

**SUBMISSION RESPONDING TO THE AEMC 'REVIEW OF ENERGY MARKET
FRAMEWORKS IN LIGHT OF CLIMATE CHANGE POLICIES: 1ST INTERIM REPORT'**
(December 2008)

Australian Energy Market Commission
PO Box A2449
Sydney NSW 1235

Email: submissions@aemc.gov.au
CC: jacqueline.crawshaw@aemc.gov.au

February 2009

INTRODUCTION

As per the AEMC Report (2008) the MCE has asked the AEMC to '*review whether the existing rules and regulations governing behaviour in energy markets are consistent with promoting efficient, reliable, safe and secure supplies in the long term, given the changes in market behaviour from the CPRS and expanded RET*'.

Kildonan UnitingCare would like to express appreciation for the AEMC's open consultative approach to the Review and we certainly support the objectives of efficiency, reliability, safety and security of supply. Kildonan's special interest is in the ongoing impact of energy market operations and regulation on householders who are financially and socially vulnerable or in hardship. A large proportion of Kildonan's client group fits this broad description. Kildonan addresses the interests of this group through direct service delivery and through strategic advocacy based on the intelligence gathered in the course of service provision. As we are based in Victoria, with an energy audit program franchised interstate, we have in mind the eastern states which are addressed in Section 3, Part A of the AEMC Report.

This submission addresses some of the key areas that we believe will need to be addressed in the regulation of a national energy market framework, even while not all have been given specific attention in the AEMC Report (2008) which this submission responds to.

ABOUT KILDONAN UNITINGCARE

Kildonan UnitingCare is a 127 year old agency focused on building thriving communities that are inclusive and based on respect, justice and compassion. The organisation operates mostly across the northern suburbs of Melbourne, with some programs being state-wide and national. Kildonan's 'Social Advocacy Services' include: residential energy audits, financial counselling, community housing, hardship training and consultancy, No Interest Loan Schemes and family violence interest free loans. Kildonan UnitingCare also provides a wide range of family and youth support services, a Work for the Dole program, community hubs and social support for people with a mental illness.

In developing better ways to assist people who are vulnerable to unmanageable debt, Kildonan has worked in close partnership with energy and utility businesses that provide electricity, gas and water to domestic consumers. These collaborations have resulted in the establishment of successful company hardship policies, the provision of training to energy personnel and the development of a range of innovative programs to assist energy users. Our experience and expertise in energy-related hardship for consumers has also informed the design of equitable energy policy in Victoria.

Of particular relevance for this submission, Kildonan has provided a residential energy audit program for people in hardship since 2004, with resourcing and referrals provided by partnering energy companies. Our Energy Team, working within Kildonan's Social Advocacy Services, conducts onsite audits to assist people to consume energy more efficiently and to thereby reduce their energy bills. Team members also participate in social action, consumer advocacy and community development in various ways. The Energy Team's activities are informed by the Kildonan Hardship Awareness Strategy, a strategy that facilitates partnerships in order to produce broad social change in the way that vulnerable and disadvantaged consumers are treated by businesses.

Kildonan UnitingCare's energy audit program was established and developed in response to the hardship of service users presenting with unpayable bills and, very often, impending disconnection. The program is based on principles of both financial and environmental affordability and sustainability, even while the primary program focus is on the former. As noted above, Kildonan has also played a broader role in the development of Victorian Government hardship policy following the implementation of the residential energy audit service and other innovative programs aiming to ameliorate energy/ utility hardship. Thus Kildonan's social advocacy work includes both innovative program design/ service delivery and progressive influence on energy regulation in the interests of consumers.

For more information about Kildonan UnitingCare please refer to our *Submission to the Ministerial Council on Energy in response to the SCO National Energy Customer Framework*, July 2008; or our website at: www.kildonan.unitingcare.org.au/.

KILDONAN'S RESPONSE TO THE REVIEW OF ENERGY MARKET FRAMEWORKS IN LIGHT OF CLIMATE CHANGE POLICIES: 1ST INTERIM REPORT

Adverse Impacts on Consumers and Vulnerable Groups

While the AEMC Report gives due attention to industry interests within imperatives of efficiency and reliability, the long term interests of consumers are not examined and addressed in proportionate measure. We believe that this will need to be corrected in the design and development of a national Energy Market Framework, especially as neglect of long-term energy consumer interests will inevitably lead to social and economic hardship, illness and, in some cases, death.

In particular, the review gives inadequate attention to the likely financial and social impacts of the Carbon Pollution Reduction Scheme (CPRS) and Renewable Energy Target (RET) on energy market frameworks and the likely negative impacts on people who are vulnerable, on low income and/ or suffering from hardship. These groups are predicted to be significantly adversely affected by both climate change and mitigation policies that are set to substantially increase the cost of energy (Borrell, Lane and Fraser, 2008).

Retail price regulation remains an important cornerstone of any consumer protection regime and we believe it is essential that this remains in some form within any future Framework. Unfortunately, retail price regulation has recently been removed in Victoria (from January 2009) as a result of the AEMC's review of competition. Drawing on our service expertise and experience, we expect this change to increase energy-related hardship in Victoria. At the same time we acknowledge that the social impact would be worse if there were no or ineffective energy hardship policies in place. Certainly, any changes to current price regulation need to be accompanied by the review and implementation of an adequate customer protection framework.

In general, without due care and rigorous examination of proposed policy measures, energy market frameworks have the clear potential to induce hardship e.g. through the removal of price caps/ paths and unaffordable energy costs. *We believe that price caps/ paths are essential in the design of any Energy Market Framework and that they currently contain sufficient flexibility for effective and responsive commercial operations.*

Inequitable Risks for Consumers

Consumer hardship may occur through loss of supply, rising energy costs and/ or the inequitable allocation of business operational risk i.e. from industries to consumers and tax payers. We would be concerned about any arrangements in which consumers bear the fiscal risk of market failure or shortcomings, for example in the event of the failure of an energy company (referred to as Retailer of Last Resort or ROLR), as has been proposed as part of national reform . Such downward risk shifting would appear to be both grossly unfair and unworkable, relying on the very short pockets of many consumers who have committed no fault except to require an essential supply of energy. Such an arrangement would also seem to reduce incentive for energy companies to ensure their own ongoing viability, at least in some cases.

For the same reasons, we believe that it would be wrong for consumers and governments to under-write inefficient investment in alternative energy transmission through the tax system.

Market Dominance and Reduced Competition

Putting aside ideological assumptions that what is beneficial to business will automatically benefit consumers and citizens, a rigorous review will need to properly research and address the affects of both the CPRS and the RET on vulnerable consumers. The same point must be made in relation to market competition. While the report appears to assume that competition between energy companies will automatically assist all consumers while keeping prices low, this also requires proper testing and investigation under a variety of conditions. Of course, with a proposed removal of price controls, the opposite would seem to be the case i.e. a substantial proportion of consumers would be vulnerable to unaffordable bills and even disconnection to an essential service, especially in the absence of effective hardship policies.

Further to this point, there is a clear danger that market conditions may favour increasing market consolidation and that a few major players may eventually dominate Australia's energy market, thus working against effective competition. This is a particular danger in the context of vertical integration across the spheres of generation and retail. In any case, a thorough review of the effect of CPRS and RET on the energy market needs to also consider and address the potential for disproportionate market consolidation and power.

Certainly price regulation, as a fundamental protection for consumers and vulnerable householders, should remain in the absence of clear evidence that energy costs will not become unaffordable.

Risks to Reliability and Security of Supply for Consumers

In practical terms, if energy costs become unaffordable for consumers, the supply will fail in the key nominated objectives of reliability and security. At the same time the objectives of efficiency and safety become irrelevant i.e. in the cases where supply ceases. Thus Kildonan UnitingCare is concerned that the removal of price controls will lead to unmanageable bills and widespread disconnections, especially in the context of the CPRS, RET and also extreme weather conditions associated with climate change. With many people in receipt of government benefits living on or below \$250.00 per week, this is a very real danger.

We consider this to be a very serious health and quality-of-life issue as individuals and households would be without access to what is a necessary and essential service for normal and decent living. The likely effects of reduced or absent access to an essential energy supply include social marginalisation, physical discomfort, emotional stress, mental breakdown, hunger, illness and death. Drawing from our program experience working with families, people in crisis and those struggling to survive on a low income, these are all likely outcomes.

RECOMMENDATIONS

In view of the above, we propose the AEMC undertake the following as part of this review:

- Rigorous research on the effect of projected regulatory changes, specifically the removal of price caps, on energy affordability for people in hardship or on low incomes in the context of climate change policies.
- Ensure that the consumer protection framework eventually adopted has a substantial hardship component and is adequate to provide reliable and affordable energy for all consumers, (perhaps modelled on Victoria's successful Framework).

- Ensure the development of an energy market framework that is equitable, wherein those with least power and on the lowest incomes (vulnerable consumers) do not bear disproportionate, unfair or unmanageable operational risk.
- Ensure a proper balance of risks and incentives for energy companies to provide reliable and affordable supply.

Further, we recommend that the AEMC implements a Social Impact Assessment for all policy proposals in relation to operations of the Australian energy market, with a particular focus on people in hardship or in potential hardship, as part of this and any subsequent reviews.

While we will not dwell at length on demand reduction through residential energy abatement, a few points should be acknowledged in the design of a coherent and effective regulatory framework. Our own agency research and energy audit experience has made it clear that there is an urgent need for:

- 1 Better regulation and incentives to increase building efficiency.
- 2 Better regulation and incentives to ensure that new and existing household appliances are energy efficient.
- 3 Regulation and incentives to ensure that rental properties have minimum standards of energy efficiency and that all public housing is audited and retrofitted as required.
- 4 Resourcing of programs to facilitate energy abatement at a household level.

REFERENCES

Borrell, J., Lane, S. & Fraser, S. (2008) Likely Effects of Global Warming and Mitigating Policies on Rural Households. *New Community Quarterly* (6), 4, pp. 4-10.

Kildonan UnitingCare (2008) *Submission to the Ministerial Council on Energy Regarding the SCO National Energy Customer Framework.*

SUBMISSION AUTHORS

Jennifer Borrell, Senior Researcher

Marie Andrews, Program Manager Energy Services

Joanna Leece, Senior Manager, Social Advocacy Services Operations

Contact:

Jennifer Borrell, Senior Researcher

Kildonan UnitingCare

188 McDonalds Road

Epping Vic 3076

P: (03) 8401 0114

F: (03) 9408 0501

E: jborrell@kildonan.org.au