

SUBMISSION TO CARBON POLLUTION REDUCTION SCHEME - GREEN PAPER

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Submission to the Carbon Pollution Reduction Scheme (CPRS) Green Paper

This submission presents the views of the Consumer Utilities Advocacy Centre Ltd (CUAC), an independent consumer advocacy organisation, established to ensure the interests of Victorian consumers, especially low-income, disadvantaged, rural, regional and Indigenous consumers are effectively represented in the policy and regulatory debate on electricity, gas and water.

CUAC welcomes the opportunity to comment on the Department of Climate Change Carbon Pollution Reduction Scheme (CPRS) Green Paper.

This submission comments on the price impact of the CPRS on households and the need for compensation, consumer protections and other assistance programs.

1. Household impacts, compensation and consumer protections

As demonstrated in the Green Paper, the cost of the CPRS on stationary energy is likely to be significant and the initial modeling shows that the price impact is regressive. CUAC is concerned about the implications for low-income households, especially when the price impacts of the CPRS is considered in conjunction with other energy policy and market developments that may worsen energy affordability levels. These include:

- The price impact on households of rolling out smart meters
 - Estimated to cost consumers between \$40 - \$75 per annum¹
- The potential for water shortages to curtail generating capacity in the medium to long term
 - Water shortages caused significant spikes in peak and baseload generation prices in 2007
- The likely cost of network spending required to accommodate new generation capacity and fast growing peak demand

¹ NERA economic consulting, *Cost Benefit Analysis of Smart Metering and Direct Load Control - Overview Report* for the Ministerial Council on Energy's Smart Meter Working Group, p 87

In short, price rises caused by the CPRS will not occur in isolation. They will occur against a backdrop of energy assets and an energy market that require upgrade and renewal. Furthermore, Victoria and New South Wales have committed to rolling out smart meters which will cause a significant increase in household electricity distribution charges. In addition to the price impact, smart meters facilitate dynamic pricing options which means that electricity prices will become more volatile.

CUAC is therefore very concerned about the impact this will have on energy affordability and the potential increase in energy disconnections due to households' inability to pay.

We welcome the Government's announcement of making assistance available for low income households and urge the Government to develop a fair and equitable compensation package.

Current policy and market developments are threatening the energy affordability of households in two ways: overall price increases and increased price volatility. As a result, the Government needs to implement several mitigation strategies to minimise energy related hardship and disconnection from supply. We believe compensation combined with a robust consumer protection framework is the only way to ensure that households are equipped to deal with the immediate impact of price increases and price volatility. Other forms of assistance, such as energy efficiency measures for high consumption/low income households, should be implemented to provide assistance in the medium to long term.

CUAC believes it is crucial that the Government implements the right measures as failing to do so will increase financial hardship, cause under-consumption of essential services (with its detrimental impact on health and living standards) and increase the number of households being disconnected from supply.

Compensation

For low and fixed income households direct compensation to offset the price impacts of the CPRS will be crucial to ensure ongoing access to supply. The challenge will be the design of the compensation scheme as the price impacts will vary between households as well as jurisdictions. A universal cash payment or utility grant could thus under-compensate some and over-compensate others. CUAC strongly recommends that the compensation modeling takes jurisdictional differences, such as the impact of coal fired generation on electricity prices, into account.

Consumer protections

Price increases combined with increased price volatility will increase the occurrence of temporary hardship as it has implications for consumers' ability to manage tight household budgets. Consumers will be more vulnerable and unforeseen expenses or loss of income trigger payment difficulties. To minimise the risk of the CPRS causing an increase in households getting disconnected from energy, a robust consumer protection framework, that provides an effective safety-net, must be in place. CUAC believes a robust national consumer protection framework should be based on the current Victorian

arrangements. Protections currently provided by the Victorian Energy Retail Code should be available to every domestic energy customer nationally. The Code is also complemented by energy retail hardship policies and wrongful disconnection payments to ensure that retailers assist customers in hardship where possible and that disconnection from supply is regarded as a last resort.

CUAC strongly believes that a robust and universal consumer protection framework is a key safeguard to ensure consumers retain access to supply. While it will not solve energy affordability problems per se, consumer protections and hardship policies can reduce the impact of temporary hardship cases. Research has documented that people can move in and out of energy related hardship and that it is impossible to identify the impacted households before the fact.² Consequently, consumer protections must be universally available to all households to minimise the risk of temporary hardship cases spiraling into debt – which again increases the risk of disconnection and has significant impact on households' overall ability to recover from a difficult financial situation.

Another important regulatory measure the Government can utilise in order to lessen the price impact on low consumption / low income households, is the introduction of pricing principles for the regulated network tariffs.³ CUAC supports the use of network pricing principles to quarantine the first consumption block from additional costs passed through to consumers via the network tariff.⁴ An obvious opportunity to introduce such a principle is in relation to the cost allocation of smart meters.

Energy efficiency measures

CUAC welcomes and supports the Government's development of other assistance measures for low income households, including the rollout of energy efficiency audit and retrofit programs. However, we do not believe these initiatives can be regarded as a substitute for compensation. Energy efficiency programs should complement compensation and consumer protection measures to provide medium to long term assistance for low income households. Furthermore, we believe the Government should target the delivery of audit and retrofit programs but we do not believe that a 'concession card definition' for eligibility is appropriate. Over 60% of concession cardholders are aged pensioners,⁵ with relatively low energy consumption compared to other households,

² See for example Rich. N and M. Mauseth, *Access to Energy and Water in Victoria – A research report* (November 2004) and the Committee for Melbourne, *Debt Spiral Prevention Project Report* (2004).

³ Research has demonstrated that low income households on average consume less than higher income households. The Department of Human Services Victorian Utility Consumption Survey 2007 shows that the average concession card household used 4,895 kWh per annum while the average non-concession household used 5,971 kWh. This approximately average difference of 1000 kWh equates to the findings produced by the 2001 utility consumption survey. See *Victorian Utility Consumption Household Survey 2007*, Final Report April 2008, p 75 at www.cyf.vic.gov.au/concessions

⁴ These pricing principles have been proposed by Gavin Dufty, St Vincent de Paul Society and have been widely circulated. See for example <http://www.cuac.org.au/docs/CUAC%20Forum%20Report%20Aug%2007%20-%20Final%20V.pdf>

⁵ In Victoria, 63% of concession cardholders hold a Pensioner Concession Card, 30% hold a Health Care Card and & 7% hold a Department of Veterans' Affairs Pensioner Concession or Gold Card. Concessions Unit, Victorian Department of Human Services, *State concessions and hardship programs 2005-2006, Reducing Barriers to opportunity and making services more affordable* (March 2007), p7

and especially compared to families with children. A 'concession card definition' would exclude households on relatively low incomes but with high energy consumption. We recommend that eligibility criteria should aim to capture households in the lowest and second income quintiles. By ensuring that households in the second income quintile have access to the program, many low-income, working families will benefit from the assistance. These households have higher energy expenses than the lowest quintile group, averaging (in 2003/04) \$28 per week (compared to \$22.75 for the lowest quintile group).⁶ The second quintile group spends almost exactly the same amount on energy as the average household across all income groups. As a certain level of energy consumption is a prerequisite in order to utilise energy efficiency measures to improve energy affordability, we believe a minimum consumption threshold may be warranted. We would caution against regarding energy efficiency as the panacea to energy affordability issues. In the short to medium term, energy efficiency is not the most effective or appropriate tool to assist low-consumption households that struggle to pay for energy due to low income and other expenditure commitments.

Please contact May Johnston on (03) 9639 7600 should you have any questions about this submission.

Yours sincerely,

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⁶ ABS, Cat.No. 6530.0 *Household Expenditure Survey*, Summary of Results, Table 5, Equivalised Income Quintile, Household expenditure, Victoria, 2003-04