



**JESUIT SOCIAL SERVICES
SUBMISSION**

**Inquiry of the Senate Select Committee on Electricity
Prices**

September 2012

Introduction

Jesuit Social Services thanks the committee for the opportunity to make a submission as part of its inquiry into electricity prices.

Jesuit Social Services works to build a just society by advocating for social change and promoting the health and wellbeing of disadvantaged people, families and communities. We welcome this inquiry and the renewed public attention on electricity prices as we believe that the rapid price rises of recent years have had an impact on the people and communities with whom we work. In particular, the acute impact of rising electricity prices puts many vulnerable and disadvantaged households at risk of slipping into 'fuel poverty' which will only further entrench disadvantage and social exclusion.

We believe that all households should have access to a secure, reliable, sustainable and affordable supply of energy. This submission outlines some concerns we have that these basic principals are being undermined by rising electricity prices and outlines some responses to this challenge. Areas addressed and recommendations made by this submission include:

- The disproportionate impact of rising electricity prices on low income households and in particular the impact of significant growth in fixed rate electricity supply charges.
- Recommendations that energy efficiency measures be adopted that are accessible for low income households, promote landlords to invest in energy efficiency, and foster social inclusion.
- A recommendation that a national peak consumer body be established to complement and support state based and local consumer advocacy organisations.
- The need for further consideration of how fairness and equity might be promoted through the National Electricity Law and the National Energy Customer framework.
- A recommendation that an inquiry be undertaken into the most effective means of providing concessions and assistance to low income households to reduce the burdens of electricity prices.

We appreciate the complexity of the energy market and the range of factors which drive and alleviate prices. However, we believe that there is a pressing need for decision makers and the community to better understand the causes and effects of rising electricity prices and to explore solutions to address price rises and the unjust consequences that they lead to.

Who we are and what we do

Jesuit Social Services works to build a just society by advocating for social change and promoting the health and wellbeing of disadvantaged people, families and communities. Our service has its origins in work with disadvantaged young people involved with the justice system in Victoria.

We do this by intervening directly to address disadvantage and by influencing hearts and minds for social change. We strengthen and build respectful, constructive relationships for:

- Effective services - by partnering with people most in need and those who support them to address disadvantage
- Education - by providing access to life-long learning and development

- Capacity building - by refining and evaluating our practice and sharing and partnering for greater impact
- Advocacy - by building awareness of injustice and advocating for social change based on grounded experience and research
- Leadership development - by partnering across sectors to build expertise and commitment for justice

Jesuit Social Services values every person and seeks to engage with them in a respectful way, that acknowledges their experiences and skills and gives them the opportunity to harness their full potential. Jesuit Social Services works where the need is greatest and where it has the capacity, experience and skills to make the most difference.

The promotion of **education, lifelong learning and capacity building** is fundamental to all our activity. We believe this is the most effective means of helping people to reach their potential and exercise their full citizenship, and to strengthen the broader community.

Our service delivery and advocacy focuses on the following key areas:

- **Justice and crime prevention** – people involved with the justice system
- **Mental health and wellbeing** – people with multiple and complex needs and those affected by suicide, trauma and complex bereavement
- **Settlement and community building** – recently arrived immigrants and refugees and disadvantaged communities
- **Education, training and employment** – people with barriers to sustainable employment

Currently our direct services and volunteer programs are located in: Victoria, New South Wales and Northern Territory. Services include:

- ***Brosnan Support Services***: supporting young people and adults in the justice system, and assisting them to make a successful transition from custody back into the community. Within the suite of services are Perry House, Dillon House and Youth Justice Community Support Services.
- ***Jesuit Community College***: increasing opportunities for people constrained by social and economic disadvantage to participate in education, work and community life and reach their full potential.
- ***Community Programs***: working with people, including the African Australian and Vietnamese communities, on public housing estates across metropolitan Melbourne.
- ***Community development***: delivering social enterprise and other activities in the area of Mount Druitt, Western Sydney.
- ***Connexions***: delivering intensive support and counselling for young people with co-occurring mental health, substance and alcohol misuse problems.
- ***Artful Dodgers Studios***: providing pathways to education, training and employment for young people with multiple and complex needs associated with mental health, substance abuse and homelessness.

- **Support After Suicide:** supporting people bereaved by suicide, including children and young people.
- **Community Detention Services:** delivering case management support to asylum seekers, including unaccompanied minors, in community detention.
- **The Outdoor Experience:** offering an alternative treatment service through a range of outdoor intervention programs for young people aged 15 – 25 years, who have or have had issues with alcohol and/or other drugs.

Research, advocacy and policy are advanced through our Policy Unit, coordinating across all program and major interest areas of Jesuit Social Services.

Detailed Responses to the Terms of Reference

Rising electricity prices – Equity impacts

- a. identification of the key causes of electricity price increases over recent years and those likely in the future;
- b. legislative and regulatory arrangements and drivers in relation to network transmission and distribution investment decision making and the consequent impacts on electricity bills, and on the long term interests of consumers;
- f. any further matters

Causes of electricity price rises:

Over recent years, electricity prices across Australia have increased significantly and at a much greater rate than the Consumer Price Index (CPI). In Victoria, these costs have caused the average electricity bills to rise by around 50% in real terms over the last four years, in New South Wales the increase was 69% and in Queensland 35%.

The different factors that contribute to electricity price rises have been well documented in research and the media.¹ The various submissions to this inquiry are likely to have explored these factors in some detail. Major factors which have been identified include wholesale electricity generation costs, the costs of maintaining and expanding transmission and distribution networks, various green costs (including renewable energy targets) and retail costs.

A key point to note about the price increases is that the factors driving them differ between jurisdictions. In NSW and QLD a major contributing factor to price increases was the requirement for revenue to meet the costs of expanding and upgrading transmission and distribution networks. In light of this, we accept there is some merit to reviewing the regulatory arrangements for distributors as has been called for by the Energy Users Association of Australia.² However, it must be noted that the same regulatory regime operates in Victoria where there have been more modest increases in transmission and distribution network costs.

¹ See eg, Australian Energy Market Commission, 2011, 'Final Report – Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014'; Michael West, 'In a Spin over Soaring Power Prices', The Sydney Morning Herald, September 6th 2012.

² Energy Users Association of Australia, 2012, 'More Large Electricity Price Increases – Urgent Action Needed', Press Release – 16th April 2012.

In Victoria, growth in retail costs appears to have been a key factor in the rise in electricity prices as there has not been the same level of expansion in infrastructure investment as in New South Wales or Queensland. There is little information available as to the reasons for these increases as Victoria's electricity retail market is deregulated. The nature of price rises differs between retailers and areas and also depends on whether customers are on standing offers or market offers (about 70% of households).³ However both standing offers and market offers saw price increases, with market offers rising on average 35% over the past 3 years.⁴ We believe that there is a need for further analysis of Victorian electricity price changes over the past five years in order to better understand the factors that are contributing to price rises. Once understood, consideration should be given to measures to address the factors that are contributing to price rises.

Impacts of Electricity Price Increases:

Jesuit Social Services has an interest in seeing that electricity is supplied and priced fairly and in such a way that all members of the community have access to this necessity of modern life without having to pay an inequitable and unreasonable financial burden. We are concerned that the increase in electricity prices has had a more severe impact upon lower income earners who include many of the people and communities with whom our organisation works.

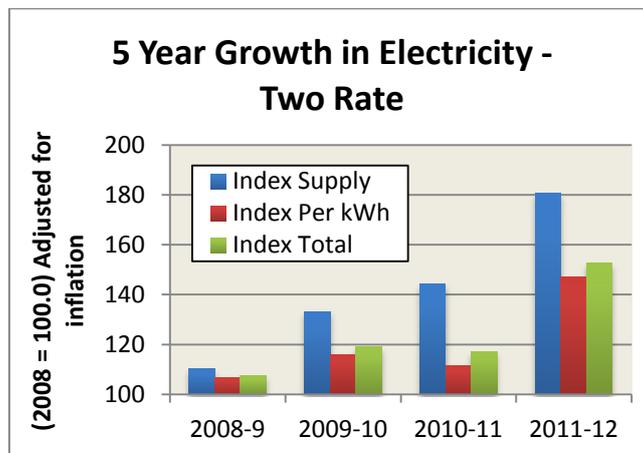
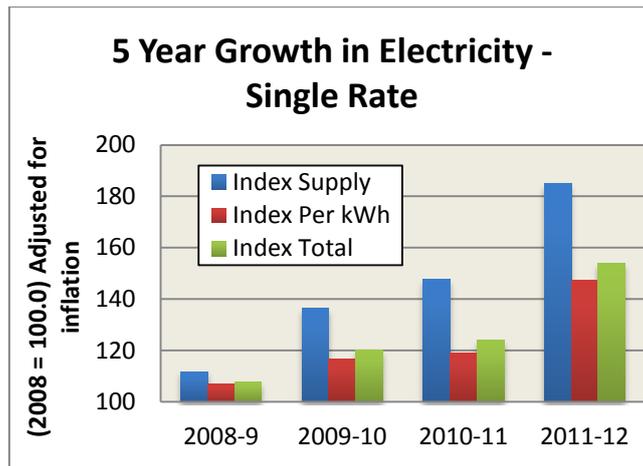
Households in different income groups have different patterns of energy consumption. In general, households in the lower income quintiles use less energy than those in the higher income quintiles.⁵ If electricity billing were calculated solely on usage, then prices would reflect this pattern. However, a significant component of electricity prices is made up of a flat rate supply charge which is charged per day and which all consumers must pay regardless of their level of usage. Using data on Victorian electricity prices over the past 4 years which have been collated by St Vincent De Paul,⁶ Jesuit Social services has analysed the increase in the total price of electricity in Victoria, as well as the components of electricity bills; the supply charge and the usage charge. This revealed that the supply charge had risen over 80% over the previous four years which is nearly twice the rate of increase of the usage charge. Figures 1 and 2 outline the growth in electricity prices in Victoria over the past four years.

³ Essential Services Commission, 2012, Energy Retailers Comparative Performance Report – Pricing

⁴ Ibid.

⁵ Independent Pricing and Regulatory Tribunal NSW (IPART), 2010, 'Residential energy and water use in Sydney, the Blue Mountains and Illawarra: results from the 2010 household survey'.

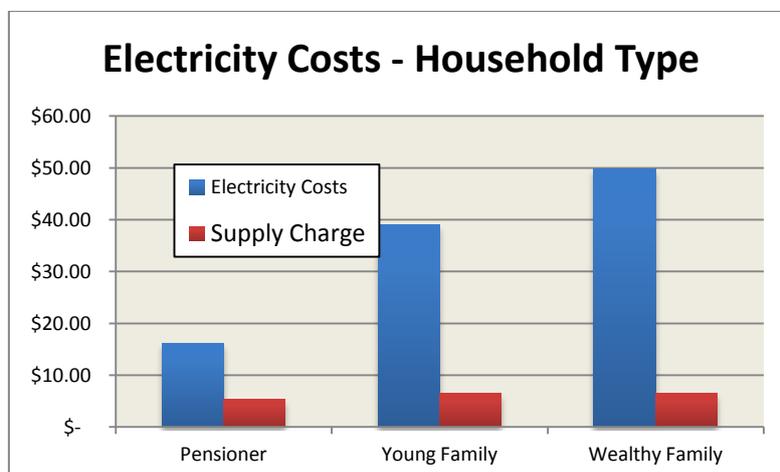
⁶ St Vincent De Paul Society, 2012, Victorian Energy Prices, (<http://www.vinnies.org.au/energy-reports-vic>)



Figures 1 & 2: 4 year growth rates of electricity – Single rate/Two rate

Source: Calculated using the St Vincent De Paul Energywatch spreadsheets

The impact of increasing supply charges is most acutely felt by low income earners with lower levels of electricity usage. One common group of low income households is pensioners, who often live as couples or single occupants in small units. Even when concessions are taken into account, a pensioner earning \$347.65 per week who uses 57.5 kilowatt hours could spend around 5.2% (\$18.07) of their weekly income on electricity costs. As figures 3 makes clear, the amount of this that is taken up by supply charges is the same as households with higher levels of income.



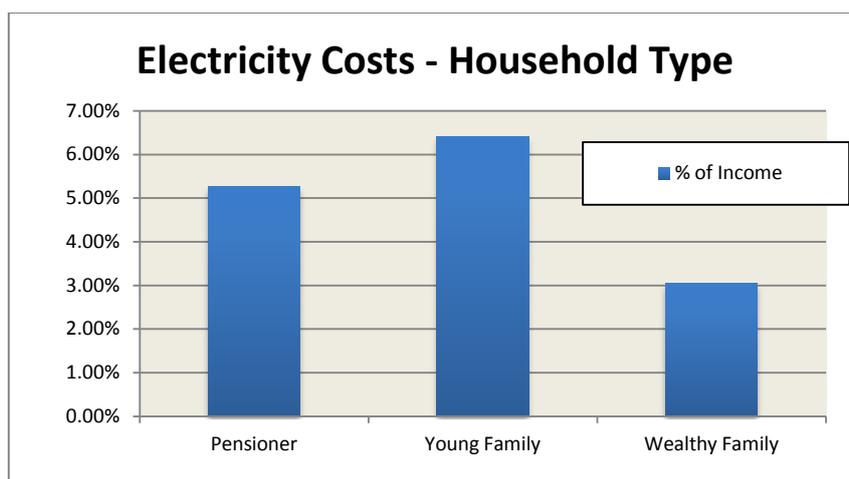


Figure 3 & 4: Impact of electricity prices on different income groups

The overall impact of rising electricity prices on different household types is made clear in figures 3 and 4. Households with lower incomes are spending a greater proportion of their income on meeting the rising costs of electricity. As these incomes are growing at a lower rate than incomes in the higher two quintiles, this burden is likely to increase. Figure 4 shows how young families on low incomes are particularly hard hit by electricity costs. This group, referred to as the ‘family formation’ group,⁷ have young children, which leads to more power use because:

- More people means more usage of appliances and entertainment generally;
- Kids will be home during “Peak” hours when electricity is more expensive;
- Young children are already stretching the family income, both due to increased costs and because of parents working less hours.

These factors combine to mean that a family formation household on a low income (\$709 per week) might pay up to 6.4% of their weekly income on electricity costs compared to 3% for a high income family (in the 5th Quintile).

The nature of electricity price increases and the impact that it is having on low income households need to be taken into account in considering the measures and reforms required to reduce energy costs. Failure to do so may lead to a situation such as that in the United Kingdom where large numbers of the population live in a state of “fuel poverty”⁸ which has a wide range of economic and social costs.

The above analysis on cost of living pressures resulting from rising electricity prices complements that of other organisations such as St Vincent De Paul and the Brotherhood of St Laurence and their work looking at the various ways in which rising electricity prices have impacted upon the disadvantaged. Some of their work is drawn upon below as we consider how the burden of electricity prices might be reduced.

Reducing the burden of electricity prices on disadvantaged communities

⁷ Paul Simshauser and Tim Nelson, 2012, ‘Working Paper No.31 – The Energy Market Death Spiral: Rethinking Customer Hardship’, AGL Energy.

⁸ See, Department of Energy and Climate Change (UK), 2012, ‘Fuel Poverty Statistics’, (http://www.decc.gov.uk/en/content/cms/statistics/fuelpov_stats/fuelpov_stats.aspx#)

c. investigation of mechanisms that could assist households and business to reduce their energy costs:

i. the identification of practical low cost energy efficiency opportunities to assist low income earners reduce their electricity costs,

All households have available relatively simple and low cost methods which can improve energy efficiency including efficient light bulbs, efficient shower heads, as well as changing behaviour and awareness of energy use.⁹ However many of the measures which produce the greatest efficiency gains such as insulation, energy efficient appliances and switching heating/water systems are often too costly for low income households, even when incentives are in place.¹⁰

We note that action to improve energy efficiency is already being undertaken by the Federal¹¹ and state governments¹² and the community sector.¹³ In particular, we hope that the Low Income Energy Efficiency Program will illustrate some practical and low cost energy efficiency opportunities.

A key challenge is to get these programs to work for low income households. Research by the Brotherhood of St Laurence has shown that under the Victorian Energy Saver Initiative the more effective and expensive efficiency measures were likely to be taken up in areas with higher incomes.¹⁴ These findings should be taken into account in the design of any National Energy Savings Initiative.

Another challenge with these measures is their coverage and sustainability as they are often linked to specific and time limited funding. We believe that energy efficiency for low income households could be incentivised and mandated through a range of measures. Incentivisation could occur through the taxation system, with low income earners and their landlords being eligible for tax deductions or rebates for the costs of energy efficiency upgrades and appliances. In the United States, tax rebates are provided to households which purchase energy efficient appliances through the Energy Tax Credits scheme. It might also be possible to mandate energy efficiency standards beyond existing product standards and the building code. For example, high level energy efficiency standards could be made a compulsory condition for properties funded through the National Rental Affordability Scheme.

Energy efficiency measures might also be linked into wider community development efforts and generate added value by promoting social inclusion. Many of the low income households most impacted by rising electricity prices are also affected by other forms of disadvantage and social exclusion. Measures to improve energy efficiency might provide opportunities to engage with these individuals and to build community cohesion. There are already community based responses to

⁹ Catherine Elliott & Elaine Stratford, 2009, Energy Efficiency Measures in Low Income Housing – Report for the Tasmanian Government, Pg 28

¹⁰ Victoria Johnson, Damian Sullivan, 2012, 'Urban Sustainability and Household Energy Efficiency – Inequities, Impacts and Ways Forward,' Paper presented at the State of Australian Cities Conference, Melbourne, 29 November 2011, Brotherhood of St Laurence.

¹¹ E.g. the Low Income Energy Efficiency Program,

¹² E.g. the Victorian energy Saver Initiative

¹³ E.g. The Brotherhood of St Laurence's Warm Home Cool Home Project.

¹⁴ Victoria Johnson, Damian Sullivan, above n.8.

energy efficiency that are emerging throughout Australia, for example community solar farm projects which are starting up throughout several communities. These types of projects might also foster community building and cohesion.

Finally, it must be noted that the increases in supply charge elements of electricity pricing will diminish the savings to be made from energy efficiency as these components of the electricity price are not related to electricity usage.

ii. the opportunities for improved customer advocacy and representation arrangements bringing together current diffuse consumer representation around the country,

Across Australia, a range of consumer advocacy groups and community support organisations build consumer awareness and represent their interests to industry and government. It is important to recognise the expertise of these organisations and the strong ties they have built with the communities they serve. That said, we believe that more work needs to take place to promote the needs of the most vulnerable electricity consumers who frequently struggle with the competitive nature of the market.

There will be some benefit from having a national body to present a unified national voice on behalf of electricity consumers. However, we believe it would be unwise to abandon local expertise and linkages to community organisations. **Jesuit Social Services recommends the establishment of a national consumer peak body, that would work to build partnership between communities, government and energy companies but also focus on supporting and building the understanding and capacity of existing consumer bodies at the state and local level.**

iii. the adequacy of current consumer information, choice, and protection measures, including the benefits to consumers and industry of uniform adoption of the National Energy Customer Framework

Over recent years efforts have been made to improve information, choice and protection of consumers. The National Energy Customer Framework presents a national standard of basic consumer protections (such as hardship measures) and we support the efforts to have it implemented. It also offers a means through which to build a better understanding on energy affordability through the energy affordability report.¹⁵

However, the National Energy Customer Framework will not directly reduce energy costs or limit inequitable aspects of retail pricing structures, notably the rise in supply charges. **We believe a key question that needs to be explored is whether the NECF is the appropriate framework through which the inequity in retail pricing structures and its impacts on low income households could be addressed.** One benefit of addressing this issue through the NECF is its potential for broad application. However, there would be consequences to this in terms of workability of the NECF and increased levels of risk and costs imposed upon retailers.

¹⁵ The National Electricity Rules require the AER to publish an energy market report with a particular requirement under s.166(1)(e) that this report include information on energy affordability for small customers.

iv. **the arrangements to support and assist low income and vulnerable consumers with electricity pricing, in particular relating to the role and extent of dividend redistribution from electricity infrastructure**

At present, the Federal and state governments provide a range of support and assistance to concession holders and low income earners to offset the costs of electricity. These supports are valuable and reduce the burdens on the households, but there are issues around the consistency, coverage, and indexation of these arrangements. In states such as Victoria, concessions apply to concession card holders but low income working families with high energy costs can and do miss out.

We appreciate the complexity and difficulty of assistance and the significant costs that are involved. **Further research is required into the costs and benefits of the current patchwork approach across Australia.** Clearly, there are advantages to concessions and assistance that are adapted to local conditions within particular states. However, this results in inconsistency. **We recommend an appropriate independent body such as the Productivity Commission be given the task of inquiring into the best means to provide support and assistance for low income consumers of electricity. In particular, whether this support would be best administered through the federal income support and tax systems as well as appropriate eligibility criteria for assistance, for example whether support is targeted solely to income support recipients, or extended to a wider range of low income households.**