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Issues facing consumers of electricity in Australia

The Consumer Utilities Advocacy Centre (CUAC) would like to thank the Senate Select Committee on Electricity Prices (the Committee) for the opportunity to provide input on issues facing electricity consumers in Australia. We are particularly pleased that the broad terms of reference allow the Committee to explore many of the major issues facing consumers of electricity across Australia.

CUAC is a specialist consumer organisation established in 2002 to represent Victorian energy and water consumers in policy and regulatory processes. As Australia's only consumer organisation focused specifically on the energy and water sectors, CUAC has developed an in-depth knowledge of the interests, experiences and needs of energy and water consumers.

Our work is guided by strong principles. Energy and water services are essential for health, wellbeing and social participation. Therefore, we believe that consumer interests – particularly those of low-income, disadvantaged and rural and regional consumers – must be a primary consideration in the development and implementation of energy and water policy and in service provision. CUAC's advocacy maintains a focus on the principles of affordability, accessibility, fairness and empowerment through information and education. CUAC supports informed consumer participation in energy and water markets.

In this submission, CUAC will provide information relevant to the issues that the Committee is tasked to examine. A number of these have also been investigated by CUAC in a range of recent research papers and submissions to policy and regulatory processes. As a result of the short timeframes for this inquiry and the consequent lack of time to include all of our views in an entirely new submission for the Committee, we have included some of these documents as attachments to this submission. The attachments are:

1. **Submission on the Department of Resources Energy and Tourism's draft energy white paper**

   This submission highlights CUAC's perspectives on a range of important energy issues including network pricing, nationally consistent regulation, the social aspect of energy policy and consumer empowerment. It is of relevance to terms of reference **a)**, **b)** and **d)**.

2. **Submission on the Australian Energy Market Commission (AEMC) in response to proposed changes to the rules governing the economic regulation of monopoly energy distribution businesses**

   This submission highlights CUAC's concerns with network regulation and the need for reform. In the submission, we make a case that while rule changes to the economic regulatory regime for energy networks are a step in the right direction, there is still substantial scope for further reform to deliver efficient and fair network prices for consumers. It is of particular relevance to the term of reference **b)**.

3. **Speech to AEMC public forum on Strategic Priorities for Energy Retail Market Development**

   This speech highlights the need to move beyond simply energy retail market price deregulation and the installation of smart meters to ensure that broader issues are considered in future retail energy market reform. It is of relevance to terms of reference **c)**, **d)iii)**, and **d)iv)**.

4. **Speech to AEMC public forum on the review of demand side participation in the National Energy Market**

   This speech highlights the need to adopt a cautious approach to the mobilisation of the demand side of energy markets given the need to keep energy markets simple and fair for consumers. CUAC is concerned that increasing complexity in energy markets may result in some consumers being unable to realise the benefits of reform. This document is relevant to terms of reference **d)vi)** and **e)**.

5. **CUAC research report *Improving energy market competition through consumer participation***

   This research report highlights factors that affect consumer participation in energy markets and assess the impact of these factors in the case of Victoria's competitive retail energy market. It is a comprehensive report that assesses the potential for consumer participation in energy markets as well as ways to better facilitate participation. The research highlights the barriers to effective choices in energy markets that potentially constrain consumers' ability to contain energy costs. It is of relevance to terms of reference **d)** and **e)**.

Rising electricity prices

There has been much debate as to the cause of sharply rising electricity prices in Australia. A number of issues are consistently highlighted as drivers of the price increases. These are:

- the rising costs of electricity networks as a result of state ownership and inadequate economic regulation;
- carbon pricing;
- renewable energy schemes;
- wholesale market power;
- the growth in peak demand; and

- investment uncertainty due to the lack of bipartisanship on climate change policy.

This leads to the several questions:

- Are these the factors responsible for rising electricity prices?
- Are there other drivers of price increases that the Committee needs to consider?
- Given the identified causes, what can be done about rising electricity prices?

CUAC is of the view that the cost drivers listed above are, to varying extents, the main drivers of electricity price increases in Australia. Consequently, it is these that should be the focus of the Committee's investigation on electricity prices.

Of these, the carbon price and some renewable energy schemes are expressly designed to increase electricity prices in order to achieve environmental outcomes. Our work has not considered in any great detail the design of policies to reduce Australia's carbon dioxide emissions and it will not be a focus of this submission. However, given the impact of these initiatives on electricity prices, we would highlight the need to ensure that the social and environmental outcomes of these environmental schemes outweigh the costs. It is also necessary to ensure that the array of programs in place operate in a complementary manner and that appropriate support is given to consumers who are poorly placed to manage the cost of these programs.

Of the other issues, CUAC remains concerned about the effectiveness of network pricing regulation in Australia. It seems that there have been significant cost escalations in energy networks since the introduction of the national rules. While some of this can be attributed to greater investment requirements and growing peak demand, CUAC believes that problems with the regulations are resulting in higher costs to consumers. This was highlighted by Professor Ross Garnaut in his paper on transforming the electricity sector as part of the update series of the Garnaut Review. Even in Victoria, where distribution cost increases have been comparatively modest, network prices could be further restrained through a stronger regulatory regime. CUAC has emphasised this point in our submissions to the recent rule change processes of the AEMC. One of these submissions is attached for your consideration.

We also see significant additional scope for demand side participation in the national energy market. This has been acknowledged in the deliberations of the AEMC in their Power of Choice Review, the Draft Report on which has just been released. This report proposes significant reforms to improve demand side participation and highlights the impact that this could have on costs. While we agree with the AEMC's analysis that there is additional scope for demand side participation that would assist in constraining electricity prices, we also highlight the risks associated with greater choice and market complexity given the current low levels of knowledge about energy among Australian consumers. However, improving demand side participation should reduce network costs and reduce the impacts of peak demand. Some of our perspectives on demand side participation can be read in the attached speech that was given to the AEMC public forum on the issue.

In addressing rising electricity prices, CUAC would emphasise the importance of focusing on network regulation and demand side participation as key elements of any solution. The work of the AEMC Power of Choice review is an important contribution to the policy literature on

demand. We suggest that that there is still the need for further policy development in this area that includes a focus on how energy market reform that mobilises the demand side can benefit vulnerable and disadvantaged consumers.

Given the issues with the economic regulation of energy networks we also recommend an independent inquiry into the effectiveness of Australian economic regulatory regime for monopoly energy network businesses that would develop reforms to deliver fairer outcomes for consumers. Such an inquiry could build on the work of the AEMC rule change process, the Review of the Limited Merits Review and the Productivity Commission's inquiry into Total Factor Productivity in energy regulation.

Empowering consumers

At the retail end of the market, even in the context of ongoing price rises there is still significant scope to increase the capacity of consumers to manage rising costs through information and education. Currently consumer knowledge of energy issues, the drivers of price increases and what they can do to manage costs is low. In this context, consumers are confronted with rising bills but can feel powerless and unaware of what action to take to control the issue. This is despite the fact that many consumers would have a range of low cost options to take the edge of their power bills including simple energy efficiency measures and, in Victoria particularly, retail market choice.

Given this, CUAC supports action from government to increase the capacity of energy consumers to understand energy and their ability to control costs. Energy industry participants also have a role to play in encouraging consumer awareness. The Victorian Government's Switch On campaign (switchon.vic.gov.au) is an example of the type of information that can be useful to consumers. We suggest that such materials should be delivered nationwide and with appropriate resourcing to achieve significant penetration among all consumers.

As part of efforts to improve consumer knowledge and awareness, it is important that materials are well targeted and designed. Excessive information on a confusing topic delivered to time-poor Australian households will not deliver the desired outcome. Approaches to designing and delivering effective consumer information campaigns are outlined in the attached research report *Improving energy market competition through consumer participation*.

Consumer Advocacy Arrangements

CUAC is part of a coalition of five community agencies currently leading a project to develop an effective model for future energy consumer advocacy in Australia. The other community agencies leading this project are the Public Interest Advocacy Centre, the Consumer Action Law Centre, the Australian Council of Social Service and the Alternative Technology Association. To further that project, a facilitator and advisory group have been established and they are currently developing an appropriate governance and funding model. As part of this process, the project facilitator, former Energy and Water Ombudsman (Victoria) Fiona McLeod, is in regular contact with relevant government departments and regulatory agencies.

CUAC's involvement in the project resulted from our view that stronger and more effective advocacy for energy consumers is required at a national level. While state based advocacy

remains important in order to reflect the varying needs of consumers across different parts of the country, the growing role of national institutions in the energy market requires stronger consumer representative agencies at that national level. CUAC would urge the Committee to contact Ms McLeod in order to discuss progress on this important project.

CUAC's position on the National Energy Customer Framework

It should be the aim of any national reform or regulatory harmonisation process to achieve best practice outcomes that reflect the needs of the community. Too often, however, national reform involves compromises that results in less than ideal policy and regulatory outcomes. We are concerned that this may be the case with the National Energy Customer Framework (NECF).

As advocates on behalf of Victorian consumers, we aim to ensure that any reforms to the consumer protection regime for energy consumers are both an improvement on the existing arrangements as well as a best practice approach. Unfortunately, for Victorian consumers, the NECF may not meet these criteria. There are a number of reasons for this.

Victoria is the only jurisdiction in Australia to have undertaken a mandated roll out of smart meters. These meters will allow for the introduction of prices that more accurately reflect the costs of generating and delivering energy to customers based on the level of demand at particular times. They also enable customers and energy businesses to access a range of other technologies that may significantly affect their approach to energy.

The introduction of this new technology also comes with an array of regulatory challenges. It is necessary to ensure that consumer protections are maintained and vulnerable consumers are protected from potentially inequitable changes to the energy pricing regime. Unfortunately, the NECF does not include protections designed for an energy market in the presence of smart meters. Victoria is currently undertaking the challenging process of developing appropriate regulation to address this need. However, while regulation relating to smart meters is omitted from the NECF it cannot represent a truly national or best practice regulatory regime for consumers of energy.

In addition to the issue of smart meters, Victoria is the only jurisdiction in Australia to have met its obligations under the Australian Energy Market Agreement to both introduce full energy retail contestability and to remove retail price regulation. At the time of this significant reform, it was acknowledged by government that strengthening the consumer protection framework was an appropriate complement to the liberalising reform in order to ensure consumer outcomes were maintained.

This resulted in Victoria developing some of the strongest consumer protections for energy consumers in Australia. Unfortunately, however, a number of the excellent consumer protections in Victorian regulation are not included in the NECF and this has resulted in the Victorian Government preparing draft legislation to maintain the standard of our protections. Specifically, the Victorian Government has highlighted its intentions to legislate derogations from the NECF to maintain:

- Victoria's wrongful disconnection compensation scheme;
- the prohibition on late payment fees;
- an obligation on retailers to enter into community service agreements;

- a requirement for a energy retailer hardship policy to provide energy efficiency assistance options for hardship customers;
- a ban on prepayment meters;
- timeframes to afford customers who are disconnected from supply an opportunity to be reconnected on the same day; and
- a customer's right of reconnection if they are eligible for a Utility Relief Grant.

While such crucial protections are omitted from the NECF it cannot represent either an improvement for Victoria or a best practice consumer protection regime. We acknowledge that a number of other jurisdictions have not adequately strengthened their consumer protection regimes and for these states and territories the NECF does represent an improvement. However, we do not think that efforts to harmonise national regulations should result in watered down protections for Victorian consumers.

We recommend that the Committee consider approaches to strengthening the NECF progressively to ensure that it incorporates protections that align with that of a best practice consumer protection regime. If the NECF is adopted in its current form by Australian States and Territories, we support the introduction of periodic regulatory review process that:

- assesses the performance of the NECF against its objectives;
- examines regulatory improvements that may be required to manage emerging systemic consumer issues;
- ensures Australian consumers have sufficient protections given emerging market trends such as the growth in energy technologies and an energy services industry.

As part of good practice regulatory oversight, CUAC also supports the regular collection of data on the consumer experience of energy markets to ensure that regulation is actually meeting the needs of the community. This is discussed in some greater detail on page 80 of the attached report I*mproving energy market competition through consumer participation*.

Yours sincerely,

David Stanford
Research and Policy Advocate