



**Submission by**

Consumer Utilities Advocacy Centre Ltd

**to the**

**Ministerial Council on Energy**  
**Standing Committee of Officials**

**Issues Paper on a National Framework for Electricity**  
**and Gas Distribution and Retail Regulation**

November 2004

## ***Introduction***

The Consumer Utilities Advocacy Centre Ltd (CUAC) welcomes the opportunity to comment on the Ministerial Council on Energy *Issues Paper for a National Framework for electricity and gas distribution and retail regulation*.

CUAC is an independent consumer advocacy organisation, established to ensure the interests of Victorian electricity, gas and water consumers, particularly low-income, disadvantaged and rural consumers, are effectively represented in the policy and regulatory debate.

This consultation process provides the opportunity to assess the ways in which energy is regulated across NEM jurisdictions, to identify best practice across the states and territories, and to ensure the regulatory framework is structured to best serve the interests of consumers.

A primary objective of reform is to ensure that consumers receive affordable and reliable energy, and their interests must continue to dominate any further changes to the regulatory regime.

Energy is, as the Victorian Government has rightly recognised, an essential service. It underpins every form of economic and social activity in the country. Energy provides vital economic infrastructure, and lays the foundation for a healthy and prosperous population.

In assessing the needs of consumers, the way in which consumers perceive electricity must also be recognised. It is treated as a service, not simply a commodity<sup>1</sup> - its value is derived from the products whose use it enables.

This is also a rapidly changing debate, influenced by technological change and externalities unforeseen when the market first was developed. Environmental externalities are likely to wield increasing influence on market operations, technological change is eroding the commercial advantages provided by large scale generation and the economic benefits to be gained from restructuring are diminishing.

As such, the regulatory regime being developed must build in the capacity to adapt quickly to change, and include the appropriate incentives to encourage that change if it is in consumers' longer-term interests.

The economic regulatory regime also has social and environmental impacts. An account-holder is usually only one member of a family, and disconnection from energy reduces the capacity of the whole household to live in a manner that is widely considered to be acceptable for Australian citizens. In Victoria, energy is the single largest source of greenhouse gas emissions.

Development of a national framework for retail and distribution, where the ability to affect consumer behaviour is arguably greatest, should not occur without due consideration of the ramifications of reform on social and environmental policies, or its affect on the operations of those policies. Governments should incorporate and articulate clearly the social and environmental objectives of further reform, to guide the development of policy and discussions on a national retail and distribution regulatory regime.

**Recommendation 1: That the Ministerial Council in Energy articulate the economic, social and environmental objectives of reform.**

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<sup>1</sup> National Association of State PIRGs, *Toward a Consumer-Oriented Electric System*, June 2004, p 15

As an example of such a framework, we draw Ministers' attention to the consumer principles enunciated for electricity by the US National Association of State Public Interest Research Groups, detailed at Appendix 1, but briefly outlined in the box below.

**Consumer Principles for the Electric System**

1. Preserving universal access to safe, reliable, affordable electricity service should remain a national goal.
2. The public interest must guide all decisions with regard to the electric system.
3. Market mechanisms should be employed when they benefit the public interest and supplanted by regulatory decision-making when they do not.
4. Decisions with regard to the electric system should be made at the level of government most accessible and responsive to the public, keeping in mind the need for broader coordination across jurisdictional boundaries.
5. Improved energy efficiency and increased use of renewable resources are in the long-term national interest and often have short-term benefits for consumers. Government policy should actively promote the development and use of these resources.

Source: National Association of State PIRGs, Toward a Consumer-Oriented Electric System, June 2004, pp 10-11

The needs of consumers within a centrally regulated energy system need to be explored in far more detail than is laid out in the Issues Paper, particularly in light of the differences in the structure and level of consumer protections within each jurisdiction. There are some requirements that are immediately apparent – these include service-related needs, such as affordability, access to information and service; and procedural protections, such as access to independent dispute resolution, rights of redress and access to decision-making.

But there are some that need to be discussed in further detail, and in conjunction with the new regulatory and rule-making agencies. As a general comment, CUAC is disappointed at the lack of attention paid in the *Issues Paper* to disadvantaged and low-income consumers. To ensure the affordability of energy, any re-structuring of the regulatory regime in the jurisdictions must include a comprehensive analysis of its links to those State-managed non-regulatory protections designed to secure access to energy at an affordable price, in order to be able to understand the ramifications of reform of the state regulatory regimes.

The essential nature of energy and its role in ensuring the economic and social welfare of Australians means that sector-specific regulation is certainly required in (at the very least) the short-term. Victoria has travelled furthest along the path of deregulation, but the review undertaken in early 2004 by the Victorian Essential Services Commission (ESC) recognised that the market remained too immature to retreat from sector-specific regulation or to reduce the level of protection afforded to consumers. That review found that there remain significant classes of consumers – low-income, rural and regional consumers, and low-volume consumers – who are not receiving benefits from competition.

In light of the findings of that Review, the Victorian Government is now passing legislation which will not only extend existing consumer protections to 31 December 2007, but will also ensure consumers receive adequate information about energy products and services, and strengthen their right of redress.

Because of the centrality of energy to the lives of Australians, the dialogue on developing a national retail and distribution framework should be dictated by identifying not just ‘best practice’, but also where there exist opportunities to improve the way in which energy is delivered.

The following provides comments on the specific sections of the Issues Paper.

### **Sections 3-4. Distribution Pricing – Electricity and Gas**

As the interests of Victorian consumers on electricity and gas distribution pricing largely coincide, we have combined our comments for these two sections.

Public interest must dictate the regulatory objective and principles of electricity and gas distribution pricing. Pricing principles must be constructed that ensure adequate investment in distribution networks and do not result in adverse social or environmental outcomes.

**Recommendation 2: Development of a national distribution pricing system must primarily consider the needs of consumers to access affordable and reliable electricity and gas.**

The complexity, lack of transparency and cost of distribution charges have been a major concern within the Victorian regulatory system.

A report undertaken by Pareto Associates in September 2003, on behalf of the Energy Users Association of Australia and the Energy Action Group, examined the ESC’s 2001 Determination in order to interpret its tariff/pricing policy and found it provided:

“Freedom for distribution businesses to decide how best to allocate costs to different classes of consumers - with no explicit restrictions or guidance on the magnitude of, or mechanisms for, cost allocation”.<sup>2</sup>

Surveys undertaken by the City of Greater Bendigo found that local businesses were often on incorrect electricity network tariffs and, equally often, did not have the knowledge or negotiating power to argue their case successfully with distribution businesses.

Discussion on the development of the national framework offers the opportunity to assess best practice across the jurisdictions, as well as identify where there is room to improve.

CUAC has previously advocated for a more rigorous investigation into the ways in which Victorian distribution businesses have interpreted pricing principles, and would recommend that a similar analysis be carried out in all of the jurisdictions.

CUAC would support the adoption of pricing principles along the lines of those adopted by IPART, particularly its aim to achieve tariffs that “promote equity, stability and consistency for consumers”.

**Recommendation 3: Distribution pricing methodology should include the articulation of clear pricing principles, which address equity outcomes.**

Distribution pricing methodologies for electricity and gas should also be structured to ensure transparency to consumers – rebalancing constraints should be monitored carefully and the impact on classes of consumers, by geographic region and by consumption, should be able to be easily assessed.

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<sup>2</sup> Pareto Associates, Customer Impacts of 2001 Electricity Distribution Price Review’, September 2003, p. 7

**Recommendation 4: Distribution businesses should demonstrate the rationale for, and impact of, cost allocations on classes of customers.**

CUAC has particular concerns about the needs of two particularly vulnerable groups of Victorian consumers. They are rural and regional consumers and low-income consumers, neither of which is discussed in the Issues Paper.

Energy infrastructure is crucial to regional economic development and healthy regional communities. The relative expense of serving them means that rural and regional consumers are vulnerable to any move to cost-reflective pricing, a fact the Victorian Government has recognised in its granting of a Network Tariff Rebate for the past three years, to ease the pain of the removal of urban-rural cross-subsidies and consequent electricity price increases for rural and regional consumers. Such initiatives should be carried forward in a national regulatory framework, although the Issues Paper is silent on how that might occur.

To facilitate dialogue on the problems and needs of rural and regional consumers, CUAC and the Victorian Department of Infrastructure convened the Rural Consumers Energy Forum in June 2004, at which some 80 participants, drawn from consumers, government, and industry, discussed a range of energy consumer issues. The Forum was the first ever event held in Victoria to enable rural and regional consumers to discuss their concerns in detail with policy-makers and industry. A report summarising the Forum discussions is attached at Appendix 2, which captures the breadth of concerns felt by rural and regional consumers.

Participants in the Forum expressed their concerns at how to address the needs of those communities where there is no commercial imperative for network augmentation and the grid is rapidly aging. One speaker spoke of the threat to her community of losing a \$100 million business investment because the cost quoted to that business of ensuring an adequate supply was so high. Another said that his town had lost business because there was no reticulated gas, and underlined the fact that the health of regional communities is integrally linked to jobs and families. Others outlined the frustration felt when their communities can see the transmission lines or gas pipelines passing by, but access for them is deemed to be too expensive.

These are concerns repeated across Victoria and we are confident would resonate in other rural and regional areas within the NEM.

**Recommendation 5: A national framework for distribution pricing must recognise the linkages between regional economic development and energy infrastructure, and ensure that regulatory systems do not disadvantage rural and regional consumers.**

Forum participants, particularly from local government and businesses, also expressed great interest in the potential to augment their energy infrastructure through distributed generation and, particularly, the potential opportunities offered by renewable energy. CUAC has provided some funding for research to identify obstacles in the Victorian regulatory framework for renewable embedded generation, but important work remains to be done to better inform communities on the opportunities and risks of pursuing these strategies. A national regulatory framework should ensure that incentives are in place for initiatives relating to demand management and renewable energy.

**Recommendation 6: A national regulatory regime must incorporate the capacity for communities to be able to pursue alternative forms of distribution networks without undue burden.**

For rural and regional businesses, electricity supply reliability and quality issues remain a high priority. The regulator must continue to monitor supply quality and reliability, and ensure there are appropriate incentives in place for distribution businesses to continue to improve their

performance. As one speaker to the Rural Energy Consumers Forum pointed out, half of Australia's food and beverage processing companies are sited in regional Australia and that proportion is likely to increase. For those companies, reliability is a key issue, with energy dips and surges adding significant costs to the manufacturing process.

CUAC would be concerned if the work being done by the ESC on incorporating appropriate service standards into its distribution pricing methodology, including the collection and monitoring of momentary interruptions, was not reflected in a national regime. There must also be more sophisticated analyses of 'willingness to pay' developed, that reflect the link between regional economic development and energy infrastructure – at the moment, such surveys tend to be carried out on based on the views of individual customers and do not necessarily reflect community opinions.

**Recommendation 7: A national regulatory regime must include monitoring of electricity supply reliability and quality and incentives for distribution businesses to improve performance.**

The needs of low-income consumers are also not addressed within the Issues Paper. Affordability must remain a key tenet of any regulatory system, and network charges currently comprise a major portion of any consumer's bill. More work needs to be done on how low-income consumers would be treated within a national framework, but it is clear that there already exist deleterious impacts. Research conducted by CUAC and Consumer Law Centre Victoria<sup>3</sup> demonstrates the burden that reconnection charges can place on low-income consumers trying to be reconnected to supply.

CUAC supports the inclusion of demand side options as a factor that must be given consideration, but emphasises the need to construct pricing principles that do not place too onerous a burden on residential and low-income consumers, whose ability to manage their demand may be limited (particularly for those who are not working – the retired, unemployed, ill or raising children).

**Recommendation 8: That more research be undertaken on the needs of low-income consumers within a national distribution pricing regime.**

CUAC would also be very concerned should some of the guaranteed service levels (GSL) currently available to Victorian consumers not be adopted within a national framework. The compensation payment, automatically delivered to consumers, for time off electricity supply has been welcomed by customers and has not presented onerous problems to distribution businesses. Similarly, the compensation available to small consumers in Victoria for damage caused to appliances by voltage variation should also be incorporated into any regulatory regime.

This is again an area where work needs to be done to identify best practice across the jurisdictions, to secure the best outcomes for consumers and to institute incentives for distribution businesses to improve their performance.

**Recommendation 9: That further consultation take place to identify best practice across the jurisdictions to enhance discussions on a national distribution pricing framework.**

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<sup>3</sup> CUAC and CLCV, *Access to Energy and Water in Victoria*, (forthcoming)

## **Section 5. Licensing**

Given the potential erosion of existing consumer protections for Victorian consumers from the model proposed in the Issues Paper, CUAC recommends that further consultation be undertaken on this issue.

More work needs to be done on identifying best practice consumer protections before a judgement can accurately be made on what are the fundamental obligations contained within a licence and what could reasonably be contained within a separate code.

The rules making framework must also be clearer, to determine how and when license conditions and codes may be varied to be able to assess whether the licensing model put forward in the Issues Paper is in the best interests of consumers.

### **Recommendation 10: That further broad consultation be undertaken on licensing, to identify best practice and determine the model that best meets the public interest.**

The principles of a national licensing regime must be developed in accordance with the needs of consumers – apart from the governance requirements on businesses, there are other obligations central to securing affordable access to energy.

The most important is delivered through a universal obligation to supply, but of equal value would be a requirement for energy businesses to take into account

- the needs of customers in hardship,
- provide relevant information to consumers, and
- ensure access to an independent dispute resolution mechanism.

CUAC is deeply concerned that customer hardship has not been addressed (indeed, even mentioned) in the Issues Paper, given its centrality to decision-making on the level and structure of customer protections. An important finding of the study<sup>4</sup> commissioned by CUAC from the Monash University Centre for the Study of Privatisation and Public Accountability for the ESC review of full retail competition (FRC) was that retail electricity markets worldwide lack maturity and that strong safety net frameworks continue to be necessary to protect vulnerable consumers. The risks of hasty deregulation are high, and the benefits to consumers and, particularly, small consumers, difficult to identify.

The findings of the CSPPA research have been reinforced by recent research on the UK market, where FRC has been longer in operation, and which determined that

So far the process of extending competition to residential markets has almost certainly reduced overall welfare. It has introduced some innovations, for example in tariff structures, and these and other changes may eventually justify the process. But these benefits will have to be substantial to overcome the costs which ... have accrued to administrators, participating firms and consumers in the early years.<sup>5</sup>

The development of a national licensing regime must reflect the characteristics of the market and offer some value to consumers – the Issues Paper has not addressed those characteristics, or

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<sup>4</sup> A copy of the report has been sent to the MCE Standing Committee of Officials and can be obtained from CUAC.

<sup>5</sup> Waddams Price, C “Spoilt for Choice? The Costs and Benefits of Opening UK Residential Energy Markets”, CSEM Working Paper 123, Center for the Study of Energy Markets, University of California Energy Institute, February 2004, p 17

assessed the implications for consumers of moving to a simplified licence, supported by a consumer protection code.

A key feature of the Victorian market has been information asymmetry. There are high transaction costs associated with switching retailers. Competition has also not been able to overcome the structural obstacles thrown up by consumers' demand inelasticity and their lack of capacity to respond to prices. This, coupled with the lack of transparency of tariff structures and the difficulty experienced by consumers in obtaining targeted information or assistance on energy efficiency, means that information asymmetry remains a large problem for consumers, who subsequently remain at a disadvantage in negotiating or entering energy contracts.

The Victorian Government has sought to address this in legislation currently before Parliament, which will require retailers to publish offers of their products. CUAC would be deeply concerned that the licensing model put forward in the Issues Paper would potentially not incorporate that obligation.

A key feature of the Victorian energy market has also been through provision of access to an independent dispute resolution body, the Energy and Water Ombudsman Victoria (EWOV). Its operation in the market has been of great assistance to consumers in mediating disputes with energy companies, and its continued operation crucial to the success of any reform.

**Recommendation 11: CUAC would recommend at minimum the inclusion as fundamental obligations in a licence of the following: universal obligation to supply, robust hardship provisions; requirements on retailers to publish information that allows comparison between products; and access to an independent dispute resolution mechanism.**

The Issues Paper sought feedback on a triangular vs a linear structure – given the complexity of arrangements, CUAC would recommend the adoption of a triangular structure, as long as the responsibilities of the retailer and distributor were made clear to consumers.

CUAC would also alert Ministers to the needs for other arrangements and factors to be potentially accommodated within the licensing regime – in Victoria, the ESC has agreed to review the obstacles presented by the current licence conditions to aggregate purchasing schemes, which offer rural and regional consumers an opportunity to negotiate lower prices. Another development has been the recent entrance of utilities brokerage schemes aimed at tenants, where there have been allegations that tenants were not appropriately informed of their rights and obligations in entering an energy contract – the licensing regime must ensure compliance with the consumer protection code amongst a range of existing and potential players.

CUAC welcomes the proposition that businesses would have to provide the Australian Energy Regulator (AER) with a compliance plan, although would again encourage further more detailed debate on what constitutes best practice performance reporting and monitoring.

This process also affords the chance to look more closely at the sanctions dealing with non-compliance with licence and code obligations. The legislation currently before the Victorian Parliament will offer consumers a payment of \$250 per day for disconnection in breach of the Victorian Energy Retail Code. CUAC warmly welcomed that initiative, and recommends that further discussion of the licensing regime and its interaction with code also include a more detailed discussion on the sanctions on retailer and distributor non-compliance. Non-compliance with any obligation should be identified, reported and made available to the public.

In raising variation of licence conditions, it is also not clear how governments will be able to impose conditions on retailers or distribution businesses aimed at achieving social or

environmental outcomes – these include such policies as reporting on bills of greenhouse gas emissions, or actions to be taken to minimise bushfires.

CUAC would again reiterate the need for governments to articulate the social and environmental policy objectives associated with further reform, to give clarity to consumers and energy businesses alike.

## **Section 6. Industry codes and rules**

In light of evidence in Australia and overseas, and given that energy is an essential service, CUAC is strongly of the opinion that sector-specific regulation must continue to apply to the provision of energy, and that residential and small consumers must have access to a robust and effective safety-net.

It should also be remembered that an integral element in the success of a national regulatory regime will be well-resourced consumer advocacy at the national and state levels. CUAC has indicated its support for the establishment of a national consumer advocacy mechanism – timelines permitting, it would seem sensible to involve that body and the new regulatory agencies in any discussions around developing industry codes and rules.

CUAC welcomes the commitment made in the Issues Paper to the development of a best practice consumer protection code, but strongly believes that a comprehensive consultation process is necessary to meet that objective.

A significant omission from the Issues Paper is any consideration of the links between regulatory and non-regulatory protections afforded to consumers. In Victoria, regulatory protections include, inter alia, the Energy Retail Code, price regulation (in the deemed and standing offers), the Marketing Code of Conduct, and the universal obligation to supply. Non-regulatory customer protections include the concessions and grants framework administered by the Department of Human Services, energy efficiency rebates and assistance administered by the Sustainable Energy Authority Victoria, and the relevant provisions of the Victorian Fair Trading Act, as well as a number of related programs that affect energy affordability, run by agencies such as the Office of Housing, which oversees energy standards for public housing.

There has been little or no intra-government consultation on the operation of these policies and programs within a national regulatory framework, yet in Victoria protections within the regulatory framework, such as provisions of the Energy Retail Code, are integrally linked to non-regulatory protections, such as no disconnection if an application has been made for a Utility Relief Grant.

The Issues Paper provides little information on how these links will transfer to a national regime, or how the process underway will address these issues. A review undertaken this year deemed the Victorian energy market to be too immature to reduce the level of protections available to residential consumers, and indeed strengthened some protections to improve consumers' power in the marketplace.

The needs of disadvantaged and low-income consumers must also be considered – the model put forward does not mention hardship provisions, yet there has been a significant amount of work done or underway in Victoria that highlights the needs of these consumers<sup>6</sup>, and underscores the need to give hardship a much higher priority than it has been accorded thus far in this process.

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<sup>6</sup> Forthcoming work includes the Committee for Melbourne study on preventing utility debt spiral will be published in early December 2004, CLCV - CUAC joint report will be published in late November 2004, and the proposed ESC review of hardship policies all directly discuss hardship within the context of the Victorian regulatory regime. In addition, numerous studies have been undertaken within Victoria,

Electricity and gas retailers can have a direct and profound impact on customers' financial situations. Instances are emerging in Victoria where utilities debt has aggravated the financial problems of those in hardship, and the ability of retailers to affect individuals' credit ratings can exacerbate problems<sup>7</sup>. Given that these companies are indeed providing an essential service, CUAC believes that there is an ongoing need for regulation, monitoring and assessment of the social implications of business practices and that such an approach remains in the community's best interest.

The first task should therefore be to benchmark what is an *acceptable situation* for small / residential consumers. The objective of the regulation and the safety-net provisions will subsequently be to ensure that unacceptable situations are eliminated.

Well-conceived hardship programs which are made known to consumers, would with time enhance the situation for both customers and retailers. The limited experience in Victoria so far has shown a demonstrated interest by the retailers in improving the situation for their "can't pay" customers. Most efforts, however, have unfortunately lacked both transparency and accountability. Voluntary hardship policies are good in theory, but in order to limit arbitrary outcomes and educate and encourage consumers to resolve payment issues with their retailers, regulations on hardship policies are necessary. Such regulations should oblige all retailers to comply, and incorporate all residential customers – regardless of contract type or household characteristics. Such intervention does not constitute heavy handed regulation.

There is also a need to target classes of consumers who find information difficult to access. Most information – from retailers and regulators - is only available on the internet, which excludes classes of consumers including low-income, the aged, those with low education, and rural and regional consumers with poor internet access. Consumers need to access information about their energy contracts in a way which offers them authoritative and accurate information in plain English. The regulatory framework must include some instruction on the provision of information to consumers, and explore the need to target particular programs to particular classes of consumers.

Further research should also be undertaken to investigate the level of payments made by welfare agencies to assist clients pay energy bills – in effect a cross-subsidy borne by the community sector. We are unaware of any systematic work done on assessing dollar amount paid by welfare agencies to assist those in hardship from utilities debt, but anecdotal evidence suggests significant amounts. Emergency relief agencies often assist consumers through the provision of funds or assistance with other essentials to enable consumers in hardship to meet their energy costs.<sup>8</sup> According to figures collected by the St Vincent de Paul Society Victoria, demand for emergency relief to cover utility costs increased by 80% in 2003/04, for St Vincent de Paul's program alone. Assistance with utility bills was the second largest area of assistance in dollar figures after relief

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including Sharam, *Power, markets & exclusion – assessing the effectiveness of social protections in deregulated markets: An Electricity Case study from Victoria*, Financial and Consumer Rights Council Inc (FCRC), January 2004, which re-visited the case put forward by Kliger, *An Unfair Deal: A consumer audit of the electricity, gas and water industry reforms*, FCRC, 1998.

<sup>7</sup> Submission by Jindara Community Programs to the ESC Review of the Energy Retail Code, September 2003, available online at <http://www.esc.vic.gov.au/electricity587.html>

<sup>8</sup> See, eg, VCOSS, *"Unplugged": Utility demand on Victorian Emergency Relief Agencies*, June 1995; WACOSS, *Would You Like a Bit of Heat with that Trickle of Water? - A report on the results of research into the cost of essential services to Emergency Relief Agencies and their clients*, Jul 2003; Western Region Energy Action Group, *Powering Poverty: A report on the impact of the 2003-2004 electricity price rises on 12 low-income households in South Australia*, July 2004

assistance relating to food.<sup>9</sup> While such assistance must be commended, it gives the false impression to the supplier, regulators and government that the household was able to afford the bill in question.

In developing a national consumer protection code, CUAC would strongly oppose any diminution to the consumer protections currently available to Victorian consumers. The consultation process initiated by the ESC to amend the recently released Victorian Energy Retail Code took over a year and a half – attempting to develop a national instrument quickly and without the opportunity to consult broadly will not result in good outcomes for consumers or for governments.

It is not clear from the Issues Paper how it would be possible to accommodate rules applicable only to Victoria – like the legislative ban on late payment fees that will shortly be made by the Victorian Parliament – within a national code, and CUAC would strongly oppose any erosion of Victorian consumer protections to achieve national consistency.

An important element of the consumer protection code relates to the accountability of governments and the transparency of rule-making within the framework – Issues 21 and 22 seek feedback on the making and variation of industry codes and rules. Without a discussion first on what constitutes best practice and a clear understanding of the linkages between the regulatory and non-regulatory framework, it is difficult to provide any comment.

That said, we would strongly advocate for the rule-making and regulatory agencies to institute best practice consumer consultative mechanisms as a matter of priority, and that the making and any variation of industry codes and rules include a public consultation process.

CUAC would also recommend that the SCO and AER look closely at the Social Action Plan and the Energy Efficiency Commitment undertaken by the UK regulator, the Office of Gas and Electricity Markets (OFGEM), in recognition of the role of the regulator in addressing affordability and access issues.

**Recommendation 12: That the development of a single national consumer protection code continue after the development of the following:**

- 1. An assessment by the Standing Committee of Officials of the linkages between regulatory and non-regulatory protections available to consumers, to accurately assess best practice within the jurisdictions.**
- 2. Further research into the needs of consumers, particularly low-income and disadvantaged consumers, in a national retail and distribution regulatory regime.**
- 3. Establishment of a procedure to identify best practice that includes the range of relevant stakeholders: consultation needs to be undertaken more broadly with consumer and community groups who did not have the resources to respond to the short timeline provided for feedback to this consultation process. That procedure needs to clearly identify on what criteria best practice will be assessed, and who will bear responsibility for the decision-making.**

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<sup>9</sup> Figures compiled and provided by the St Vincent de Paul Society Victoria's Policy Officer, Gavin Dufty, and reported in CUAC-CLCV research study, *Access to Energy and Water in Victoria*, p 120 (forthcoming). The utility component refers to electricity, gas, water and telephone, but as there has been no change in demand for Telstra vouchers, Mr Dufty advises that the increase must be in the energy and water area. 81.74% of St Vincent de Paul's assistance was food related whilst 5.62%, the second largest component of the assistance program, was directed towards utilities.

## ***Section 7. Associated electricity and gas schemes***

CUAC could not support a national regulatory regime that was not underpinned by an effective and independent dispute resolution scheme. As noted above, the EWOV scheme has been very effective in assisting consumers in Victoria, and the information it collects of value to regulatory and government agencies, and consumer advocacy groups. The ability to access such a scheme is a crucial consumer protection, along with a robust and well-regulated safety net.

Conditional on the adoption of an effective and best practice regulatory framework, CUAC would advocate for the introduction of a scheme along similar lines to EWOV, ie an independent, industry-funded ombudsman. We would support EWOV's position that there is little value in the formation of a national dispute resolution scheme before a best practice framework has been finalised.

**Recommendation 13: An independent dispute resolution mechanism is crucial to the formation of a national regulatory retail and distribution regime, but can only be established after the finalisation of a best practice regulatory framework.**

Retailer of last resort (ROLR) schemes are a key component in ensuring consumers secure ongoing access to energy in the event of a retailer failure. While CUAC would see benefits to consumers in developing a national ROLR scheme, it is difficult to identify how a national ROLR scheme would operate without more information on the rules-making and operational functions of the MCE, the AEMC and the AER. At this stage of the debate, CUAC would see little value in pursuing a national ROLR scheme until those functions had been further clarified.

Similarly, CUAC would support the development of national customer transfer and B2B schemes in principle, but would like to see more information available as to their administration and the role of the MCE, AEMC and AER in overseeing their operation.

CUAC is concerned that community service obligations (CSOs) were given such little attention in the Issues Paper. In Victoria, the concessions framework - delivered through CSOs - is the primary mechanism for ensuring low-income consumers retain access to supply, with some 27% of Victorians able to access rebates through that system. The needs of Victorian consumers with relation to the concessions framework are also influenced by the Victorian climate, and particularly, cold winters. It remains important to ensure that Victorian concession card holders retain the capacity to receive assistance through schemes such as the winter energy concessions.

CUAC would have concerns about the interaction of CSOs within a national framework. In Victoria, the concessions framework is developed and administered by the Department of Human Services. It is not clear whether the national regulatory regime could affect policy development or negotiations by DHS with retailers on delivering CSOs to consumers.

CUAC would be deeply concerned by any development that would diminish or complicate the assistance provided by the concessions framework to consumers, and – in line with Recommendation 13.2 would urge officials to consult more closely with DHS and similar agencies in other jurisdictions to assess best practice in the mechanisms that might be required to ensure consumers are not disadvantaged.

## ***Section 8. Service standards***

The development of service standards should be driven by the assessment of best practice and consumer needs. The primary objectives of moving to a national market - to increase benefits to consumers and to improve industry efficiency – can only be achieved through comparable reporting of service standards by retail and distribution businesses.

Reporting on service standards must be made available to consumers, in a transparent and easily accessible format that enables comparison of different businesses.

Recommendation 9, above, also pointed to the need for further consultation to occur around identifying best practice within the distribution framework.

**Recommendation 14: CUAC recommends that further consultation be undertaken to identify best practice service standards within the jurisdictions.**

### ***Section 9. Other functions of jurisdictional regulators***

CUAC is concerned that the transfer of functions to a national regulator may diminish the ability of jurisdictions to seek advice on developments pertaining to energy. Given the range of areas over which jurisdictions will continue to exercise authority, not least of which pertains to consumer protections, will the creation of a national retail and distribution regime simply lead to duplication of that expertise at the national and state level in order to retain an independent source of advice for jurisdictions?

Any questions about this submission should be addressed to Kerry Connors, Executive Officer, Consumer Utilities Advocacy Centre Ltd, by phone 03 9639 7600 or email to [kerry.connors@cuac.org.au](mailto:kerry.connors@cuac.org.au).

## **Appendix 1**

The following is an excerpt from the publication *Toward a Consumer-Oriented Electricity System – Assuring affordability, reliability, accountability and balance after a decade of restructuring*, authored by Dutzik, Vasavada and Madsen with Sargent, for the US National Association of State Public Interest Research Groups for the US National Commission on Energy Policy in June 2004.

### **Consumer Principles for the Electric System**

**1) Preserving universal access to safe, reliable, affordable electricity service should remain a national goal.**

**2) The public interest must guide all decisions with regard to the electric system.**

- The goal of electricity regulation should be to provide adequate, reliable service to consumers at the lowest cost – including “external” costs such as environmental, public health, and social and economic impacts. Ratepayers must only be required to pay for investments that serve a legitimate public need and that could not otherwise be met through lower-cost means.
- Electricity rates should be designed to promote economically efficient and socially responsible outcomes – including energy efficiency, rate stability and the protection of low-income consumers.
- The public interest can only be preserved through an open, accountable regulatory system that is explicitly charged with safeguarding the public.
- An effective regulatory system must guarantee due process and freedom of access to relevant information, allow and encourage the participation of all stakeholders, and preserve a right of appeal.
- An effective regulatory system must balance the long-term and short-term needs of consumers, as well as the interests of various classes of consumers. To balance long- and short-term needs, system planning must take place in the public sphere, include ample opportunities for public participation, and explicitly consider resource, political and environmental constraints. To balance the interests of various consumer classes, regulators must encourage broad participation in decision-making and ensure that the views of small consumers are adequately represented in the process.

(continues on next page)

**3) Market mechanisms should be employed when they benefit the public interest and supplanted by regulatory decision-making when they do not.**

- The conditions for effective and fair markets in the electric industry – particularly in the transmission and distribution of power and the sale of electricity to small consumers – do not currently exist and are unlikely to exist in the foreseeable future. Regulation of rates and terms of service in these areas of the industry (and perhaps others) is necessary to protect the public interest.
- Where market mechanisms are established, consumers’ basic rights must be protected. These include the right to choose an electricity provider, to switch providers in a timely and convenient manner, and to receive accurate and timely information about rates and service.
- Where market mechanisms are established, government retains a role in ensuring that markets operate fairly. This includes the need to prevent the accumulation and exercise of market power and to safeguard consumers’ collective investments in the electric grid.
- The interests of consumers cannot be abandoned during any “transition” from regulated to open markets. Consumers should not be subjected to higher-than-warranted rates in order to encourage the entry of competitive suppliers to the market.
- Consumers must retain the ability to pool their resources through cooperatives or municipal governments in order to negotiate better rates and service or to provide power themselves.
- Private, unregulated entities must not be permitted to shift costs or risks to the regulated entities that serve consumers. Similarly, ratepayers must not be forced to make infrastructure investments that primarily serve private interests.

**4) Decisions with regard to the electric system should be made at the level of government most accessible and responsive to the public, keeping in mind the need for broader coordination across jurisdictional boundaries.**

- Ideally, decisions should be made at the lowest level of government possible in order to maximize the public’s ability to participate in the decision-making process and hold decision-makers accountable to public interest goals.
- All levels of government must engage in comprehensive energy and electricity planning that establishes a long-term vision for the nation’s energy future. Such plans should be developed in public and invite participation from all stakeholders.
- New structures may be required to allow democratic governance of regional energy pools and markets in order to bridge the gap between national and state decision-making.

**5) Improved energy efficiency and increased use of renewable resources are in the long-term national interest and often have short-term benefits for consumers. Government policy should actively promote the development and use of these resources.**

- Market and regulatory barriers that deter the use of energy efficiency, renewable energy, or distributed generation technologies should be removed.
- The long-term benefits of these technologies must be considered in system planning, ratemaking and other regulatory decisions.

The full report can be obtained online at  
<http://www.newenergyfuture.com/newenergy.asp?id2=13959>

*Appendix 2:*

REPORT  
OF THE

RURAL ENERGY  
CONSUMERS' FORUM

BENDIGO

17 – 18 JUNE 2004



**CUAC**

Consumer Utilities  
Advocacy Centre

**REPORT**  
OF THE  
**RURAL ENERGY**  
**CONSUMERS' FORUM**

**BENDIGO**

JUNE 17 AND 18

2004

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## Introduction

The Rural Energy Consumers' Forum was convened in Bendigo on 17–18 June, 2004 by the Consumer Utilities Advocacy Centre Ltd (CUAC) and the Department of Infrastructure (DoI), and represented the first time rural and regional Victorians were given the chance to discuss their energy issues directly with policy-makers, regulators and the energy industry. Taking advantage of that opportunity were representatives from local government, farmers, welfare workers, community activists and large and small businesses.

The Minister for Energy Industries and Resources, the Hon. Theo Theophanous, gave the keynote address, asking delegates to inform him of the discussions and outcomes of the event. CUAC undertook to coordinate that response to the Minister and to seek a reply which could be distributed to delegates.

The forum agenda covered a broad range of issues, including energy pricing, how to improve energy infrastructure, the needs of low-income consumers, how to secure an adequate energy supply for small communities and how best to secure benefits from a competitive marketplace for country consumers.

This report provides a summary of presentations in each session. The rapporteur in each session composed the key messages and participants were asked to comment on those summaries in the closing session of the forum. These key messages attempt to succinctly encompass what the session was about and distil the important themes that arose in discussions.

Throughout the two-day event some strong themes emerged consistently across a number of sessions and are worth highlighting.

- The first was the strong link between regional economic development and the quality of energy infrastructure — the ability to attract or even retain jobs can depend upon access to reliable energy — and many speakers spoke about the difficulties faced by their own communities. From discussions in a range of sessions, it was evident that there was great willingness to look for solutions that will provide those communities with greater certainty and ownership over their infrastructure.
- Another was the need for greater transparency within the marketplace — business and residential consumers spoke of the difficulty they experienced in negotiating with energy companies. Speakers saw a continuing role for government in ensuring that consumers were given appropriate information to make well-informed decisions.
- And a third was the strong support for energy efficiency initiatives, particularly for low-income consumers, in order to enable them to keep their energy costs to an affordable level. There was strong support for the extension and expansion of the retrofitting program now undertaken by the Sustainable Energy Authority Victoria, targeted towards vulnerable consumers.

Many participants expressed a wish for another forum to be held in 12 to 18 months time, to revisit the discussions and to track what progress has occurred. CUAC would be happy to coordinate another such initiative.

Finally, the forum would not have worked without the significant contribution of a number of people. CUAC would like to thank Denis Nelthorpe who began this process in suggesting the Rural and Regional Network (RRN) be established; the Department of Infrastructure — particularly Richard Bolt, Peter Clements, Angela Bourke and Trudy Jainudeen; TXU for their generous support; Sophie Sturup for coming in half way and doing an excellent job; and the members of the Steering Committee, who were a crucial element of the event's successes, in formulating an agenda which addressed the main issues facing rural and regional energy consumers, and in identifying speakers who were able to make substantive contributions to the dialogue.

Kerry Connors  
Executive Officer  
Consumer Utilities Advocacy Centre Ltd

## Opening Statements

Master of Ceremonies Jenny Dawson (CUAC Director) welcomed forum participants to Bendigo.

**Professor Bill Russell** (CUAC Chair) welcomed delegates to the Rural Energy Consumers' Forum, noting that this was the first time ever that rural and regional consumers have been able to discuss a whole range of consumer energy issues directly with government policy-makers, the regulator and energy companies. He explained that CUAC was proud to facilitate this event — rural and regional consumers have found it difficult to participate in policy and regulatory decisions on energy issues, for reasons that range from simple geographic distance to the often complex and technical nature of the development of the energy market.

He explained how the forum arose from the establishment of the Rural and Regional Network (RRN), an initiative of Denis Nelthorpe, which was funded through a CUAC grant and established in close conjunction with CUAC. A priority of CUAC since its inception has been to facilitate greater participation by consumers in this debate, particularly from outside Melbourne. Advocacy is a crucial part of the policy-making process — but in facilitating citizens' participation in any policy-making process we must recognise that often their voice needs to be nurtured. This is especially true when considering energy issues.

Key objectives of the RRN are to help rural and regional consumers identify where others in Victoria face similar issues in order to enable them to collaborate or make joint representations to government. If the forum proves successful and delegates find it valuable, CUAC would be happy to facilitate a future event.

Professor Russell thanked delegates for dedicating their time to the event — particularly the contribution by members of the forum Steering Committee, who contributed to developing the agenda — ensuring it accurately reflected the range of issues rural and regional consumers have raised. He also thanked the Department of Infrastructure and TXU for sponsoring the forum. Department of Infrastructure staff were heavily involved in organising this event with CUAC and he thanked Peter Clements, Angela Bourke and Trudy Jainudeen for their contribution.

He then introduced the Hon. Theo Theophanous, Minister for Energy Industries and Resources. In his role as minister, Minister Theophanous has actively encouraged consumer participation in government decisions on energy policy, and his agreement to speak at the forum was very much appreciated.



## Keynote Address

### The Hon. Theo Theophanous, Minister for Energy Industries and Resources

The Minister began by congratulating CUAC and the Steering Committee for organising the forum and thanked participants for the opportunity to address the gathering. He said that the cornerstone of the Bracks Government's energy policy was the belief that all Victorians should have access to a safe, secure, sustainable and affordable energy supply.

The Minister criticised the too narrow focus of the Energy White Paper recently released by the Commonwealth and, particularly, its lack of vision on renewable energy, which will result in lost jobs and opportunities. By 2013 Australia would have less renewable energy as a proportion of total energy creation, than we had in 1997.

He said the Bracks Government had inherited a system with some strengths, but significant weaknesses. For that reason, the current government has had to take a number of steps to address those deficiencies, and he outlined the range of government programs targeted toward consumers and, particularly, Victorian rural consumers. These include

- locking in a pricing structure with retailers to deliver low energy prices through to the end of 2007. This will mean Victorians will effectively pay up to 5.6% less in real terms for their electricity over the next four years;
- extending the Network Tariff Rebate for a further year at a cost of \$34 million;
- investigating the introduction of interval meters will allow consumers to better manage and lower their energy costs;
- allocating \$70 million to provide natural gas to regional households and businesses;
- encouraging consumers to use energy in a more sustainable manner, through incentives such as the Gas Heater Rebate program and the Solar Hot Water Rebate program, and improved housing standards — from July 2004, all new homes in Victoria must feature a greater range of energy efficiency and water saving features.
- introducing the Dairy Power Infrastructure Upgrade program, which has now benefited more than 200 farmers;
- establishing the Energy Task Force, to assist low-income Victorians through retrofitting programs which offer estimated savings of \$170 on energy bills per year.

The Minister noted that these programs were really an interim measure while competition emerges. It is in effect a balancing act — the Victorian Government must balance the need to promote and maintain a viable and competitive industry with the need to protect consumers in a developing market. The Bracks Government is determined to ensure that the competitive energy market functions in a manner that protects domestic and small business customers — especially low-income consumers.

Late last year the Minister directed the ESC to investigate the effectiveness of retail competition in the Victorian electricity and gas markets. The preliminary conclusion was that competition is improving, so the safety net could be progressively removed for certain classes of consumers, but there remained room for improvement. The final report would be presented to the Minister in late June, to which the Government will respond. He stressed that he remained committed to ensuring that consumers are appropriately protected, and that he would be interested in feedback from the forum, particularly on creating appropriate incentives and sanctions on energy infrastructure.

The Minister then officially opened the Rural Energy Consumers' Forum.

## Plenary 1: Energy Pricing

Moderator Professor Bill Russell (CUAC Chair)

**Caryle Demarte** (Energy Retailers' Association of Australia — ERAA) began by outlining the drivers of energy prices in rural and regional Victoria. Fifty percent of the cost is regulated charges for the network; in rural and regional areas the distance and volume of lost load (in transmission) affect prices. Pricing is also affected by the price of energy in the wholesale market, and the fixed costs of retailers (billing, call centres etc) and the need to ensure profitability. Competitive trends have seen increased numbers of customers switch energy retailers and more products on offer. Retailers have employed strategies to reward customers who are cheaper to serve, by offering discounts for early payments or loyalty rewards. Most of this activity has centred on customers in metropolitan areas. Strategies to contain the cost of energy for rural and regional customers should include reducing off-peak pricing through the introduction of interval meters, the government's network tariff rebate, expansion of reticulated natural gas, increased supply reliability and better energy efficiency.

**Richard Bolt** (Department of Infrastructure — DoI) said that overall, the real price of electricity in Victoria has reduced, relative to inflation, over the past decade and differences in prices between rural and regional and metropolitan customers is only about 5% to 10%. Unit price is not the only factor that affects overall energy bills (the efficiency of appliances, patterns of usage and what alternative fuel choices are available have an impact too).

He saw the outlook for average prices over the next five to 10 years as stable, but said it was hard to predict how that average may be allocated. Most rebalancing of tariffs between rural and regional and metropolitan areas has already occurred, so prices should be stable and perhaps decrease. After 10 years, new investment in generation will be required and, after 20 years, the effect of global warming and the level of technological innovation will be the two key variables. The need for new capacity and innovation at the level of generation will be the factor most affecting long-term prices.

**Garth Keech** (Keech Castings) outlined the difficulties of his company — which employs 100 people in Bendigo and 16 to 20 people in other areas — in negotiating market contracts. The company sought offers from 12 companies, many of which did not respond or said they had no capacity to take on another customer. The quotes received were only valid for seven days and there could be up to 5% change in the quoted prices the next week. For businesses, price changes and the degree of fluctuation means they need to devote significant resources to researching energy offers. Quotes weren't transparent — some included loss factors, others did not — and there was no way to compare the offers. He said there was a need for regulatory

### KEY MESSAGES

1. Tariffs are 50% network charges, 40% energy usage (including losses through transmission) and 10% fixed costs of retailers.
2. The outlook for energy prices is relatively stable.
3. Tariffs are complex and there are many to choose from, which creates problems for consumers — regardless of their size — when trying to negotiate contracts and check bills.
4. In price terms, a key disadvantage for rural and regional customers is lack of access to natural gas (because gas can bring down the overall energy bill of a customer).
5. There is a need for more consumer education. Who should provide it?

intervention to assist consumers negotiate the marketplace, even for larger customers. He pointed to the growing industry of energy brokers/consultants, citing it as an indictment of the complexity of the system and the lack of transparency. Work done by the Bendigo Manufacturing Group had found half of the companies surveyed were on the wrong tariff without realising. He saw a strong case for the re-introduction of cross subsidies to rural and regional areas, to ensure that regional economies had the right infrastructure to attract investment.

**Denis Nelthorpe** (consumer perspective) said that in the five years since the first distribution price review, rural domestic customers have been the losers. People have slipped between the gaps, many becoming worse off due to competition. Some of the initiatives put in place, like extending natural gas and the network tariff rebate, are used by government to offset the impacts of higher energy bills for certain consumers. The problem with this strategy is that it's reactive, not proactive; consumers only realised they needed to change to gas or apply for the rebate after they received their first electricity bill under the new tariff. There is a real need to ensure that policy-makers ensure that customers understand the implications of their decisions about energy.



## Break-out 1: Energy Efficiency and Demand Side Management (DSM) in the Community

Moderator Judith Cahill (OVAG)

**Terry White** (Central Greenhouse Alliance — CGA) started by defining demand side management (DSM) as behavioural changes to manage energy consumption. He said that CGA is interested in the real cost of energy, which should include the cost of greenhouse emissions.

Government and business have important roles to play in this issue. Government has a responsibility to regulate the energy sector, monitor greenhouse emissions and grow renewables as soon as possible — increasing renewables targets to at least 20%. Businesses (retailers, generators, distributors) should make it more affordable for customers to be green; make it attractive for customers to invest in renewable technology; should have to report annually on their levels of greenhouse emissions; and should form alliances with different community organisations. Every person should take responsibility for being 'climate friendly'.

**Katrina Woolfe** (Sustainable Energy Authority Victoria — SEAV) explained that energy use in Victoria is growing by 2% per annum and the increase in renewables infrastructure is not keeping up. To address increased energy usage, SEAV is managing a program to retrofit low-income households to make people's homes more energy efficient, and encouraging consumers, through rebates, to change from electricity or firewood to gas (if available) and to take up solar. SEAV does this through rural and regional partnerships with local organisations because locals know their area best.

**David Cornelius** (Essential Services Commission — ESC) started by outlining the functions of interval (smart) meters, which the ESC has advocated be rolled out in stages to all Victorian consumers and which will be an important element in DSM initiatives. They record energy usage every half an hour, are not 'pre-payment' meters and will allow customers to take advantage of price changes by letting them monitor prices (the theory is that people will change their usage patterns to fit in with price changes). The ESC wants to encourage this because it believes the benefits outweigh the costs: interval meters help reduce peak demand, which means an overall saving across the market; the national market has been developed on 30 minute measurements; and they allow customers to better manage their bills.

The impact for customers will depend on what type of customer they are. For instance, farms and off-peak users will probably get lower prices; while people at home a lot, or people who need to use specialised medical equipment or air conditioners will probably get higher bills.

### KEY MESSAGES

1. Benefits of retrofitting
  - a. positive financial outcomes in the long term
  - b. customer comfort
  - c. increased knowledge about energy issues
  - d. the entire community benefits
2. Partnerships with communities are essential to restructuring how energy is used — retrofitting programs need to be expanded to different areas and regions across the state.
3. Acknowledgment that interval meters have potential to promote DSM, but there is still concern about what tariffs might apply and how information about consumption is to be used.
4. Capacity exists to use decentralised, embedded generation in rural and regional areas.

**Graham Macdonald** (Bendigo Access Employment) spoke about the pilot program his organisation conducted with SEAV and the Office of Housing. The program undertook an energy efficiency audit of homes: checking insulation, putting draft stoppers above fans, sealing fixed open vents, putting pelmets on the top of curtains and windows, and fitting low-energy globes and low-flow showerheads.

Initially there were difficulties promoting the program because people thought getting something for nothing was too good to be true. After doing some work, word of mouth got around and people were eager to become involved. People have benefited through lower bills (around 20% lower), increased comfort levels, increased knowledge and information about energy savings, a better living style, and the interaction between households has built a stronger sense of community.

**Julian Turecek** (Origin Energy) started by explaining demand side management (DSM) and energy efficiency. DSM is moving energy consumption to different times of the day to reduce cost; whereas energy efficiency is a long term issue and includes infrastructure changes such as insulation and retrofitting. As far as DSM is concerned, there is no problem with interval meters as such, but the question is: 'do we mandate them?' They will become the norm eventually, so should the roll out of interval meters be mandated before the market determines? So far all the benefits in a cost-benefit analysis assume we can change lifestyles using information from interval meters. Some people may not be able to. For example, cows can't change when they need to be milked. Or, if people cannot or do not access the information there will be no benefit to them. Retailers like Origin are concerned that without tariff reform, interval meters aren't going to be that useful to customers.



## Break-out 2: Distribution Business Issues

Moderator Leigh Watkins (Bendigo Bank)

**Sally McMahon** (Essential Services Commission — ESC) outlined the issues the ESC is examining in relation to the distribution pricing review currently underway. The review provides an opportunity for consumers to contribute to a decision that will be in place for the next five years. The objective of this type of economic regulation is not about micromanaging the businesses and service levels, but about affecting the behaviour of the distribution businesses by providing incentives so efficiencies can be passed on to customers in the next round of negotiated prices. In light of past experience, the ESC has chosen to limit its involvement to pricing (looking at pricing principles, rebalancing, and what businesses report) and service (mainly reliability and quality). It is relying on input from consumers and industry to achieve the right balance.

**Greg Walsh** (business consumer perspective) pointed out that half the food and beverage processing companies are sited in regional Australia and that proportion is likely to increase. The collective contribution of those companies to regional economies is significant and needs to be adequately recognised by government in its policy planning on energy. Energy is a key issue for those companies. Energy supply disturbances pose a serious ongoing problem to these companies — not just outages, but dips and surges which also affect their equipment. One company estimated that it cost \$50,000 for each event where its equipment was interrupted. The distribution businesses have told them that the regulatory framework provides no incentives to address those problems. A group has now raised \$150,000 to conduct research around these issues.

**Garth Keech** (Keech Castings) said that his company has had various problems with electricity, particularly from the distribution side. Tariffs are varied and complex, and do not reflect business consumption. But tariff levels seem to be too far apart, which means customers' ability to negotiate distribution costs is almost non-existent. The system needs to be more competitive between distributors because at the moment it's very difficult to compare offers or to even understand the bills. There are changes that could be made that may help customers by better matching tariffs to business needs. It would be helpful to:

1. Move from kWh (kilowatt hour) billing to kVA (kilovolt ampere) billing — as the latter encourages conservation.
2. Extend off-peak tariffs to mirror actual off-peak time (it is now 11 pm – 7 am) and reflect daylight saving.
3. Build rewards for efficiency into current tariff structure.
4. Ensure demand intervals accurately reflect the requirements of the manufacturing process, and encourage efficiencies — for his company, operating in 15 minute demand intervals meant inefficient production.

### KEY MESSAGES

1. Opportunity now in place for consumers to participate in ESC Electricity Distribution Price Review, which will determine pricing principles and service incentives for the next five years.
2. Prices should reward efficiency and reflect customer needs
3. Service issues
  - a. look at improved capacity and incentives for business customers to negotiate
  - b. monitor interruptions/outages, dips and surges/spikes
4. Need to identify willingness of consumers to pay for upgrades and improvements.
5. Poor power quality is a major concern for food processing in regional Victoria.

**Hugo Armstrong** (Powercor) noted that the biggest challenges for distribution businesses is to cater fairly and equitably for a diverse range of customers — the needs of business customers are less homogenous than residential consumers and so more difficult to serve. He also said that distribution businesses find it hard to get feedback from consumers, and that Powercor was actively encouraging their regional customers to talk with them as it prepares its bid to the ESC's Electricity Distribution Pricing Review.

### Discussion

The discussion focused on some key issues, including how willing customers are to pay for increased service — this is a difficult measure to quantify. While networks can be improved to address problems, someone must meet the costs of those extensions and improvements. Another comment was that while the performance of distribution businesses has improved over the past few years, customer expectations have increased.

Participants noted the difficulty that regional areas have in attracting investment — if upgrading energy infrastructure is priced too high and the cost is left to the local community to meet. One participant cited a recent example in their area, where a substantial planned investment was in danger because the price quoted for the requisite upgrade to the local network was very high.

Discussions also touched on whether there are appropriate incentives in place to encourage distribution businesses to improve their service to rural and regional businesses. The Distribution Price Review was seen as an important opportunity to investigate those issues.



## Break-out 3: Low-Income and Disadvantaged Consumers

Moderator Fiona McLeod (EWOV)

**John Mumford** (Bass Coast Regional Health) said that many consumers face a constant struggle to balance an inadequate income against unaffordable expenses. When dealing with these consumers we often find that those with the largest energy bills are those on the smallest incomes. These consumers often live in inadequate accommodation with inefficient energy appliances, little or no insulation, and no access to the most efficient and cost effective energy sources. Many rural and regional consumers have limited fuel choices with no access to natural gas. With LPG and off-peak electricity prices steadily rising, people are finding they don't have the option to change energy sources and their bills are increasing. Simply, competition is unlikely to benefit low-income consumers. To bring low-income consumers' costs down we need better energy efficiency measures, an effective safety net with guaranteed access to supply, hardship policies across the energy and water sectors, effective government subsidies and grants, and an extension of the reticulated gas network. We must find a better way for low-income and regional and rural consumers to be consulted — some options are to reduce jargon and hold meetings outside Melbourne. And we need a whole-of-government approach to these issues.

**Rob Sheperdson** (Portland Housing Program) said that Portland Housing Program is a small homelessness program that works with some of the most disempowered people in the state. Energy presents numerous problems for their clients:

1. It's difficult to get a concession because many don't have houses, and agencies like Centrelink need a current address to allocate concessions (clients need concessions because they can't pay full price).
2. Many aren't able to cope with 'push button' systems (this is exacerbated by communication problems with call centre staff).
3. When establishing payment plans there are often extended delays (from the company) in setting up an account (without an account they can't fulfil the company's payment plan requirements).
4. Direct debit facilities aren't always useful because many clients don't have budgeting skills (if there's not enough money to cover a direct debit the bank charges an additional fee of between \$35 and \$45).
5. Clients can often end up spending 10% to 50% of their income on energy — in some cases people chose between energy and food.

Rob proposed a better targeted and more generous concessions system, quicker establishment of accounts, automatic application of concessions, better maintenance of public housing, and for the retail companies to put Centrepay (from Centrelink) in place.

### KEY MESSAGES

1. There are gaps in the protection landscape for low-income and disadvantaged consumers.
2. If the protection landscape is reasonably robust why do some customers fall through the cracks?
3. Local communities do have the power to lobby government and get things done — OVAG is a great example.
4. Is providing assistance to low-income and disadvantaged consumers a 'cost of doing business', or a broader social responsibility?
5. Remember customers are not all the same — one size does not fit all low income and disadvantaged consumers.
6. Improvements are needed in retailer hardship policies and their implementation.

**Judith Cahill, Ted Ludbrook and Cheryl Sanderson** (Ovens Valley Awareness Group — OVAG) OVAG was formed to bring the plight of disadvantaged people living in the Ovens Valley to the notice of politicians, government and non-government agencies who influence decisions affecting those people. The OVAG executive meets monthly and holds quarterly general forums where all interested people voice their opinions. From these forums the executive creates a plan to try and bring about a change or improvement for the residents of the Ovens Valley. OVAG has previously campaigned on low bulk billing rates, the lack of a financial counsellor in the area and the non-increase over the last 10 years of the government's emergency relief fund (ERF).

Last year OVAG achieved an increase in the ERF budget and a financial counsellor now visits Myrtleford weekly — seeing around 500 people from the Ovens Valley each year, of which at least 300 experience difficulty with energy bills. At a general public meeting in August 2003, the main concern was high energy costs. OVAG has therefore been writing to politicians and campaigning for a fairer deal. OVAG's activities may benefit other rural Victorians and they rejoice in this. OVAG did not choose to campaign on energy costs — the people chose it for them.

OVAG is currently campaigning for the extension of natural gas to the Ovens Valley. At the moment they pay \$0.96/litre for gas delivered to the home and \$80 to \$90 for bottled gas. One industry chose not to establish in the area because there was no reticulated gas. Ovens Valley residents have difficulties accessing a range of infrastructure services, including public transport, reticulated water and specialist health services. This country is supposed to be 'lucky' but poor and disadvantaged people lack the material resources and know-how to improve their situation.

OVAG has been campaigning for a fairer deal for country people and is calling for energy subsidies to be available all year round for pensioners and low-income earners. The Department of Human Services (DHS) subsidy for non-mains gas needs to be reassessed. OVAG wants more information on reducing energy costs — presented so it is easily read by all — to be made available.

**David McAloon** (TXU) said that as a retailer TXU tries to understand hardship, it knows why retailers have an obligation to supply consumers and why they have to report publicly on disconnections, and is aware that up to 5% of its customers are in hardship at any one time. At the moment distributors and generators don't have to pay for 'social policy' objectives, but retailers do. TXU believes there should be social responsibility in this area, but that it needs to be fairly placed and that other players need to be involved too. While energy has to be affordable to everyone, the question is: is affordability the function of energy price (does the cost of energy make it unaffordable to people) or is affordability a function of poverty (do their personal circumstances make energy unaffordable — regardless of price)? If energy is unaffordable because of poverty then there has to be a different strategy than simply mandating retailers alone pay for social policy objectives.

**Iwona Lider** (Department of Human Services — DHS) explained that the State Government has specific policies in place to help rural and regional consumers, through the 'winter energy concession', 'non-mains winter energy concession' and 'utility relief grants'. Thirty percent of customers have concessions, but there is a need to work on the take up of current programs because not enough people are accessing those benefits. DHS believes it is important for its information to be distributed as widely as possible.

**Wendy Heath** (Essential Services Commission — ESC) outlined the ESC's statutory obligation towards all customers, including low-income and vulnerable customers, which aims to ensure all consumers benefit from competition. The ESC monitors retailers' compliance with the protections of the regulatory safety net and will shortly be developing 'best practice' models for hardship policies with retailers and consumers. The ESC monitors retailer performance on affordability issues — all retailers must take extra steps to assist customers experiencing payment difficulties. The ESC consults with rural and regional consumers but is seeking ways to improve those processes.



## Break-out 4: Infrastructure Issues

Moderator Craig Rutledge (Australian Industry Group) opened the session by noting that the Hon. John Thwaites, Deputy Premier, had recently launched a feasibility study on co-generation for Bendigo

**Peter Clements** (Department of Infrastructure — DoI) said it is essential to have efficient augmentation of the system and, before pursuing network upgrades, we should first look to see whether there are end-user efficiencies or appliance modifications that could be explored. DoI's main objective is to create robust markets supported by regulation, so the energy industry starts to take on a greater role in facilitating network augmentation and distributors make fair and reasonable offers under the codes. The other part of this is to manage access arrangements to ensure the mechanisms are fair and reasonable for new players.

**Brian Roachford** (Envestra) said that everything Envestra does in augmenting the system must be done within the code. Each project has to be justified to the ESC on its own merits — Envestra is not allowed to use the existing system to subsidise the cost of uneconomic projects.

So far a viable alternative to pipelines for reticulating gas has not been found; liquid natural gas (LNG) or natural gas from a local plant are not cost effective. Basically you can only take gas to un-reticulated towns if a capital subsidy is available because the towns are too far away from existing pipelines. In the past Envestra looked at reticulating by creating higher tariffs, by negotiating for a community to initially pay a higher tariff which is then reduced in later years. The problem is when tariffs go too high the cost of conversion outweighs savings and people don't convert. If the tariffs can't be set high enough to offset costs, then the reality is that such projects have too high a development risk for distributors.

**Alan Pears** (Business Council for Sustainable Energy — BCSE) said that supply issues increase with distance. Overall costs have increased, while historical subsidies have been wound back. And high energy losses across lines (up to 50% on some), increase the greenhouse cost.

There are alternatives though. Why not set up distributed generation — a grid system more like the phone system. Stand alone systems are more reliable and of a higher quality than conventional systems in some areas. A green grid system is possible, although there are pros and cons. It would generate local jobs, improve the local environment and stimulate economic development, but performance would be variable depending on design, size and maintenance. It is critical to get the right mix of energy efficiency, renewables and other energy sources to optimise the benefits and reduce the problems.

### KEY MESSAGES

1. A lack of access to appropriate levels of energy and energy infrastructure is restricting the capacity for economic growth, leading to a loss of jobs, families and communities.
2. Is aggregation the only solution? Are there efficiencies or modifications to be explored first?
3. Gas extensions are too expensive without government subsidies or assistance. Alternatives such as embedded generation (especially renewables) should be encouraged.
4. Need better demand side infrastructure programs for energy efficiency.

**Peter Bommer** (Orbost Chamber of Commerce) said that in Orbost the community is finding its vision is moving faster than the infrastructure. Industry is lost to the region because of poor electricity and gas infrastructure. The new timber processor has been waiting but couldn't wait any longer — it has chosen liquid natural gas (LNG) and will convert to natural gas later — and the forestry industry can't dry and dress wood properly because of a lack of energy. Without industry there are no jobs and families move out. A gas pipeline goes past Orbost, but the community doesn't have access to it. Local and state governments, the regulator, energy businesses and the community need to consider what Victorians want regional Victoria to look like in the future.

**Marion Riley** (Campaspe Shire Council) described the problems people in her ward have with utilities. The user pays system inhibits infrastructure development and therefore regional development. For example, in some areas within the shire it can take between 10 and 15 minutes to cook toast, the lighting in some houses flickers constantly, and in Rushworth Street lighting is dim and blackouts are a regular occurrence. The area is 'infrastructure-isolated', even though it is only two hours from Melbourne. Who defines 'adequacy' of supply?

**Cheryl Wragg** (VCOSS) said that infrastructure has a direct bearing on development. What we have today is big industry delivering service to a universal standard, but infrastructure on the demand side (housing standards and appliances) is still (and has always been) private and dependent on an individual's ability to pay. Bad infrastructure on the demand side compounds the disadvantage of already disadvantaged customers because such customers can't necessarily afford new appliances; may be unable to insulate their house; and if renting, they have little or no control over the state of the house. This means they often have difficulty both paying and reducing their bills and they are more likely to be paying higher energy bills because of poor energy efficiency.

VCOSS is urging the Victorian Government to introduce mandatory energy efficiency standards before 2007 and increase the availability of retrofitting programs for Victorian homes, so all people have access to reliable, safe and affordable energy. Only about 1000 houses are currently funded for retrofitting. That leaves about 299,000 to go (according to a survey of housing standards conducted by the old State Electricity Commission of Victoria). The program is clearly under-resourced. VCOSS feels that the priority should be enhanced demand side infrastructure instead of focussing on more and new supply side infrastructure. For instance, the push for pre-payment meters to be introduced merely institutionalises the problem of fuel poverty (studies have shown that a significant proportion of the population moves in and out of fuel poverty); and the problems of high bills, fuel poverty and hardship won't be fixed by sending more power down the same lines simply to be used in the same inefficient houses and by the same inefficient appliances.



## Plenary 2: Making Competition More Effective for Rural and Regional Consumers

Moderator Bill Russell (CUAC Chair)

**Paul Fearon** (Essential Services Commission — ESC) outlined the findings of the latest ESC review into the effectiveness of full retail competition (FRC) and the ongoing need for customer protections. Overall, the conclusions are that competition is very effective for 40% of customers, but largely ineffective for low-volume customers and rural customers; new companies are entering the market, targeting customer segments; and there is confidence that competition will continue to develop and provide benefits to consumers.

He said competition can be relied upon to discipline market power, although the market in Victoria remains in a transitional state. It was important to recognise that vigorous competition developed from a base of robust customer protections. There is a relative disadvantage suffered by rural and regional consumers, but it is not absolute or permanent. And it can be overcome by the potential for cooperation in rural communities, through the development of aggregation initiatives and other more sophisticated models. Remote-read and interval meters will assist to compensate for the disadvantage caused by distance, and assist with aggregation initiatives. They will also moderate the impact of increased off-peak pricing and reveal additional margins.

**Gennadi Kazakevitch** (Monash University) said he would start by criticising and then state a vision. The benefits of competition for rural and regional consumers are not yet obvious. The primary benefits have been at the level of generation, where there is cheaper energy through the wholesale market. Another benefit is the would-be market in distribution, but the benefits are more obvious for communities with a high population density.

Rural customers usually fare worse in markets in a network industry. Internationally, where public monopolies have been deregulated, they have been replaced by oligopolies, where customers can benefit only if they have market power — that is, only the bigger consumers. Privatisation in former communist countries, for example, has not led to successful competitive outcomes. There are sectors that are competitive, but they tend to be in newly created industries. The opportunity that exists for rural and regional areas is through renewable energy (which was overlooked by the Federal Government White Paper). Industry tells us that it is too expensive to re-design the grid to accommodate renewable energy, but does it need to be re-designed? The intention is not to replace coal, but to complement the grid. These ideas need a similar sort of vision that rural and regional communities displayed when they set up community banks when the major banks left. Similar models can be set up for energy.

### KEY MESSAGES

1. The ESC assesses disadvantage in rural areas to be relative, not permanent.
2. There is a real opportunity for rural and regional areas to reap the benefits in renewable energy — as a complement to coal produced electricity.
3. Rural and regional areas have grown reliant on the grid — that's now a disadvantage. Initiatives like aggregation empower consumers.
4. Don't operate the same way or change will only ever occur incrementally. Find innovative companies who think flexibly about their customers and their customers' needs, who think the way you do and want to change the way electricity is distributed.

**Leigh Watkins** (Bendigo Bank) said he wanted to discuss how the framework for community banking could apply to energy. In this way the community captures the benefit of competition through its aggregate demand — aggregation has costs and benefits for retailers and customers. Why should a business using a lot of energy be able to be treated as a large customer, while a number of houses who come together as one are still treated as small customers. Rural and regional areas have relied on the grid for energy, but that is now a disadvantage and we need to re-think that approach. The grid also forces communities to export capital, and that needs to be addressed. The Bendigo Bank aggregation initiative provided communities with ownership and the capacity to capture local demand. It received an 'underwhelming' response from retailers, with only two serious offers received. The retailer staff with whom Bendigo Bank negotiated were not linked to the businesses' strategic or pricing arms, and the retailer undertook a divide and conquer strategy, offering different prices to the larger, middle and smaller customers. Empowering customers is crucial — through the aggregation exercise, we found many customers on incorrect tariffs who had no idea they were on the wrong tariff.

**Simon Price** (Victorian Farmers' Federation — VFF) said that the VFF had aggressively supported privatisation in order to allow customers more control over their energy usage. In 2002 the VFF formed Association Power, a buying scheme for electricity. Members were interested largely as a result of increased off-peak prices, which affected farmers severely. The VFF was able to negotiate very good prices for customers using over 160MWh, but for dairy farmers, irrigators and horticulturalists, who have large off-peak usage, there were no margins available. We could not negotiate a better price than the standing offer for residential consumers. There was little interest from retailers because we couldn't negotiate directly on behalf of these consumers. We encountered a number of non-price issues — retailers found it difficult to handle an aggregation process and the contract negotiations took 8 months, most of which was taken up by the retailer's legal questions. The cost to the VFF of the negotiation process removed any benefits of the exercise. Ultimately, of the 7000 accounts registered, the retailer could only make 3000 offers. But when the government introduced the price path agreement, only 1000 offers could be made (of which only 100 were taken up). The government price caps effectively limited competition.

**Andrew Bonwick** (*Powerdirect*), said *Powerdirect* targeted a very tightly defined market segment of small business, 15% of which were in rural and regional areas, and 90% of which used less than 160MWh. In this sense *Powerdirect* is not an orthodox retailer because it takes on small business customers — who are supposedly unprofitable. *Powerdirect* doesn't have any problems being competitive in its market — so are these customers really unprofitable?

*Powerdirect* also commenced negotiations with a couple of South Australian aggregation groups last year, with the contract concluded within two months with the SA Farmers' Federation. Andrew's key message was, 'Don't do it the same old way — if you do, change is incremental'. He advised consumers to look for companies who want to serve them and are pursuing different operating models. The regulatory framework and licence conditions tend to encourage staying with orthodox models and limit the ability of retailers to meet customer needs. He ended by saying, 'If you want to do something different, my advice is to find a retailer is more like you, look for retailers who are flexible enough to respond to your needs and create common interests with them.'

## Discussion

A key element of discussion was whether a business model existed that could meet the needs of low-income and disadvantaged consumers, and accommodate the needs of those who are in chronic or temporary hardship. Andrew Bonwick said that there were products targeted toward university students, who often experienced financial difficulties.



## Break-out 5: Fuel Choice for Small Communities

Moderator Heather Farley (City of Latrobe)

**Marion Riley** (Campaspe Shire) said that aggregation initiatives are achievable — that has been proven in other sectors. An adequate energy supply is a sustainable energy supply — the government is encouraging a population shift to rural areas, but this needs to be matched with a commitment to ensuring infrastructure is adequate. In Campaspe Shire, a \$100million investment in the region is potentially under threat because of the lack of a power source for that business. A lack of investment means small towns will die. At the moment small communities have limited options available to them.

**Tony Sennit** (Diamond Energy) explained that Diamond Energy is building three renewable energy generators in Shepparton that will come online in January 2005. They provide a showcase example of how the community can be involved and proves there is a business model for renewable energy. To be viable, embedded generation must be cost-competitive. Energy usage comprises around 40% of the total bill for consumers. At the wholesale price, electricity currently costs about \$30 per megawatt hour (MWh), providing a baseline for comparison. Other things being equal, gas is about \$40/MWh; hydro power and wind both cost between \$50 and \$80/MWh; solar is between \$120 and \$150/MWh; and biomass between \$50 and \$80/MWh. A 0.5MW biomass generator — which will serve about 500 homes — can be fuelled by 2500 cows, 15,000 pigs or 300,000 chickens. Embedded generation is not necessarily economic so there is a need to investigate alternatives — co-generation is valuable. There are many sources of energy becoming available.

**Leigh Watkins** (Bendigo Bank) spoke about the benefits and difficulties associated with aggregation. He described the experience of Dunolly, a town of about 1200 homes that initially sought to reticulate liquid petroleum gas (LPG) — natural gas wasn't viable — but had to install infrastructure that could be used for LPG in the short term and for natural gas in the long term. The whole community was committed to the project and sought to raise \$1million in capital to establish the network, thus reducing the risk to retailers and offering the community some financial advantages by being able to buy LPG wholesale. Unable to raise the full amount, the community then looked at alternatives, including buying large LPG cylinders which could be refilled. A cylinder costs \$180 per annum to rent, but could be bought wholesale for \$350.

**Peter Clements** (Department of Infrastructure) said that the Victorian Government considers that the framework is reasonably in place to monitor reliability of supply, but has recommended that the Essential Services Commission (ESC) investigate more micro-levels of monitoring. A principal concern now is security of supply — to ensure ongoing, long-term, commercial deliverability of energy.

### KEY MESSAGES

1. Adequate energy supply = sustainable energy supply.
2. Renewable energy offers viable alternatives — can be competitive with grid prices, but it needs to be strategic.
3. Community commitment to aggregation initiatives offers powerful benefits.
4. Government framework for reliability of the grid is reasonably good but the ability to affect other fuel choices is small. Ongoing security of supply requires appropriate commercial incentives.
5. Small towns have to shout loud to attract attention — public relations and political pressure is the key.

The State Government must ensure that the commercial incentives are in place for privately-owned companies to continue to invest and supply. There have been some scares in recent years that have underlined the need not to take security for granted. He commented that it was important to recognise that the ability of governments to regulate and influence industry behaviour for fuels such as firewood or LPG is limited — the policy levers to effect change are small.

**Peter McShane** (Latrobe Network) said that despite the fact electricity is generated in the Latrobe Valley, customers there do not get cheaper electricity; and even though natural gas is piped past Latrobe, access is dependent on the existence of big users. The impact of electricity privatisation on the Latrobe Valley was significant, with jobs and capital moving to Melbourne. And retailers give higher priority to areas with higher population density because of the economies of scale. Small towns without reticulated gas suffer competitive disadvantage and their size is an obstacle to securing appropriate infrastructure. He said small towns cannot compete on economies of scale, so must compete on public relations value, nuisance value, community image, and community conscience. To move forward, small communities must become part of the decision-making process — be more demanding, organised and 'pig-headed'.

**Matthew Nichol** (Centre for Sustainable Regional Communities), said that energy represents a major import to regional Victoria. And it is a very important input for regional businesses. Research on energy seems to indicate that while prices have fallen in real terms, the distribution of benefits has not been equal between rural, regional and metropolitan areas. Price decreases have been much more significant for large industrial users. Fixed rates for transmission losses are higher in rural and regional areas and market failure is evident in transmission cost charges. The network demand charge significantly penalises those who exceed it and is designed to defer retailers' risk in incurring higher wholesale prices. Considering energy represents a major import by country Victorians, there is a need to look closely at alternatives — co-generation or clustering strategies would seem to offer some opportunity and would help plug the leakage of wealth from regional economies. In most regional areas agriculture and manufacturing are the largest sectors in which there is a real need to address transmission cost issues through the National Electricity Market.



## Break-out 6: Demand Side Management (DSM) — Business Issues

Moderator Jeff Bothe (City of Greater Bendigo)

**Jeff Bothe** opened the session by defining demand side management (DSM) and demand side response (DSR):

1. DSM: is when businesses develop and implement long term strategies to improve energy management. For example, undertaking energy audits, investing in power factor control equipment, and plant and equipment upgrades.
2. DSR: is a deliberate act by end users to change immediate load in response to price spikes or market congestion (increased electricity prices). For example, taking your load offline when prices spike (the wholesale energy market is the driver here).

**Brett Carter** (Unilever) said Unilever was just about to sign off on a 36-month contract for gas and electricity. Unilever will save \$300,000 through the negotiation process (3% to 4%) which is important because any savings help Unilever products become more competitive. Sometimes margins are as small as a cent a unit, so if Unilever is one cent cheaper than a competitor per unit it secures the contract. Unilever hired a consultant to conduct an energy audit to help with identifying energy savings and undertaking negotiations.

The company is always trying to gain efficiencies and as an Environment Protection Authority (EPA) registered business must have an energy plan to reduce overall demand (minimising peaks and troughs by striving to produce products better). On the other hand, some EPA requirements mean reduced efficiency. E.g., Unilever is required to stay within noise restrictions. This means turning fans down, which means inefficient fan usage, which actually pushes energy usage up 5% to 10%. There is a dilemma regarding growth. How to keep expanding, while using less energy and being more efficient?

**Julian Turecek** (Origin Energy) said there will need to be a \$30billion investment on the supply side of energy over the next 10 years. DSM can be considered to be anything that changes usage patterns (the easiest way to save money is to reduce energy usage, thus reducing cost).

The benefits of DSM are economic efficiency over the long term (for both the individual company and the network as a whole); efficiencies spread through the whole supply chain — from generator to user; and a reduction of greenhouse emissions.

Barriers to DSM:

1. Stable pricing — where energy is cheap, or at least spikes and troughs are limited, there's no financial imperative for DSM.
2. Realistically, energy is a small percentage of overall production costs, so there is a lack of management attention given to energy efficiency.
3. The structure of the wholesale energy market.

### KEY MESSAGES

1. The potential benefits from DSM depends on the level and patterns of energy usage and on the nature of, and response to, new retail pricing structures.
2. Regulation to take up DSM is not seen as the only solution.
3. Provision of information, education, networking opportunities and discussion on energy efficiency is a key way forward.
4. There is not currently a priority to ensure efficiency by all players in the energy sector.
5. Equipment used in industry isn't rated on energy performance/usage (e.g. the star rating on white goods). Lack of information makes it difficult for business to choose appropriate and efficient equipment, so DSM is made that much more difficult.
6. Although there are potential energy efficiency gains available, there are limited incentives for users to initiate DSM programs.

The way forward

1. More education/information.
2. Greater access to resources.
3. Implementation of an 'understandable' national rating standard for plant and equipment.

In the long run, DSR makes for a more efficient energy supplier mix, but there are also barriers that make DSR ineffective:

1. Markets aren't currently designed to facilitate DSR strategies. For example, going offline when prices spike.
2. Most businesses want to focus on what they do, not on energy usage (energy is only one input into the production process).
3. The amount of usage impacts on DSR. Any usage below 1 megawatt (MW) really doesn't warrant the time and effort of DSR because the savings wouldn't justify the time and effort — it's just not efficient.

**John Pollock** (City of Greater Bendigo). As Bendigo Council's Ecological Sustainable Development Project Officer, John worked with Origin on the Energy Efficiency and Action Program. Origin conducted audits on eight companies (full audits on three), to determine how these companies could become more efficient and make savings on their energy bills. The findings from the three full audits were given to other companies to give them ideas about what they can do themselves to reduce usage and costs.

As much as people say that energy costs are too high, the Energy Efficiency Action Program had a lot of difficulty persuading companies to join the program. This raised the questions:

1. Is energy that important to people?
2. Are energy costs really that high?

Of the three companies who had the full audit done, they each saved about \$30,000 per year on energy costs.

**Scott Birchall** (Coomes Consulting Group) explained about a project — part funded by the Sustainable Energy Authority Victoria (SEAV) — that is researching the use of waste from a state-of-the-art dairy farm to reduce energy demand from the electricity network. The method involves the capture of methane from an anaerobic digester that in turn can fuel generators on-site. The use of biomass is predicted to produce up to 70% or 80% of the energy needs of the dairy. On-site generation would also reduce pressures to upgrade the grid which would normally supply this energy.



### Plenary 3: The Way Forward (or 'Where Do We Go From Here?')

Moderator Bill Russell (CUAC Chair)

**Bill Russell** opened by asking the panel what were the key messages they were taking home from the forum and what opportunities they saw had emerged from discussions.

**Caryle Demarte** (Energy Retailers' Association of Australia — ERAA) said the forum had provided an opportunity for a whole range of stakeholders to gather and build awareness on a range of issues, and it would be a great pity if that was not used to leverage continued action. There was need to broaden awareness and understanding of the individual issues between generators, wholesalers, retailers, government, regulators and customers.

**Paul Fearon** (Essential Services Commission — ESC) commented that the breadth of issues addressed was enormous. The challenges are to identify the smaller number of issues that should be tackled, such as aggregation. We can now move to another level of detail — identifying champions in the community to deliver solutions. The ESC is very willing to work with communities. He added that he would like participants to come back in 12 to 18 months time to show what progress has occurred.

**Peter Clements** (Department of Infrastructure — DoI) said the main messages he would be taking were that there was far stronger enthusiasm for local solutions to address perceived deficiencies in energy infrastructure and that there was also a widespread belief that demand-side solutions could produce substantial benefits. DoI would explore those impediments and work with the ESC to try reduce impediments to embedded generation and aggregation within the energy and gas industries, and help rural and regional consumers access the benefits of competition.

**Leigh Watkins** (Bendigo Bank) said the forum had reinforced his belief that aggregation is the right path. Competition maturing means people and ideas will emerge to make some of the things discussed at the forum a reality. Embedded generation was a good example of obtaining benefit for the community. The process of the forum had been very good — the process of formal, written submissions is quite onerous and open exchanges like the forum were a better alternative. The regulatory framework provided a sound basis, but needed to be brought to bear on the problems of rural and regional consumers.

**Judith Cahill** (Ovens Valley Awareness Group — OVAG) said that OVAG had really appreciated the opportunity to attend the forum, and to learn and provide input to the discussions here. She said she endorsed the views of Dr Gennadi Kazakevitch that there were opportunities for rural and regional communities to seize the initiative and create benefits within a privatised marketplace, but cautioned that we need to remember that clients and customers are individuals — our brothers and sisters. The process of privatisation has put the onus of responsibility on individuals to fight for their rights — but how easy is it for disadvantaged communities to do that? She added that the sector's jargon also has to be broken down, to improve communication between stakeholders. The forum had demonstrated that while people speak differently about issues, a number of common themes had emerged.

**Fiona McLeod** (Energy and Water Ombudsman (Victoria) — EWOV) said she would echo Judith's comments. The key challenges in the future is to continue to build capacity across a wider range of people than has been achieved previously. One of the benefits of the forum was the opportunity to hear from real people with real experiences. This momentum should be carried forward, and it would be useful to hold another such meeting in regional Victoria. We also need to consider that while we may not be building a network capable of providing regulatory responses, we need to think about how we feed this sort of 'real experience' into policy.



## Discussion

The moderator then opened discussions, seeking comments from the floor. **Cheryl Wragg** (Victorian Council of Social Service VCOSS) informed delegates that — VCOSS had received funding from CUAC to better service the welfare and community sector with regard to utilities issues. VCOSS had developed education and training courses and information resources, mainly focusing on the alleviation of fuel poverty in Victoria, with the aim of building capacity within the sector to better meet the needs of their clients.

**Hugo Armstrong** (Powercor) said the forum was very timely, given the current Electricity Distribution Price Review being conducted by the Essential Services Commission (ESC). The next few months offer the opportunity to discuss problems and proposals with distributors, and he encouraged participants to take advantage of the current window of opportunity.

**Peter McShane** (Latrobe Network) noted that he had learned a lot through discussions, and had a better awareness of the range of options available. But it was necessary to review this process and encouraged the organisers to maintain the momentum built by the forum.

In response to a question from **Garth Keech** (Keech Castings) about how to contribute to the Electricity Distribution Price Review, **Paul Fearon** (ESC) said that the first milestone is in October, when the distribution businesses submit their service and price plans. Those businesses are required to consult with their communities in drafting those plans. The ESC would seek comments from stakeholders on those submissions, with the aim of producing a draft decision by June 2005. He said that the more robust participation is, the happier the ESC will be. The distribution businesses have general obligations on service and reliability standards and on tariff structures between price reviews, but the review underway certainly offered consumers a chance to make substantive comments on major issues, such as reliability.

**Greg Walsh** noted that the Minister had sought to be briefed on the issues raised at the forum, but that it would also be useful to secure a response from the Minister which could be distributed to participants. **Professor Bill Russell** said CUAC was happy to coordinate that process.

**Heather Farley** (Latrobe City Council) noted there were a range of similarities between stakeholders on certain issues and said she thought a major contribution of the forum was the capacity to bring different groups together.



## Closing

**Jenny Dawson** (MC and CUAC Director) thanked all the participants and introduced **Ted Ludbrook** (Ovens Valley Awareness Group — OVAG) who had asked to speak.

**Ted** said OVAG had been very pleased to be invited to the forum. They found it informative and learnt much from discussions, so, on behalf of all the participants, he asked for the opportunity to thank the organisers — CUAC and the Department of Infrastructure — for this initiative. OVAG would be glad to see it repeated.

## Steering Committee Members

Jenny Dawson (Chair)	Director, Consumer Utilities Advocacy Centre — CUAC
Peter Clements (Deputy Chair)	Department of Infrastructure
Rosemary Bissett	Sustainable Energy Authority (Victoria) — SEAV
Jeff Bothe	City of Greater Bendigo
Judith Cahill	Myrtleford Health Centre
Kerry Connors	Executive Officer, CUAC
Heather Farley	Latrobe City Council
Wendy Heath	Essential Services Commission — ESC
Iwona Lider	Department of Human Services — DHS
Rob Lorenzon	Australian Industry Group — AIG
Jocelyn McMillan	Jindara Community Programs
Denis Nelthorpe	Consumer expert
Karen Piper	Department of Human Services — DHS
Angela Savage	Victorian Council of Social Services — VCOSS
Delwyn Seebeck	Dairy farmer
Dr John Tamblyn	Essential Services Commission — ESC
Greg Walsh	Business consumer expert
Leigh Watkins	Bendigo Bank

## Agenda: Thursday June 17

09.00 – 10.00 Registration (coffee/tea available on arrival)

10.00 – 11.15 **Opening and Welcome**

MC: Jenny Dawson

Professor Bill Russell (Chair, Consumer Utilities Advocacy Centre)

The Hon. Theo Theophanous, Minister for Energy Industries and Resources *Energy Policy for Rural and Regional Victoria: Future Outlook*

11.15 – 12.30 **Plenary Session: Energy Pricing**

How can rural and regional consumers access energy at the lowest feasible price? What are the cost drivers underpinning energy prices in rural and regional Victoria? What do consumers need to know? How can consumers be more involved in the energy regulatory processes and commercial negotiations?

**Chair:** Greg Walsh

**Speakers:** Richard Bolt (Department of Infrastructure, Energy and Security Division), Garth Keech (Keech Castings), Caryle Demarte (Energy Retailers' Association of Australia), Denis Nelthorpe

1230 – 13.30 Lunch

13.30 – 14.45 **Break-out 1: Energy Efficiency and Demand-Side Management (DSM) in the Community**

What are the benefits of DSM for rural and regional households? How do consumers engage in energy efficiency programs? What is the role of government and industry?

**Chair:** Judith Cahill

**Speakers:** Terry White (Central Greenhouse Alliance), Katrina Woolfe (Sustainable Energy Authority Victoria), David Cornelius (Essential Services Commission), Graham Macdonald (Bendigo Access Employment), Julian Turecek (Origin Energy)

**Break-out 2: Distribution Business Issues**

How do we deliver affordable, reliable and good quality network services to rural and regional areas? What are the cost drivers of network prices? What concerns do business consumers have with current network prices and service levels? Can consumers influence network tariff structures?

**Chair:** Leigh Watkins (Bendigo Bank)

**Speakers:** Greg Walsh, Sally McMahon (Essential Services Commission), Hugo Armstrong (Powercor), Garth Keech (Keech Castings)

14.45 – 15.15 Afternoon tea

15.15 – 16.30 **Break-out 3: Low-Income and Disadvantaged Consumers**

How can energy affordability be improved? What are the issues facing low-income consumers? How can low-income consumers be empowered? Are energy retailers assisting? Are government programs working in rural and regional Victoria?

**Chair:** Fiona McLeod (Energy and Water Ombudsman — Victoria)

**Speakers:** John Mumford (Bass Coast Regional Health), Rob Sheperdson (Portland Housing Program), Iwona Lider (Department of Human Services), Wendy Heath (Essential Services Commission), Ted Ludbrook, Judith Cahill and Cheryl Sanderson (Ovens Valley Awareness Group), David McAloon (TXU)

**Break-out 4: Infrastructure Issues**

What is perceived as 'adequate access to supply'? How can access to energy infrastructure for rural and regional consumers be improved? What impact does energy infrastructure have on local business and local economies? Are there viable delivery alternatives?

**Chair:** Craig Rutledge (Australian Industry Group)

**Speakers:** Peter Bommer (Orbost Chamber of Commerce), Cheryl Wragg (Victorian Council of Social Service), Brian Roachford (Envestra), Marion Riley (Campaspe Shire Councillor), Alan Pears (Business Council for Sustainable Energy), a representative of the Victorian State Government

16.30 – 17.30 **Plenary : Report back to conference on discussion in break-out sessions**

19.00 – 21.00 Dinner

**Speaker:** Michelle Pride (Director, 2004 Commonwealth Youth Games)

## Agenda: Friday June 18

08.00 – 08.45	Breakfast
09.00 – 10.15	<p><b>Plenary: <i>Making Competition More Effective for Rural and Regional Consumers</i></b> How can a competitive marketplace benefit rural and regional consumers? Is competition effective in rural and regional Victoria? How do retailers market to rural and regional consumers? What can be done to improve the capacity of rural and regional consumers to participate in the marketplace? Is aggregation a way to secure competitive offers for rural and regional consumers?</p> <p><b>Chair:</b> Professor Bill Russell (CUAC Chair) <b>Speakers:</b> Paul Fearon (Essential Services Commission), Gennadi Kazakevitch (Monash University), Leigh Watkins (Bendigo Bank), Simon Price (Victorian Farmers' Federation), Andrew Bonwick (Powerdirect)</p>
10.15 – 11.30	<p><b>Break-out 5: <i>Fuel Choice for Small Communities</i></b> How do smaller communities in rural and regional Victoria ensure adequate and secure energy supply? If fuel choice options are limited, what avenues are available for smaller communities? Are there alternative ways of securing energy infrastructure for small towns? What is government's strategy to ensure adequate energy supply?</p> <p><b>Chair:</b> Heather Farley (City of La Trobe) <b>Speakers:</b> Marion Riley (Campaspe Shire Councillor), Tony Sennit (Diamond Energy), Leigh Watkins (Bendigo Bank), Peter Clements (Department of Infrastructure), Peter McShane (La Trobe Network), Matthew Nichol (Centre for Sustainable Regional Communities)</p>
	<p><b>Break-out 6: <i>Demand-Side Management (DSM) – Business Issues</i></b> What are the benefits to a business of investing in demand-side management? What incentives or obstacles exist to improve DSM programs and energy efficiency?</p> <p><b>Chair:</b> Jeff Bothe (City of Greater Bendigo) <b>Speakers:</b> Scott Birchall (Coomes Consulting Group), Julian Turecek (Origin Energy), Brett Carter (Unilever), John Pollock (City of Greater Bendigo)</p>
11.30 – 12.00	Morning tea
12.00 – 12.30	<b>Plenary: <i>Report back to conference on discussion in break-out sessions</i></b>
12.30 – 13.15	<p><b>Plenary: <i>The Way Forward (or 'Where Do We Go From Here?')</i></b> What happens next? How should this dialogue continue? Are there issues or specific mechanisms that should be pursued? How can rural and regional consumers continue to make their voices heard? How can better energy deals be secured for rural and regional consumers?</p>
13.15 – 14.00	Close and lunch