities, and subsequently to inform jurisdictional Minister's decisions about smarter rollouts in these areas.

Energy Bill Benchmarking Decision Regulatory Impact Statement (Bulletin No. 183)
In response to an MCE directive from 2004, the Decision RIS follows the Consultation RIS undertaken to determine the impact of requiring energy retailers to include average energy consumption data on energy bills and the ability for consumers to compare their energy consumption against an appropriate benchmark (hence bill benchmarking), and to motive those energy consumers with above average energy consumption to implement energy efficiency improvements.

The Consultation RIS determined through a cost benefit and impact analysis, that it would not be cost effective to introduce the scheme for gas, resulting in a Decision RIS focused on electricity It also found that all households will incur a cost of approximately one dollar per year, while only those households that adapted their consumption to be more energy efficient (due to bill benchmarking) will receive a direct benefit from the scheme.

The Decision RIS confirms that including bill benchmarking information on utility bills **does** result in positive behaviour changes. More information can be found here.

MCE Gag clause update

Consumer organisations currently funded by the Consumer Advocacy Panel have received a partial-reprieve from the process introduced by the Ministerial Council on Energy 1 July 2010, that required any (all) **reports and submissions** produced by Consumer Advocacy Panel funded organisations to be reviewed by the MCE "prior to its public release in any form".

This process placed pressure on resource constrained organisations attempting to participate in multiple consultation processes across both federal and state jurisdictions, including those of governments and regulators. Submissions were often delayed, resulting in their value being reduced and undermining the effectiveness of the advocacy role of funded organisations.

The MCE recently has amended this clause making it no longer applicable to submissions, however it has retained the obligation on Consumer Advocacy Panel funded reports; and introduced a peer review process for these.

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1.2 Smart meters

National Smart Meter Program

The National Smart Meter Program has all but completed its second phase following the previously completed initial Cost Benefit Analysis. The National Stakeholder Steering Committee, along with its several working groups has almost delivered to its terms of reference and is due to wrap up.

With additional steps to be taken up by the MCE, AEMC and AEMO the next phase of the process will be significant. Key policy decisions and principles will need to come from the MCE that seek to identify and address implementation issues, taking into consideration lessons from the current rollout in Victoria. A strong governance framework will need to take priority. The additional failure to deliver a comprehensive smart meter consumer protection arrangement so far does not bode well for consumers, however as a start, the SCO response to the smart meter Working Paper No. 1 (Draft Policy Paper One) has recently been released and is due to be followed by Working Paper No. 2.

Decisions in Draft Policy Paper One included:

Distributional impacts of time-related pricing

In its draft decision SCO did not propose any smart-meter-related changes to the draft hardship provisions in the NECF First Exposure Draft, in its final decision it has recognised the complex distributional impacts of TOU pricing and notes that they will be further investigated in Draft Policy Paper Two. SCO has also noted a number of areas where work is being done in relation to potential areas of hardship, for example, with the Essential Services Commission Victoria (ESCV) and the Australian Energy Regulator (AER).

Bill reconciliation

In its draft decision, SCO proposed that all customers with smart meters should be able to check that their meter is working correctly, and reconcile their bills against their meter with a reasonable degree of certainty. The final decision notes work that the ESCV have undertaken in relation to information on retail bills. Where a meter may be faulty, the SCO considers existing arrangements in the National Electricity Rules to be sufficient, these entitle the responsible person to charge for a meter test up front, and then refund this charge where a meter is found to be faulty.

Presentation of consumption information

SCO's final decision in relation to the presentation of consumption information was consistent with its draft decision, which proposed that retailers provide customers with consumption data for each tariff segment (e.g. peak, off-peak, shoulder) on their bill to enable them to reconcile their bill charges.

Estimations and substitutions

In addition to its draft decision where SCO proposed that retailers be required to inform customers with smart meters of the scope of any estimation on their bill, SCO now also recommends retailers show the scope of substitutions, however they recommend retailers may display this in any form possible. Further work on this, including whether there is a need for thresholds, ie the level of substitution/estimation, is to be further investigated in the development of Draft Policy Paper Two.

Treatment of missing data in a Dynamic Peak Pricing (DPP) event

In its draft decision SCO proposed, in situations where meter data is permanently lost in a DPP event, that substitutions not be based on historical data. SCO proposed that, if a suitable alternative methodology was not available, customers should be charged for estimated electricity consumed at a non-DPP price. On the basis that retailers did not support this decision, SCO will include a final policy position on this in Draft Policy Paper 2.

Overcharging and undercharging

In its draft decision, SCO did not propose any smart meter related changes to overcharging or undercharging provisions in the draft NECF. In its final decision however, SCO considers the fixed timeframe set out in the NECF, nine months, to be appropriate.

Historical billing data

SCO's final decision was consistent with its draft decision which proposed that where a customer requests a copy of their historical billing data retailers must be able to provide:

- the full set of metering data on which the bill was based; and
- a summary of the meter data on which the bill was based.

Amendments to drafting were made however, and while it is SCO’s intention that it be at the customer’s discretion as to which of these levels of detail they require, the default level of information will now be a summary.
Further, SCO supports the view of retailers and distributors that the format that data is provided in should not be prescribed.

Direct load control

SCO did not propose any changes to the draft NECF to regulate direct load control, and in its final decision has referred any further work to Draft Policy Paper Two.

Supply capacity control

In its draft policy decision SCO did not propose any changes to the draft NECF to regulate involuntary use of supply capacity control to manage emergency situations. While noting the strong opposition by consumer groups to using supply capacity control as an alternative to disconnection and its prohibition from use by retailers, the SCO, in its final decision has determined that there is merit in retailers having access to this function. Consumer protections to support this will be considered in Draft Policy Paper Two.

Distributor marketing

In line with its draft decision, in its final decision SCO recommends that the National Energy Marketing Rules be extended to apply to distributors, due to the increased services and opportunity for marketing enabled by smart meters and in-home displays.

Retailer marketing through in-home displays

In recognition that broader customer protection issues exist in relation to content regulation of material provided via the HAN through an in-home display or other medium (e.g. internet), in its final decision SCO has committed to progressing these issues in cooperation with ACMA and the Privacy Commissioner following advice from the National Stakeholder Steering Committee.

Disconnection (De-energisation)notification

In its final decision SCO has determined that retailers must inform customers with smart meters that disconnection (de-energisation) of their electricity supply may occur remotely rather than manually, in all disconnection warning notices and in the model standard contract. Further recommendations include that for customers with smart meters who are experiencing payment difficulties, an additional final step should be included in the disconnection process, ie that the retailer must use best endeavours to contact the customer in person or by telephone 24 hours prior to submitting the disconnection order to the distributor where disconnection is being undertaken remotely.

Prepayment metering

SCO did not propose any changes to prepayment provisions in the draft NECF and considers that the MCE agreed policy, in which the NECF clearly stipulates that the onus is on retailers to meet the system requirements for prepayment metering, means that customer-provided enhancements would not be necessary.

Embedded generation

SCO's final decision was consistent with its draft decision, which did not propose any changes to the draft NECF in relation to de-energisation where an embedded generation system is in place.

Working Paper No. 2 is intended to take an approach which assesses possible consumer impacts relating to each smart meter service and will cover topics such as:

- Tariff transition issues;
- Direct load control;
- Supply capacity control for non-credit-management purposes;
- Information flows and privacy (including marketing through the HAN);
- Cost and benefit pass through;
- Concession regimes and Community Service Obligations (recognising that these are the responsibility of individual jurisdictions);
- Consumer education and information; and
- Consumer safety issues identified as part of the roll-out.

Consumer principles re the HAN

Consumer representatives are undergoing significant work to develop principles which will ensure consumers are sufficiently protected when the Home Area Network and Load Control functions and services are enabled on smart meters. This level of detail will be provided to the MCE and provide clear guidance on how best to manage future risk.

Victorian Smart Meters

Within its first week the government announced the expansion of the winter energy concession (of 17.5%) to a year round concession. This is a welcome initial change that will assist consumers with rising energy costs and upon their introduction, the transition to time of use pricing.

While we are still waiting for other key policy initiatives in relation to energy the Government has tasked the Victorian Department of Treasury and Finance with running another cost benefit analysis on smart meters. The moratorium of time of use tariffs is still ongoing, as is the study into impacts of time of use on consumers. Key working groups providing feedback to Government are slowly coming to life, including the policy working group and one looking into costs and benefits.

Order in Council - AMI Cost pass through - Victoria

In early 2011 the AER released its Decision in relation to the cost pass through of meter related charges under the Victorian Government's Order in Council for 2011 - 2015. The charges related to connection (re-energisation), disconnection (de-energisation), special meter reads and meter reconfiguration.

The accrued benefits to consumers of smart meters have relied heavily on significant cost savings for services such as remote re-connection (re-energisation) and remote disconnection (de-energisation). However, with the charges for these services varying from $5.13 - $6.62 per action, and remote meter reconfiguration up to $39.10 for UED customers, it appears that some of these benefits are potentially at risk.

Consumers have a right to expect that these functions be fully automated - in fact, the distribution businesses are yet to explain why these processes can not be fully automated, which begs the question, how smart is this technology we have all been paying for after all?

While the AER's decision does go some way to reducing the fees proposed by the businesses, consumer groups believe that following a transitional period over the next 12 months consumers should not be paying for a number of these services. The benefits that are to accrue to consumers from the installation of smart meters has been based upon the pass through of network efficiencies from distribution businesses to consumers. The remote and automated nature of these processes should mean that consumers benefit from efficient services provided, for the most part, at no cost.

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1.3 National Energy Customer Framework (NECF)

Following over four years of considerable input by stakeholders, including consumer representatives, the National Energy Customer Framework (NECF) was introduced into South Australian parliament in late October 2010 passing successfully through both the lower and upper houses unamended, it then received Royal Assent in March 2011. At the MCE meeting on 10 December 2010, Ministers agreed to work towards a commencement date of 1 July 2012, while still enabling some jurisdictions to adopt some of the NECF functions earlier.

Joint Implementation Group

The NECF is now in implementation mode and the former Retail Policy Working group, responsible for the development of the NECF package has morphed into the Joint Implementation Group (JIG) and commenced the process of bedding down the new law as retail rule making and regulatory responsibility is transferred from the jurisdictions to the Australian Energy Market Commission and the Australian Energy Regulator.

Late in 2010 Consumer groups wrote to the MCE urging due consideration in this process to be given to:

- Consumer education around the changes to consumer protections under the NECF;
- The integration of specific smart meter consumer protection measures;
- Relationship between NECF and the Australian Consumer Law;
- Communication strategies to consumers;
- Concession frameworks;
- The importance of ongoing enforcement of jurisdictional obligations;
- An effective consultation process that includes a stakeholder reference group to the JIG comprising consumer representatives from all jurisdictions in the NEM

Recent consideration by SCO regarding the transition to the NECF includes:

- enabling retailers with current Retailer of Last Resort (RoLR) responsibility in their jurisdiction maintaining this role as an initial default RoLR under the transitional provisions through the transition; and
- active retailers being required to have an approved Customer Hardship Policy in place for NECF commencement.

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1.4 Australian Energy Regulator (AER)

Victorian Electricity Distribution Price Review

AER Final Decision

The AER released its final distribution determination for each of the distributors on 29 October 2010. In our view, the decision did a reasonably good job of scrutinising the distributors' large and sometimes unsubstantiated claims and restraining their prices. The AER approved a relatively modest increase to Victorian consumer electricity bills of an average of around $12 per year from 2012 to 2015. Consumer Action generally supported the AER's final decision. More information on the Final Decision can be found here.

Australian Competition Tribunal challenges

Following the AER's final decision for the Victorian Distribution Price Review, all five distribution businesses appealed to the Australian Competition Tribunal, challenging the AER's distribution determinations for 2011-15, on various grounds as permitted under the National Electricity Law.

The applications of four of the five distribution business's appeals can be found by following the links below.

- Application by Jemena Gas Networks (NSW) Ltd [2010] ACompT 8 (13 October 2010)
- Application by Energex Limited (No 2) [2010] ACompT 7 (13 October 2010)

- Application by Ergon Energy Corporation Limited [2010] ACompT 6 (13 October 2010)
- Application by ETSA Utilities [2010] ACompT 5 (13 October 2010)

Jointly consumer organisations Consumer Utilities Advocacy Centre (CUAC) and the Consumer Action Law Centre (CALC) attempted to intervene in the appeal but later withdrew due to a number of insurmountable barriers. CUAC and CALC are in the process of developing a report outlining their experience and the barriers they faced.

The Tribunal hearings are scheduled in Melbourne at the end of June and early July, the two remaining interveners include the Victorian Minister for Energy and Resources Streetlight Group of Councils.

Tasmanian Electricity Distribution Price Review

The AER released its Framework and Approach paper detailing how it will commence the 2012 - 2017 review process for the next Tasmanian distribution pricing period for Aurora, Tasmania's sole distribution business. Consultation will continue following Aurora's regulatory proposal which was submitted to the AER 30 May 2011. The AER's draft determination will then be due November 2011 followed by the final decision on 30 April 2012.

More information on the AER's Tasmanian Distribution Pricing Review can be found here.

AER Retail functions

The Australian Energy Regulator continues to prepare for the potential transition to retail regulatory responsibility with a potential transition for Victoria still scheduled for mid 2011. In doing so, it undertook extensive consultation on guidelines throughout 2010, which will continue into 2011, including:

- Retail Pricing Information Guidelines
- Retailer Authorisation Guidelines
- Hardship Program Indicators
- Approach to Compliance
- Retail Market Performance Reporting
- Approach to Retail Exemptions
- National Retailer of Last Resort Scheme
- Guidance on AER approval of customer hardship policies

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1.5 Australian Energy Market Commission

Request for Advice on Cost Recovery for Mandated Smart Metering Infrastructure

On 22 December 2010, the Australian Energy Market Commission (AEMC) published its Final Report in response to the Ministerial Council on Energy’s request for advice on whether Chapter 6 of the National Electricity Rules efficiently accommodates cost recovery for smart metering infrastructure mandated by a Ministerial determination.

The AEMC has found that the existing Chapter 6 framework would adequately accommodate the recovery of the efficient costs of mandated smart metering infrastructure, subject to some incremental amendments to the Rules being made, net of any reasonably achievable network operational benefits.

In a deviation from the current Victorian Order in Council cost pass through process, the Final Decision suggests that jurisdictional Ministers should seek to align the timing of a Ministerial roll-out determination with the distribution determination process, so that expenditure for a mandated roll-out commences with the start of the next regulatory control period, as the distribution determination process provides the most effective and rigorous mechanism for the recovery of the net efficient costs of mandated smart meter roll-outs.

More information on the AEMC's Final Decision can be found here.

Stage 3 Demand Side Participation Review – Facilitating consumer choices and energy efficiency

At the end of March the MCE directed the AEMC to undertake a third review into Demand Side Participation (DSP) in the National Electricity Market. Following the previous two reviews which looked largely at the Rules, the Stage 3 DSP Review has a somewhat broader mandate to identify market and regulatory arrangements to enable the participation of both supply and demand side options in achieving an economically efficient demand/supply balance in the electricity market.

DSP has been defined by the AEMC as the demand side response (actions by energy users to reduce their demand for network-supplied energy in response to pricing signals during periods of peak demand or network stress), utilisation of distributed generation, and energy efficiency. We are concerned that the AEMC hasn't provided due consideration of the demand side of the market in understanding its drivers, and importantly, to understand in particular the ability of the demand side to interact in the market and for consumers to make decisions which are not only impacted by price, but must involve other considerations as well. The scope of the review, is however, defined by the Terms of Reference and therefore are likely to limit any real understanding of this.

Find the Terms of Reference here. Find more information on DSP3 here.

Strategic Priorities for Energy Market Development

The AEMC is conducting a consultation on its strategic priorities for its ongoing work for energy market development, with a focus on 'the most important challenges and opportunities' for energy market development in Australia.

The three strategic priorities include:

- An environment for efficient investment;
- Capturing the value of flexible demand; and
- Transmission framework to deliver efficient investment.

The discussion paper can be found here.

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2. Consumer advocacy

Every issue, *On the Wire* includes articles by other consumer and community organisations. We welcome contributions. If you would like to submit an article for the next edition of *On the Wire*, please contact us at info@consumeraction.org.au with "On the Wire" in the subject line.

The following articles are produced by organisations other than Consumer Action Law Centre and do not necessarily represent the views of Consumer Action.

2.1 *Energy Affordability Benchmark, Discussion Paper – December 2010.*
Mark Henley, Uniting Care Australia energy project

Purpose of this Paper

The Australian Energy Regulator (AER), is currently consulting on retail market performance reporting, which is one of the functions it will acquire once the National Energy Customer Framework (NECF) legislation is passed, likely to be February / March 2011.

This very short paper seeks feedback from the Uniting Care network and community service organisations about the desirability of advocating for the establishment of a National Australian Energy Affordability benchmark.

Current Situation

In the November 2010 position paper concerning retail market performance reporting, the AER indicates market reporting will come under three broad categories:

1. retail energy market structure
2. energy affordability
3. energy hardship program indicators.

The difference between energy affordability and energy hardship is important. Estimates indicate that currently somewhere between one and three electricity customers per thousand, is likely being assisted through a retailer hardship program. However, at the outset, one quarter of all energy customers struggle to pay energy bills on time. Hardship is understood to refer to people who meet a very specific set of criteria, and is a relatively small number. Difficulties with affordability however, probably affects between a quarter and third of all energy consumers, albeit to different degrees.

The AER says in its discussion paper:

> *"The AER will publish annual reports on energy affordability as part of its retail market performance reports. Each report will provide commentary on significant events and regulatory or policy decisions within the reporting year that are relevant to energy affordability and detailed study of an identified issue or area of concern.*
> *In addition, annual energy affordability reports will include consideration of energy affordability for residential and small business customers by reference to estimated annual energy charges."*

Baseline Hardship Indicators – Background

In 2002, the Essential Service Commission of South Australia, ESCoSA, commissioned a report on energy hardship measurement. One of the core recommendations was:

> *e) A Hardship* ***Baseline***
> A base line should be established, using the latest data from the Household Expenditure Survey, that shows:
>
> - the proportion of households in the bottom 10-50 % of the distribution of household disposable income that spend more than
>   **6%**
>   **8%**
>   **10%** of income on fuel.
> - The proportion of households in the bottom 10-50% of the distribution of household disposable income that , due to a shortage of money, were unable to heat their home.

The most quoted energy affordability / energy stress measure is from the United Kingdom, where a measure of 10% of income spent on keeping warm has been set as a benchmark for 'energy stress'. The focus on adequate energy for winter warmth is because of deaths that have occurred from freezing winter temperatures, and poor people unable to keep warm enough.

This 10% 0f income spent on energy as a 'fuel poverty' benchmark was used by AGL in an article in "the Australian" on 15th October: "price increases threaten to tip 343,902 households in those states (NSW and Queensland) into "fuel poverty", where they are spending about 10 per cent of their disposable income on electricity, according to the new research," (which was undertaken by AGL Chief Economist, Paul Simshauser).

Arguments For and Against an Affordability Indicator

There are many arguments both for and against the development of general, aggregate indicators for social policy purposes, these arguments apply to the idea of an energy affordability indicator, key arguments for and against include the following:

For:

A national hardship baseline indicator would enable policy targets to be set and provide context for affordability and hardship indicator development and reporting. This sort of benchmark would provide a base for the development of retailer energy hardship programs, concessions payment levels and other energy policies impacting on lower income people.

Generally agree to energy affordability benchmark would be an aid to advocacy and to broader communication concerning energy affordability issues to the general public as well as the electricity industry. A measure of "energy stress" / "energy hardship", whichever term is used, would also enable energy issues to be considered in combination with other issues following come households including "housing stress."

Creation of an energy affordability benchmark is also likely to improve data collection by ABS, energy regulator's and businesses which also helps to provide a better evidence base for future policy decisions.

Against:

It is easy to become distracted by debates about what the best measure of energy affordability should be, so losing sight of the intent of an indicator. The history of poverty line measures in Australia provides a salutary case in point; over 35 years since the Henderson poverty inquiry and there are arguably more 'poverty line' measures than ever before, and fierce academic debates about the purest measure, meanwhile growing numbers of people experience poverty.

Second argument against an aggregate affordability indicator, is that any aggregate / population wide measure is unable to reflect different experiences of different groups of people. Different household types in different locations have different energy means and therefore, arguably, a range of affordability indicators are needed to.

If an Affordability Indicator, What Should it be?

There would be some rationale for aligning an Australian energy affordability measure with the United Kingdom's fuel poverty target of no more than 10% of household income being spent on energy (heating in the UK case).

The Australian bureau of statistics household expenditure survey was conducted every six to seven years and is the most thorough review of household spending patterns, the last three HES surveys showed that electricity spending for the poorest 20 per cent of households was about 8% of household income (about 1% for highest income households). The last published HES survey was conducted in 2003, before many of the more recent changes in energy policy and in electricity prices, perhaps suggesting that 8% of household income spent electricity would be a good benchmark for electricity affordability.

Some financial counsellors suggest that perhaps nearer 6% of money being spent on energy flowing come households is more reasonable, particularly given that about 80% of households spend less, or considerably less than the proportion of their income on electricity.

Questions for Comment

1. Should community organisations advocate for establishing an Australian energy affordability measure?
2. Reasons for your answer to question one
3. If an energy affordability benchmark was to be established, what would be a reasonable energy affordability benchmark?

Please direct responses to

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2.2 *Post election challenge on energy bills for the new Victorian Government*, Janine Rayner, Consumer Action Law Centre

Voters grappling with increasingly unaffordable rises in the cost of living sent a clear message during the recent Victorian election, with many deciding to switch off from Labor as resoundingly as they have been switching off their lights due to skyrocketing energy bills.

It's a message the new Baillieu Government has heard loud and clear. One of its first policy announcements was a doubling of winter energy concessions for card holders. It is undoubtedly a step in the right direction but it won't reach everyone who needs help, at a time when it's no longer just the poorest who struggle to afford their energy bills.

The real challenge now lies in developing clear energy policies that put the Victorian consumer first. For this to happen, the new Government must get a quick handle on the pressures driving energy costs upwards and put in place a plan to tackle all the issues that are within their control.

An obvious first step must be to commit to protecting and improving Victoria's current energy consumer laws, so that all Victorians have guaranteed access to important rights such as fair billing procedures, payment plans to smooth big bills over longer periods, protection from bad marketing conduct and access to hardship programs if they find themselves in deeper financial difficulty. Victoria's laws will soon be replaced by new national laws that are not as strong so the new Government must commit to plugging the gaps.

Secondly, Victorians have been told that they can save money by going out into the competitive energy market and finding a better – read cheaper – deal. However, this ignores the reality that to find and switch to a better deal, consumers need to be able to easily find clear information about different energy plans that can then be taken and compared with other deals.

At the moment it is almost impossible to shop around and find out what energy prices are offered by different retailers under different plans. Like with mobile phones or bank accounts, it is simply too hard for consumers to choose and to switch. Instead, we have seen increasingly aggressive door-to-door campaigns by energy retailers in Victoria, marketing complicated deals and giving consumers on their front door step no time to consider these deals or compare them with other options.

A third step would be to tackle the problems with the smart meter rollout. Here, Victorians should be getting the right information from their governments about the complex factors driving higher energy prices.

For example, more people using energy intense appliances like air-conditioners at peak times of demand for electricity (like the afternoon of a hot summer day) is contributing to rising prices, because this means our electricity distribution network needs to be bigger to cope with higher peaks, and the distribution businesses are passing on to us the costs of providing this increased capacity to cope with that peak demand.

The introduction of smart meters and tariffs (prices) that change at different times of the day could help some consumers to better understand how they use electricity and change their behaviour where possible. However, for this to work, the Government will have to step up and start educating consumers on how to get the most out of their new smart meters – something the previous Government consistently refused to do, despite the smart meter rollout having now been well underway for more than a year.

Unfortunately, not everyone will be able to change what they do in response to smart meters and prices, even if they'd like to – people at home during the day like families with children, pensioners and the unemployed – and they could be hit hard by higher daytime prices. Also, some low income households are now using as little energy as possible at all times of the day and night, but are still spending a far greater proportion of their income on it. For these homes, there is simply nothing left to switch off, which is where the new Government's concessions promise is welcome and more work should be done to ensure a basic safety net.

2.3 *Making electricity affordable: a four point plan,* Kath McLean, Tasmanian Council of Social Service

In November 2010, TasCOSS and Anglicare Tasmania launched a joint advocacy document - *Making electricity affordable: a four point plan* – as part of a campaign to encourage the Tasmanian Government to intervene with policies to increase the affordability of household electricity and to ease the burden on low income households.

Tasmanian electricity prices have increased by nearly 40% since 2008 with further increases to come in the next two years. Low income households are struggling to keep up with the costs as emergency relief providers report people presenting for assistance with quarterly bills in excess of $1,000, as well as with escalating debts.

Times are certainly hard for many households in Tasmania, with electricity costs becoming an increasing problem.

TasCOSS and Anglicare Tasmania have called on the State Government to implement the following elements of a four point plan to make electricity more affordable.

1. **Work with Aurora Energy to introduce a 'lifeline tariff' to ensure affordable prices for all**
   A 'lifeline tariff' is comprised of inclining blocks with a first 'lifeline' or 'human right' tariff at very low cost with subsequent blocks inclining in price as usage increases. Under a 'lifeline tariff' fixed costs are kept relatively low and full cost recovery is loaded in the higher tariff blocks.
   A 'lifeline tariff' structure not only makes electricity more affordable, but also encourages households to use less when they are able, to avoid the higher costs tariff blocks.

2. **Redesign the electricity concession**
   Currently an electricity concession is provided year-round to those with Pensioner Concession Cards and Health Care Cards at a flat rate of $1.00 per day (it was increased by 8.8% on December 1, 2010 in line with the price rise on the same day), regardless of the household size.
   We recommend introducing a two-part concession with a flat rate concession applied to the fixed daily charge and a capped percentage rate concession for consumption above the 'lifeline tariff' block.
   This would ensure that those who need to use more electricity receive an adequate concession.

3. **Invest in energy efficiency retro-fitting & support programs for low income households**
   Tasmania has the oldest housing stock in the country and the highest proportion of timber houses. We also have some of the coolest average temperatures. There is an urgent need for major retro-fitting and support programs to be introduced in the State.
   Most state governments fund such programs and we call on the Tasmanian Government to fund programs to increase the thermal efficiency of housing stock.
   The *Four point plan* proposes an initial program that will retro-fit 7000 dwellings over 18 months and make an enormous difference to the lives of some of the most vulnerable and disadvantaged households.

4. **More emergency relief funds for those households in crisis now**
   Electricity bills for the winter months have now arrived and many Tasmanian households are struggling to pay them and to keep up with other demands on the household budget.
   We call on the State Government to immediately allocate $1 million to community sector emergency relief providers to help households experiencing hardship.

For further information on the *Making electricity affordable: a four point plan* or to obtain a copy, contact Kath McLean at TasCOSS (kath@tascoss.org.au) or Kathleen Flanagan at Anglicare Tasmania (K.Flanagan@anglicare-tas.org.au).

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