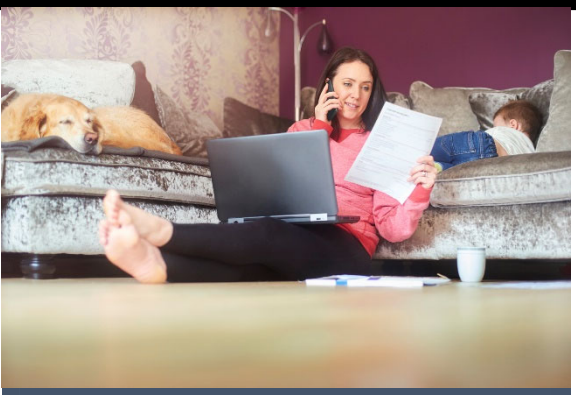
BRIEF: Affordable, clean energy for people on low incomes



Key Messages:

- People on low incomes are more vulnerable to climate change impacts and a poorly managed transition to clean economy.
- Energy prices have risen significantly in the last decade and low-income households are hardest hit.
- An emissions trading scheme can help reduce energy prices but low-income households will still pay disproportionately more.
- Measures to reduce size of bill and improve capacity to pay are needed.
- Investment in energy efficiency could provide annual savings from $289 for apartments to $1,139 for houses. It could reduce energy expenditure as a percentage share of income for lowest-income households from the current 6.4% to 4.1%.
- A fair regulated retail price could save $261 to $381 per annum for 30-40% of households and reduce energy expenditure as a percentage share of income for lowest-income households from the current 6.4% to 5.87%.
- Increasing Newstart by $75 a week would reduce energy expenditure as a percentage share of income for Newstart households from the current 6.3% to 5.6%, a $110 increase would reduce it to 5.3%.
- A shift to percentage-based concessions improves equity, responsiveness to change in energy bills, and provide greater support to couple and single parent families.
- A faster transiting to clean energy is desirable and achievable with targeted affordability measures.

This report is the final in our series on improving support for low-income households through the transition to clean energy. It models a number of policy solutions that would reduce the amount that people on low incomes spend on energy, in order to reduce their energy stress and support a faster transition to clean energy.

The results clearly show that measures focused on reducing the size of energy bills (investment in energy efficiency in homes and implementing a fair regulated retail price) and improving people's capacity to pay (increasing Newstart and better targeted concessions) have a positive impact on reducing energy costs for people on low incomes.

Implementing these measures would contribute to making energy more affordable to the three million people in Australia living in poverty, and mitigate costs that might be associated with a faster transition to clean energy.

People on low incomes or experiencing disadvantage are more vulnerable to climate change impacts and a poorly managed transition to a clean economy, as they have less choice and control to manage associated costs, and are less able to cope, adapt and recover from climate change impacts. Efforts to reduce their expenditure on energy could assist with these vulnerabilities.

The situation has not been helped by energy prices rising significantly in the last decade. Any additional costs resulting from a transition to clean energy are keenly felt. However, it is clear that certainty in climate and energy policy is sorely needed and when we get it, it will keep costs down. The current failure to manage the transition is contributing to price rises, in addition to high network costs, retail price gouging and high gas prices.

❖ *A faster transition to clean energy is necessary and desirable, and if managed well, affordable*

Our first report, *Tackling Climate Change and Energy Affordability for Low-income Households*, argued that we cannot rein in energy prices unless we have in place policies to facilitate the transition to clean generation. The modelling found that, with the right settings, an emissions reduction mechanism could drive rapid emissions reductions in the electricity sector and put downward pressure on energy prices. Getting the design right is critical. The report concluded that higher emissions reduction targets are desirable and could be achievable coupled with energy affordability reforms.

❖ *Policies need to focus not only on reducing energy prices, but also on reducing the size of household bills and improving people's capacity to pay*

Our second report, *Energy Stressed in Australia,* showed that low-income households pay disproportionately more of their income on energy, and that this has increased in the last decade. Even if energy prices do come down, these households are likely to continue to pay disproportionately more. Our previous report found that recent energy price increases have disproportionately affected certain vulnerable groups. The lowest-income

households now spend on average 6.4% of their income on energy, while the highest-income households spend on average 1.5%.

Low-income households are more likely to go without other essentials like medicine and dentist visits, so that they can pay their energy bills. They are also missing out on opportunities to take up clean, affordable energy sources like solar because they lack choice and control. The report found people receiving Newstart and Youth Allowance, sole parents, lone pensioners and renters are most vulnerable to rising energy prices.

This report further investigates the distributional impact of an emissions reduction scheme using data from the first report, and indeed confirms that, while energy expenditure is reduced for everyone, low-income households still pay disproportionately more of their income on energy.

To make energy affordable, policy-makers must focus on reducing energy prices, reducing the size of energy bills and improving people's capacity to pay.

- ***Energy efficiency and rooftop solar provide big opportunities to reduce energy bills***

Two of the most effective ways to reduce the size of energy bills are energy efficiency and the installation of rooftop solar. The poor energy performance of Australian homes means that many people are living in homes that are damp, too cold in winter, too hot in summer and too expensive to run. People's health is at risk from either restricting energy use or from stress dealing with unaffordable bills.

The modelling for this report finds that for a one-off capital investment of $2,000 for apartments and $5,000 for houses, average annual savings ranged from $289 for apartments to $1,139 for houses.

When targeted to low-income households, some of those most in need are the major beneficiaries, experiencing the greatest reduction in energy expenditure as a percentage share of their income. For example, on average an investment of $5,000 would reduce energy expenditure as a percentage share of income for lowest-income households from the current 6.4% to 4.1%.

The benefits go beyond just energy savings, to improving people's health, reducing costs of the energy system (which benefits all), and reducing carbon emissions.

A step change in support is required to help households fund these upgrades and realise the savings. Measures to address the barriers to renters and others locked-out of key energy efficiency and solar savings are also needed.

- ***A fair, regulated retail price will put the "essential service" back in energy***

Retail energy market competition was supposed to increase efficiency and lower energy prices. Quite the opposite has happened and we are seeing high standing offers, opaque discounting, high retail margins, and increased costs as retailers compete to acquire and retain customers. While some low-income households actively shop around, many are unable to access fair deals and pay too much for energy that is essential for the health and well-being.With the help of industry experts, this report modelled a fair retail price, and when compared to current electricity offers found in some of the Victorian, New South Wales and South Australian networks, we find that the retailers' margins are too high, a finding broadly consistent with recent observations by the Australian Consumer and Competition Commission (ACCC).

Under the scenario where all households take up the regulated retail price unless they are already on a better offer, the modelling in this report found 30 to 40% of households would be better off on a regulated retail price, by an average by $261 to $381 per annum, depending on the state of residence. This would reduce energy expenditure as a percentage share of income for lowest-income households from the current 6.4% to 5.85%. Under the scenario where on low-income households take up the regulated retail price, between 30 to 40% of low-income households would be better off on a regulated retail price, by an average by $200 to $346 per annum. This scenario would reduce energy expenditure as a percentage share of income for lowest-income households from the current 6.4% to 5.87%.

- ***Increasing Newstart and related allowances by at least $75 a week can help reduce energy stress for the most vulnerable in our society***

Newstart and Youth Allowance have not increased in real terms in 24 years, leaving over 800,000 people struggling on $39 a day, while the cost of essentials, such as energy, have drastically increased. Even after concessions, on average these households spend 6.3% of their income on energy, with a quarter spending more than 9.7% of their income on energy. Without a doubt, capacity to pay is the major barrier to energy affordability for these households.

The modelling in this report found that increasing Newstart and related allowances by $75 a week (just over $3,500 a year) would reduce energy expenditure as a percentage share of income for Newstart households from the current 6.3% to 5.6%, a $110 increase would reduce it to 5.3%.

Single parents who receive Newstart payments (the vast majority of whom are women), would be one of the main beneficiaries of a Newstart increase

❖ ***Shifting to percentage-based energy concessions coupled with energy efficiency can be a win-win for all***

Energy concessions are critical to helping low-income households afford their energy bills. However, the current flat dollar-based system is inequitable and is not responsive to energy bill changes

While the report found that a shift from a dollar-based concession to a full or partial percentage-based concession had minimal impact on reducing energy expenditure as a percentage share of income across all low-income households, it was found to provide better support for low-income couples and single parent families with children. This is because families typically use more energy than couples or singles but currently get lower concessions than other household types. It would also benefit other household types, such as people in regional areas and people with health issues who tend to use or pay more for their energy. However, some lower-consuming households would receive a lower concession than they currently receive under a flat rate.

One way to ensure lower consumption household s would be to invest in energy efficiency at the same time as shifting to a percentage-based concession. This investment can be recouped as the rate of concession reduces as the size of the bill declines due to improvements in energy efficiency.

Recommendations

Invest in energy efficiency

Recommendation 1. States and territories should mandate minimum energy efficiency performance standards for rental properties, as part of a broader set of healthy and habitable rental housing standards.

- If necessary, federal or state government should consider the provision of incentives to landlords to upgrade rental properties, including potential tax mechanisms. Priority should be given to upgrade low-cost rental properties.
- Governments should implement safeguards to avoid any adverse effects on housing affordability, including measures to avoid significant rent increases or unnecessary removal of properties from the low-cost rental market following upgrades.

Recommendation 2. Federal, state and local governments should work cooperatively with energy retailers to co-fund ongoing programs to provide access to energy efficiency and solar photovoltaic technology for low-income households.

Recommendation 3. Federal and state governments should develop and implement programs to improve the energy efficiency and solar access of all social housing, community and other 'affordable' housing.

Recommendation 4. Federal and state governments should invest in energy efficiency and clean energy for remote Aboriginal and Torres Strait Islander communities.

Recommendation 5. COAG should agree to improve minimum performance standards for residential buildings to a 7-star National House Energy Rating Scheme (NatHERS) rating, and:

- extend the National Construction Code to include minimum performance standards for fixed appliances (a whole-of-building approach);
- enable renewable energy to contribute towards the energy usage budget, but not replace energy efficiency measures; and
- federal and state governments provide additional funding and assistance to ensure all new social and affordable housing complies with minimum performance standards.

Implement a fair regulated retail price

Recommendation 6. Governments agree to implement a regulated retail price, which guarantees a fair price for those consumers who want it. The regulated retail price should reflect fair retail margins and be available to all consumers. The fair regulated retail price should:

- be determined using a bottom-up approach to identify a fair and efficient price is in each network;

- apply to flat-rate, controlled-load tariffs, dual peak/off peak tariff. Innovation and further competition can occur around tariffs such as other time of use, demand tariffs, and solar energy tariffs;
- be a default offer and opt in for active market participants; and
- serve as a reference price for bill comparison.

Increase Newstart and related allowances

Recommendation 7. Increase the single rates of Newstart, Youth Allowance and related payments by at least $75 per week.

Recommendation 8. Index Newstart, Youth Allowance and related payments to wages, a representative basket of goods, or the CPI (whichever is higher) to ensure they maintain pace with community living standards.

Recommendation 9. Increase Commonwealth Rent Assistance by 30% or $20 per week for a single person on Newstart.

These measures should be complemented by increases to family payments for households with children on low incomes, as outlined in ACOSS, Budget Priorities Statement 2018–19.

Design and implement better targeted concessions

Recommendation 10. State and territory governments should replace the current flat dollar-based concession scheme with full or partial percentage-based concession schemes.

Recommendation 11. Energy concessions should be means tested.

Recommendation 12. Governments and retailers should implement strategies to improve awareness and uptake of energy concession eligibility:

- When applying for and/or on confirmation of receipt of a pension concession card, healthcare card or DVA gold card, the Commonwealth Governments (who administer these cards) should inform recipients that they are eligible for energy rebates and provide instructions on where to find out more.
- When retailers sign up a customer to a new or renewed plan they should ask whether the customer is a recipient of a pension card, healthcare card, or DVA card and apply the concessions.

Recommendation 13. COAG Energy Ministers agree to review concessions to provide harmonisation across states and territories. Harmonisation should aim to reduce costs and improve choice, ensure energy concessions are targeted towards those most in need of assistance, and improve the value of concessions in lagging states. The framework should set best practice benchmarks across jurisdictions, and allow flexibility for jurisdictions with distinct needs.

Other affordability measures

Recommendation 14. COAG Energy Council should request an energy market rule change to restrict conditional discounts, such as pay-on-time discounts, to ensure they reflect the true costs of late payment of bills.

Recommendation 15. Provide a mechanism to offer demand response to the market that can provide benefits to low-income households and avoid potential detriment.

Recommendations 16. Shift cost of solar schemes away from consumers' electricity bills to government budget.

Recommendation 17. COAG Energy Ministers request AEMC to consult on the introduction of pricing reform to ensure non-solar households are not paying to much for network costs. We note there may be benefits from moving to cost-reflective pricing, but there could be negative impacts for some households. Transitional government assistance would be critical.

Recommendation 18. Remedy past over-investment in networks, through a write-down of the regulated asset base in Queensland and Tasmania, and rebates on network charges in New South Wales.

Supporting a rapid transition to clean energy

Recommendation 19. The Australian Government should urgently implement policies to reduce emissions across our economy, in particular the emissions-intensive electricity sector. Whether the policies are economy-wide or sector-specific is less important, so long as the policies are credible, stable, low cost, and equitable with protections for vulnerable groups.

Recommendation 20. The Australian Government should set emissions reductions targets in line with our fair share of achieving the Paris Agreement goal to limit global warming to well below 2 degrees and pursue 1.5 degrees. We note

the electricity's sector can and should reduce its emissions faster than other sectors. A 2030 emissions reduction target of 45% reduction below 2005 levels should be seen as an absolute minimum and should preferably be higher. Implementing energy affordability measures outlined here for example would make a 65% emission reduction target more achievable.

Affordability benchmark

Recommendation 21. The COAG Energy Council should commission an expert review (similar to the Hills review in the UK) to identify appropriate benchmarks by which energy affordability can be measured over time, including a clear definition of energy stress as the level under which no person should fall in terms of being able to access energy supply. Multiple metrics will be needed. Once identified, COAG should adopt the benchmarks and report on progress over time, including the number of people lifted out of energy stress and the extent to which energy policy and market reforms deliver on a guarantee to energy affordability.

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