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Energy White Paper Taskforce
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Dear EWP Taskforce

Energy Green Paper Consultation

About CUAC

The Consumer Utilities Advocacy Centre Ltd (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.

We submitted to the issues paper earlier this year and we welcome the opportunity to comment on the *Energy Green Paper 2014* (Green Paper). In developing our positions on the Green Paper, CUAC is guided by our strong principles. Energy services are essential for health, wellbeing and social participation. Therefore, we believe that consumer interests, particularly those of low income, disadvantaged, rural and regional consumers, must be a primary consideration in the development and implementation of energy policy and in service provision. CUAC's advocacy maintains a focus on the principles of affordability, accessibility, fairness and empowerment through information and education.

1. Introduction:

The rapid evolution of Australia's energy sector has led to significant challenges and changes to the energy market. The Federal Government needs to ensure that our policy and regulatory frameworks are able to respond to the changing energy needs so that Australians continue to have safe, reliable and affordable energy in our homes, communities, and businesses. A productive and well-functioning energy market, supported by a strong regulatory and institutional framework and a stable policy environment, is the best way we can achieve the Government's commitment to drive continued economic growth and prosperity over the long

term. A strong set of consumer protections means vulnerable consumers will continue to be supported into the future.

Technological advancement has expanded the ways in which consumers can manage their energy use. Smart meters and flexible pricing have introduced new options for consumers to be more engaged with their electricity usage. However, this increase in choice has also made navigating an already complex market more challenging for consumers. As a result of information asymmetry, consumers do not always have the information or/tools to allow them to make informed decisions. Many consumers are also not energy literate, and thus may experience difficulty understanding bills and energy contracts. To ensure that consumers are not left behind, the Federal Government needs to adopt a range of strategies to support consumers with different capabilities and readiness to participate in the market. Vulnerable consumers, especially, require targeted support to ensure that they are able to realise the full benefits of the competitive market and to manage their energy costs and usage.

Retail price deregulation and competition have not led to lower retail prices, as expected. For example, in Victoria the Essential Services Commission's (ESC) commissioned research on the analysis of electricity retail prices and retail margins suggested that, host retailer standing offer prices (single rate) typically increased by more than 70 per cent between 2006-07 and 2011-12 and increases in market offer prices (single rate) were typically between 55 and 60 per cent over the same period.¹ The Victorian Government has included in its recently released Energy Statement a commitment to undertake a public review of Victoria's retail electricity market, with a focus on:

- Investigating possible steps to improve competition and address the possible existence and extent of retail electricity margins
- Regulatory and market barriers
- Identifying possible responses to address informational, economic, behavioural and demographic factors that inhibit how consumers engage with the retail energy market and their ability to effectively switch

This work will ensure that current and future policy settings support strong competition through a more transparent, informed and responsive market and engaged consumers.²

CUAC believes that the Australian Energy Market Commission (AEMC) in their review of the effectiveness of competition needs to take account of outcomes for consumers - in particular the learnings from behavioural economics - in order to inform their rule change determinations and market development advice to governments. While consumer information and education are important in equalising the current information asymmetry, they do not by themselves fix the market, if energy offers continue to be complex. Complex offers impede effective participation by consumers; without effective participation there is no downward pressure on retailers to lower prices.

As energy is an essential service, we support a strong regulatory framework for consumer protections including monitoring, compliance and enforcement, and to ensure equitable access to quality and reliability. Monitoring and public reporting of customer experience around community safeguards such as disconnection, payment plans and hardship, especially in the context of rising prices, are essential. This enables policy makers, businesses, regulators, and

¹ Essential Services Commission 2013, Retailer Margins in Victoria's Electricity Market — Discussion Paper, May, at14.

² Department of State, Development, Business and Innovation, Victoria's Energy Statement

consumer groups to understand how the market is operating and the extent to which further energy regulatory amendment or reform is required. This can then inform industry programs and communication to customers, as well as concessions, energy efficiency, and other related services designed to assist vulnerable and potentially vulnerable customers.

In particular, we welcome the following measures that progress and implement some of these themes identified in the COAG endorsed energy market reform package, *Putting Consumers First:*

- Inclusion of the ‘consumer priority’ in the AEMC’s strategic priorities
- Release of the AEMC ‘consumer engagement blueprint’, which is designed to inform and empower consumers to choose an energy offer which is appropriate to their needs
- Development of the Australian Energy Regulator’s (AER) revised approach to determining electricity network revenues and prices
- Establishment of the AER’s Consumer Challenge Panel to strengthen consumer input into network spending
- Release of the AER’s consumer engagement guideline which provides a framework for network service providers to better engage with their consumers so that their business proposals reflect the long-term interests of consumers
- Changes to the Limited Merits Review Regime which will result in more consumer friendly outcomes where there is an appeal
- Development of the Energy Consumers Australia to increase the consumer voice in national energy market matters which materially affect energy consumers

CUAC supports more effective engagement with the community and consumer advocates particularly where they are directly affected by decisions. We refer the Department of Industry to CUAC’s report [*Meaningful & Genuine Engagement: Perspectives from Consumer Advocates*](#) which has the objective of assisting energy and water businesses, regulators and government engage more effectively with the community and consumer advocates. The report provides a unique perspective from the voices of 28 advocates with a depth of professional knowledge and experience in utilities and other general consumer issues. CUAC’s report focuses on the insights shared by the advocates interviewed and recommends some resources including tool-kits and ‘how to’ guides to guide best practice engagement.

2. Electricity prices

We reiterate the importance of ensuring access to, and the **affordability** of, electricity and gas services to all Australians. In Victoria, energy prices have risen since deregulation in Victoria and affordability of essential services has become a major problem. The Energy and Water Ombudsman (EWOV) received over 84,750 cases this past financial year (an average of 339 cases daily), which was an increase of 10 per cent from the last financial year. For the first time the credit issues of energy disconnection and water restriction replaced high bills as an issue that customers contacted EWOV about the most – 1 in 5 customers – and EWOV received an average of 37 cases daily about an imminent or actual disconnection.³ We ask the Federal Government to give due consideration to the impacts on disadvantaged and vulnerable consumers in the policy positions that will be articulated in the Energy White Paper. A formal public policy link between market outcomes and social and equity issues lies at the heart of addressing issues of debt, disconnection, and affordability.

³ EWOV Annual Report 2014.

Further, the effectiveness of retail competition in placing downward pressure on electricity prices is doubtful. Recent work by Victoria's Essential Services Commission (ESC)⁴ and the St Vincent de Paul Society⁵ suggest that, in some markets at least, there is some 'fat' that competition is not eating into. Asymmetric information to detriment of consumers remains a concern, with little improvement in sight.

a. Advanced metering

Changing consumer behaviour can help to lower peak demand, thereby reducing the need for more generation and network investment. CUAC is of the view that the demand side initiatives arising from the AEMC's Power of Choice review have the potential to assist consumers to better understand and manage their energy usage thereby reducing their bills. There are also non-smart meter related initiatives and/or cheaper alternatives such as 'peak-smart air-conditioners' in Queensland, which we encourage the government to explore. For demand side participation to be effective consumers need information, education and enabling technology and tools (e.g. in-home displays, web portals, independent price comparators etc) if they are to make informed decisions about how and when they use electricity. In addition, the right incentives must be in place for both consumers and industry. For businesses, these incentives need to encourage support for consumer choice and efficient investment in demand side participation products, rather than in network augmentation.

Smart metering opens the door to new products and services such as supply capacity control (SCC), direct load control (DLC), critical peak pricing/rebates. While these products and services have the potential to benefit some customer groups; they also have the potential for consumer detriment. We have concerns around safety, potential damage to appliances, the need to protect vulnerable customer groups from products/services which may be detrimental to them (e.g. people with medical and cooling needs, life support, customers experiencing financial hardship). SCC should not be used for credit management purposes or as a product offered to customers experiencing hardship or customers who are on payment plans due to payment difficulties. The health and welfare implications are especially significant if these products are used in a heat wave. In addition, as these products/services are complex and technical, there is considerable risk that some consumers may not fully grasp the implications of these products. In the case of SCC, this includes consideration of the limit/threshold and the duration in which the household will be without power if the limit is reached. Explicit informed consent may be very difficult to achieve or test in these circumstances.

Regulation is therefore appropriate to ensure that these interests are well balanced and that there is an adequate framework in place to protect the rights of all consumers. It is also prudent to test consumer acceptance of new products and services through customer trials before they are generally available and for a risk assessment to be undertaken prior to their introduction.

We agree that consumers need easy access to their energy use data if they are to benefit from smart meters and flexible pricing. Currently third parties are not covered by the AER's framework for retailer authorisation or exemptions. With the additional complexity that third parties bring to the energy market, with services to be derived from the implementation of smart meters, consumers need adequate protection in the form of the regulatory framework and adequate access to dispute resolution, specifically the jurisdictional energy ombudsman. An appropriate regulatory framework regarding third party meter service provision and access to

⁴ Essential Services Commission 2013, Retailer Margins in Victoria's Electricity Market — Discussion Paper, May. See also Ron Ben-David, Pursuing competitive accountability in retail energy markets, March 2013.

⁵ May Johnston, Victorian Energy Prices, July 2014.

data should be addressed prior to giving third parties access to metering data and other metering service provision.

b. Consumer education & information

Over several years of involvement in smart meter issues, CUAC has been advocating for consumer information and education initiatives to accompany the rollout of smart metering technology and its associated reforms. The introduction of smart meters, flexible pricing and other new products and services, adds additional layers of complexity to the market for consumers, and consumers need to understand what their rights and obligations are. Lack of information contributes to poor consumer outcomes and impedes consumers from choosing offers which are appropriate for their households. By addressing the information imbalance, consumers can participate more effectively in the market. We have argued that such initiatives must take into account the needs of vulnerable and disadvantaged consumers. We are pleased with developments such as the Victorian government's Switch On website and the Energy Information Fund (EIF).

The Switch on website provides information to help consumers understand their energy use and costs, as well as flexible pricing. This was developed in consultation with consumer groups including CUAC. The website was recently redesigned to simplify the site content and visuals to enable easier navigation and quicker identification of, and access to, relevant information, and to broaden the key message of the site to "how can consumers save money on their power bills – using a range of tips and tools." The Victorian Government ran a Switch On advertising campaign in October to encourage consumers to save money on their bills by finding a better deal. The campaign addressed increasing concerns about rising energy costs by: (1) Empowering consumers to save money on their energy bills through energy efficiency; (2) Increasing consumer awareness and use of My Power Planner as a tool to find a better electricity plan; (3) Increasing consumer awareness of what smart meters do and what the benefits are. Campaign elements included advertising through a variety of media channels.

The EIF provides grants to not-for-profit organisations to adapt, develop, and/or deliver information to multicultural, disadvantaged and hard-to-reach consumers with a focus on flexible pricing. The Fund's objective is to educate and empower these consumers to make informed decisions about energy. CUAC received funding for 12 months, to support implementation of the EIF. This includes establishment of the EnergyInfoHub website which houses a repository of CUAC's guides, EIF outputs and other high-quality energy consumer education materials. Industry also has a role in helping customers understand smart meters, flexible tariffs and other new products and services available in a smart metering environment.

These initiatives are part of the Victorian Government's commitment to ensure that all consumers have access to the right information and tools to engage and participate in the retail energy market. We ask the Federal Government to consider similar initiatives to educate and inform consumers about energy issues so that they are able to genuinely participate and benefit in a from a smart meter environment.

Related to the themes of strengthening regulation and empowering consumers, CUAC and the Consumer Action Law Centre (Consumer Action) partnered to propose a change to the National Energy Retail Rules (NERR). The Rule Change was submitted to the AEMC on 23 October 2013, and addresses the problem of energy retailers having the power to unilaterally vary tariffs within a contract; that is, without the customer's consent. Previous CUAC research has found that 86 per cent of consumers are of the view that current arrangements are unfair and 94 per

cent of consumers believe that a change in the regulations is warranted to prevent retailers changing prices during fixed term contracts.

The AEMC's final determination⁶ failed to address many of CUAC and Consumer Action's concerns, though the Commission recognised the validity of most. We are engaging with the AEMC, AER, and the Energy Retailers Association of Australia (ERAA) around these issues and encourage the Federal Government to support market reform that allows consumers to activate competition more effectively and engage with the market with confidence.

c. Tariff structures and network costs

CUAC agrees that there is a need to reform the way distribution networks and services are priced, in order to drive greater efficiency of use, avoid unnecessary investment and drive more efficient prices charged to all consumers.

The preference of consumers for variable, rather than fixed charges, has meant that for several decades the costs of electricity supply have been recovered in a manner not reflecting their imposition: a portion of fixed costs have been 'smeared' on to variable charges. The conditions for such cost recovery are increasingly vanishing, with changes to patterns of consumption catalysed in large part to the emergence and spread of new technologies (e.g. air conditioners and distributed renewable energy).

Any review of existing network tariff structures should consider the system as a whole and revisit the underlying assumptions of the original tariffs, rather than seeking to simply 'bolt on' provisions for new technologies. In particular, considerations of cost-reflective network tariffs should consider the extent to which energy systems are the providers of essential services and how cost-reflectivity is balanced against the ability of all groups to pay for these services. Additionally, the paradigm of cost recovery for past expenditure should not be taken as a given where private investment has been made on expectations that have not been fully met.

We therefore welcome the AEMC rule change on Distribution Network Pricing Arrangements. CUAC, together with the Consumer Action and the Victorian Council of Social Service, made a considered [submission to the AEMC on tariff reform](#), and we refer the Federal Government to it for our views on this issue. We also support the AEMC's Power of Choice reforms and the establishment of the AER's Consumer Challenge Panel – effective consultation of consumers is critical.

However, CUAC considers the rule change process generally not responsive enough to deal with the significant structural changes to the energy market, and we are concerned about addressing 'yesterday's problems'.

CUAC is of the view that flexible pricing should be on an opt-in basis with the customer's explicit informed consent and that flat tariffs should also be available to accommodate customers who do not benefit from flexible pricing. Such initiatives should also consider the needs of disadvantaged and vulnerable consumers. We support allowing consumers to revert back to their original non-flexible tariff without the payment of any fees or charges. This can encourage consumers to try flexible pricing by reducing the risk of financial detriment if the tariff is not appropriate. For example, the Victorian Government's policy on flexible pricing allows customers to voluntarily choose flexible pricing by providing their explicit informed consent and to revert to their previous tariff, without payment of an administrative fee.

⁶ Australian Energy Market Commission, 2014, Retailer Price Variations in Market Retail Contracts, Final Rule Determination, 23 October 2014, Sydney.

3. Building gas supply & improving market operation

Developments in the eastern gas markets are an ongoing area of interest for CUAC. To enable more and better engagement from the consumer and community sectors, we released the report, [*Making the Gas Connection: an introduction to the gas sector for consumer organisations*](#), last year. In August of this year, we released a further report: [*Our Gas Challenge: The role of gas in Victorian households*](#).

Areas of concern identified by CUAC's reports include:

- Lack of consumer awareness of rising gas prices
- Significant reliance by households, especially large proportions of Victorian households, on gas for essential services
- The vulnerability of low income and vulnerable consumers to sudden bill spikes
- Entrenched attitudes at both household and government level that 'gas is cheaper'
- Barriers to comparing life-cycle costs of electric and gas appliances
- Policies encouraging installation of gas appliances where this may be inappropriate in the long term.

a. Addressing near-term east coast gas supply

Gas extraction in the current context spans several policy areas, including resource development, land use, agriculture, commercial/industrial energy, and residential energy. The problems facing residential consumers (vis a vis energy policy) are different to those facing stakeholders in other policy areas, and revolve principally about affordable access to essential services. Many consumers, especially in Victoria, rely on gas for essential services, and a continued affordable provision of these services is necessary. This could continue to be achieved with gas, but need not be – forthcoming research by the Alternative Technology Association (ATA) finds that, for many Australian, high efficiency electric heating and hot water appliances are cheaper than their gas equivalents over the life of the appliance (considering both purchase cost and running costs).⁷

Essential energy services could be provided via other fuels, or gas could be made more affordable for residential consumers.

While expanding gas supplies may provide downward pressure on retail prices, the magnitude of any downward pressure is likely to be slight, and the prices relative to historical levels will likely continue to be materially higher. Further, expanding gas supplies will take several years to affect retail prices, while measures targeting households directly can take effect much more rapidly. With gas prices already rising, and expecting to spike in the near future, this consideration is very important.

Our recommendations to the Federal Government therefore include:

- Implement energy efficiency/productivity programs to target households with high energy use, particularly low income and vulnerable households
- Offer households assistance to upgrade the energy efficiency/productivity of their own homes and appliances, including assistance that addresses information, behavioural, and – where appropriate – capital barriers
- Make policies to improve households' energy use technology neutral

⁷ Alternative Technology Association (forthcoming) The Impact of Future Gas Price Increases and Cost Effective Alternatives for Energy Consumers.

- Review concessions to assess whether they are suited to dealing with consumers experiencing higher and ‘lumpier’ gas bills
- Update appliance energy ratings and labels to allow comparisons of estimated appliance life cycle costs across fuel types (e.g. gas versus electricity, rather than just gas versus gas)
- Conduct further research into the relative costs of gas versus electric (or other) appliances for different household types and regions, expanding on the ATA’s work.

CUAC supports measures to improve market transparency and competition, noting that their benefits are likely only to be felt in the medium and long term.

b. Gas price transparency

CUAC generally supports the COAG’s Energy Council’s Gas Market Development plan, including improving price transparency through the gas supply hub and trading exchange at Wallumbilla.

Increasing transparency of gas markets is vital to enable all stakeholders to engage effectively. Currently gas markets are highly intransparent, with much information only available to very few parties (e.g. pipeline capacity). This curtails the ability of government and regulators to oversee the market, and the ability of consumer and community organisations to understand the market and effectively represent the interests of consumers. Poor information or information asymmetry also reduces competitive pressure, as both smaller parties and new entrants are at a disadvantage versus larger parties and incumbents. The gas retail market, in particular, suffers from much lower competition than is found in e.g. the electricity sector; very few retailers are willing to enter into a gas-only contract with households, and 2011 CUAC research found that most commercial switching services offering no or limited help to Victorian consumers searching for gas market offers.

Gas markets generally would also be improved through transparency measures allowing improving price discovery.

CUAC supports either an Australian Competition and Consumer Commission (ACCC) Inquiry into or Productivity Commission review of levels of competition in the eastern gas market, to inform consumers about future market conditions and identify opportunities to increase competition in the upstream market.

CUAC also supports increased publication of information through the Bureau of Resources and Energy Economics (BREE) to improve market information. Related to this, CUAC is deeply concerned about the reduction in funding to the Australian Bureau of Statistics (ABS), which publishes – among other things – information on households such as energy usage that is critical for informed and effective consumer advocacy. We recommend that this false economy be abandoned and funding be restored to ABS.

c. Improving gas market function

CUAC supports the development of a longer-term gas market agenda to promote an efficiently operating market, noting that efficiency is not the only consideration: as in the electricity market, end-user equity must be taken into account, in particular because of gas’ role in supplying essential services.

The extent to which efficiency and equity may conflict will differ on the market being considered, and certainly the issue is more relevant in retail markets than wholesale markets. Mechanisms such as hubs and pipeline capacity trading to improved flexibility and

responsiveness are likely to improve wholesale market efficiency while having little negative effect on end-user equity.

4. Energy productivity

CUAC has long supported energy efficiency measures as a means to improve energy users' quality of life, reduce their costs, minimise the use of Australia's finite resources and improve its productivity. Recently we have been active in the One Million Homes alliance, advocating for significant investment to improve the long-term energy and water performance of Victoria's existing housing stock.

Upgrading housing stock is a cost-effective way to significantly reduce cost of living pressures, help to address steeply rising energy and water costs, increase the liveability of homes, supporting job creation and innovation, and deliver savings to energy concessions. The split incentive problem for rental housing has been addressed in many innovative ways, but a simple incentive that would also improve non-rental housing would be improvements in building standards and regulations.

CUAC has also been involved with and commends the value of energy efficiency programmes such as the Home Energy Saver Scheme (HESS), Low Income Energy Efficiency Program (LIEEP), and Koori Energy Efficiency Project (KEEP). Programmes such as these have intrinsic social and economic value that justifies their existence, even where the initial impetus (e.g. a carbon price, in the case of the HESS) may no longer be present.

Thank you for the opportunity to participate in this consultation. Please do not hesitate to contact the undersigned on (03) 96397600 if you have any queries

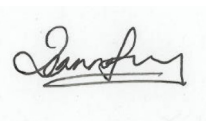
Yours sincerely,



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