



Submission to
The Australian Energy Market
Commission

Strategic Priorities for Energy Market Development

From UnitingCare Australia

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UnitingCare Australia is the national body for social services in the Uniting Church in Australia, supporting service delivery and advocacy for children, young people, families, people with disabilities, and older people

About UnitingCare Australia

UnitingCare Australia is the Uniting Church's national body supporting community services and advocacy for children, young people, families, people with disabilities and older people.

The UnitingCare network is one of the largest providers of community services in Australia, providing services and supports to more than 2 million Australians each year in urban, rural and remote communities. The network employs 35,000 staff and 24,000 volunteers.

UnitingCare Australia works with and on behalf of the UnitingCare network to advocate for policies and programs that will improve people's quality of life. UnitingCare Australia is committed to speaking with and on behalf of those who are the most vulnerable and disadvantaged for the common good.

Stewardship of our environment is a fundamental responsibility of societies both in the short-term and for the benefit of future generations. We strongly support the notion of the triple bottom line for government community and business organisations whereby economic stewardship, environmental stewardship and the nurture of citizens (social stewardship) are equally valued and reported on publicly.

UnitingCare Australia's principle interest in energy regulation arises because energy is an essential service with rising costs that are putting inordinate financial pressure on growing numbers of households in Australia.

Context for Strategic Priorities for Energy Market Development

We appreciate the opportunity to participate in consideration of strategic priorities for energy market development in Australia, and commend the AEMC on their recent public forum and earlier consultation regarding this really important topic. This submission is intended to reinforce key points that we have made as part of our participation in the workshops and associated discussions.

Before considering the three strategic priorities proposed by AEMC, we make a couple of general observations about the Australian energy market.

Current context

We recognise that Australian energy markets, as with other energy markets around the world, are confronting a period of unprecedented change with a move from energy supply to energy services. New technologies are significantly changing customer behaviour and increasingly providing alternatives to grid connected electricity, specifically through battery storage.

We also recognise the intense debates that have raged in Australia and elsewhere regarding issues that impact on energy markets, including LNG exports, renewable energy and

renewable energy targets. On top of these issues are the arrival of electric vehicles and the stronger recognition of the need for much better consumer engagement.

Major Issue - Trust

Having been actively involved with aspects of Australian energy market regulation and policy for over a decade, UnitingCare Australia observes that the single largest issue from our point of view with Australian energy markets at is the question of trust. In short, a majority of the energy customers that are seen through our services simply do not trust energy market providers and the energy market itself. We recognise that some are more trusting of their own retailer than the energy system at large. However we highlight that 7-8 years of substantial price increases in electricity in particular, across jurisdictions, have been a major burden for a significant number of households. These increases have occurred at a time when employment has become more uncertain and incomes for many have been struggling to keep up with CPI rates. We suggest that most households in the poorest two quintiles of the income distribution struggle to pay their electricity bills at some stage over a 12 month period.

Indeed, financial counselling services across our network report that increases in energy bills have been the single major factor over recent years raised by clients about their financial stress. We note that this is the case because rising energy costs have been uncontrolled and uncertain and so low income households who generally are exceptional managers of limited income, have been unable to manage the uncertainty of rising energy costs.

We suggest that there are a range of other reasons for mistrust of energy markets as well, including:

- unrealistic claims by some aspects of the energy market,
- door to door selling and other marketing strategies which have not always been 100% truthful
- Aggressive and misleading telephone marketing
- The realisation that the price of electricity for consumer, even on 'fixed, market contracts' can and does change at the behest of retailers
- The inability of even the best price comparator service to provide genuinely comparable information
- BBQ / 'water cooler' conversations about the large price increases. (ie energy prices are a part of every day discussion)
- Media attention

These factors all combine to mean that trust in energy markets at consumer levels is, we suggest, at historically low levels.

So for the central rule making body within the Australian energy market, consideration of trust issues for the AEMC is a high priority. We do not suggest in any way that the AEMC has sole responsibility, quite to the contrary, we believe that building trust in energy markets is absolutely a shared responsibility across Federal and State government, government departments, regulators, policy makers, energy retailers, networks, community organisations and wholesale industry, as well as the growing number of third party and ancillary market participants. We also recognise that consumers have a role but not the major role. However, the AEMC has a leadership role both formally through rule making, but also informally in speaking with government, the industry and other stakeholders

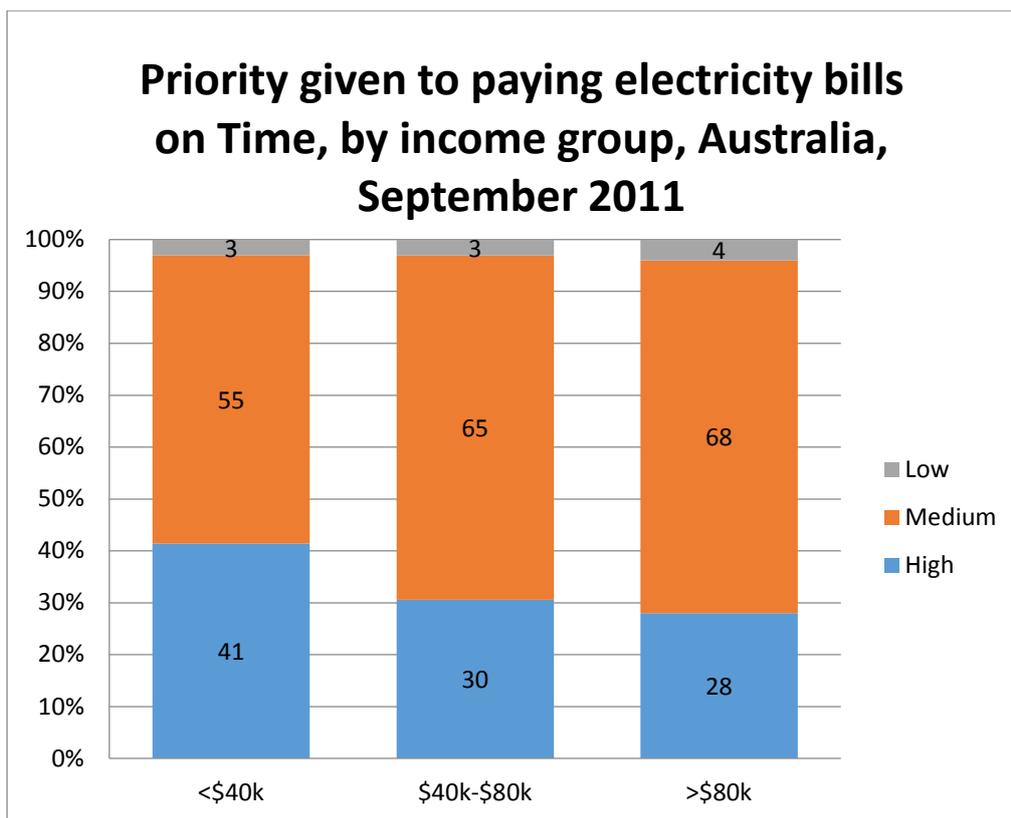
This then begs the question of what the AEMC can possibly do to help build trust in the energy market, recognising that all other parties have a role to play as well. We propose that the AEMC could consider the following roles and functions as part of improving general levels of trust in the energy market:

- Maintaining and developing statistical material which helps customers to be confident about the current state of the energy market and to see where changes are occurring for the better. This includes some consideration of data that is most helpful in assessing important questions like the state of competition and effectiveness of energy market.
- Including a standard question about trust in energy markets in all surveys undertaken by AEMC with regard to effectiveness of competition reviews which are undertaken periodically by the AEMC and any other surveys undertaken by the AEMC where a question of this nature would be appropriate. We recognise that the AEMC has done this to some extent and are proposing that the collection of a regular data series, over time, regarding perceptions of trust would be a valuable measure and indicator. The fact that an indicator about trust is being collected also helps to keep some focus on the issue by all parties, and provides some more informed debate about the prevailing level of trust in energy markets.
 - So, for example, churn data is used quite significantly as an indicator of the effectiveness of the market, yet this is aggregate churn and includes households who are changing where they live through buying a new house, through changing their rental property, through changes in household structure, all manner of factors that are a part of churn other than deciding to switch energy retailer on the basis of having made a rational decision about a better energy retailer for an existing address. Churn data tends to be used to imply a level of change in retailer on the basis

of customers considering their energy retailer and cost effectiveness only. Retailer churn data at the same address /NIMI would be better.

- To have greater trust in switching, consumers need to know that if they switch to the best deal / better deal today, it is still a better deal in 3, 6, 12 months' time. To the best of our knowledge, there has not been any published data and analysis on this topic.
- Giving close attention to standard economic market concentration measures (eg HHI) is also encouraged.
- We also believe that the AEMC can raise questions of trust with the COAG Energy Council and other senior policy bodies as a factor impacting on energy markets, encouraging the use of some degree of 'moral suasion' with the industry.
- We also suggest that trust is a function to some extent of transactions within energy markets, an issue which we consider separately under consideration of the energy market's strategic priority.
- Some attention to language can also be helpful, for example we are very surprised to hear some retailer representatives talking about 'won't payers and can't payers', language that is degrading for the many households who pay their energy bill ahead of buying food, seeking medical attention etc. This has been surveyed by UnitingCare Australia. This is demonstrated in figure 1 which shows results from an Australia wide survey of about 1500 households, undertaken by the Australia Institute for Uniting care Australia. The data shows that more lower income households give high priority to paying electricity bills on time





The following provides comment on the three proposed strategic priorities from the AEMC Strategic Priorities discussion paper. We are broadly happy to accept the broad categories, given a couple of key directions within these priorities which we outline below and highlighting the importance of dealing with the trust issue that we have outlined above.

Consumer Priority

It is no surprise that this is the highest priority for the UnitingCare network with continuing high prices after many years of significant increases, even if the AER final determinations for networks made during 2015 are applied. We continue to observe that for a large number of UnitingCare clients across Australia visiting emergency relief and counselling services, it is the rising costs of electricity and the uncertainty of electricity prices which more than any other factor has brought people to these services. The unpredictability and the significant price increases well above CPI have been a significant impact on large numbers of household budgets across Australia. We also note the continuing frustration that we hear regularly “I use less electricity and yet my bills keep going up”.

The issue of trust in energy markets that we outlined above is of particularly high importance for lower and modest income consumers, which we regard as households below median income in Australia.

The critical question regarding consumer priority is what is the 'desired end game' for consumer engagement within energy markets?

UnitingCare Australia is unequivocal in answering this question by saying that consumers and consumer groups need to be directly involved with deliberating and negotiating network pricing so that future network regulation is developed in direct consultation with and negotiation between network businesses and consumers. We have outlined this process and described it as the DNA approach: Deliberate, Negotiate, Agree. This process is outlined in our discussion paper which we reference below. An excerpt from that paper states:

"We propose a significant cultural shift from current arrangements for regulatory determination. Under the current model, networks put a price and revenue proposal to the regulator, and then defend that proposal during the Australian Energy Regulator's deliberations. This 'propose and defend (and appeal)' approach entrenches the network's position from the start, and automatically relegates consumers to a reactive and usually marginal role. Instead we propose an approach that changes it to one of deliberation, negotiation, and agreement (DNA). This proposal places two innovations at the centre of network regulated decision-making:

The use of deliberative democratic techniques¹ to develop fundamental understandings of community views and preferences; and

The use of negotiation between networks and consumers as an alternative vehicle for debate and compromise to the current system, by which the regulator has to make a judgement about all network proposals.

Incorporating direct and ongoing consumer focussed engagement in network regulatory processes is the priority for lasting reform, changing the make-up of regulatory processes."

(A copy of this paper is attached with this submission.)

The question of efficient investment in energy markets is also a crucial consumer question because we opine that the focus on efficient investment has been from a supply side (network business) point of view, an industry point of view as opposed to a demand side (consumer) point of view. This has significant impacts on outcomes of policy development and of industry practice.

¹ See the UnitingCare discussion paper on deliberative democracy for a full explanation of deliberative democracy and deliberative engagement.

http://www.unitingcare.org.au/images/stories/publications/2014/140912_pub_dis_deliberative_democracy_discussion_paper.pdf

From a consumer perspective we believe there is still a need for a base level, no frills service that meets all National Energy Customer Energy Framework requirements and provides a good basic service for customers at an affordable price. This is needed to build trust.

Market Priority

In considering the effectiveness of energy markets in Australia, we are drawn to the current reality that up to 40 legal professionals, including Senior Counsels are part of a process where electricity distribution businesses from one jurisdiction are part of a challenge to a regulator decision. That AER final determination was based on extensive, consultation, research and debate, yet NSW consumers are paying up to half a billion² dollars for their network businesses to argue that these very consumers should be paying more for their electricity supply!

We ask how this can possibly be in the 'best interests of consumers'?

This appeal is an example of why the current system is not working for consumers, in our opinion.

A related aspect of market considerations has been that inadequate consideration has been given to transaction costs. The operation of the market in energy to date has assumed low or minimal transaction costs with full knowledge from customers able to make informed decisions at any point in time. This is simply not the case and, given that transactional cost economics talks about the cost of some goods and services being 50-60% of transactional costs, it is critical that our understanding of energy markets makes the role and cost of transactional costs much more explicit, both for industry and for consumers.

For example the cost of network regulatory proposal development, assessment and subsequent appeal is unknown, but estimates of aggregate Australia wide costs for a 'round' of regulatory determinations of the order of \$5 billion dollars are probably not unreasonable, and this is but one 'transaction cost' borne by consumers, without choice. Similarly the cost of 'B2B' transactions between networks and retailers is likely to be significant and invisible. The new metering arrangements will add further transactions costs to the existing consumer burden.

A related issue relates to the question of the pre-conditions for effective competition. Economic theory gives a range of factors required for competitive markets to be effective one of which is 'perfect' knowledge for consumers. This is difficult enough with tangible

² Estimates based on comments in Financial Review coverage of Australian Competition Tribunal review of NSW electricity distribution determination appeals

goods and even more difficult for intangible services like electricity supply and increasingly, for electricity services.

The growth of energy services into the market means that access to good reliable information and a much better understanding of transaction costs is critical for the market, and in particular for consumers.

Gas

This is the lowest priority area of the three for Uniting Care Agencies, in large part because gas has substitutes, i.e. electricity, whereas electricity does not have full substitutes for all functions that it performs, so a priority for Uniting Care agencies continues to be associated with consumer protection and affordability issues for electricity.

The critical standing energy consumer issues for consideration with gas is the cost effectiveness for residential and small business consumers of gas as part of dual fuel mix. We are convinced that for a new household for example, it is more efficient and cost effective for that household to be established as an all-electric house in most parts of Australia, rather than to pay two supply charges, namely the cost of supply of both electricity and gas, at a time when network businesses are seeking higher fixed / supply charges. So we suggest the AEMC look very closely at the real value for customers of gas connection for the domestic energy purposes.

Linked with this is the important question of marketing and promotion of gas as a standing energy fuel source. Given that gas is being widely promoted as a cheap fuel source, this is increasingly an inaccurate assertion, particularly given that for many functions that gas performs, electricity, with more efficient appliances, is cost effective as a substitute, and the cost of gas into the future is uncertain. There is a strong likelihood that gas prices will increase for domestic customers as LNG exports increases and residential gas users and small business gas users in Australia are more tied to world parity pricing for gas.

Summary

We suggest that in considering the three strategic priorities proposed for the immediate future, for AEMC focus, that close attention must be given to the following priorities:

- Rebuilding trust in energy markets by consumers
- Building direct consumer engagement into all aspects of energy markets, including through deliberation and negotiation for network revenue allowance processes
- Assisting with better understanding of 'transaction costs'