



**Submission in response to:
ACT DRAFT SUSTAINABLE ENERGY POLICY 2010-2020**

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About Care Inc

Care Inc Financial Counselling Service (Care Inc) has been the main provider of financial counselling and related services to low to moderate income and vulnerable consumers in the ACT, since 1983. Care's core service activities include the provision of information, counselling and advocacy to low income and vulnerable consumers experiencing problems with credit and debt. Care also has a Community Development, Education and Research program, makes policy and law reform comment on issues of importance to its client group and has operated the first No Interest Loans Scheme in the ACT since 1997.

In late 2002, Care was selected as the host agency for the Consumer Law Centre of the ACT. The CLC was officially opened in January 2003 and offers a range of legal services including representation and litigation in relation to consumer law issues. The service employs a full-time practicing solicitor.

Across Care's service delivery programs, the agency responds to over 2000 new requests for assistance every year.

Overview of Care's submission

Care welcomes the opportunity to provide comments on the ACT's Draft Sustainable Energy Policy 2010-2020. Care is supportive of the ACT Government's commitment to reducing greenhouse gas emissions and is encouraged that the government is exploring options such as renewable energy technologies that will support a sustainable future.

It is outside of the scope of our organisation to comment on the merit of any specific energy options in relation to their energy efficiency. We will therefore be restricting our comments and focusing this submission on addressing the important issue of equity and social inclusion. These will be discussed in relation to the following outcomes listed in the draft policy:

Outcome One: Increased Energy Efficiency

Outcome Three: Increased renewable Technologies

Outcome Five: Increased Customer Information and Choice

Outcome Six: Maintain Equity

Overall it is the view of Care that the current energy options being considered by the ACT Government do not adequately address the issue of equity. Social equity and inclusion should be a driver of reform and decision making in relation to any energy policy rather than an adjunct to such policy. It is essential that all ACT consumers have access to a range of options to meet their energy needs without placing them in financial stress. At present most low income earners are not able to benefit from options that will reduce their reliance on non renewable energy sources, such as the Feed-in Tariff or the purchase of GreenPower because their modest incomes and lack of homeownership preclude them from the schemes. Low income earners who

predominantly live in Government housing or private rental accommodation also have no choice over the heating and water systems in their homes and are unable to afford the purchase of more energy efficient appliances.

Outcome One Increased Energy Efficiency

Care supports the Government's commitment to introducing legislation that will require energy businesses to identify and provide energy efficient products and services to ACT customers, with priority given to low income and other disadvantaged households. It is essential that the government provide options and incentives for the most vulnerable members in the community who are otherwise unfairly disadvantaged.

As described later in this submission, low income, vulnerable and disadvantaged consumers already pay a disproportionate percentage of their incomes on utility bills and often struggle to meet all their ongoing essential living costs. In addition many low income consumers live in government housing or private rental accommodation. Choices about type of insulation, window treatments, heating and hot water systems are generally made by the owners, including the Government in the case of public housing. In the current tight rental market the price of rental accommodation is determined largely by demand and there is little, if any, incentive for property owners to make any investment in energy efficiency.

To support low income and disadvantaged consumers to purchase or benefit from increased energy efficiency the ACT Government should:

- Require landlords, private or public, to improve the energy rating of their properties. The Government already mandates certain standards in new properties but this is not done in older ones. This could include replacing water and heating systems with more energy efficient and cost effective systems, installing quality insulation, providing energy efficient light bulbs and installing energy efficient cooking appliances. The ACT Government is currently upgrading insulation in eligible housing ACT accommodation. There are a number of benefits to this initiative. Primarily there will be an improvement in energy efficiency which will reduce energy consumption and therefore cost. In addition, it carries a strong message that insulating one's house is a good practice. To be successful the process of improving the energy rating of existing properties, would need to be done over a reasonable period of time and as houses require upgrading. The Government may also need to consider ways of engaging, encouraging and supporting private landlords to make their properties more energy efficient
- Continue to support and broaden programs such as the WEST (Water and Energy Savings in the Territory) and HEAT (Home Energy Advice Team) programs. The WEST Program (Water and Energy Savings in the Territory) commenced in 2003 and assists households that are clients of the Energy and

Water Consumer Council (EWCC) to reduce energy and water consumption and associated costs in those households. WEST targets very low income, high energy consumption households and includes an energy audit of the house, education of household members and minor refit work such as water saving shower heads, energy efficient light bulbs, window coverings and draft reduction measures. Evaluations of WEST have been positive and suggest that the WEST intervention improves comfort levels in participating households and reduces energy consumption in households using only electricity by up to 20%.¹

HEAT is funded by the ACT government to provide free, independent, expert advice on how to improve the energy efficiency of homes. Low income people with capacity to make small changes to the way they use energy may benefit from accessing HEAT, however without significant change to the quality of their dwelling, this is likely to be of minimal benefit. Further, HEAT information is primarily available on the internet and as such is inaccessible to many low income households who do not have access to the internet. Improving visibility of HEAT within the community and assisting low income households to access it requires a more targeted approach.

- Ensure that there is a requirement that all future developments, privately and government owned, are designed using energy efficient principles
- Provide incentives for low income, vulnerable and disadvantaged consumers to purchase energy efficient appliances such as fridges, washing machines, heaters and light bulbs. This could include more access to No Interest Loan Schemes and government grants for this purpose.

Outcome Three: Increased Renewable Generation

The ACT Government has stated that GreenPower is one of the most effective ways of reducing emissions from electricity production and has implemented a policy whereby electricity retailers must offer GreenPower to new customers. Existing customers also currently have the option to purchase GreenPower from their utility provider. GreenPower is more expensive than non renewable electricity purchases, costing approximately 6c per kilowatt hour more, depending on where it is purchased. Working on average consumption of around 8,000 kilowatt hours per year per household (*ICRC Retail Prices for Non Contestable Electricity Customers 2009-2010*), purchasing 100% GreenPower would add \$500 per year to a consumer's utility bill. Whilst this cost may be affordable for consumers on higher incomes it represents a prohibitive sum for those on low incomes. These consumers are therefore disadvantaged and less able to consider options that will reduce greenhouse gas emissions.

If the Government is committed to reducing greenhouse gas emissions, consideration should be given to subsidising the cost of purchasing GreenPower for those on low incomes. This is not only an issue of affordability; it is also an issue of social inclusion. The Government must ensure that everyone in our community has access to options to

¹ Energy & Water Consumer Council Annual Report 2008-09 p11

reduce their reliance on non renewable energy and therefore participate in a sustainable energy future.

The ACT has also operated a Feed-in Tariff (FiT) since March 2009. The ACT Government is currently considering the expansion of this scheme and Care has made a separate submission into the Discussion Paper *National Capital to Solar Capital: Options for an Expanded ACT Electricity Feed In Tariff Scheme*.

The FiT allows consumers to purchase photovoltaic solar systems to generate their own electricity which is then purchased for a premium price by the electricity retailer. Environmentally and financially there seem to be many advantages to the scheme for those who are able to take advantage of it. However, in its current design it is fundamentally an inequitable scheme. The impact of the FiT has been to increase electricity prices. Whilst the cost of this is borne by all consumers, the impact of this increase has and will continue to be felt most keenly by those on low incomes who are unable to afford the cost of installing a solar electricity system. Most low income and disadvantaged consumers are also living in rental properties, many in public housing. Housing ACT is currently unable to participate in the scheme due to their Government ownership.

The Feed-in Tariff is a scheme that allows higher income earners who own their own property the option of investing in a sustainable and profitable future, at the expense of those in our community who are on the lowest incomes and often the most vulnerable and disadvantaged. Any measures undertaken by the ACT Government to assist low income earners and address equity issues in relation to access to, and benefit from renewable energy schemes, should be done in conjunction with or indeed prior to any broader energy policy changes, such as the expansion of the current Feed-in Tariff scheme, are introduced. If not there is the very real risk of isolating and disadvantaging this group further. As an example, current eligibility criteria may need to be addressed to allow for the installation of generation equipment on all suitable housing trust properties. The benefit of this could be shared by the Government and the tenant.

The Government would need to take responsibility for the initial cost of installing a renewable energy system. The income generated from the production of electricity could be used firstly to recoup the cost of this equipment. After this any additional income generated should be used to reduce the cost of electricity for the tenant.

Outcome Five: Increased customer information and choice

'There are at least two conditions to be met before people can make rational responses to price signals such as a rise in the price of electricity. First they must understand the

*consequences of making a choice. Second, they must have options open to them and the means to act on those options.*²

Many consumers regardless of income have a limited understanding of the cost to run their electrical appliances and the options available to reduce their energy consumption. This issue is compounded for low income consumers who often have neither the options nor the means available to make choices in relation to their energy use or purchases. Low income consumers overwhelmingly live in dwellings that are poorly constructed, inadequately insulated and have appliances that are inefficient and expensive to operate. On top of this many have limited access to support to enable behavioral changes to be implemented or maintained.

To make any significant savings in energy consumption, all consumers need to have choices. For those on low incomes constraints such as cost will make these choices limited. Often appliances that are relatively cheap to buy, such as incandescent light bulbs or bar heaters, are also inefficient and expensive to operate. More targeted and clear information needs to be available in the community to assist people to understand issues around energy efficiency. The star rating on fridges and washing machines is one example. Energy star ratings on appliances have the advantage that they are displayed prominently and provide clear information. They are less often used on heating appliances even though these use proportionally large amounts of electricity.

Whilst provision of information can and should play a significant role, this alone will not be enough to address the issue. In addition incentives such as grants or access to 'no interest loans' for the purchase of energy efficient appliances should be more accessible to low income consumers. The Government could also consider schemes whereby they buy back old and energy inefficient appliances to assist in the purchase of more efficient and often costly appliances.

Many advertising and community education campaigns focus on ways the individual can reduce their costs; although there are some simple measures that some low income households can (and do) undertake, they are excluded from steps that require financial investment. This potentially further isolates and disadvantages this group within the community. Expecting disadvantaged households to continue making reductions in energy usage when the dwelling they occupy is not designed to assist in their efforts sets people up to fail; as the household simply cannot do what is asked of them, despite their efforts.

As part of developing a sustainable energy future, energy retailers have a responsibility, as part of their core business planning, to have in place hardship policies that are transparent, workable and responsive to customers who are unable to meet the payments on their electricity accounts. Any hardship policy should identify consumers as early as possible, be designed to assist consumers to remain connected to utility

² McAuley | University of Canberra & Centre for Policy Development: Carbon and Consumers: Paper presented at 'Carbon and Consumers' Conference February 2009

services and be flexible enough to take into consideration individual needs and circumstances. Energy providers should also develop connections with and make appropriate referrals to agencies in the community who can assist and support consumers experiencing financial hardship.

With increasing technological change without commensurate adjustment to concessional or other support mechanisms, lower income consumers potentially become more vulnerable to rising energy costs. For example, the introduction of Smart Meters³ involves initial costs during the roll out phase and also a likely pricing structure that disadvantages households that are not able to respond to pricing signals under a 'Time of Use Tariff' (TOU). TOU pricing is designed to make the price of electricity more expensive when total demand is high and less expensive when demand is low. This assumes that all households are able to respond to the higher prices by reducing consumption at those times.

*'From an energy perspective, TOU pricing will penalise many households that can ill-afford price increases. If governments decide to introduce such pricing structures due to broader market benefits, they must be clear about the impact it will have on households.'*⁴

Outcome Six: Maintain Equity

Care notes that the definition of equity to be adopted is 'fairness and the ability of all ACT residents to be able to meet their energy requirements without undue financial stress'⁵.

The provision of an energy concession (currently \$194.87 per annum for eligible households) and the ability of ACT residents to access the assistance of the Energy and Water Consumer Council (EWCC) when faced with disconnection or an inability to pay their utility accounts as a result of financial hardship are evidence that the government is aware of and responsive to, the issues facing low income consumers in difficulty with their utility bills.

The underlying assumption, however, that the current situation is equitable reflects an inadequate examination of the difficulties facing low income households, particularly those households where there is multiple disadvantage. Those households where there are several stressors such as aged members, young children, disability or illness; combined with low income, are forced to prioritize necessities. Households with adequate income are rarely faced with such difficult choices. Peter Saunders describes

³ Smart Meters: Council Of Australian Governments Agreement 2007, Ministerial Council on Energy 2008

⁴ *New Meters, New Protections*: A National report on Customer Protections and Smart Meters St Vincent de Paul Society February 2010

⁵ Draft Sustainable Energy Policy 2010-2020 p19

‘the steepness of the deprivation gradient as one moves down the income distribution, particularly in the need to cut back on basic items like food and heating...’⁶. In the ACT the winters can be particularly difficult for low income people and the issues raised by the Poverty Task Group in 2000 remain strikingly relevant today – ‘Many participants raised the issue that the climate in Canberra requires higher energy usage. Participants commented on the high costs of heating in winter, and its associated consequences’.⁷

An analysis of Care’s data for the period July to Dec 2009 shows approximately 21% of clients presented with utility debt as an issue. Care sees individuals and families who are in difficulty paying utilities as part of a broader suite of financial difficulties; some clients may also be clients of the EWCC. The EWCC can assist people who are unable to meet their utility payments to maintain their utility supply, providing certain conditions are met by the client. The EWCC annual report for 2008-09 shows a current average of 90 new hardship applications per month⁸.

Lower income, vulnerable and disadvantaged households pay a disproportionate amount of their income relative to higher income households to purchase basic goods and services including utilities (see Table 1 below). They are exposed to even slight changes in the costs of goods and services, including utilities, as they do not have the financial capacity to respond to increases in costs by purchasing and installing newer more efficient technologies to assist in reducing their consumption and costs. Households with multiple stressors such as disability, aged or ill-health may not have the capacity to respond with even basic changes such as purchasing draft stoppers.

Table 1. Basic Comparison of Percentage of Income Spent on Utilities (all figures approximate)

Income Source	Annual Income	Per Fortnight Average Usage	Per Annum Usage	Percentage Income for Utilities (without any concession)	Percentage Income for Utilities (with concession)
Wages	\$75,000	\$80	\$2080	3%	n/a
Age Pension	\$17,972	\$80	\$2080	11%	10%
Newstart Allowance	\$11,696	\$80	\$2080	18%	16%

The above table reflects the significantly higher percentage of income paid by low income households on utilities, even when the current concession is included.

⁶ Saunders P (2005) *The Poverty Wars* UNSW Press, Sydney p117

⁷ Poverty Task Group Consultation Report: Paper No.1, May 2000 p34

⁸ ACAT EWCC *Annual Report* 2008-09 p5

There urgently needs to be an updated evaluation of the energy concession as its actual value has gradually been declining over time. There have been several increases in the costs of electricity in recent years including an increase of approximately 35%⁹ between 2004 and 2009. The ACT government undertook a mapping exercise of ACT concessions in 2008. This review looked at administrative arrangements of concessions available to ACT residents but did not evaluate the adequacy of any concession. It seems timely that with the release of the Draft Sustainable Energy Policy that a review of the value of energy concessions be undertaken to ensure that any concession is relevant to the changing nature of the energy landscape and that developments such as FiT and Smart Meters (discussed elsewhere in this submission) do not further erode the value of concessions for low income consumers. An important initial step would be to examine the amount of the current concession, then look at future increases factoring in likely rises in energy costs as a result of changes in the energy market and reflecting in the energy concession the actual effect on low income consumers of the rising price of energy.

Care has previously supported the position of the Independent Competition and Regulatory Commission (ICRC) that ‘there are strong grounds for linking the value of the electricity rebate to increases in the price of electricity’.¹⁰ Linking the concession to increases in the price of electricity will not alone, however be a sufficient mechanism for ensuring low income consumers are adequately supported, nor that the issue of equity is addressed.

If the energy concession is linked to increases in the retail price of electricity, any increase should be automatic and not delayed. Delaying payments to low-income households makes it more difficult for them to budget. Low-income households do not have the resources to catch up on missed payments, and often incur late fees and charges if bills or accounts are not paid on time, compounding their financial difficulty. Further, if the energy concession is linked to the retail price of electricity, the base rate of any concession should not be eroded if prices fall.

SUMMARY:

Electricity is an *essential* and not a choice. Due to extremes in weather conditions, costs for electricity in the ACT can be very high. For many consumers on low incomes, recent increases in electricity prices have placed substantial financial strain on already overstretched and limited budgets.

The ACT Government has recently introduced a number of policies and programs in response to the impacts of climate change and increasing greenhouse gas emissions. It

⁹ ICRC-Draft Decision: Retail prices for non-contestable electricity customers 2009-10 p59

¹⁰ ICRC Draft Decision: Retail prices for non-contestable electricity customers 2009-10 p59

is vital to remember that as these changes are introduced or expanded, low income households will be the most dramatically impacted and the least able to respond.

Adequate and pro-active provisions should be in place to protect and support vulnerable consumers. These should include appropriate concessions and rebates, access to grants and no interest loan schemes and other financial incentives for the purchase of energy efficient appliances and systems. These mechanisms are essential to ensure equity and social inclusion so everybody in community can work toward a sustainable energy future.