energy networks association

ENA INFORMATION PAPER

SUPPORTING VULNERABLE ENERGY CUSTOMERS

OPTIONS TO IMPROVE SUPPORT FOR VULNERABLE CUSTOMERS

SUPPORTING VULNERABLE CUSTOMERS - KEY OPTIONS

The HoustonKemp report, *Supporting Vulnerable Energy Customers* outlines six key options :

1. harmonising the value of government assistance across jurisdictions;
2. effective targeting of government assistance based on need;
3. maintaining the relative value of energy concessions over time;
4. providing assistance to finance household or community investments in technology or energy efficiency improvements;
5. transitioning vulnerable customers to more cost-reflective electricity network pricing, including the option of 'social tariffs'; and
6. improving customers' access to information and decision tools.

Australia's energy markets are experiencing significant changes in technology, customer preference and the development of new information and markets. Given these changes, it is important to review the effectiveness of the support provided to *vulnerable customers* - those that are at risk of experiencing financial stress due to a moderate increase in their energy bills.

As highlighted by the National Energy Affordability Roundtable in 2013, energy affordability requires a coordinated national approach. While some challenges are local, there are important opportunities to share best practice between governments, regulators and service providers across jurisdictional or sectoral boundaries in Australia's energy market. Addressing energy affordability will require a dialogue between consumers, governments, regulators, network businesses and energy retailers on the options needed to improve support for vulnerable customers.

ENA commissioned the HoustonKemp report, *Supporting Vulnerable Energy Customers* to support consideration of these issues. HoustonKemp drew on earlier analysis of energy affordability and benefitted from consultations with a number of key stakeholders.

ENA appreciates the assistance provided by stakeholders and looks forward to further engagement on the options proposed in their report.

The ENA's engagement with stakeholders on supporting vulnerable customers is a core element of the Australian energy network industry's efforts to progress an Industry Standard for Network Tariff Reform in 2015.

Further information can be found in the ENA publication, *Towards a National Approach to Electricity Network Tariff Reform,* available from www.ena.asn.au.

A 'SAFETY NET' THAT WORKS, FOR THOSE WHO NEED IT MOST

Access to essential services, such as electricity and gas, is necessary to sustain the health and wellbeing of our community.

The affordability of energy for a customer is influenced by a range of factors including location, household income, family size and home ownership status. Affordability issues can be compounded by poor thermal efficiency of low income housing, inefficient energy appliances and a requirement for energy for medical reasons.

With around one in four households receiving concessions or hardship assistance to meet the costs of their energy bills, and cost-of-living pressures including increases in energy prices until 2014, it is appropriate that stakeholders collaborate to improve support for vulnerable customers.[1]

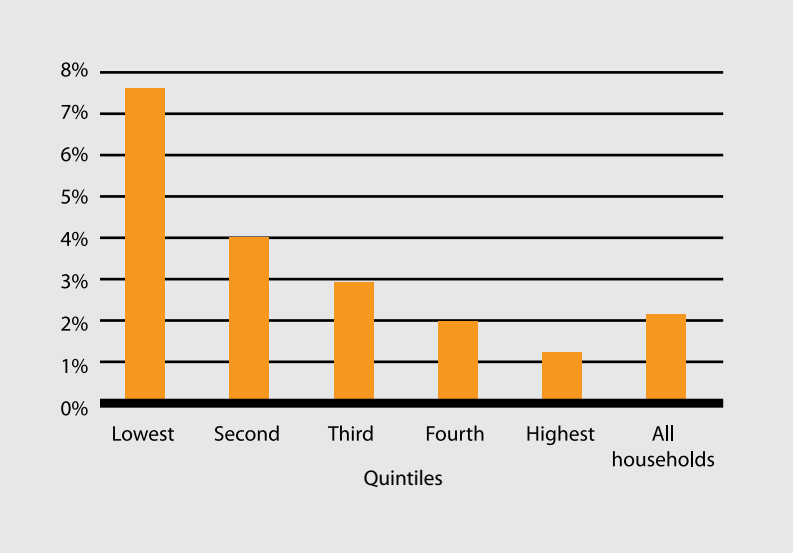
The ENA considers that it is timely to review the policies and programs that make up the 'safety net' to determine whether they are fit for purpose and are robust in the face of future changes in energy markets.

1 St Vincent De Paul Society, March 2013, The relative value of energy concessions: 2009 to 2012, p.4

ENERGY BILLS OF VULNERABLE CUSTOMERS

On average Australian households spend only 2 per cent of their household budget on energy (Figure 1). The amount spent on energy rises as a proportion of income as household income falls. While low income households typically spend around 8 per cent on energy, data from the Independent Pricing and Regulatory Tribunal (IPART) in NSW has found that around 25% of the lowest income households spend over 10% of their income on energy.[2] In this context, there is a need to ensure the 'safety net' that protects vulnerable consumers is well-designed and targeted – and this priority will only increase given the current changes underway in electricity and gas markets.

FIGURE 1: HOUSEHOLD SPENDING ON ENERGY (% OF BUDGET)



Source: Australian Bureau of Statistics, *Household Energy Consumption Survey, Australia,* Catalogue No.4670.0

NATIONAL ENERGY AFFORDABILITY ROUNDTABLE

National industry and consumer peak bodies participated in a National Energy Affordability Roundtable (the Roundtable) which presented a report to the Council of Australian Governments Energy Council in June 2013. The Roundtable report contains a set of recommendations for action to address the affordability challenges faced by energy consumers around the country.

Amongst other recommendations the key proposals for government include a national review of energy concessions, rebates and emergency relief programs to identify the most effective measures for targeting people most in need and offering sufficient levels of assistance for people in different locations and circumstances.

Source: National Energy Affordability Roundtable, Report to the Standing Council on Energy and Resources (SCER), May 2013

CHANGES UNDERWAY IN ENERGY MARKETS

Energy networks are committed to improving energy affordability in an enduring way, through their responsibility to deliver efficient electricity and gas services that are valued by their customers, through minimising price volatility and providing customers with access to information.

Network costs are a significant component of retail energy bills, with the exact proportion varying between electricity and gas markets and between networks.[3] However, Australian energy customers are benefiting as network cost-saving initiatives, lower financing costs and reduced demand pressures flow through in regulatory decisions. Both the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER) expect network charges to be either stable or falling in the next few years, putting downward pressure on retail energy bills.

GAS MARKET DEVELOPMENTS

The development of eastern Australian liquefied natural gas (LNG) exports is expected to increase wholesale gas prices, which may double in the period to 2018, although with a proportionally lower increase in final retail gas bills. In some cases, falling network costs should offset the impact on the final retail gas bill. For instance, in New South Wales Jemena has proposed to reduce network charges over the next five year period for its 1.3 million residential and small business gas customers in NSW by up to 40 per cent in real terms.

Equally, there are opportunities to mitigate the impacts on gas customers through changes in government policy which 'level the playing field' for household gas appliances.

2 Australian Council of Social Services (ACOSS), Make *essential services available and affordable: energy*, p.2
3 Australian Energy Regulator, *State of the Energy Market 2014, p. 71, p. 117; Australian Energy Market Commission, Final Report, 2014 Residential Electricity Price Trends, p. 178-181*

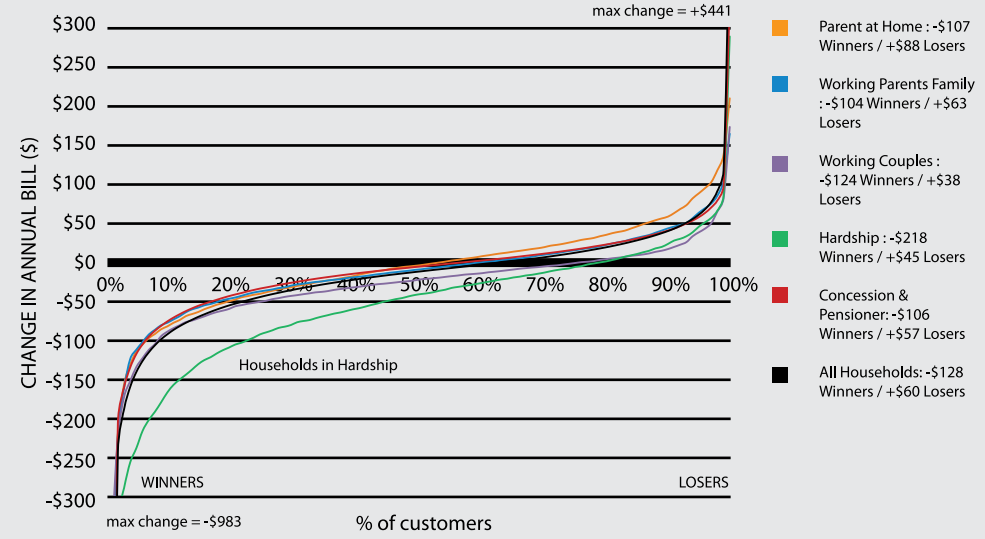
Recent analysis for the ENA by CORE Energy Group found that despite wholesale gas prices doubling, all customers could pay lower retail gas bills if the distorting subsidies to solar technology were removed. They estimated that this could reduce retail gas bills by around $50 per year in 2034 (5.4% below current levels) even after taking into account the impact of 'internationalised' wholesale gas prices.[4]

ELECTRICITY MARKET DEVELOPMENTS

In electricity markets, retail and wholesale costs (which can be 40 per cent or more of the bill) are expected to increase by more than 2 per cent per year through to 2016 -17 according to the AEMC[5]. Over the same period, the AEMC expects average network costs to be stable.

Electricity networks will introduce cost-reflective network pricing reforms in consultation with their customers to deliver tariff structures that are fairer and put downward pressure on long-term electricity bills. These tariffs can empower customers with new ways to save on their electricity bills such as smoothing their consumption during peak times or shifting some of their usage to off-peak times. As a customer's network charge is based more closely on the costs of providing the service, these changes also reduce unfair cross-subsidies. Importantly, cost-reflective pricing reforms do not increase the revenue that a network is allowed to recover by the regulator and will ultimately reduce future network system cost requirements, benefiting all customers.

FIGURE 2: LOWER ELECTRICITY BILLS UNDER COST-REFLECTIVE NETWORK PRICING



Source : Paul Simshauser and David Downer, *On the inequity of flat-rate electricity tariffs*, AGL Applied Economic and Policy Research, Working Paper 41, Figure 16.

BENEFITS OF TARIFF REFORM

Multiple studies have found that the majority of customers (60 per cent or more) would benefit from cost-reflective network pricing. Some examples include:

- research by AGL on customers in hardship show that 4 out of 5 of these customers are currently paying more than is necessary under flat rates, as they use less electricity at peak times and would benefit from cost-reflective pricing even in circumstances where they don't change their consumption (see Figure2);
- research for *Smart Grid, Smart City* found that vulnerable customers are more willing to shift their load and rated the behaviour changes they made as easier (less disruptive), than other households, in reducing their electricity bills;
- research by NERA for the AEMC found that up to 81% of customers would pay lower charges in the medium term under a cost reflective capacity (peak demand) price.

Analysis for the ENA has identified the long term benefits to customers of cost-reflective network pricing which:

- is more **efficient** in charging for network services, saving customers $17.7 billion by 2034 by supporting efficient investment in solar and battery storage technologies;
- is **fairer**, as it avoids unfair cross-subsidies to early adopters of solar and battery storage technologies, with cross-subsidies potentially increasing from $120 per annum today to $655 per annum in 2034;
- will result in **lower electricity bills**, of around $250 per annum for residential customers, as the costs of expanding network capacity to meet peak demand will be lower than they would otherwise be; and
- will **avoid price shocks** for customers, as electricity prices will be five times higher than necessary under current tariff structures.

4 ENA, *Taking the pressure off gas prices,* September 2014, p. 2
5 AEMC, Final Report, 2014 Residential Price Trends, p. 179

A NATIONAL REVIEW OF ASSISTANCE IS NEEDED

Financial assistance to support eligible, vulnerable, customers with their energy bills varies by jurisdiction. Some State and Territory governments, including Queensland, Victoria and Tasmania, are in the process of reviewing their assistance arrangements, therefore it is timely to undertake a national review. Given that state and territory budget matters are the responsibility of First Ministers and Treasurers, such a review could be undertaken through the Council of Australian Governments (COAG). A national review would build on COAG's leadership of the 2012 energy market reform package "*Putting Consumers First.*" There would be benefits in assessing assistance measures and their effectiveness against a consistent framework.

The national review could consider a number of issues, including:

- the effectiveness of current assistance measures, including whether it is reaching those most in need;
- the appropriate eligibility criteria for customers requiring assistance;
- the basis for energy concessions, whether as a percentage of the energy bill or a flat rate;
- the forms of assistance that could be provided;
- the advantages and disadvantages of harmonising eligibility for assistance and the value of assistance across jurisdictions.

COAG could seek to have the national review completed in advance of the 2017 commencement of cost-reflective network pricing. A set of principles that could underpin a national framework for supporting vulnerable customers has been proposed in the HoustonKemp report as well as four options for consideration in a national review (see Table 1).

THE RELATIVE VALUE OF ENERGY CONCESSIONS

The St Vincent De Paul Society has called on governments to review energy concession arrangements to align them across jurisdictions. In their 2013 report, St Vincent de Paul identified significant differences in energy concession arrangements between jurisdictions, in particular:

- people receiving energy concessions in South Australia receive the lowest level of assistance relative to the level of energy bills, while assistance is highest in Victoria;
- households using gas as well as electricity (dual fuel households) benefit less from energy concessions than all electrical households in some jurisdictions.

ENA notes that the NSW Government recently committed to extending a $90 rebate to low income families to meet their gas bills.

Source: St Vincent De Paul Society, March 2013, *The relative value of energy concessions: 2009 to 2012*

TABLE 1: OPTIONS TO IMPROVE CURRENT ASSISTANCE ARRANGEMENTS

Issues for Stakeholders			
The value of energy concessions, rebates and emergency relief are different for people in different locations and circumstances	Eligibility for concessions, rebates and emergency relief is not always targeted to those most in need of assistance to meet the cost of their energy bills	The relative value of capped flat rate energy concessions is eroded over time as retail energy bills rise	Many vulnerable customers are unable to improve the energy efficiency of their homes and appliances
Potential Options for Governments			
Harmonise the value of assistance across jurisdictions	**Effectively target assistance based on need**, considering healthcare card status, income and family size in preference to age	**Maintain the relative value of energy concessions over time** using percentage based discounts rather than relying on discrete adjustments to flat rate amounts	**Where appropriate, finance household or community investments in technology or energy efficiency improvements to housing such as insulation or solar panels,** as an alternative to long term financial assistance, to enable customers to manage their energy use including at peak times

OPTION OF A 'SOCIAL TARIFF' FOR ELECTRICITY PRICING

Some electricity retailers and network providers are considering options to manage the affordability of energy for vulnerable customers through tariff structures or even a 'social tariff' for some customers. However, the design of network tariffs charged to all customers tends to be a relatively blunt tool for managing energy affordability for low income and vulnerable customers, not least because pricing frameworks struggle to take account of the customer's financial capacity.

The structure of most electricity network tariffs for small customers today tends to have a regressive impact and risks becoming increasingly unfair over time. With low income households typically using less electricity at peak times, the evidence is that as many as 4 out of 5 customers in hardship are paying higher electricity bills under flat tariffs than they would pay under cost-reflective pricing Analysis for the ENA has shown that continuing with existing tariffs will worsen these impacts over time. Customers who have taken up solar and other technologies will pay electricity bills that are $1,270 (about 40%) lower in 2034 than those who have not. About half that 'discount' would be paid for by other customers, of whom a significant proportion could be low income and vulnerable households.

By moving to cost-reflective pricing electricity bills will be lower today for the majority of customers, as cross-subsidies are removed, and average bills will be lower into the future as the costs of expanding the network to meet peak demand will be lower.

GOVERNMENT ASSISTANCE OR SOCIAL TARIFFS?

It is important that any proposal for a network "social tariff" is considered in the context of the government assistance provided to vulnerable customers. Many stakeholders have different perspectives on whether such assistance is best provided by government or whether an electricity tariff could play a complementary role.

Whether assistance is provided by a social tariff or by government financial assistance, either initiative will requirea value transfer. Specifically, costs are increased to some members of the community in order to provide targeted assistance to others in the community who are financially vulnerable.

This public policy question requires an assessment of:

- which institution is best placed to design and deliver the assistance - the relevant government department or the network service provider?; and
- where the incidence of the financial transfer should fall – should taxpayers or network customers fund the assistance for vulnerable customers to meet their energy bills?

Governments have the policy and administrative machinery to identify who should be eligible for assistance, to target that assistance and to make payments to customers through government programs or transfers.

Some stakeholders argue that it is a core responsibility of government to address these social policy questions – and to provide the energy concessions that are sufficient to ensure that electricity bills for low income and vulnerable customers are affordable after cost-reflective pricing has been introduced.

Other stakeholders consider that networks could offer a social tariff to reduce the electricity bills of low income and vulnerable customers, in keeping with their responsibility for delivering electricity as an essential service. HoustonKemp has provided examples of social tariffs in the United Kingdom (UK) and the United States (US) in their report, which are provided through energy suppliers to customers. According to HoustonKemp these tariffs are "considered a fairly broad instrument to provide assistance to customers and may not accurately address the problem."

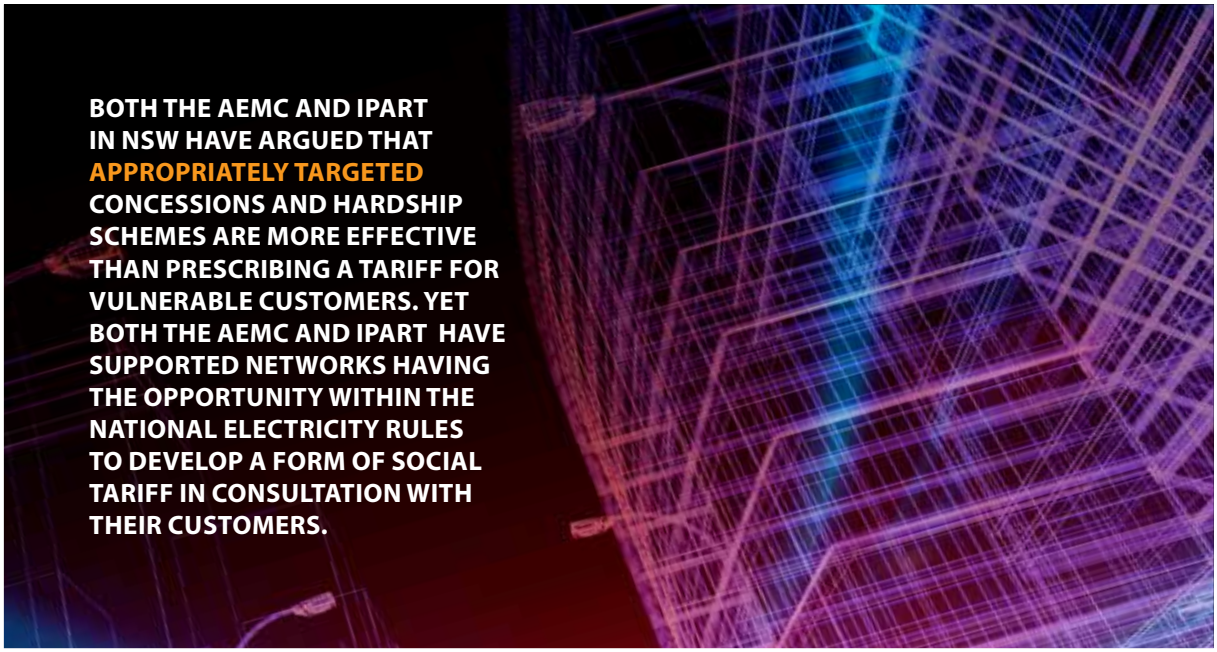
For example, prescribing a social tariff to assist vulnerable customers with low energy consumption may inadvertently provide discounts to other, wealthier households with low consumption and miss many more customers that are vulnerable.

Both the AEMC and IPART in NSW have argued that appropriately targeted concessions and hardship schemes are more effective than prescribing a tariff for vulnerable customers.[6] Yet both the AEMC and IPART have supported networks having the opportunity within the National Electricity Rules (NER) to develop a form of social tariff in consultation with their customers. Such a social tariff would be transitional rather than permanent and be consistent with the requirement to take customer impacts into account in moving towards more cost-reflective network pricing.

The customer impact principle within the NER allows networks to transition customers that could experience electricity bill increases using a 'glide path', giving them time to understand and respond to cost-reflective pricing. In keeping with this principle, networks could use specific measures to address the needs of a defined cohort of vulnerable customers during a transition period including:

- discounting of the network charge on each customer bill; or
- providing transitional assistance such as rebates etc.[7]

In considering a network 'social tariff' it needs to be recognised that networks do not have access to information on the financial circumstances of customers. It is expected that networks would therefore need to rely on co-operative arrangements with government , retailers or not-for-profit organisations to target and deliver a 'social tariff' to those most in need, including the passing through of the network 'social tariff' into the retail tariff offered to vulnerable customers.



6 AEMC, Final Determination, Distribution Network Pricing Arrangements Rule change, November 2014, p.55

7 Ahmad Faruqui and Jennifer Palmer, *Dynamic Pricing and its Discontents,* The Brattle Group, Regulation, Fall 2011; Ahmad Faruqui and Toby Brown, The Brattle Group, *Structure of Electricity Distribution Network Tariffs : Recovery of Residual Costs,* Report prepared for the AEMC, August 2014

IMPROVING CUSTOMERS' ACCESS TO INFORMATION & DECISION TOOLS

MAKING INFORMED DECISIONS

Customers are seeking information from trusted sources to help them make more informed decisions about their energy choices. According to the AEMC there is very low awareness of the availability of price comparator websites, particularly those maintained by governments or regulators, which can simplify the search process and identify potential savings.[8] In their 2013 consumer engagement blueprint the AEMC made a number of recommendations to empower consumer choice, including the need to support customers to 'shop around.'

There are clear benefits for customers in 'shopping around' as multiple reports from the AEMC and the AER have found. Customers on standing offers could save money by moving to a market offer, where market offers are available, or where customers are already on a market offer they could save by switching retailers.

The most recent information from the AER has found that the annual bill savings on retail market offers across distribution network areas significantly exceed the discount on energy bills from state and territory concessions. However, there are barriers to vulnerable customers switching retailers that may need to be overcome, such as credit history or participation in another retailer's hardship program.

Vulnerable customers may face additional challenges in accessing information and assessing their options, including a lack of technology to access online resources. A range of options have been identified by stakeholders that could assist customers, including vulnerable customers, to make informed choices including:

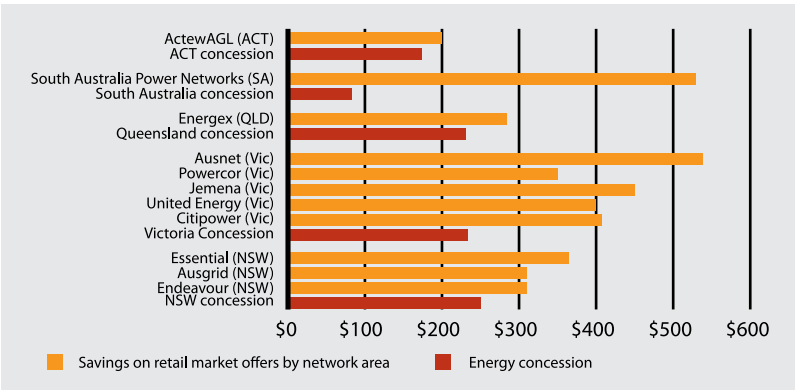
- reviewing the frequency and detail of energy bills (and the AER's retail pricing information guidelines) to ensure that energy bills are timely and informative so customers are able to understand and respond to cost-reflective pricing;
- consistent use of language and concepts (across networks and retailers) in communication materials;
- information kits, particularly for those households without access to internet, to be distributed through local councils, government agencies (Centrelink, Medicare, Australia Post), members of parliament and community organisations;
- a directory of on-line information and portals available for customers to manage their energy bills; and
- assistance for community organisations, counsellors and advocates to assist low income customers to identify the opportunities to save on their energy bills by reducing their use at peak times.[9]

AEMC Consumer Engagement Blueprint, 2013

"[G]reater promotion of Energy Made Easy, or the equivalent jurisdictional switching site, could therefore go a long way to improving customer confidence in the market. This could be combined with a government information and education campaign to encourage customers to shop around regularly, inform them of their rights and address common misperceptions that may be a barrier to switching."

Source: Australian Energy Market Commission, Supplementary Report : Increasing Consumer Engagement, 31 October 2013

FIGURE 3: COMPARISON OF ANNUAL BILL SAVINGS FROM SHOPPING AROUND AND ENERGY CONCESSION



Source : Australian Energy Regulator, Annual Report on the Performance of the Retail Energy Market, 2013-14

8 Australian Energy Market Commission, Supplementary Report : Increasing Consumer Engagement, 31 October 2013
9 See for example the recommendations of the National Energy Affordability Roundtable.

CUSTOMER ACCESS TO INFORMATION ABOUT THEIR ENERGY USE

A recent change to the NER will make it easier for customers to access information about their energy use, and will assist them in understanding and responding to new network pricing that charges more for using the network at peak times.

In Victoria, where almost 100 per cent of customers have a smart meter, customers can already obtain this data from their network business or through their retailer. Access to this data assists customers to better understand their current electricity use and to make more informed decisions about different offers of products or services.

AusNet Services, Jemena, and United Energy provide on-line portals that allow customers with the technology to access their energy usage data, and to identify which retail offer is the most suitable for their consumption pattern.

Through the myHomeEnergy portal customers of AusNet services can access their energy usage data, estimate bill costs and compare their consumption to similar households in their neighbourhood. AusNet also offers energy consumption monitoring apps available for iPhones, iPads and Android devices.

Through the Electricity Outlook (Jemena) and EnergyEasy (United Energy) portals customers can access information on how much electricity they are using and when they are using it, set an electricity saving target and compare tariff offers from different electricity retailers.

HAVE YOUR SAY

ENA is interested in your views in the options described in this information paper and the associated HoustonKemp report. To access a copy of the Houston Kemp report visit the website **www.ena.asn.au**. In particular, we would welcome stakeholder feedback on:

- the need for cost-reflective tariff reform to support vulnerable customers;
- ENA's proposal for a National Review of Government Assistance to Vulnerable Energy Customers;
- the role that network service providers should play in supporting vulnerable customers; and
- the options for improving vulnerable customers' access to information and decision tools.

Comments can be provided to Lynne Gallagher by emailing **lgallagher@ena.asn.au**