



South Australian Council of Social Service Inc

Submission to the

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

on

**Improving User Participation
in the Australian Energy Market**

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For further information

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**Submission
to the
Ministerial Council on Energy Standing Committee of Officials
from the
South Australian Council of Social Service**

Introduction

SACOSS is the peak body for the social service organisations in South Australia. Our membership of 270 includes peak bodies in the community sector and other membership organisations. Our members offer such services as counseling, family support, emergency relief, emergency accommodation, advocacy, information and referral to people in crisis, people with disabilities, migrants and refugees, youth, aged, people on low incomes and those otherwise disadvantaged.

This submission was prepared by Mr Andrew Nance, Coordinator, SACOSS Electricity Consumers Advocates Training Project, in discussion with SACOSS members and the Executive Director.

The South Australian Full Retail Contestability (FRC) experience has been extremely negative for many householders (particularly those on low incomes) and for the providers of community support services - electricity price rises in excess of 25% in 2003 with gas to follow in 2004 with price rises 'limited' to 'only' 10% (through a \$64m injection of public funds to 'avoid' a figure similar to electricity). Equity in the access to essential services by households is SACOSS's prime area of concern in relation to the issues raised in the UPWG discussion paper.

SACOSS has been assisted in its participation in the preceding workshops and the preparation of this submission by funding from the National Consumers Electricity Advocacy Panel.

General

In broad response to the discussion paper, it is SACOSS's view that far greater attention is required in this current reform phase on those households that, for a multitude of reasons are effectively unable to participate in the market and unable to enjoy the 'benefits of competition'.

This move towards a more national regulatory approach is of great concern to South Australians. As the smallest NEM region (comprising only around 7% of the NEM's energy consumption) yet still suffering as the region hardest hit by rising retail electricity prices, there is understandable concern as to whether South Australian consumers will have an equitable voice in future regulatory decisions and policy directions.

The social impact witnessed in SA is not being matched by adequate resources dedicated to consumer protection, representation and advocacy.

Further, the paper alludes to issues around inter-governmental roles in statements including:

" ... removal of cross subsidies should be addressed through the delivery of alternative community service obligations."

... and in the introduction:

" For the residential sector, consideration needs to be given to balancing the opportunities for improved user participation through more effective price signals and metering technologies, with social policy objectives."

It is of significant concern that this consultation process has not provided any indication of the level of future resourcing and interest from the governments or other entities concerned in delivering such CSOs. Federal regulation that requires integration with state-based social policy to provide equitable outcomes warrants a far deeper analysis than this discussion paper consultation process

allows. The reform of regulatory arrangements must be integrated with reform of public policy to ensure no 'gaps' remain and that issues of hardship are adequately dealt with.

In summary, SACOSS's prime concerns are:

1. This latest regulatory reform phase is occurring with inadequate ongoing resourcing for the effective advocacy of the interests of residential energy consumers
2. Inadequate attention and legislative protection of the 'rights of access' of householders to essential services including an effective safety net. Energy is an essential service for households and every household is entitled to affordable access to sufficient amounts of energy as needed to sustain a reasonable standard of living and meet the health needs of the occupants [also, refer Senate Poverty Inquiry 2004 - Recommendation 33 (discussed herein)]
3. The roles and responsibilities of different spheres of government and regulation are to be realigned in the delivery of the 'suite' of reforms required to balance social, environmental and economic objectives in Australia's energy markets. Will gaps in public policy emerge? How will they be dealt with?
4. Inadequate household energy consumption data (linked to demographic indicators/household attributes) exists for any stakeholder to make accurate assessments of the equity implications of regulatory decisions
5. An over-reliance on market based price signals instead of practical support to deliver market outcomes for householders (eg demand responses, uptake of market contracts). The drivers of energy consumption at the residential level are a complex interplay between economic circumstance, social pressures, housing quality, lifestyle, education and cultural influences - impersonal strategies are unlikely to elicit a substantial response.

Following is a more detailed response to the paper's 'Issues for Consultation'.

Demand Side Response Market Mechanisms

This submission focuses on the participation of the residential sector and as such has no comment on much of this section of the paper. It is assumed that the objective here is to elicit some sort of 'time of use' response to address the cost of peak demand. In this regard, it is not felt that householders are suitably placed to participate in any form of 'bidding' mechanism, however, clear opportunities exist for reducing energy consumption AND peak demand from the residential sector on an ongoing basis. To do so, householders must be supported with much more than just price signals if a substantial response is desired.

• Are there any overseas demand side bidding models that can be usefully applied the National Electricity Market?

One model of how a residential approach could be funded and implemented is the UK's Energy Efficiency Commitment (EEC). *'Under the EEC for 2002 to 2005, electricity and gas suppliers are required to achieve targets for the promotion of improvements in domestic energy efficiency. The EEC will contribute to the Climate Change Programme by cutting greenhouse gas emissions. It will also help eradicate fuel poverty by focusing 50% of energy savings on lower income consumers.'* (from www.defra.gov.uk/environment/energy/eec/)

Whilst the 'obligation' rests with the energy retailers, the EEC is being delivered through community partnerships - a very cost effective way of accessing the community networks that are vital to implementing such a household initiative. The initiative also links to the UK's Fuel Poverty Strategy - a suite of initiatives that aim to improve the affordability of household energy and improve the energy performance of dwellings.

For more information, **please see the attached docs** from the UK Association for the Conservation of Energy at www.ukace.org or more info on the UK approach to Energy Efficiency at <http://www.dti.gov.uk/energy/sepn/efficiency.shtml>. In terms of cost-effectiveness these sites report predicted energy benefits of around £7.50 to around £16.50

per year for a cost of £3.60 per customer per year!

- ***What are the most appropriate mechanisms for developing and implementing an enduser education campaign to facilitate demand side commercial skills?***

Different population groups require differing approaches - whether the difference lies in age, health, culture, language, literacy. Most individuals have a preferred learning style too and this must be reflected in any 'education' initiative.

Eliciting a demand side response from residential energy users has been the subject of much study internationally. Research such as 'Motivating Home Energy Action - A handbook of what works', (Michelle Shipworth for the Australian Greenhouse Office, April 2000) indicates that price signals alone provide little response. Similarly, blanket information/education campaigns have a poor global record of generating a substantial response. Community based Social Marketing (www.cbsm.com) is a methodology with proven results in delivering household behaviour changes by targeting specific barriers to action.

- ***What solutions (regulatory and other) might address the market impediments and enhance user participation? Specifically options addressing property rights, market based price signals, customer awareness, and technology.***

For the residential sector: practical support programs to complement awareness raising initiatives. As stated, blanket information campaigns don't work - and are particularly ineffective for the population groups hardest hit (Low Income, Culturally and Linguistically Diverse [CALD], frail aged etc).

Experience of community level energy efficiency programs in South Australia (Cool Communities and Energy SA's Energy Friends programs) is that 'price signals' are most effective when they come in the form of householders being shown exactly how much an appliance costs to run and then being given practical, concrete advice on what can be done in response.

Interval Meters

- ***Do stakeholders support a review of the effectiveness of interval metering for large end users? What are the assessment factors and criteria that should underpin review?***

A study of the interaction between consumption information, price signals and actual demand response would be of some use, however, extrapolating any interpretations to other consumer 'classes' (especially residential) should only proceed with great caution.

- ***What customer classes/market segments could benefit from a rollout of interval metering technology? Please state the basis for your evaluation. What lower cost metering solutions (if any) should be financially viable to achieve user participation benefits for this customer class?***

SACOSS's experience is that there is insufficient household level consumption data to allow for the accurate assessment of the equity impacts of interval metering (and many other issues for that matter).

Resources must be allocated to finding out more and household consumers are unable to effectively advocate their interests until such information is extracted from the market. Ironically the best way of getting the data needed accurately may be to install interval meters at a suitably diverse number of households (acknowledging the impacts of house construction, climate, household size, fuel mix etc). In any case, the data and information must remain in the public domain and be accessible to all.

Further, the exact 'problem' interval meters are intended to solve needs to be explicitly stated. Without many complementary support initiatives in place (to compensate for any regressive impact and to support actual demand response), interval meters only seem to aid the efficacy of market settlement. Tackling peak demand - a problem with a far greater cost implication than settlement methods - will need much more than just new meters and IT systems and may well be able to be achieved at far less cost without them.

- **Do stakeholders support a remote load control program specifically targeting household air conditioning use, and other technologies that could assist consumers to voluntarily manage their domestic energy use? What cost effective technologies could facilitate an effective program?**

'Remote Load Control' for airconditioners (using 'Power Line Carrier' technology) was discussed in a recent report to ESCoSA (by Charles River Associates and available from ESCoSA). There are some clear consumer rights issues to be explored but some overseas (US) examples cited seem to offer the measure on a voluntary basis and provide a 'credit' on customer's accounts whenever it was enabled. The little info seen seems to indicate this was a successful approach.

Regardless, the net impact of tackling peak demand should lead to an ability to reduce the standing contract price - lower wholesale energy costs including risk premiums and lower network charges should lower any cost-based 'price cap'. If this benefit to consumers can be regarded as outweighing perceptions of 'inconvenience' and 'intrusion' of such an approach then it should be seriously considered.

- **Do stakeholders support the retention of load profiling subject to further assessment of the development of cost reflective tariffs?**

Just as we are insufficiently informed to assess the impacts of interval meters, we are unable to adequately assess the status quo - load profiling.

Retail Pricing

- **What overarching pricing principles would be appropriate to guide regulated price setting?**

Regulated price setting must recognise that energy is an essential service for households and that every household is entitled to affordable access to sufficient amounts of energy as needed to sustain a reasonable standard of living and meet the health needs of the occupants.

Further, regulated price setting must acknowledge that many in the community are unable to effectively engage in the competitive market and a safety net, in the form of an affordable, accessible energy solution, must be provided.

The 2004 report from the Senate Community Affairs References Committee Inquiry into Poverty and Financial Hardship (Senate Poverty Inquiry) made the following observation (Ch9, p191):

"Evidence indicated the importance of ensuring access for low income households to essential utilities such as electricity, gas, water and telephone services. These services provide the basic means by which any household is able to function in a modern society."

However, energy market reforms to date treat the energy that provides this 'basic means' and the energy that powers the airconditioner of a CBD office block as the one, tradeable commodity. Not surprisingly, equitable outcomes are proving difficult.

The Poverty Inquiry also made the following recommendation (Recommendation 33)

"That public and private utilities have in place hardship provisions that provide for the reduction or waiver of debt to ensure that customers genuinely unable to pay for the provision of utilities retain access to these essential services."

Some level of assessment of the adequacy of such hardship provisions must be part of any principles of price setting.

- **What methodologies do stakeholders consider appropriate for price cap review?**

SACOSS finds it difficult, based on recent South Australian electricity experiences, to imagine a time when some form of price control will not be required. However, if a review

is to proceed it must acknowledge local context - climate, housing stock, general affordability and poverty issues, market maturity, presence of 'effective competition' etc.

Facilitating equal representation of the views and concerns of both the supply and demand sides of the market is vital. Most licensed and regulated market entities are allowed to collect sufficient revenue (via standing contracts and regulated tariffs, fees and charges) to participate in regulatory decision making processes. Insufficient information is freely available to estimate a dollar amount however it is clear that it far outweighs the low levels of fragmented funding available to residential consumer advocates.

Acknowledging that the entire market, in all its forms, is eventually funded by consumers it is blatantly inequitable that the supply side of the market is being funded by consumers to advocate for higher prices and enhanced profitability. This must be addressed by the MCE.

Further, the retail end is the culmination of other pricing decisions made about generation, transmission, distribution, taxes, levies and so on. Not only do consumers need to have an equal voice at the retail discussions but in all of the other fora that determine the price components.

• What intermediate steps could jurisdictions take to ensure consumer price certainty and affordability without instituting price caps?

SACOSS believes socially responsible tariffs (SRTs) are relevant here and certainly feels more research is required and warranted to take this further. This research would include analysis of the consumption data discussed earlier plus more analysis of possible tariff structures, what constitutes 'enough for a reasonable standard of living' and so on.

SRTs, also known as 'social tariffs' and including 'lifeline tariffs' and others, have emerged as a possible mechanism for reducing the social impact of the pricing of 'essential services' such as electricity and gas.

Such tariffs are consistent with the following objectives for 'Essential Services':

1. All households are entitled to access sufficient quantities of essential services (such as electricity, gas and water) as required to sustain a reasonable standard of living and meet the health needs of the occupants.
2. All households are entitled to access this quantity at an affordable cost.

In basic form, an SRT has low or no fixed charges and an 'entitlement' of energy that reflects a quantity that can sustain a basic standard of living at an affordable rate.

The cost per unit then increases in 'bands' of increasing consumption. Provided a Community Service Obligation (CSOs) regime (including targeted concessions) exists to allow for instances of significant consumption demanded by health or special needs, such a tariff structure better reflects this 'essential service' nature of domestic energy consumption.

Such a tariff arrangement is also consistent with, what should be, the environmental objectives of energy markets: maximum energy efficiency and minimum greenhouse emissions. Households that have 'small' consumption due to economic circumstance as well as households that choose to limit consumption through active management of demand (or through operating a solar electricity system for example) are equally rewarded for the minimal 'drain' they place on the network.

Comprehensive Building Energy Performance Standards must accompany such a tariff structure to ensure all new housing is built to be comfortable within the 'entitlement'. Further, this must be accompanied by an adequately resourced program to retrofit the existing housing stock - targeting public, community and rental dwellings. The UK's Energy Efficiency Commitment, discussed earlier, provides an extremely cost effective, employment generating model for funding and implementing such a program.

• What criteria are needed to developing a framework for a price cap review? For example, how do we define what constitutes effective competition?

At present, SACOSS believe it is extremely unlikely that many, or even any, disadvantaged households will ever see 'effective competition' even under the most generous definition of the term. This certainly raises questions about the overall appropriateness of a 'retail market' for an essential household service such as energy.

However, if 'competition' is the goal for an effective market, there must be effective competition between 'supply' and 'demand'. The only way this will happen is if both sides are equitably resourced to advocate their interests.

To pursue a clear definition of effective competition, a far greater understanding of present levels of customer inertia is required. It is quite clear that there are many more issues than just price. Others to be considered are:

- Lack of appropriate information (content, form and delivery)
- Satisfaction with present arrangements
- Effectiveness of marketing strategies
- Duration and portability of market contracts (particularly in relation to renters)
- Do households want competition and choice in their essential services?

In terms of criteria, the development of performance indicators - spanning the economic, social and environmental aspects of the market - is essential. The University of Adelaide is conducting an Australian Research Council supported research project aiming to develop such a set of indicators. The project is being conducted with the South Australian Council of Service and the Conservation Council of SA in order to allow some degree of longitudinal tracking of the market's performance. Further information is available via SACOSS.

• What are stakeholder's views on the establishment of an electricity price comparison website? Who should be responsible for its development and administration? What information and functionality should be included in such a website?

Websites are great for some but not all and, once again, those that most need the help are the least likely to benefit from this approach. The experience from the UK is that more personalised face-to-face support is needed. This has raised the concept of community based 'Energy Advisors' trained in financial counselling, advocacy/retailer payment negotiations, energy market contracts and home energy efficiency - resource intensive but effective. A similar example in SA is an initiative of COTA National Seniors [Council on the Ageing (SA)] that is providing more personalised coaching for intending market participants.

Any information service must include non-price outcomes such as consumer protection provisions, hardship policies, fees and charges etc. Further, comparisons between offers must be on a complete 'apples for apples' basis.

An apparently successful model that combines price comparisons with consumer protection, again comes from the UK in the form of 'energywatch'. To quote Chief Executive Allan Asher (www.energywatch.org.uk)

"energywatch is far more than just a helpline, a website or a complaint-handling body. We are a champion for energy consumers. We engage with consumers across England, Scotland and Wales on a daily basis and we see the devastating impact of some of the problems in the energy market today."

The clear need for such a service in the UK energy market - one that is much more mature than Australia's, suggests the need for an investigation of a similar statutory arrangement for Australian consumers to "...protect and promote the interests of existing and future gas and electricity consumers ..." (from energywatch statutory responsibilities).