



Power

for the



People

Declaration



TOTAL ENVIRONMENT CENTRE



May 2007



TOTAL ENVIRONMENT CENTRE



St Vincent de Paul Society
good works



Australian
Business Council
for Sustainable
Energy



Power for the People Declaration

Our concern

Signatory groups have strong misgivings about the current structure of the National Electricity Market (NEM) and believe that it does not address deep seated environmental and social concerns held by the Australian community. Under the new National Electricity Law, market regulators cannot take social or environmental issues into account. However, it is clear that the market, left to its own devices, will not produce good social and environmental outcomes.

Electricity is an essential service, and necessary for health, well being and participation in employment, community and social activities. The key controls on electricity production and distribution are market rules and regulations. Yet currently this market actively operates in conflict with many social and environmental objectives, undermining policies designed to promote social cohesion and environmental protection. This will have to change if we are to prevent dangerous climate change and protect vulnerable households.

Members of Parliament need to reform the NEM so that it can help facilitate, rather than obstruct, environmental and social policies, and be more accountable to the Australian community. By contrast, we look to the UK, where the market is comparable to Australia and where measures to achieve better social and environmental outcomes are in place in legislation.

We call upon elected members of the federal, state and territory Parliaments to address our concerns by amending the Australian Energy Markets Agreement, the National Electricity Law and the National Gas Law as follows:

1. require regulators to consider the environment when making decisions and to contribute to the achievement of ecologically sustainable development;
2. require regulators to consider social impacts, with particular reference to preventing negative impacts for low income and disadvantaged consumers;
3. require the industry to implement cost effective demand management and energy efficiency;
4. increase transparency through ensuring Parliament is provided with an annual Environmental and Social Sustainability report; and,
5. require policy makers to work towards environmentally and socially sustainable outcomes through reform of the energy sector.

Power for the People Declaration

Background

All Australian governments are signatories to an agreement which aims for “the promotion of the long term interests of consumers with regard to the price, quality and reliability of electricity and gas services”. They have also agreed to “address greenhouse emissions from the energy sector, in light of the concerns about climate change and the need for a stable long-term framework for investment in energy supplies”.¹ However, the law which established the regulators for the NEM did not include environmental or social objectives which are obviously needed to meet the agreement aims. The second reading speech for the National Electricity Law clearly stated that the objective of the NEM is an economic concept, highlighting an unnecessarily narrow focus for the market and the regulators.

Despite this, state and territory governments are currently handing over their regulatory powers to the Australian Energy Markets Commission and the Australian Energy Regulator. This will put at risk a myriad of state based regulatory mechanisms designed to manage demand, reduce emissions, increase customers’ energy efficiency and protect vulnerable customers.

Since the NEM was established, the Australian community has become awash with concern about climate change. Australia is now at a crucial point in deciding how to power our homes, businesses and the economy into the future.

The environment and the NEM

Since 1990, electricity generation emissions from NEM states² have grown by 52%, resulting in an extra 60 million tonnes of carbon dioxide pollution every year.³ Since 1999, when the NEM became fully operational, energy consumption has spiralled upwards by 24%.⁴ This growth in emissions and consumption signals an urgent need to address the NEM’s in-built incentives for supply-side growth and polluting power sources.

While demand management and energy efficiency have been endorsed time and again over the years as cost effective and beneficial to the NEM, the reality is these environmentally friendly options are seldom implemented. This concern was raised in the Parer Review in 2003 and again in the recently released Energy Reform Implementation Group report. COAG has made a small step towards investigating barriers to demand management by network providers, but legislative commitment to cost effective demand management and energy efficiency is still urgently required.

Power for the People Declaration

Social matters and the NEM

All Australians need energy but not everyone can afford the energy required to meet their basic needs. It is estimated that 1.7 million Australians live in poverty.⁵ Another indicator of potential energy poverty is that around 5 million Australians are currently entitled to a Seniors, Pensioner Concession or Health Care Card. As many as one third of Australian households are at risk, at some stage, of finding themselves unable to pay an energy bill.

In 2002, the Australian Bureau of Statistics (ABS), reported indicators of deprivation and financial stress. The range of 16 indicators of financial stress included "could not pay electricity, gas or telephone bills on time" and "could not afford to heat home". For incomes in the three lowest deciles, 26 per cent, 22 per cent and 15 per cent, of households said that over the previous 12 months they could not afford to pay electricity, gas or telephone bill on time. In the lowest two deciles of income 5 per cent and 4 per cent said that they could not afford to heat their home.

Five years later the ABS reported that between surveys the price of goods and services had risen by 18 per cent. Over this same period, spending on domestic fuel and power was up 32 per cent.⁶ It noted that for households in the lowest income group, the proportion of expenditure on domestic fuel and power is, at nearly 5 per cent, nearly double that of households with the highest level of income.

Market reforms, including industry restructuring and the introduction of retail competition, have already had significant impacts on consumers. As further reforms are considered and implemented, the institutions that govern the market should be empowered to appraise them with a view to consumer interests more broadly than the 'purely' economic.

Conclusion

Despite its poor record on efficiency, environmental and social issues, the NEM is viewed by industry and governments as a success as it has delivered cheap electricity to industry, allowed states to trade with each other through interconnectors and facilitated competition. COAG has foreshadowed another round of reforms to the electricity industry to "ensure Australia retains secure energy markets and relatively low electricity and gas prices".⁷ However, they have not committed to saving a single gram of carbon emissions through the reform process, nor have they acknowledged that energy reforms may have deleterious effects on some consumers. The reform process must be directed towards positioning the NEM so that it delivers energy in ways that are both socially just and environmentally sustainable. Australia's leaders should ensure the National Electricity Market does not obstruct environmental and social goals, but helps to facilitate them.

¹ All jurisdictions are signatories to the Australian Energy Market Agreement and subscribe to its tenets. Neither Western Australia or the Northern Territory currently participate in the national electricity and gas markets.

² States participating in the National Electricity Market are New South Wales, South Australia, Victoria, Queensland and the ACT.

³ Australian Government, *Australia's National Greenhouse Accounts – State and Territory Greenhouse Gas Inventories 2004, 2006*, pp. 16-17.

⁴ Donaldson, K. "Australian consumption by industry, by fuel and state", Australian Energy Statistics, ABARE 2006

⁵ Tony Kryger, *Poverty Rates by Electorate*, Statistics Section, Parliamentary Library, Parliament of Australia Research Note 49 2004-05

⁶ Household Expenditure Survey, Australia: Summary of Results 2003-04 6530.0, Australian Bureau of Statistics, Canberra, August 2005

⁷ COAG National Reform Agenda: Competition Reform April 2007, p2