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Tasmanian Council of Social Service

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## TasCOSS submission in response to *Energy Strategy Issues Paper*

September 2014

### About TasCOSS

TasCOSS is the peak body for the Tasmanian community services sector. Its membership comprises individuals and organisations active in the provision of community services to low income, vulnerable and disadvantaged Tasmanians. TasCOSS represents the interests of its members and their clients to government, regulators, the media and the public. Through our advocacy and policy development, we draw attention to the causes of poverty and disadvantage and promote the adoption of effective solutions to address these issues.

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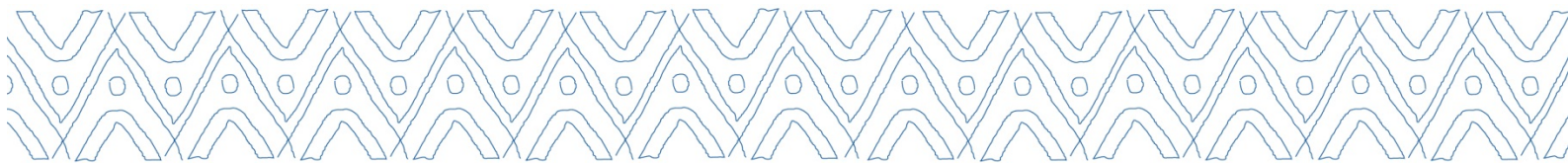
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## Introduction

The Tasmanian Council of Social Service (TasCOSS) welcomes this opportunity to contribute to the development of a new Energy Strategy for Tasmania. This submission provides comment on the Government's *Energy Strategy Issues Paper*, and raises some additional issues that we believe must be considered and included in a new Energy Strategy.

In spite of recent electricity price decreases, meeting the costs of household energy supply continues to be a major challenge for low-income households in Tasmania.

The single most significant feature of energy is that it is an essential service, fundamental to community, family and individual health and well-being, as well as to economic activity of all kinds. Tasmanian households, regardless of their means, must be able to afford to maintain access to an uninterrupted household energy supply. TasCOSS believes that this must be a centrepiece of the Tasmanian Energy Strategy.

We have not addressed each question posed in the *Issues Paper*, but rather to focus our comments on issues of particular significance to Tasmanian residential consumers, and in particular to those low-income, disadvantaged and vulnerable consumers who struggle to afford an uninterrupted and adequate household energy supply.

## Energy policy and social policy

One of the issues that concerns TasCOSS in this *Issues Paper* (and in earlier discussions with Government, regulators and others) is the reference to affordability issues as 'social issues', implying that these are outside and unrelated to energy policy, and can be adequately dealt with through social policy mechanisms.

TasCOSS sees this as a significant weakness of energy policy in general and as a failure of the energy market. It has allowed prices to escalate (and significant profits to be made), leaving 'social policy' to support those who otherwise could not afford an adequate household energy supply.

This *Issues Paper* demonstrates that policy and other levers can be pulled that affect the affordability of energy to both households and businesses, including major industrial businesses. It is imperative that any decisions made in this regard are made with full consideration of the inter-related nature of energy policy and the consequences (including unintended consequences) of all policy decisions.

While concessions can and do help those who are eligible, others in the community also need to be able to afford electricity supply. Those living on low-incomes from poorly paid part-time or casual jobs, with large families, with inefficient appliances, living in poorly built and / or un-insulated housing, who are disadvantaged by

disability, poor health, lack of English language skill and other factors, need to be able to afford electricity.

Low income and disadvantage render people especially vulnerable to financial hardship. With a third of Tasmanians relying on Commonwealth income support as their main source of income, and with Tasmanian average weekly earnings being the lowest of any state or territory (and recently falling)<sup>1</sup>, many Tasmanians are vulnerable due to insufficient income. Disability and chronic disease rates are also high in Tasmania, making more Tasmanians vulnerable.

This is why an energy strategy must consider the effects of policy changes on all customers and ensure that vulnerable customers are well protected. Where policy levers are pulled, for instance say, to provide cut-price power to a new major industrial business or to augment networks to encourage development or to sell more hydro power interstate, this must not be done at the expense of other customers, particularly vulnerable customers.

## **Vulnerable customers**

### **Concession structure**

While Tasmania's government-funded electricity concession is generous compared with other Australian jurisdictions, TasCOSS sees this as wholly appropriate given our cool climate, relatively high electricity use, low incomes and sizable vulnerable population.

TasCOSS has argued previously for a change in the way concessions are provided to provide greater equity.<sup>2</sup> We re-iterate here our recommendation that concessions be provided not as a flat rate, but as a percentage of a total bill. This would ensure that those eligible are assisted according to their need – for instance, large households that need to use more electricity for hot water and space heating in particular, would receive a percentage concession commensurate with their higher usage, while smaller households, including single-member households, would receive assistance according to their lower usage. Currently all eligible concession recipients receive the same flat rate concession, regardless of their electricity usage.

We understand that there may need to be a cap put on a percentage-based concession to contain costs and to provide a cost/price signal to eligible households. TasCOSS would welcome an opportunity to discuss further this proposal for a percentage-based concession with government personnel.

### **Concessions – those missing out**

We would like to take this opportunity to focus attention on a small but very vulnerable group of energy consumers who remain ineligible for concessions (and for energy-specific consumer protections) due to their buying electricity not directly from a retailer, but from on-sellers (also known as 'embedded' or 'exempt'

networks). Such consumers include permanent residents of caravan parks and some retirement villages, and temporary residents of supported and crisis accommodation facilities.

This issue has been raised with TasCOSS by member organisations that provide crisis accommodation, and we have included a call for the provision of concessions to this group in our budget submission of several years ago.<sup>3</sup>

Examples include crisis accommodation providers which house clients in short-to-medium term accommodation units or houses with electricity provided through Aurora Pay As You Go (APAYG, pre-payment) meters. The APAYG 'smart-card' is in the name of the organisation providing accommodation (due to the temporary nature of the accommodation), but the credit on the card – and the electricity – is paid for by the resident. Almost all emergency accommodation residents are concession card holders and would therefore be eligible for a concession in their own right. However, as they are not direct customers of an electricity retailer (through which concessions are provided), they are not eligible for concessions. While such arrangements are temporary, they can last for 6 months or longer, depending on the availability of more permanent housing. Access to a concession would greatly benefit this group of people.

Other groups, including permanent residents of caravan parks, some boarding-house-style accommodation and some aged care or retirement villages, are also ineligible for concessions as they pay the accommodation provider rather than a retailer for their electricity. Many of this cohort are vulnerable due to low income and other factors, and many would be eligible for a concession were they direct customers of an electricity retailer.

In our view this is a clear and serious gap in the Tasmanian concession framework that exposes a small number of very vulnerable consumers to greater hardship. It is also our view that it would not be a difficult gap to fill. We understand that there are models in other Australian jurisdictions (including in Victoria) for the provision of concessions to customers of embedded networks. We recommend that the Tasmanian Government investigates models in use in other jurisdictions and commit to apply an appropriate model in Tasmania as soon as possible.

### **Vulnerable gas customers**

The *Issues Paper* states,

*As gas was originally envisaged as being a “product of choice” rather than an essential service, there is no retail price regulation, and no obligation to supply.<sup>4</sup>*

Gas as a product of choice is clearly no longer the case in Tasmania and TasCOSS contends that it is vital that adequate customer protections are afforded to Tasmanian gas customers as a matter of urgency.

Household gas use, while still small in comparison with electricity use in Tasmania, has spread to households of all kinds, including to very low-income and vulnerable households through its connection to public, social and private rental properties.

Housing Tasmania (HT) which provides affordable rental housing to low-income and disadvantaged Tasmanians has had (and continues to have) a policy to connect properties to the gas network for space and water heating where the network passes HT properties and where existing appliances fail and require replacement. Currently, about 1,700 public and social housing properties are connected to the gas network for either or both space and hot water heating. The management of some of these properties have been transferred to community organisations (such as Centacare Evolve and Mission Australia Housing). An unknown number of private rental properties have also had gas connection and appliances installed.

We have been seeing increasing disconnections from gas supply for non-payment and it has recently been brought to our attention that a number of households have been unable to obtain gas supply from either Tasmanian gas retailer due to concerns about their credit histories. This is possible as there is no obligation on retailers to offer supply.

These households are stranded – they cannot use their gas heating appliances, gas hot water heaters and/or gas cooking facilities. There is no doubt that these households are experiencing serious hardship - they may have no (or very limited) cooking facilities and/or no hot water, and possibly may be having to use expensive plug-in electric heating appliances instead of cheaper and more efficient gas heaters.

TasCOSS has argued that, in order to provide adequate customer protections to gas customers in Tasmania, the Tasmanian Government should adopt the National Energy Customer Framework (NECF) for gas in Tasmania. We reiterate this recommendation here and urge the Tasmanian Government to extend the customer protection elements of the NECF to Tasmanian gas customers as a matter of urgency. These elements include protections such as mandatory retailer hardship policies and the obligation to supply.

As discussed in the *Issues Paper* there are increasing indications that Tasmanian domestic gas prices are likely to rise in the near future,<sup>5</sup> and there is concern among industry observers that Australia gas prices may more than double in coming years.<sup>6</sup>

The likelihood of increasing gas prices makes it even more important to urgently extend adequate protections to Tasmanian gas customers, some of whom are among the most vulnerable people in the Tasmanian community.

## **Energy efficiency programs**

TasCOSS believes that increasing the energy – and thermal – efficiency of Tasmanian houses is the single, most effective and long-term measure that can be undertaken to address energy affordability for low-income households.

We believe that energy prices will remain high and that low-income households in particular must be assisted, through specialized energy efficiency programs, to reduce their consumption of energy in order to save money.

Several successful energy efficiency programs for low-income households have been carried out in Tasmania in recent years, as the *Issues Paper* states. These include *Power Saving for Tenants*, *Stay Warm, Save Money*, and *Energy Champions* (directed at Housing Tasmania tenants). These programs have focused on low-cost retro-fitting to increase thermal efficiency of dwellings, energy efficiency advice to householders, and support for behavioural change that is so important to the success of energy efficiency measures. Unfortunately funding for these programs has generally been short-term and TasCOSS was very disappointed that the recent State Budget failed to provide funding to continue these successful and valuable programs.

TasCOSS strongly recommends that the State Government continue to support energy efficiency programs for low-income households in all housing tenures across the state. TasCOSS believes that it is vital to continue these programs, not only to continue to assist low-income households to reduce their consumption and save money, but also to maximise the value of the significant groundwork undertaken by these projects in sourcing materials necessary for low-cost retro-fitting; training home energy assessors, retro-fitters and trainers; and raising public awareness of the effectiveness of energy efficiency measures.

TasCOSS also recommends that the State Government consider the energy efficiency industry (involving home/business energy use assessment, testing, retro-fitting, training and support) as a small but significant emerging industry that is worthy of Government support.

### **The Electricity Hardship Fund**

TasCOSS has welcomed the Government's continuation of funding for the Electricity Hardship Fund that was initiated by Aurora Energy and is administered by the Salvation Army. This Fund has been invaluable in assisting those in both short and long-term hardship to maintain their electricity supply.

We urge the State Government to continue to provide for this Fund in future years and to extend eligibility for assistance to gas customers in need.

## **Disconnections**

It is difficult to imagine how people live through a Tasmanian winter with no electricity to heat their homes, to heat water for washing, to fuel their cooking appliances, to provide lighting or to provide power for washing machines, vacuum cleaners, televisions, computers and other appliances. However, TasCOSS members who provide emergency relief to people in need, tell us that many people do live without electricity, sometimes for many months. One emergency relief provider loans out small butane-fuelled cooking stoves to families who are living without electricity.

TasCOSS believes that this should not happen in an affluent society.

TasCOSS reiterates its call that no Tasmanian household should be disconnected from its electricity supply solely for an inability to pay. We believe that this can be achieved through a combination of long-term solutions such as energy efficiency programs for vulnerable households, concessions for all eligible households, effective retailer hardship programs, accessible financial counselling and support services, and adequate emergency relief funds.

## **The role of government in regulating electricity prices**

A very significant issue for all Tasmanians is the role of the State Government in energy policy and regulation. The *Issues Paper* outlines the role of the State Government as policy-maker and in ensuring regulation 'meets the needs of Tasmanian customers'.<sup>7</sup> It also notes that the Government has a role as owner of Tasmania's electricity supply companies, Hydro Tasmania, TasNetworks, Aurora Energy and Momentum Energy.

These roles at times have conflicting interests – as company owners, the Government has an interest in maximising profits of the companies, and therefore dividends. As a government it has an interest in keeping prices affordable for households and small businesses – and to attract larger industrial users of electricity. These conflicting roles make it imperative that the State Government plays as small a role as possible in regulation, particularly in price regulation.

In recent years it could be said that Tasmanian electricity prices increased not only due to increased network expenditure, but also due to the wholesale pricing methodology that the Tasmanian Government required the Tasmanian Economic Regulator to employ in setting the regulated retail price. This methodology has since changed and has resulted in lower wholesale prices within the regulated retail price stack.

TasCOSS believes that the Tasmanian regulatory framework can and should be improved by allowing the Tasmanian Economic Regulator more discretion to set the wholesale pricing mechanism – and price – within a market-based regulatory framework. This would result in the Government having no role in influencing

electricity pricing outcomes and it would not be subject to community concerns regarding its conflicting interests.

The *Issues Paper* states

*Tasmanian regulated electricity prices decreased by 5 per cent on 1 January 2014, and by a further 7.8 per cent on 1 July 2014, largely as a consequence of the abolition of the carbon tax ...<sup>8</sup>*

This statement is ambiguous and implies that both price decreases were attributable to the abolition of the carbon price; however, the January price decrease was a consequence of, among other factors, a change in the wholesale pricing regulations.

TasCOSS believes that electricity price regulation must continue in Tasmania under an independent regulator at least until such time as it can be demonstrated that an effective competitive retail market exists and delivers reasonable and sustainable prices under fair contracts to Tasmanian consumers.

## **Retail competition**

The *Issues Paper* poses the question: *Is retail competition important because of price, choice or for other reasons?* This question assumes that retail competition is important, in fact, TasCOSS maintains that retail competition is not particularly important in the delivery of affordable electricity to residential and small business customers in Tasmania.

TasCOSS has long argued that retail competition is not a panacea for rising electricity prices, as evidenced by prices in other Australian jurisdictions where competitive markets have operated for many years. Indeed, we have argued that the additional costs and intrusive marketing that have accompanied retail competition in other jurisdictions, are unwelcome in Tasmania.

Further, it appears that the small size of the Tasmanian small customer base is unattractive to mainland-based retailers, as was made clear by the recent failure to sell, and consequent withdrawal from sale, of Aurora Energy's small customer base.

In the absence of competing retailers and choice of any kind, Tasmanian small customers are already paying additional costs related to competition, including a higher retail margin and costs associated with 'customer acquisition and retention' (described as 'essentially marketing costs associated with acquiring new customers, retaining existing customers and transferring customers<sup>9</sup>).

No small customer is yet benefiting from the introduction of full retail competition in Tasmania. Its importance has therefore not been demonstrated.



## Information to customers

Throughout the process of introducing contestability to Tasmanian small customers, the provision of information to consumers by the State Governments – past and present – has been poor. With the exception of one direct mail-out prior to the unsuccessful sale of Aurora’s retail arm, consumers have heard nothing, except through the media, about the changes, or otherwise, regarding the delivery of electricity to them.

In light of this – and the general and ongoing absence of information to electricity consumers – it is disappointing to read the following statement in this *Issues Paper*:

*Consumers also have responsibilities – to be informed, to make informed choices about energy consumption, and to exercise control over their energy use.<sup>10</sup>*

Consumers need to be provided with information, particularly for so radical a proposed change that contestability could bring to their access to electricity. They need to be equipped with information about options available to them (or not), their rights as consumers in a retail market, and consumer protections. To expect consumers to make informed choices without information is unrealistic – and this statement in the *Issues Paper*, simply rhetoric.

Consumers also need information about how to ‘exercise control over their energy use’ (often in poorly insulated, draughty houses with inefficient appliances). A number of government-funded programs have provided such information in the past; these, however, have not so far continued under the current Government (see Energy efficiency section above).

TasCOSS strongly recommends that the Tasmanian Government conduct a prominent public information campaign on energy issues, that includes information about consumers’ rights, responsibilities and protections within a competitive retail energy market, as well as information about energy use and low cost energy efficiency measures.

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TasCOSS welcomes the development of this strategy as an opportunity to ensure not only that all Tasmanians benefit from Tasmania’s clean, reliable renewable energy supply, but also that our good systems and programs that support vulnerable Tasmanians in maintaining their household energy are appropriately augmented and improved. TasCOSS strongly believes that affordability of an adequate energy supply for all Tasmanians must be a central outcome of a new Tasmanian energy strategy.

## **TasCOSS recommends that:**

1. A State Energy Strategy must consider the effects of policy changes on all customers and ensure that vulnerable customers are well protected.
2. Electricity concessions be provided not as a flat rate, but as a set percentage of a total bill.
3. The Tasmanian Government investigates models in use in other jurisdictions for providing eligible customers of embedded networks access to concessions, and commits to apply an appropriate model in Tasmania as soon as possible.
4. In order to provide adequate customer protections to gas customers, the Tasmanian Government adopts the customer protection elements of the National Energy Customer Framework (NECF) for gas customers in Tasmania.
5. The State Government supports energy efficiency programs for low-income households in all housing tenures across the state.
6. The State Government considers the energy efficiency industry (involving home/business energy use assessment, testing, retro-fitting, training and support) as a small but significant emerging industry that is worthy of Government support.
7. The State Government continues to provide for the Energy Hardship Fund (administered by the Salvation Army) in future years and to extend eligibility for assistance from the Fund to gas customers in need.
8. No Tasmanian household is disconnected from its energy supply solely for inability to pay, and that this be achieved through a combination of long-term solutions such as energy efficiency programs for vulnerable households, concessions for all eligible households, effective retailer hardship programs, accessible financial counselling and support services, and adequate emergency relief funds.
9. The Tasmanian regulatory framework be improved by allowing the Tasmanian Economic Regulator more discretion to set the wholesale pricing mechanism – and price – within a market-based regulatory framework.
10. Electricity price regulation for small customers continue in Tasmania under an independent regulator at least until such time as it can be demonstrated that an effective competitive retail market exists in the State and delivers reasonable and sustainable prices under fair contracts to Tasmanian consumers.
11. The Tasmanian Government conducts a prominent public information campaign on energy issues, that includes information about consumers' rights, responsibilities and protections within a competitive retail energy market, as well as information about energy use and low cost energy efficiency measures.

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- <sup>1</sup> Australian Bureau of Statistics (2014), *Average Weekly Earnings, Australia*, May 2014, 6302.0
- <sup>2</sup> Anglicare Tasmania & TasCOSS (2010), *Making Electricity Affordable: A four point plan*, Hobart
- <sup>3</sup> TasCOSS (2012) *Budget Priorities Statement*, Hobart
- <sup>4</sup> Tasmania, Department of State Growth (2104), *Energy Strategy Issues Paper*, August 2014, p12
- <sup>5</sup> *Energy Strategy Issues Paper*, pp23-24
- <sup>6</sup> Consumer Utilities Advocacy Centre (2013), *Making the Gas Connection*, Melbourne
- <sup>7</sup> *Energy Strategy Issues Paper*, p13
- <sup>8</sup> *Energy Strategy Issues Paper*, p10
- <sup>9</sup> Tasmanian Government (2013), *Submission to the Tasmanian Economic Regulator on the First Retail Price Determination under FRC*, May 2013, p17
- <sup>10</sup> *Energy Strategy Issues Paper*, p3