Winners and Losers: the impact of energy concession caps on low-income Victorians

A report prepared for the Consumer Action Law Centre and the Victorian Council of Social Service by May Mauseth Johnston

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consumer action law centre

VCOSS Victorian Council of Social Service

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May Mauseth Johnston, September 2013

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Contents

List of charts

List of tables

Executive Summary

Concessions form the basis of a safety net to those consumers in the energy market who, for various reasons, are unable to afford the full price of energy. They are particularly important as at times they can be the main factor keeping people on supply.

In its 2013–14 budget, the Victorian Government announced it would be capping the Annual Electricity Concession and Winter Gas Concession and introducing an Excess Energy Concession, for concession payments above the cap which households could claim via an additional application process if they were not using energy fraudulently. The Victorian Council of Social Service (VCOSS) and the Consumer Action Law Centre (Consumer Action) conceived of this research to understand the implications of these changes, the potential impacts on Victorian consumers, and what alternative approaches may more effectively meet the objectives of the changes.

We therefore secured funding from the Consumer Utilities Advocacy Centre's (CUAC) grants program to undertake this project and commissioned Alviss Consulting to produce the analysis presented in this report.

The analysis identified several issues with the proposed concession changes. In addition to being concerned about energy affordability for low-income Victorians after several years of significant price increases, we are also concerned about the design of the Excess Energy Concession for the following five reasons:

1. It creates winners and losers

As there are the significant differences between the tariffs and tariff structures in the various electricity network areas and gas zones, a household in one area will exceed the cap while one with the same level of consumption in another area will not. By introducing a concession cap based on dollar value, the Victorian Government has effectively chosen winners and losers based on their geographic location.

2. It introduces new barriers to access

Having a separate application process raises the risk that some households that are entitled to the Excess Electricity Concession will miss out because of system errors, low literacy, application form mistakes, not understanding what they need to do, or simply not applying due to feeling overwhelmed by a complex process. As there is already a problem with people not applying for concessions for which they are eligible, what is needed is a smoother process, not a more difficult one.

3. There are market barriers to customers' ability to access maximum concessions

Concession card households that reach the annual concession threshold may have been eligible for ongoing assistance had they been with a different retailer or on a

different retail product instead. In our view, this creates a significant challenge for the Government in ensuring that concession recipients are on the best offer available to them.

4. The Government's capacity to promptly adjust the cap is limited

We are deeply concerned about the Government's capacity to promptly and adequately adjust the cap to reflect future price increases in the deregulated retail market. Failing to do so will lead to an increasing number of households being affected by the cap over time.

5. It creates consumer confusion

We believe the introduction of a concession cap on the eve of the launch of TOU pricing in Victoria is a move that can cause consumer confusion and potential detriment. Concession recipients, like other households, may benefit from moving to a TOU tariff, however the 'newness' and unfamiliarity of the tariff type combined with the existence of a concession cap, may deter concession recipients from exploring new tariff options. The analysis found that for high consumption households in one network area, a difference of 10% between off-peak and shoulder consumption would be enough to determine whether a household reaches the cap or not.

We therefore call upon the Victorian Government to:

- Immediately review the decision to introduce an energy concession cap
- Use a usage threshold, not a dollar threshold, for any policy that targets households with high energy usage
- Use energy efficiency-based measures if seeking to reduce the concessions budget impact of high energy usage, rather than measures that will decrease energy affordability among low income households.

1. Introduction

1.1 Current concession arrangements

The main Victorian energy concessions are currently percentage based and do not include a threshold for maximum assistance that can be received. Table 1 below provides an overview of the energy concessions currently available to Victorians.

Table 1: Victorian Energy Concessions

	Description	**Value**
Annual Electricity Concession (AEC)	All year discount on electricity bills	17.5% off electricity bills*
Winter Energy Concession (WEC)	Discount on gas bills during the 6 winter months (1 May – 31 October)	17.5% off gas bills*
Controlled load Electricity Concession	All year discount on off-peak (controlled load) electricity consumption	13% off controlled load off-peak consumption
Service to Property Concession	Applied if the cost of electricity used is less than the supply charge	Reduces the supply charge to the same amount as the cost of electricity over the billing period
Electricity Transfer Fee Waiver	The fee charged by electricity retailers when customers move homes is waived	The value of the fee
Life Support Concession	Provides a discount on electricity bills where a member of the household uses an eligible life support machine	The discount is equal to the cost of using 1,880kWh per annum
Medical Cooling Concession	Additional discount on electricity summer bills (from 1 November to 30 April) where a member of the household has a medical condition that affects the body's ability to regulate temperature	17.5% off electricity bills (in addition to the AEC)
Non-Mains Energy Concession	Discount for households who rely on liquefied petroleum gas (LPG), firewood or oil for heating, cooking or	Up to $484 per annum^

	hot water. It also applies to households relying on a generator or those who access non-mains electricity through an embedded network.	

*** On July 2012 a threshold for the electricity and gas concessions was introduced to offset the Federal Government's carbon tax compensation. The AEC is not applied to the first $171.60 of a household's annual electricity bill and the WEC is not applied to the first $62.40 of a household's winter gas bill.**

^ As of July 2013

To qualify for any of the energy concessions listed in Table 1 above, the customer must hold a Commonwealth Pensioner Concession Card (CPCC), a Health Care Card (HCC) or a Department of Veteran's Affairs gold card (DVA Gold Card).

1.2 The proposed changes

The Victorian Government announced changes to the Victorian energy concession arrangements in the 2013-14 budget. The budget papers stated:

> "The Government is reforming concessions to ensure they are better targeted to those most in need of assistance and to address fraud and misuse.
>
> The Government will introduce a maximum to the amount of concessions automatically provided on gas and electricity bills. The new trigger point will apply to bills that are above $2,763 for annual electricity bills and above $1,462 for gas bills (over six months) which are approximately double the average family electricity and gas bills. There will be no changes to other energy concessions with the Life Support and Medical Cooling concessions for people with high medical needs, and the Off Peak concessions remaining unchanged.
>
> Concession households will be provided with education materials to help reduce their power bills."[1]

[1] Victorian budget 2013-14, *Budget paper No. 3, Service Delivery*, p 63

On the 8th of August 2013 the Government gazetted the details of the changes that will take effect on 1 December 2013.[2] The gazette stipulates that an eligible person is entitled to a maximum of $412.36 of annual electricity concession in each annual period and that the concession is calculated as:[3]

$$A = 17.5\% \times [(B - C) - (D \times 0.0823)]$$

Where:

A is the amount of the concession ($)
B is the electricity charge payable (exc GST)
C is any discounts applied by the retailer
D is the number of days that charges (B) relate to[4]

In order to receive a 17.5% concession on electricity consumption above this threshold, the Department of Human Services must have approved the concession recipient's application for the Excess Energy Concession.

The gazette also stipulated a similar process for the gas winter energy concession where the concession cap is set at a maximum of $222.73 for each winter.

[2] Victorian Government Gazette, General gazette 32, 8 August 2013

[3] This threshold does not apply to concession recipients that receive life support or medical cooling concession over the same period.

[4] Note that the 0.0823 is the carbon threshold introduced by the Victorian Government to offset the Federal Government's carbon tax compensation in July 2012. The AEC is not applied to the first $171.60 of a household's annual electricity bill and the WEC is not applied to the first $62.40 of a household's winter gas bill.

Assumption

As publicly available information about how these concession changes will continue into the future remains limited, this analysis is based on the assumption that the Government intends to review the cap amount annually and raise the cap to reflect price increases.

This assumption is based on informal conversations between consumer representatives and government officials. We do not know what the process for review would be or how frequently it would be undertaken. We therefore assume that this review will be an annual undertaking (to feed into the budget processes) and that the aim would be to keep the proportion of customers affected stable from year to year. This report thus discusses some of the challenges associated with the government's capacity to timely and adequately adjust concession caps in a deregulated energy retail market.

2. Approach

This report comprises five sections. In Section 1 we analyse when and where the cap will affect concession recipients based on typical and high consumption, current and future prices, metering and tariff types as well as geographic location (electricity network area and gas zones).

Section 2 looks at the concession cap in relation to Time of Use (TOU) pricing. It examines various consumption scenarios (peak, shoulder and off-peak proportions of total consumption) against a hypothetical TOU tariff to assess the impact of consumption times on whether households reach the concession cap or not.

Section 3 summarises findings and discusses when, where and how the concession cap will impact on low income Victorians.

Section 4 discusses the overall purpose of the proposed changes, potential outcomes, administrative implications as well as broader issues around concession take up.

Finally, Section 5, summarises key concerns with the proposed changes to the energy concessions. The report concludes with three recommendations that we believe can deliver a more effective and equitable concession framework for low income Victorians while addressing issues relating to high consumption.

3. When and where will the cap kick in?

Because the thresholds are expressed in dollars, energy prices and energy consumption will be critical determinants of which households are likely to be affected by the new caps.

This section analyses the proposed annual concession caps against the annual concession amounts received under current electricity and gas standing offer prices, as well as future potential price increases of 5% and 10%, at two consumption levels: typical/medium household consumption and high consumption (households using 30% more than typical consumption).[5]

We have chosen to model potential price increases of 5% and 10% as they reflect the increases Victorians have experienced in recent price resets. From July 2012 to January 2013 increases to annual electricity bills were between 5 and 11% (depending on network area. Gas increases during the same period were between 2 and 6% depending on gas zone, but from January 2012 to July 2012, gas bills increased by 11–12%.[6] Since deregulation, most retailers have adjusted their standing offer prices in January and July every year, but Victorian standing offer prices did not change in July 2013 because Time of Use (TOU) tariffs are to be introduced from September 2013. This may mean that Victoria will see price resets occurring at different times of the year in the future (i.e. September and March) and the consecutive increases incorporated into the modelling below should therefore be read as half yearly increases.

Typical household consumption levels are not equal to the statistical average. As a few households use a lot of energy the statistical average is greater than what typical households use.[7] The typical consumption level used for this analysis is based on those used by the St Vincent de Paul Society's Victorian Tariff-Tracking tool.[8] These consumption levels are:

- Annual electricity consumption of 4,800kWh for dual fuel households on a single rate electricity tariff

[5] Most of these standing offers took effect in January 2013 while some took effect in February. One of the standing offers (Lumo Energy) was gazetted in May 2013. Note that the annual concession amount has been calculated as per the gazette (bills excluding GST and concession amount including carbon threshold).

[6] St Vincent de Paul Society, *Victorian Energy Prices July 2012 to January 2013*, January 2013 and St Vincent de Paul Society, *Victorian Energy Prices January 2012 to July 2012,* July 2012 available at www.vinnies.org.au/energy.

[7] ACIL Tasman, *Electricity Bill Benchmarks for residential customers*, December 2011

[8] The Victorian Tariff-Tracking tool (workbooks) and associated reports are available at www.vinnies.org.au/energy

- Annual electricity consumption of 7,000kWh for all-electric households accessing controlled off-peak (30% of consumption being off-peak)
- Annual gas consumption of 63,000Mj for dual fuel households

As the gas concession only applies to the winter bills, and gas consumption in Victoria is highly seasonal, we have estimated a typical six-month winter consumption based on a typical annual consumption of 63,000Mj and that households use three times more gas during the winter months compared to the summer months (i.e. 47,250Mj during the winter and 15,750Mj during the summer). We have used the Victorian Utilities Consumption Survey as a starting point for this assumption. The Victorian Utilities Consumption Survey found that:

> "When 2007 data was analysed by winter and summer consumption, on average winter month gas consumption was 3.6 times greater than summer month gas consumption (in 2001 the disparity was 2.9). This trend did not vary substantially by sub-group. However, it should be noted that for this survey the winter period is defined as being seven months long, whilst the summer period is only five months. Therefore the disparity between colder and warmer months is in reality closer to 2.6 rather than 3.6. In 2001, this difference was 2.1, so it would appear that the gap between summer and winter month gas consumption is increasing."[9]

As the survey data is relatively old and they note that the gap between summer and winter month gas consumption is increasing (presumably due to an increase in gas ducted heating) we believe the assumption of winter consumption being 3 times greater over a 6 month long winter period is appropriate.

For both electricity and gas, high consumption has been defined as households consuming 30% more than typical consumption.

[9] Roy Morgan Research for Dept. of Human Services, *Victorian Utility Consumption Household Survey 2007*, Final report, April 2008, p 86

3.1 Average consumption households

Electricity, Single rate, 4,800kWh per annum

The modelling presented below shows average annual concession amounts for standing offer customers using 4,800kWh (single rate) per annum as of January 2013 and with accumulative price increases of 5% and 10%. It also shows how these price increases track against the concession cap of $412 per annum.

Charts 1 and 2 show that Victorian households with typical consumption will not reach the concession cap even if prices increase by 10% each time over the next four price resets. However, as prices vary significantly between network areas, households with this consumption level in SP Ausnet's network area, would be very close to the concession cap after four consecutive price increases of 10%, while households in Citipower's network area would still be $80 below the cap (see chart 2).

Chart 1: Annual electricity concession amounts for households using 4,800kWh (single rate), current standing offer prices and consecutive price increases of 5%

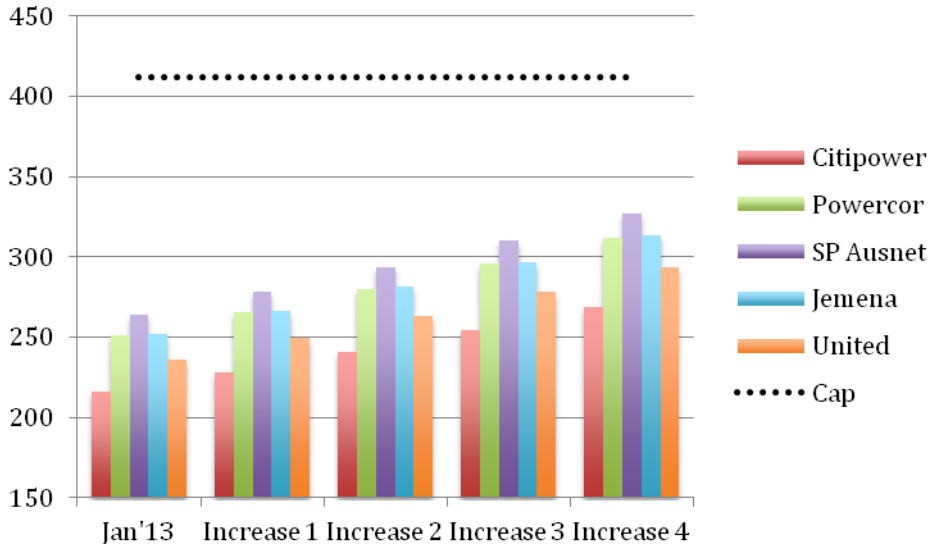
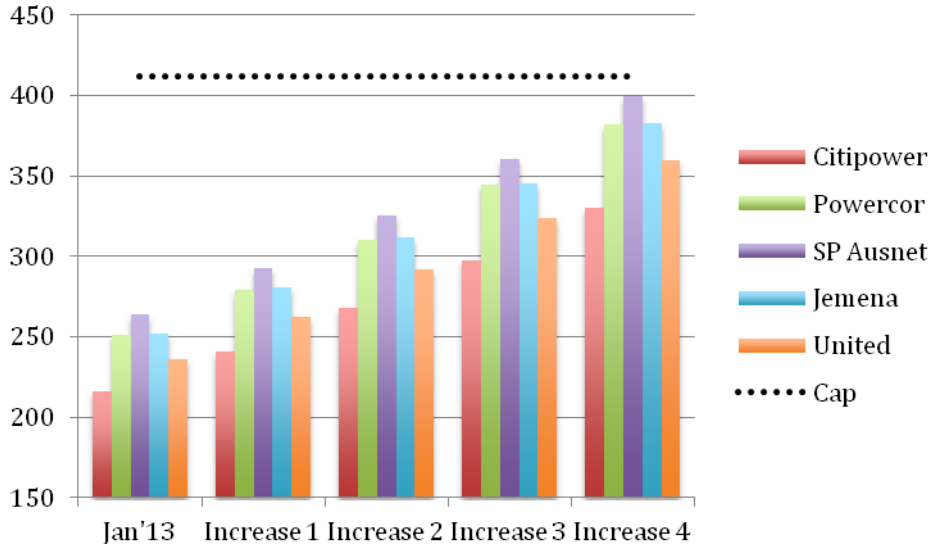


Chart 2: Annual electricity concession amounts for households using 4,800kWh (single rate), current standing offer prices and consecutive price increases of 10%



Electricity, Controlled load (off-peak), 7,000kWh per annum

The modelling presented below shows average annual concession amounts for standing offer customers using 7,000kWh (30% controlled load off-peak) per annum as of January 2013 and with accumulative price increases of 5% and 10%. It also shows how these price increases track against the concession cap of $412 per annum.[10] Households with controlled off-peak load are typically not connected to reticulated gas and their electricity consumption is thus higher compared to households on the single rate. It should be noted, however, that the availability of controlled off-peak tariffs is decreasing under the smart meter rollout. Only Powercor and SP Ausnet are rolling out smart meters with a second element to allow for controlled off-peak load.

Charts 3 and 4 show that Victorian households with typical consumption will reach the concession cap if prices increase by 5% or 10% each time over the next four price resets. There are, however, significant variations between the network areas:

- In SP Ausnet's network area, average consumption households will have annual bills above the concession cap after *two* consecutive price increases of 10%.

- In Powercor, Jemena and United Energy's network areas, average consumption households will have annual bills above the concession cap after *three* consecutive price increases of 10%.
- In Citipower's network area, households with controlled load will first reach the concession cap after *four* consecutive price increases of 10%.

[10] The off-peak concession amount is not included in the annual concession amounts presented in these charts

Chart 3: Annual electricity concession amounts for households using 7,000kWh (thereof 30% controlled off-peak), current standing offer prices and consecutive price increases of 5%

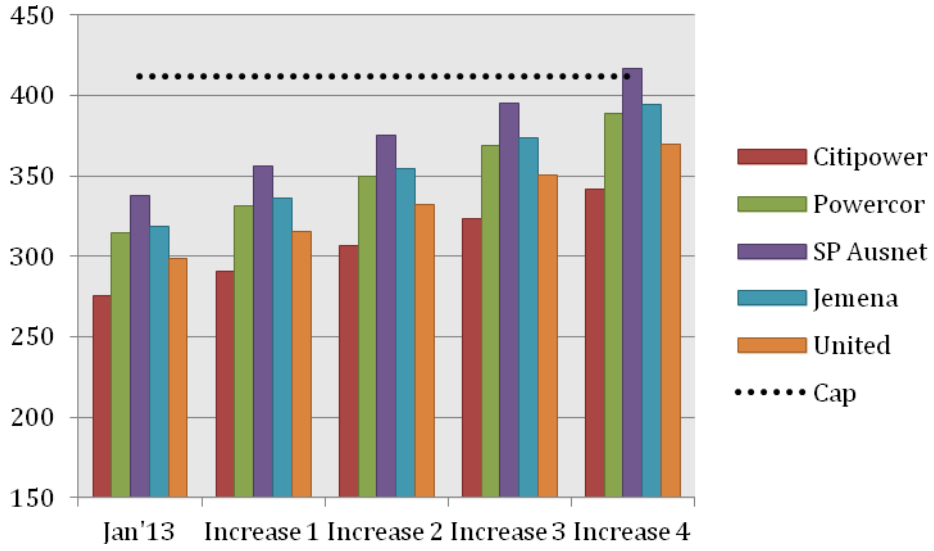
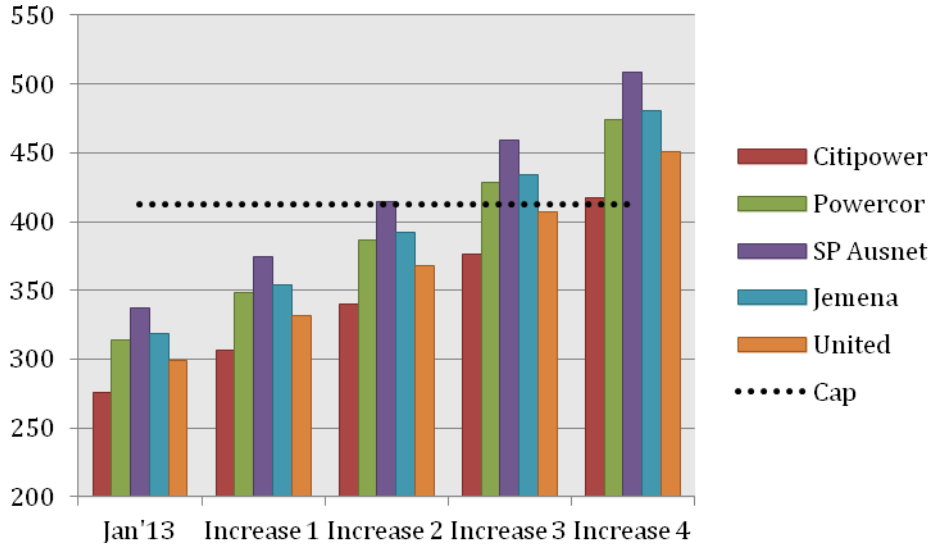


Chart 4: Annual electricity concession amounts for households using 7,000kWh (thereof 30% controlled off-peak), current standing offer prices and consecutive price increases of 10%



Gas, 47,250Mj winter consumption

The modelling presented below shows average *winter* concession amounts for standing offer customers using 47,250Mj during the six winter months as of January 2013 and with accumulative price increases of 5% and 10%. It also shows how these price increases track against the concession cap of $223 per annum.

Chart 5 shows that households with a typical gas consumption level would still not reach the concession cap after four consecutive price increases of 5%. If the consecutive price increases are 10%, however, households in the AGL North and Tru Central gas zones would be affected by the fourth price increase (chart 6).

Chart 5: Winter gas concession amounts for households using 63,000Mj per annum (thereof 47,250Mj over the six winter months), current standing offer prices and consecutive price increases of 5%

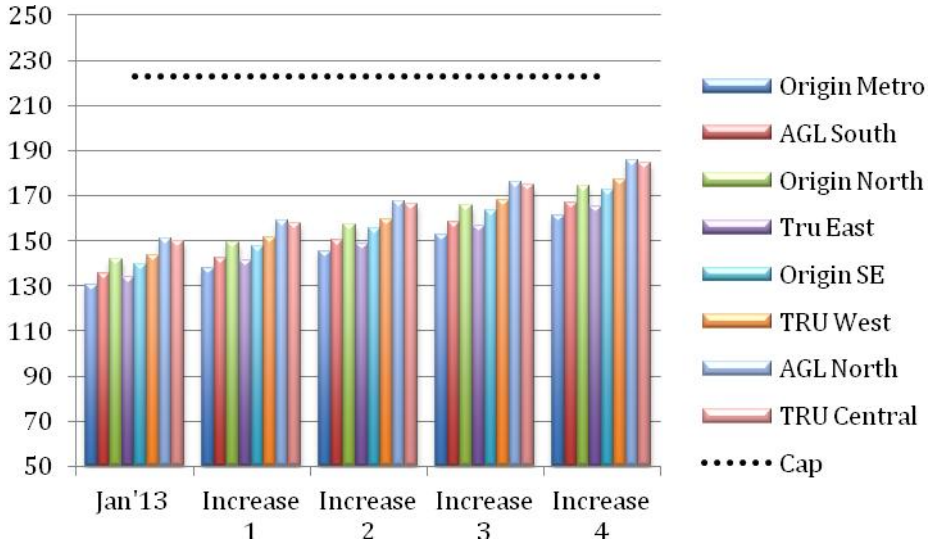
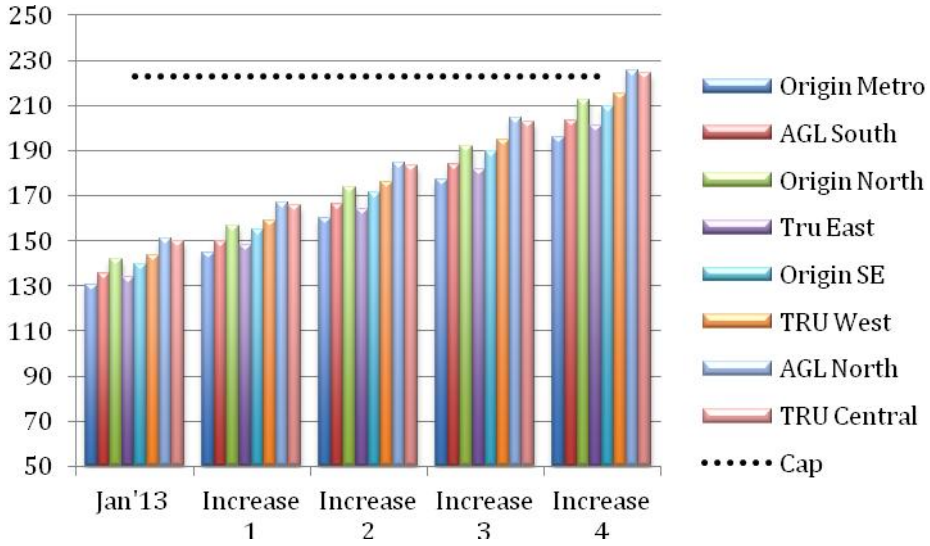


Chart 6: Winter gas concession amounts for households using 63,000Mj per annum (thereof 47,250Mj over the six winter months), current standing offer prices and consecutive price increases of 10%



3.2 High consumption households

Electricity, Single rate, 6,240kWh per annum

The modelling presented below shows average annual concession amounts for standing offer customers using 6,240kWh (single rate) per annum as of January 2013 and with accumulative price increases of 5% and 10%. It also shows how these price increases track against the concession cap of $412 per annum.

Charts 7 and 8 show that Victorian households with this higher consumption level will reach the concession cap if there are two to four consecutive price increases of 10%, depending on network area. In SP Ausnet's network area, energy bills will reach the concession cap after two consecutive price increases of 10%. In the case of Powercor, Jemena and United Energy's network areas, three consecutive price increases of 10% would be required, while four consecutive price increases of 10% would be required in Citipower's network area.

Chart 7: Annual electricity concession amounts for households using 6,240kWh (single rate), current standing offer prices and consecutive price increases of 5%

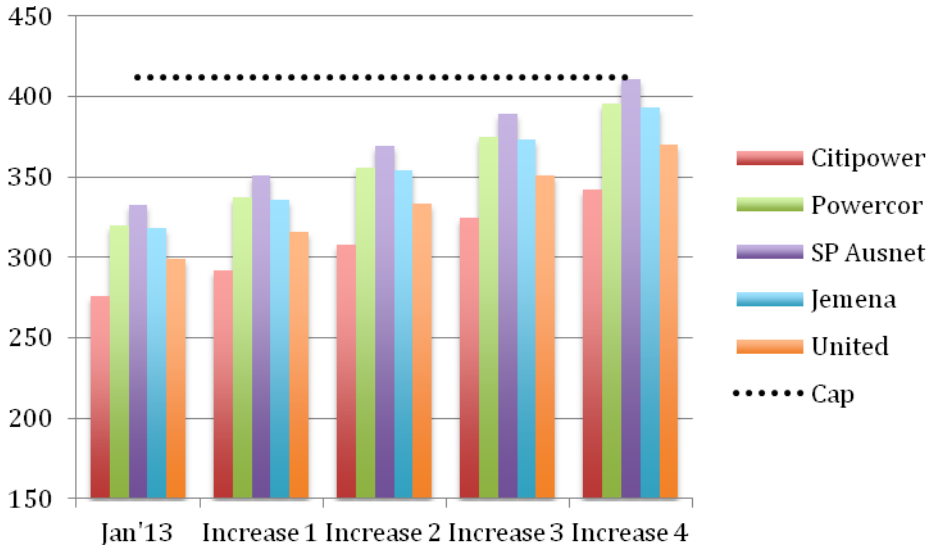
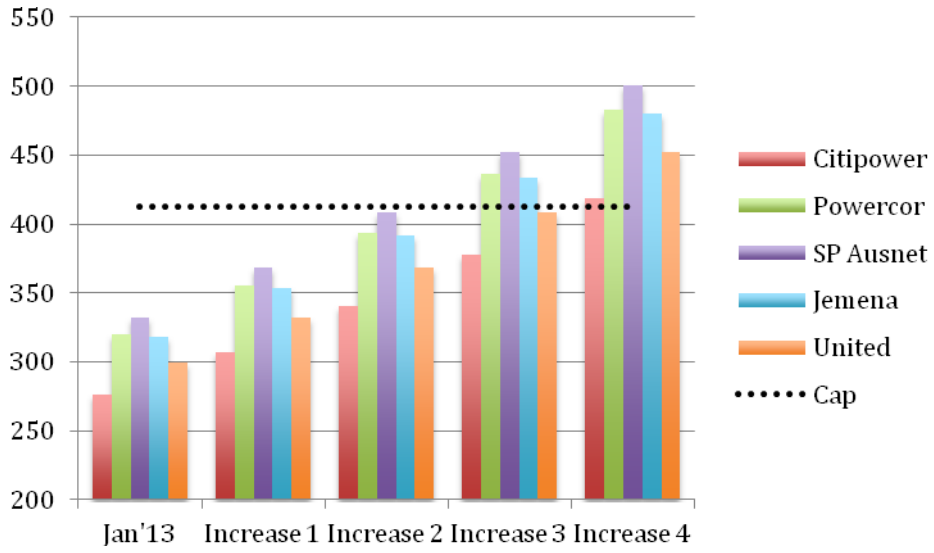


Chart 8: Annual electricity concession amounts for households using 6,240kWh (single rate), current standing offer prices and consecutive price increases of 10%



Electricity, Controlled load (off-peak), 9,100kWh per annum

The modelling presented below shows average annual concession amounts for standing offer customers using 9,100kWh (thereof 30% controlled load off-peak) per annum as of January 2013 and with accumulative price increases of 5% and 10%. It also shows how these price increases track against the concession cap of $412 per annum.[11]

All-electric households with a consumption level 30% above average in SP Ausnet's network area could currently reach the concession cap (depending on the retailer). In Powercor and Jemena's areas the average annual bill (across all retailers' standing offers) would currently be just below the concession cap but a single price increase of 5% would mean that households reach the cap.[12]

Chart 9: Annual electricity concession amounts for households using 9,100kWh (thereof 30% controlled off-peak), current standing offer prices and consecutive price increases of 5%

[11] The off-peak concession amount is not included in the annual concession amounts presented in these charts

[12] The bill calculations for this analysis is based on the average standing offer across ten retailers: some retailers' standing offers produce annual bills above the cap and some produce annual bills below.

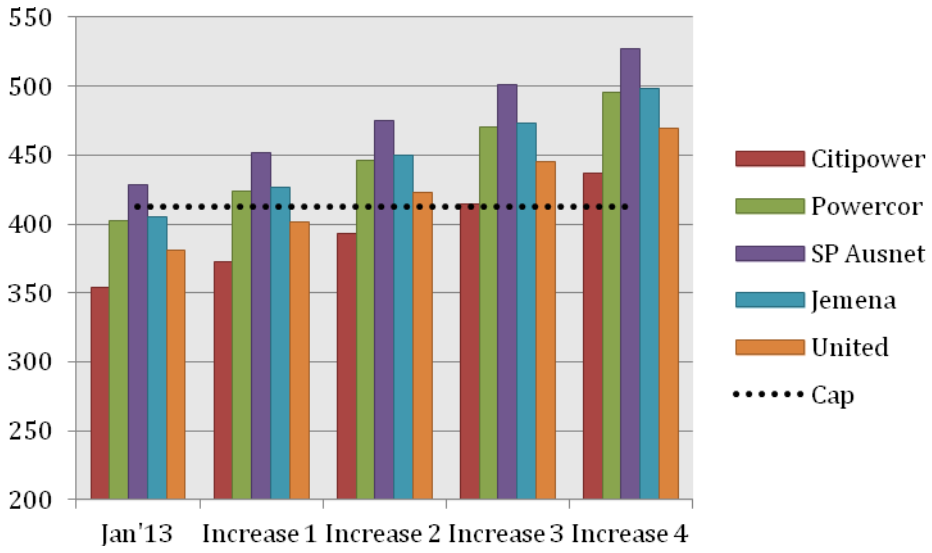
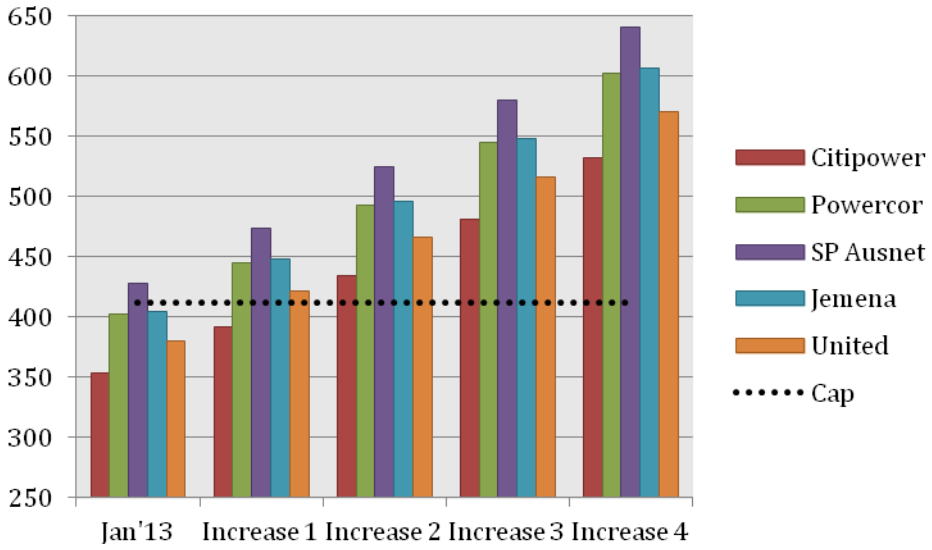


Chart 10: Annual electricity concession amounts for households using 9,100kWh (thereof 30% controlled off-peak), current standing offer prices and consecutive price increases of 10%



Gas, 61,425Mj winter consumption

The modelling presented below shows average *winter* concession amounts for standing offer customers using 61,425Mj during the six winter months as of January 2013 and with accumulative price increases of 5% and 10%. It also shows how these price increases track against the proposed concession cap of $223 per annum.

Chart 11 shows that households with this consumption level in the AGL North and TRU Central gas zones would reach the concession cap after three consecutive price increases of 5% and households in one more gas zone, TRU West, would be affected by a fourth price

increase. If the price increases are 10%, however, households in all gas zones apart from those in Origin Metro will be affected by the third consecutive price increase (chart 12).

Chart 11: Winter gas concession amounts for households using 81,900Mj per annum (thereof 61,425Mj over the six winter months), current standing offer prices and consecutive price increases of 5%

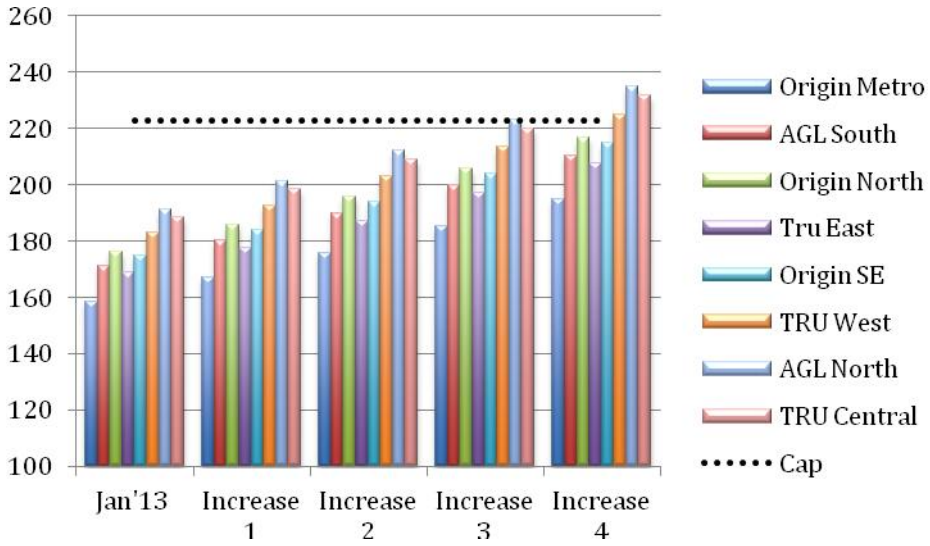
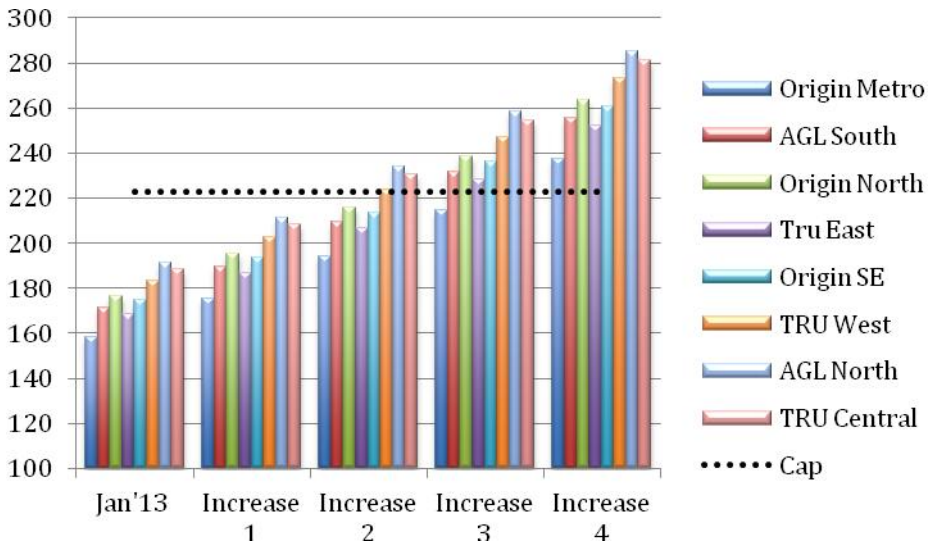


Chart 12: Winter gas concession amounts for households using 81,900Mj per annum (thereof 61,425Mj over the six winter months), current standing offer prices and consecutive price increases of 5%



4. Change of tariff type

Voluntary Time of Use (TOU) tariffs will be introduced in Victoria in September 2013. The agreed tariff shape is a three-part TOU tariff where the peak, shoulder and off-peak rates apply to the following times:

- Peak: Monday to Friday from 3pm to 9pm
- Shoulder: Monday to Friday from 7am to 3pm, 9pm to 10pm and weekends from 7am to 10pm
- Off-peak: Every day from 10pm to 7am

Whether concession recipients on a TOU tariff will reach the cap or not will depend on overall usage as well as when they use electricity in addition to their network area (as discussed above). We have used five TOU consumption scenarios to analyse annual bills against the concession cap. Table 2 below shows the proportion of peak, shoulder and off-peak consumption for each of these scenarios. AGL was the first retailer to publish its 'flexible AMI retail tariffs' on the 16th of August 2013.[13] The below analysis is therefore based on AGL's TOU tariff in the five network areas.[14]

Table 2: TOU consumption scenarios

Proportions	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Peak	20%	20%	20%	30%	40%
Shoulder	30%	40%	50%	40%	30%
Off-peak	50%	40%	30%	30%	30%

Charts 13 and 14 below show the annual concession amounts dual fuel households with medium and high consumption on this TOU tariff would receive. They show that all of the five consumption scenarios produce annual bills and concession amounts below the cap in all network areas.

Chart 15 and 16, which present the annual concession amounts for all-electric households with medium and high consumption, show that medium consumption households (7,000kWh) with a consumption pattern like that of 'scenario 5' are just below the concession cap in Jemena, Sp Ausnet and Powercor's network areas (chart 15). High consumption households (9,100kWh) in Jemena and SP Ausnet's areas would reach the cap under all five consumption scenarios. In Citipower and United Energy's areas, on the other

[13] Public Notice in The Age, 16 August 2013, p 39

[14] Note: The TOU tariff in United Energy's (UE) network area is seasonal (higher peak and shoulder rates during the summer). For the purpose of this analysis an even annual consumption has been assumed.

hand, none of these consumption scenarios produce high enough bills for customers to reach the cap. For households in the Powercor network the proportion of peak, shoulder and off-peak consumption will determine whether these households reach the cap or not (chart 16).

Chart 13: Annual electricity concession amounts for dual fuel households on TOU using 4,800kWh per annum (peak, shoulder and off peak proportions as per scenarios in table 2 above)

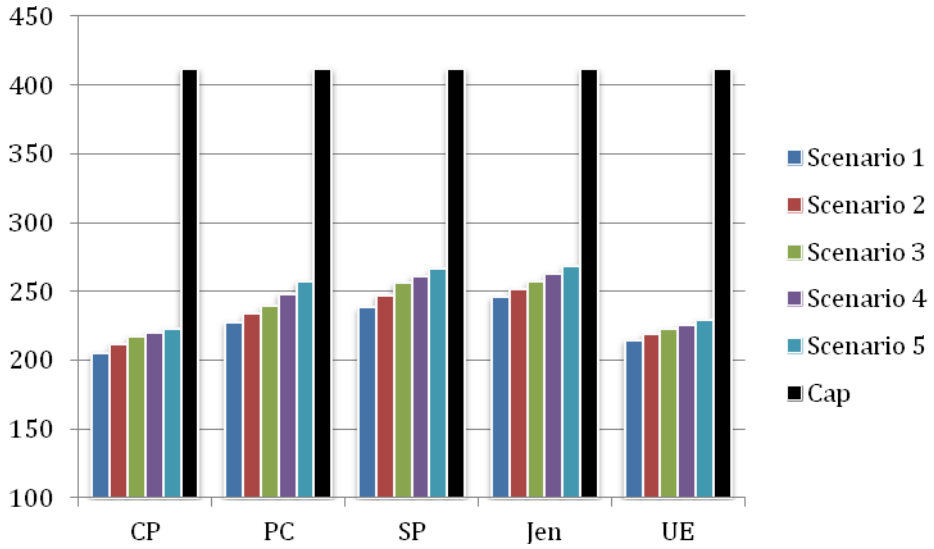


Chart 14: Annual electricity concession amounts for dual fuel households on TOU using 6,240kWh per annum (peak, shoulder and off peak proportions as per scenarios in table 2 above)

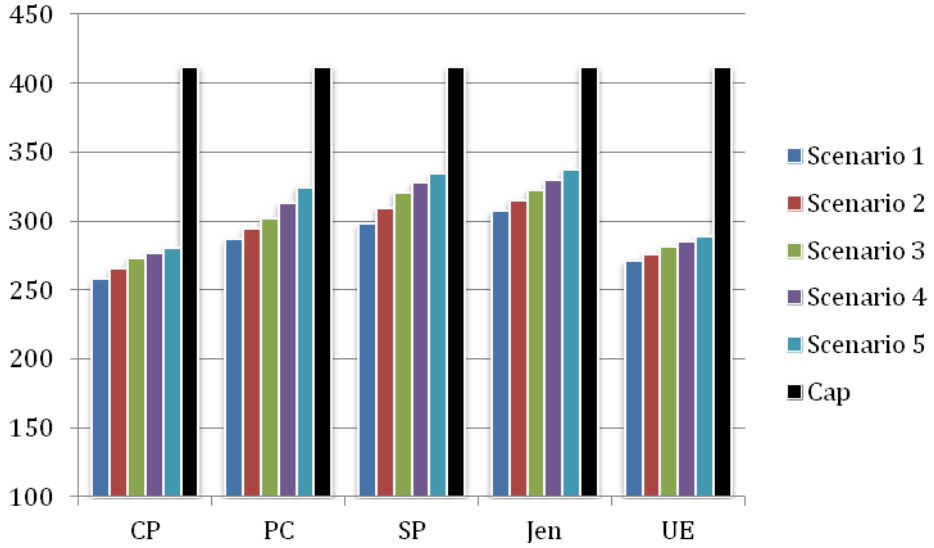


Chart 15: Annual electricity concession amounts for all-electric households on TOU using 7,000kWh per annum (peak, shoulder and off peak proportions as per scenarios in table 2 above)

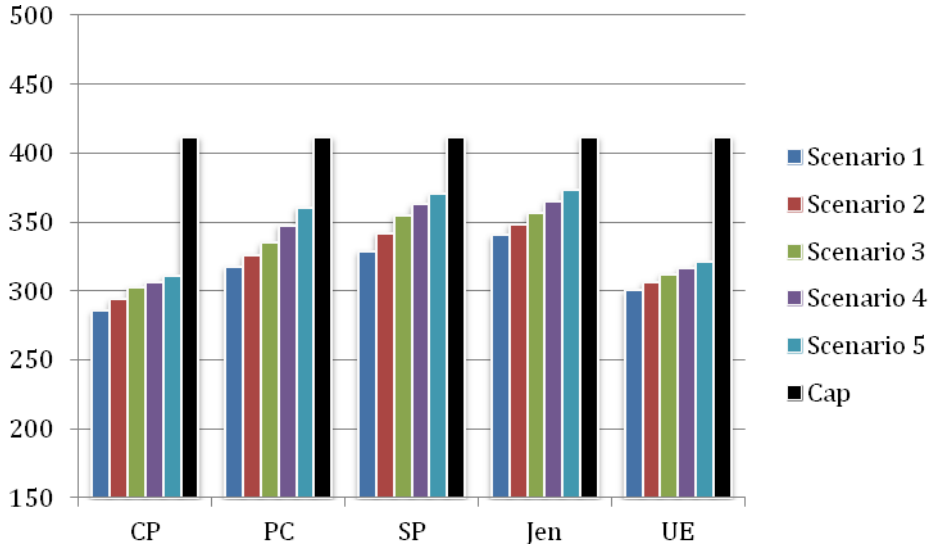
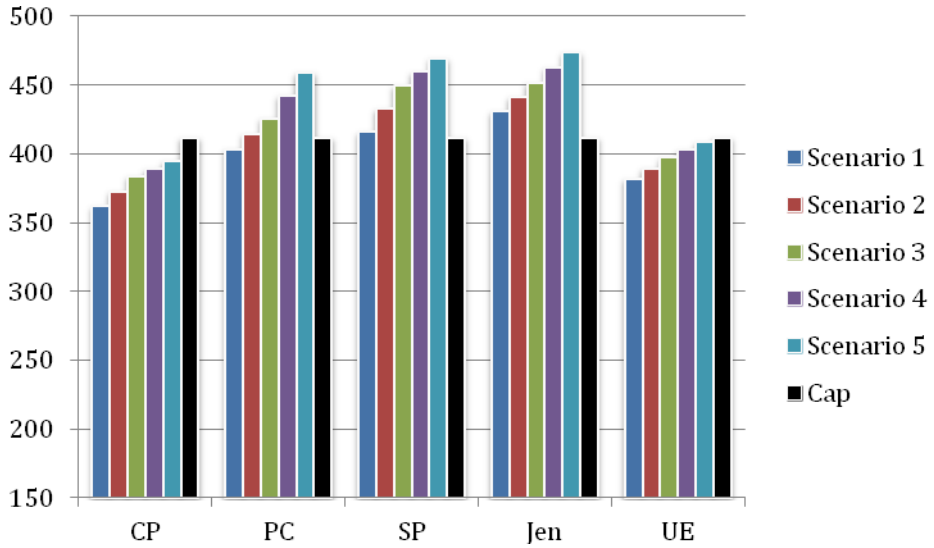


Chart 16: Annual electricity concession amounts for all-electric households on TOU using 9,100kWh per annum (peak, shoulder and off peak proportions as per scenarios in table 2 above)



5. Summary of analysis and consumer impacts

The above analysis shows that the concession cap is set relatively high and average consumption households will not be affected *if* the cap is appropriately adjusted every year. However government's capacity to promptly and adequately adjust caps could prove problematic. Victoria's percentage-based concession framework has to date ensured that low income households receive discounts proportional to price increases. Recent research by the St Vincent de Paul Society showed that for this very reason Victoria has the most equitable concession model out of the four biggest retail markets in Australia (NSW, Victoria, Queensland and South Australia).[15] In South Australia and Queensland the price increases over the last three years (2009–2012) have actually been greater for concession card holders than non-concession card holders.[16] The greatest risk with capped or threshold-based concession arrangements is of course that governments do not adequately, or in sufficient time, adjust caps or thresholds to reflect price increases. Furthermore, both South Australia and Queensland regulated energy prices during the 2009–2012 period, which does make it easier for governments to budget for and adjust concession caps. In Victoria's deregulated environment, on the other hand, the government will not be aware of retail price increases until after the fact. For example, if prices increase by 20 per cent in September one year, the government is unlikely to respond and adjust the cap before the following budget and to take effect from July the following year. This aspect further jeopardises the adequacy of energy concessions for low income Victorians.

Based on current electricity and gas prices (tariffs that took effect in January 2013), households need to have an annual electricity consumption of approximately 8,800-9,000kWh per annum and a Winter gas consumption of approximately 75,000Mj to hit the concession cap.[17]

More importantly, however, are the significant differences in annual bills between the various electricity network areas and gas zones. The different tariffs and tariff structures mean that a household in one area will exceed the cap while a household with the same consumption in another area will not reach the cap.

Clearly all-electric households are more likely to reach the concession cap due to greater consumption of a single fuel source. Thus concession households in rural and regional

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[15] St Vincent de Paul Society, *The relative value of energy concessions 2009 -2012, Part 2 of the Vinnies' Concessions Project* by May Mauseth Johnston, March 2013

[16] Ibid.

[17] These are approximate consumption levels only. Whether an individual household reaches the cap will depend on network area/gas zone and tariff type, as well as the electricity rates offered by their retailer.

Victoria will be much more likely to be subject by the cap than to households in Melbourne and other large metropolitan areas, where reticulated gas is more prevalent.

As for dual fuel customers: households in the western and northern suburbs of Melbourne, as well as Geelong and the Bellarine Peninsula, are more likely to reach the cap for both electricity (single rate tariff) and gas.[18] These are concession households in areas such as Footscray, Yarraville, Williamstown, Flemington, Moonee Ponds, Broadmeadows, Coolaroo, Braybrook, Sydenham, Hoppers Crossing, Werribee and Geelong.

On the other hand, dual fuel households in the eastern and south-eastern suburbs are the least likely to reach the cap.[19] The current prices and tariff structures in this area mean that households with the same consumption levels as those in western and northern suburbs, who have just reached the cap, will have annual bills – and a percentage based concession – that is below the cap.

The government appears to have arrived at the cap amount by calculating the number of households likely to be affected (and thus associated budget savings) without necessarily realising that this approach means that households in certain network areas and gas zones will be affected prior to households in other areas. Victoria is the National Electricity Market (NEM) jurisdiction with the most electricity distribution networks. NSW is the only other jurisdiction with geographical variations in electricity prices due to network areas. As highlighted by the St Vincent de Paul Society's study of energy concessions:

> "Our single greatest concern in relation to the NSW concession framework is the use of a single capped annual rebate amount in a state that comprises three network areas with significantly different price levels. As a result, the relative value of the concession is significantly lower in rural NSW compared to greater Sydney. This causes serious equity issues and we cannot see any reasonable justification for why low-income households in rural NSW should receive a discount of 3% less than that of low-income households in Sydney. NSW is the only jurisdiction of the four examined in this analysis that operates with a single capped annual rebate amount across network areas with different energy prices."[20]

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[18] These are households in Jemena's electricity distribution network and the AGL North gas zone or Powercor's electricity network and the TRU Central gas zone.

[19] These are households in Citipower's electricity network and the Origin Metro gas zone.

[20] St Vincent de Paul Society, *The relative value of energy concessions 2009 -2012, Part 2 of the Vinnies' Concessions Project* by May Mauseth Johnston, March 2013, p 35

In Victoria, the impact of the concession cap may seem even more arbitrary to households. In western Melbourne, for example, Citipower and Jemena are both distributors within the same postcodes and, as outlined above, a Jemena customer will reach the cap well before a Citipower customer with the same consumption level.

Furthermore, Victoria has three gas distributors and numerous gas pricing zones. The eight largest zones (based on customer numbers) have been included in this analysis and it shows that the pricing structures and levels vary significantly between them.

6. Program purpose, administration and associated processes

It is quite difficult to understand what the Victorian Government is aiming to achieve by introducing this cap. According to the Department of Human Services (DHS), approximately 5% of households receiving energy concessions will be affected:

> "It is expected that 95 per cent of concession households will not be affected and will continue to receive a concession of 17.5 per cent on their full energy usage, less the carbon price threshold."[21]

Furthermore, households reaching the cap can apply for the Excess Energy Concession. While few details have emerged regarding the criteria households have to meet in order to qualify for the Excess Energy Concession (beyond the statements that applicants are required to affirm when applying for the concession: "The electricity used at the above address is being used primarily for domestic purposes … No commercial business is being conducted at the above address … The electricity used at the above address is not being used for any illegal purpose"[22]), DHS states that the retailers will identify customers that need to apply for the Excess Energy Concession and provide them with an application form. The customer then lodges the application with DHS, which determines whether the customer is eligible.[23]

In our view, this process raises a key issue for consumers. The separate application process is likely to deter some from accessing the concession they are entitled to (depending on the policy guiding the criteria to qualify). This risk is affirmed by the description (in the tender documents for the outsourced processing of applications) of the circumstances in which a household's application for the concession may be disapproved: if the application is incomplete, if it is not signed, if it has not been witnessed, if the applicant's name doesn't match the accountholder's name, if the applicant doesn't respond to a letter requesting the applicant to contact the department to arrange a time for a home visit, if the applicant refuses a home visit.[24] It would be of great concern if the budget saving being sought by this

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[21] DHS, Victorian concessions, *A guide to discounts and services for eligible households in Victoria*, p 13 at http://www.dhs.vic.gov.au/__data/assets/pdf_file/0005/669227/Victorian_Concessions_guide_2013-2014_WEB_080813.pdf

[22] "Attachment 2: Excess Energy Concession – application form" from DHS Tender C3060: Excess Energy Concession – Processing of Applicants, 2013

[23] DHS, Victorian concessions, A guide to discounts and services for eligible households in Victoria, p 13 at http://www.dhs.vic.gov.au/__data/assets/pdf_file/0005/669227/Victorian_Concessions_guide_2013-2014_WEB_080813.pdf

[24] DHS Tender C3060: Excess Energy Concession – Processing of Applicants, 2013

new process is achieved by creating barriers to access. (NSW introduced a Family Energy Rebate (FER) in July 2012 that requires households to apply to the department every year (as family tax benefit status is the criteria) in order to register for the rebate. We have not been able to access hard data about the FER uptake rates, but discussions with industry suggest it is very low.

The 2013–14 Budget Papers anticipate a $9 million "efficiency and expenditure" reduction in 2013-14 due to the changes to the electricity and gas concession.[25] According to DHS, there were just over 1.4 million recipients of annual electricity concession and winter gas (mains) concession combined in 2011–12.[26] If 70,000 recipients (approximately 5%) are affected by the cap, and none of these receive the Excess Energy Concession, the Government would need to save approximately $130 from each affected recipient in order to achieve the $9 million budget saving. If the majority of the 70,000 recipients do apply for the Excess Energy Concession, on the other hand, the Government can expect a significant administrative cost associated with this change as well as a lower saving in concessions (depending on how many Excess Energy Concession applications DHS approves).

We note that the tender documents anticipate 50,000 applications for the Excess Energy Concession in the first year – implying an expectation that more than 25 per cent of people affected by the cap will not apply. 2,500 incomplete applications – 5 per cent – and 2,000 home visit requests are also anticipated.[27] Taken together, this suggests there are many opportunities for households with an entitlement to the Excess Energy Concession to fall through the cracks and miss out.

As organisations working with vulnerable households in energy-related hardship, we agree with the Victorian Government that extraordinarily high energy usage by concession households is a concern. However the punitive approach of a concession cap – and the choice of dollars rather than consumption (kWh/Mj) as the trigger for intervention – is inappropriate. An alternative approach would be establish a consumption threshold that triggers action beyond concession payments. If these high consumption households received meaningful energy efficiency assistance, a budget saving on concession payments would eventuate along with real bill reductions and improved quality of life – surely a win–win. Victoria already has an energy efficiency target (the VEET) scheme in place and one approach could therefore be to provide energy efficiency improvements to households with very high consumption through the VEET scheme. The VEET scheme is currently designed to deliver energy efficiency improvements to households. The Essential Services Commission's (ESC) website states:

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[25] Victorian budget 2013-14, *Budget paper No. 3, Service Delivery*, p 62 (see table 1.20)

[26] DHS, *Annual Report 2011-12*, p 54

[27] DHS Tender C3060: Excess Energy Concession – Processing of Applicants, 2013

> "The Act and the *Victorian Energy Efficiency Regulations 2008* (the Regulations) allow for accredited entities, known as Accredited Persons, to create VEECs when they help energy consumers make selected energy efficiency improvements to their homes, business premises or other non-residential premises."[28]

We therefore believe a more appropriate approach to high consumption concession recipients would be to identify these households based on a set consumption level and ensure that they are targeted for energy efficiency improvements under the VEET scheme.

Finally, we are aware, and concerned, that not all concession card holders are actually accessing their concessions. The current process of self-registering, and annual re-registering can pose a barrier to consumers accessing their entitlements and much needed assistance in relation to concessions.

In light of the proposed cap, and the issues consumers already experience in relation to accessing concessions, we believe further work must be done to ensure that those customers who are entitled to access their concessions, are in fact accessing them.

[28] https://www.veet.vic.gov.au/Public/Public.aspx?id=Overview

7. Key concerns with proposed changes to concessions

1. It creates winners and losers

As there are the significant differences between the tariffs and tariff structures in the various electricity network areas and gas zones, a household in one area will exceed the cap while a household with the same level of consumption in another area will not. By introducing a concession cap based on dollar value, the Victorian Government has effectively chosen winners and losers based on their geographic location.

Table 3: Concession cap: Winners and losers

Fuel/tariff type	Winners	Losers
Electricity (single rate)^	Melbourne CBD, inner south and east (Citipower and United Energy)	Melbourne's west and north-west (Powercor and Jemena), and the outer northern and eastern suburbs (SP Ausnet)
Electricity (controlled off-peak)	Melbourne CBD, inner south and east (Citipower and United Energy)	Eastern Victoria (SP Ausnet)
Gas	Melbourne's eastern and south-eastern suburbs (Multinet/Origin Metro)	Melbourne's west and north-west (SP Ausnet/AGL North), and Greater Geelong and Bellarine Peninsula (SP Ausnet/Tru Central)
^ Typically dual fuel households		

2. It introduces new barriers to access

Having a separate application process raises the risk that some households that are entitled to the Excess Electricity Concession will miss out because of system errors, low literacy, application form mistakes, not understanding what they need to do, or simply not applying due to feeling overwhelmed by a complex process. As there is already a problem with people not applying for concessions for which they are eligible, what is needed is a smoother process, not a more difficult one.

3. There are market barriers to customers' ability to access maximum concessions

The bill calculations for this analysis are based on the average standing offer across ten retailers and some produce annual bills above the cap while others produce annual bills below the cap for the same consumption level. Retail market offers produce similar

differences to annual bills although they generally produce bills that are lower than standing offer bills. Nonetheless, concession card households that reach the annual concession threshold may have been eligible for ongoing assistance had they been with a different retailer or on a different retail product instead. In our view, this creates a significant challenge for the Government in ensuring that concession recipients are on the best offer available to them. As the Victorian energy retail market is a competitive market with numerous participants and the price setting is fully deregulated, it is difficult to see how the Government may ensure that low-income Victorians have identified and chosen the retail offer that produces the lowest annual bill for them and thus enables them to access maximum concession assistance.[29]

4. The Government's capacity to promptly adjust the cap is limited

We are deeply concerned about the Government's capacity to promptly and adequately adjust the cap to reflect price increases in the deregulated retail market. Failing to do so will lead to an increasing number of households being affected by the cap over time.

5. It creates consumer confusion

We believe the introduction of a concession cap on the eve of the launch of TOU pricing in Victoria is a move that can cause consumer confusion and potential detriment. Concession recipients, like other households, may benefit from moving to a TOU tariff, however the 'newness' and unfamiliarity of the tariff type combined with the existence of a concession cap, may deter concession recipients from exploring new tariff options. As the analysis of AGL's TOU tariffs above shows, a high consumption household in Powercor's network area may reach the cap by simply using 10% more at shoulder times and 10% less of off-peak.

[29] We note that retailers are obliged to advise customers in their hardship program of retail offers that may produce lower bills but this obligation does of course not extend to offers available from competitors.

8. Recommendations

That the decision to introduce an energy concession cap be reviewed.

The percentage-based concession is an important tool to promote energy affordability amongst Victorian concession recipients with higher energy consumption.

That identification of high-usage concession households, for whatever purpose, be based on a usage threshold rather than a dollar threshold.

Furthermore, the electricity consumption threshold needs to differentiate between all-electric households and dual fuel.

That any measures to reduce the concessions budget impact of high-usage households be premised on assistance to reduce usage by improving their energy efficiency.

For example, by ensuring that they are targeted for energy efficiency improvements under the Victorian Energy Efficiency Target (VEET) scheme.

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