

Introduction

The Australian Council of Social Service (ACOSS) is the peak body of the community services and welfare sector and the national voice for people affected by poverty and inequality. Our membership represents over 3000 organisations plus additional individuals through the combined network of the Councils of Social Service.

ACOSS' vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life. Electricity is an essential service and should be supplied equitably, affordably, reliably and sustainably.

ACOSS welcomes the opportunity to provide comment on the Australian Energy Market Commission (AEMC) draft 'Power of Choice' report, which sets out a package of reforms to facilitate demand side participation (DSP) in the energy market. We recognise that cost savings can be made through the introduction of cost-reflective pricing for households and businesses that have the capacity to change their discretionary consumption habits. We also recognise that there are potential risks. ACOSS and its members are also very aware that, while low-income households have a strong motivation to reduce their energy bills, many small consumers have a limited capacity to respond to price signals by either exercising choice in how they use energy, or by investing in energy efficiency measures.

In general, we commend the efforts of the Commission in the broad approach it has taken in the draft Power of Choice report, and we are pleased to see specific inclusion of a range of proposals to manage negative impacts on vulnerable consumers. We have provided some recommendations below, particularly in relation to the timing and implementation of complementary policies mentioned in the report, and we look forward to engaging in future consultations on this important reform.

Segmentation of consumers to provide tiered participation/pricing options

ACOSS supports the AEMC's proposal for a tiered approach to the introduction of interval meters and time of use pricing, and for the option for small/medium consumers to remain on a retail tariff with a flat network component (with the option to opt in to a time varying network tariff if they choose).

We believe this is likely to be an effective strategy for a number of reasons. While DSP presents opportunities for consumers to realize savings, there are also costs in rolling out new technology. We believe that a gradual introduction, starting with large users, will be a practical policy approach to capturing savings for those consumers, while reducing peak demand for the benefit of all consumers.

Small users with flatter demand profiles are less likely to be contributing significantly to peak demand reduction. Vulnerable users are also more likely to be impacted by the cost of the meter, and are also more likely to have limited capacity to respond to pricing signals. The availability of consumption and price information is an important pre-condition for demand response, and it should not be assumed that all consumers are able to use or access technology (such as internet, mobile phones or in-home display units) in order to moderate their demand.

For these reasons we support the proposal that small users should have the option to opt in to time of use pricing, and would add that any roll out of technology to this consumer band should only commence once complementary policies (eg the National Energy Customer Framework) and programs (eg appropriately scaled Government energy efficiency programs) are in place to assist consumers in making a free and informed choice as to whether they would benefit from opting in to DSP.

The reliance on government programs and energy concessions to manage affordability impacts.

The AEMC recommends that the transition to price signals for vulnerable consumers should be supported by:

- Government programs target advice and assistance to these consumers to help manage their consumption; and
- Governments review their energy concession schemes so that they are appropriately targeted.

We believe that these complementary measures are sound public policy provided that they are implemented **prior** to the introduction of enabling technology and time of use pricing.

It is ACOSS' experience that the energy reform process in Australia has often referred the issue of affordability and support for vulnerable households to various social policies and programs (see Attachment A), but that a mechanism or policy interface has not been put in place to ensure that the recommendations are implemented. This persistent, unstructured and under-resourced policy gap has ensured that social policy is failing to keep pace with energy market reform, and our concern in this instance is that vulnerable people will not end up with the support outlined above.

Implementation of these measures will require a high level of inter-governmental and inter-departmental coordination. Currently there are a small number of state-based programs targeting low-income household energy efficiency, as well as the recently commenced Commonwealth Home Energy Saver Scheme. These types of programs may be well placed to provide energy literacy and efficiency assistance to vulnerable consumers in the areas where the new technology and tariffs will be rolled out. However, we are moving from a time where energy has been considered to be a basic product, to a time of new technology and more complex product offerings, and work will need to be done to ensure that programs are appropriately designed and scaled to provide relevant and meaningful assistance to vulnerable consumers in this new regime of pricing, information and technology.

ACOSS and its members have long campaigned for better linking between energy prices and energy concession schemes. We are pleased that the AEMC has recommended that energy concession schemes be reviewed and, again, we strongly recommend that there be policy focus on a mechanism to ensure that state-based concession schemes are available, and are regularly reviewed so that they are appropriately targeted and indexed to actual energy price rises.

A rare example from recent times where movements in energy policy and social policy have been the introduction of a carbon price through the Australian Government's Clean Energy Futures package. ACOSS is encouraged to see the AEMC take a similar interest in protecting vulnerable households through complementary measures, and we strongly urge Government to commit to ensuring that these safeguards are in place prior to implementation of pricing reforms.

Consumer protections for transitioning to time varying retail prices

It is essential that consumers are given the right information and tools so that they can best decide what course of action is most appropriate for them. We strongly agree with the AEMC statement that consumers should be given access to their data at no cost, and we are pleased to see the AEMC recommend new provisions for the NER and NECF to require retailers to provide residential consumers with information about their electricity consumption load profile.

We also note that the SCER Energy Market Reform Working Group is currently reviewing the existing customer protection arrangements under the NECF, including the need for additional arrangements in the context of smart meters and associated services in the market. As our Victorian based colleagues would attest, it is critical that robust consumer protections precede the introduction of Advanced Metering Infrastructure (AMI), and we strongly support that these amendments be finalized, and the NECF

formally adopted in all states, prior to the roll out of DSP technology and time of use pricing. The Victorian experience offers an opportunity for formal acknowledgement and integration of the lessons they have learned in how to implement new technologies and pricing structures across the rest of the NEM, particularly in the areas of consumer advocacy engagement and effective communication with the community.

Distribution network businesses consultation with consumer groups and retailers

ACOSS supports the AEMC recommendation that distribution network businesses engage in a formal consultation process with retailers and consumers when setting network tariffs. Given that DSP presents a range of potential risks as well as potential benefits (individual and collective), it is important that tariff setting processes are transparent and formally integrated with the interests of consumers.

Conclusion

In summary, ACOSS is broadly supportive of the AEMC's approach, though we stress that further detailed work is to be done on important and complementary public policy initiatives, such as the NECF, energy efficiency programs and energy concession schemes. We look forward to engaging with the AEMC in future consultation in this area; and to further development of protections and assistance to make sure vulnerable consumers are not left behind by energy market reform.

Attachment A: Various policy statements on the role of government vs the role of the electricity market:

The Government's Energy White Paper is due out later this year and the draft made it clear that energy policy and social policy are distinctly different activities of government: For example¹:

"The framework also recognises that in today's society it is important that energy markets contribute effectively to the broader range of social, environmental and economic goals.

The best way to achieve this is through the creation of well-functioning energy markets that interface efficiently with other policy mechanisms, but do not internalise non-energy objectives in energy market design. Internalising non-energy objectives in core energy market design or regulation can lead to unnecessary costs caused by potential reductions in efficiency, distortion of market signals, confusion and inconsistency.

For example, concerns over energy affordability for low-income households are most efficiently addressed through mechanisms such as transparent Community Service Obligation payments or through the various social safety nets rather than through market or price regulation."

From the AEMC:

"The Commission recognises the importance of ensuring the affordability of energy for low-income households but considers these issues go beyond the operation and performance of the competitive energy market. As such, they should be addressed through appropriately targeted policies rather than by intervening to distort the efficient operation of the market." (AEMC, Review of the Effectiveness of Competition in Electricity and Gas Retail Markets in South Australia, Second Final Report, 18 December 2008.)

"Ultimately, energy subsidies (including adjustments to indexation) and associated programs to address fuel poverty are matters for consideration by the South Australian Government." AEMC, 2008b, Review of the Effectiveness of Competition in Electricity and Gas Retail Markets in South Australia, Second Final Report, 18 December 2008)

"It is also important to distinguish between competition issues and non-competition issues. Where concerns arise regarding issues going beyond the operation and performance of the competitive energy market, such as the affordability of energy for low-income households, these issues need to be addressed through appropriately targeted policies rather than by intervening to distort the efficient operation of the market." (AEMC, Review of the Effectiveness of Competition in Electricity and Gas Retail Markets in South Australia, Second Draft Report, 14 October 2008.)

¹ Draft Energy White Paper Chapter 6, page 110-111
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From the MCE (now SCER) Standing Committee of Officials:

“The purpose of the [National Electricity Law] framework is to guide economic regulation, which should be guided by a unified objective of efficiency that is in the long-term interests of consumers. Environmental and social objectives are best dealt with through other legislative instruments and policies. (MCE SCO, 2007, Response to issues on the NEL (Amendment) Exposure Draft)

NEL Second reading speech by then South Australian Energy Minister the Hon PF Conlon (27th September 2007):

The purpose of the National Electricity Law is to establish a framework to ensure the efficient operation of the National Electricity Market, efficient investment, and the effective regulation of electricity networks. As previously noted, the National Electricity Objective also guides the Australian Energy Market Commission and the Australian Energy Regulator in performing their functions. This should be guided by an objective of efficiency that is in the long-term interest of consumers. Environmental and social objectives are better dealt with in other legislative instruments and policies which sit outside the National Electricity Law.

From the Australian Energy Market Agreement (AEMA):

States and Territories retain responsibility for “community service obligations ... which are to be clearly specified and transparently publicly funded” [AEMA 14.7(a)]; and,

“social welfare and equity objectives will be met through clearly specified and transparently funded State or Territory community service obligations that do not materially impede competition”. [AEMA 14.11(b)]

From the Energy Retailers Association of Australia

“The Association maintains that there is no justifiable link between price regulation and consumer protection, and that well targeted and transparent community service obligations are the most effective way of assisting those customers in genuine financial hardship, while not distorting the market.” (ERAA, 2008)