



Putting consumers first:

**PIAC submission to the Australian Government's
Issues Paper for the development of an Energy White
Paper**

7 February 2014

Oliver Derum, Policy Officer

Energy + Water Consumers' Advocacy Program

Introduction

The Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues.

PIAC identifies public interest issues and, where possible and appropriate, works co-operatively with other organisations to advocate for individuals and groups affected. PIAC seeks to:

- expose and redress unjust or unsafe practices, deficient laws or policies;
- promote accountable, transparent and responsive government;
- encourage, influence and inform public debate on issues affecting legal and democratic rights; and
- promote the development of law that reflects the public interest;
- develop and assist community organisations with a public interest focus to pursue the interests of the communities they represent;
- develop models to respond to unmet legal need; and
- maintain an effective and sustainable organisation.

Established in July 1982 as an initiative of the (then) Law Foundation of New South Wales, with support from the NSW Legal Aid Commission, PIAC was the first, and remains the only broadly based public interest legal centre in Australia. Financial support for PIAC comes primarily from the NSW Public Purpose Fund and the Commonwealth and State Community Legal Services Program. PIAC also receives funding from Trade & Investment NSW for its work on energy and water, and from Allens for its Indigenous Justice Program. PIAC also generates income from project and case grants, seminars, consultancy fees, donations and recovery of costs in legal actions.

Energy + Water Consumers' Advocacy Program

This program was established at PIAC as the Utilities Consumers' Advocacy Program (EWCAP) in 1998 with NSW Government funding. The aim of the program is to develop policy and advocate in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to the program from a community-based reference group whose members include:

- Council of Social Service of NSW (NCOSS);
- Combined Pensioners and Superannuants Association of NSW;
- St Vincent de Paul (NSW);
- Ethnic Communities Council NSW;
- Rural and remote consumers;
- Retirement Villages Residents Association;
- Physical Disability Council NSW; and
- Affiliated Residential Park Residents Association.

1. The Energy White Paper Process

PIAC welcomes the opportunity to provide input into the Australian Government's Issues Paper (the Issues Paper) for its development of an Energy White Paper (the White Paper). PIAC advocates on behalf of NSW residential consumers of electricity and gas, and engages in issues related to the supply of energy to this group.

In recent times, affordability and price have been key concerns of residential consumers. As noted in the White Paper, the Australian Bureau of Statistics (ABS) estimates that household electricity prices have risen by 59% over the past four years.¹ Accordingly, this submission supports recent changes in the way reliability standards will be set in NSW, which will potentially drive network costs down. This submission also proposes more effective measures to engage consumers about their preferences for reliability standards.

In addition, this submission comments on the experience of residential consumer groups in the competitive market, including recommendations as to how this experience could be improved. Issues covered include the significant recent increases in complaints about energy retailers, improved regulation (and the enforcement of regulation), new tariff designs and the more effective use of customer assistance spending by governments. Finally, this submission comments on the issue of public consultation about the extraction of new gas resources.

2. Electricity network costs

2.1 Setting reliability standards

In Australia, reliability standards are set by State and Territory jurisdictions. Meeting these standards has significant cost impacts for consumers, who must pay to build transmission and distribution networks that perform to the required level.

The Issues Paper notes that the Standing Council on Energy (SCE) (previously the Standing Council on Energy and Resources) has 'agreed in principle to adopt a national framework and methodology for setting distribution and transmission reliability obligations'.² Until recently, reliability standards in NSW were set using a deterministic approach, where regulations specify the level of redundancy that must exist in different areas of the transmission and distribution network. Research by the Brattle Group, cited by the NSW Independent Pricing and Regulatory Tribunal (IPART), found:

Whilst the Australian approach to regulating distribution reliability is generally very much in line with other jurisdictions... NSW appears unique in applying input standards that are driving investment decisions.³

The Productivity Commission also noted that 'deterministic planning standards that have required higher levels of redundancy have been one of the main drivers of increases in capital expenditure by New South Wales distribution businesses and in customer bills'.⁴ PIAC notes that in October 2013, the NSW Government announced that from 1 July 2014, licence conditions related to reliability would be amended to give greater flexibility to network businesses to 'deliver

¹ Australian Bureau of Statistics, *Consumer Price Index for Energy*, (Sept 2009–Sept 2013), (cat. No. 6401.0), as cited in Australian Government Department of Industry, *Energy White Paper: Issues Paper*, 2013, 11.

² Australian Government Department of Industry, *Energy White Paper: Issues Paper*, 2013, 11.

³ IPART, *Changes in regulated electricity retail prices from 1 July 2012: Final report*, 2012, 87.

⁴ Productivity Commission, *Electricity Network Regulatory Frameworks, Inquiry Report*, vol 2, 2013, 555.

efficiencies while maintaining current reliability levels'.⁵ PIAC understands that the amended licence conditions require a probabilistic approach to setting reliability, with standards for the frequency and duration of outages set, but the way in which this outcome is achieved is not specified to businesses. PIAC looks forward to seeing the impact that this change has on prices in the medium to long term, noting that transmission and distribution network service providers (NSPs) have already spent significant sums on achieving reliability standards in recent years, and this expenditure must be recovered through customer bills.

2.2 Understanding consumer preferences

The Issues Paper 'seeks comment on ways community expectations can be better understood and reflected in reliability standards'.⁶ In PIAC's view, there are two key aspects of this question.

Firstly, PIAC submits that when calculating an overall value of customer reliability (VCR), policy makers should weigh the preferences of different consumer groups (residential, commercial and industrial) in a way that better reflects the preferences of residential consumers, the largest consumer group by number. Secondly, when surveying consumers about their willingness to pay for increased reliability (or accept reduced reliability in exchange for lower costs), a broad range of options should be offered to consumers as part of any consultation process.

2.2.1 Value of customer reliability

As noted in the Issues Paper, the Productivity Commission recently found that 'current jurisdictionally-based reliability standards for distribution and transmission networks are not set efficiently and often bear little relationship to the value customers place on them'.⁷

As part of the Australian Energy Market Commission's (AEMC) 2012 review of electricity distribution reliability outcomes and standards, consultants Oakley Greenwood calculated an overall VCR for each NSW network area and the state as a whole. Oakley Greenwood weighed the VCRs of residential, commercial and industrial customers according to their 'relative share of electricity consumed'.⁸ This methodology yielded a final VCR of \$94,990/MWh, compared to \$53,300/MWh for medium/large businesses with usage over 160 MWh per year, \$413,120/MWh for small businesses using less than 160 MWh per year and only \$20,710/MWh for residential consumers.⁹

PIAC notes that commercial and industrial users have the option to invest in technological solutions, such as back-up generators, to secure their supply of electricity. Based on the value they place on reliable supply, PIAC believes that they have a sufficient economic incentive to make these investments, particularly if reliability standards were reduced.

PIAC submits that it would be more appropriate to calculate an overall VCR based on the number of consumers in each category. While data about the number of large business users in NSW is not readily available, figures from IPART show that at 30 June 2013, there were 2,989,015 residential customers in NSW and 317,810 non-residential customers.¹⁰ PIAC's proposed approach would, therefore, contribute to formulate reliability standards that are more closely aligned with residential consumer preferences.

⁵ The Hon Chris Hartcher, Minister for Resources and Energy, *Media Release – Putting a stop to labor's gold plating*, 17 October 2013. Available at: www.energy.nsw.gov.au/media-releases, as at 13 January 2014.

⁶ Australian Government Department of Industry, above n 2, 11.

⁷ Ibid.

⁸ Oakley Greenwood, *NSW Value of Customer Reliability*, 2012, 13.

⁹ AEMC, *Review of Distribution Reliability Outcomes and Standards: Final Report – NSW Workstream*, 2012, 44.

¹⁰ IPART, *Customer service performance of electricity retail suppliers: 1 July 2008 to 30 June 2013*, 2013, 21.

Recommendation 1

PIAC recommends that calculations about an overall value of customer reliability weigh the preferences of different consumer groups according to the number of consumers in each group.

2.2.2 The effect of lowering the VCR

The effect of using a lower VCR would be twofold. Firstly, a cost-benefit analysis of reducing reliability standards is tilted even more heavily in favour of making such a reduction. This is because applying the method used by the AEMC to calculate the cost and benefit of reliability standards,¹¹ the cost is the amount of energy not served to consumers multiplied by the weighted average VCR; and the benefit is the value of avoided network expenditure (see Figure 1 below). A cost-benefit analysis with a lower VCR further strengthens the case for amending reliability standards.

Figure 1: Calculating costs and benefits of reducing network reliability standards

COST	BENEFIT
Energy not served x VCR (weighted average)	Value of avoided network expenditure

Note: Energy not served is the amount of electricity that consumers are not able to use because they are experiencing a supply disruption.

Secondly, if the VCR is reduced, the benefit of avoided network expenditure will still outweigh the cost. While a decrease in reliability standards is likely to lead to an increase in the amount of energy not served, that amount of energy would be multiplied by a lower VCR, meaning the cost would be lower. At the same time, lowering reliability standards could mean more network expenditure is avoided, thereby increasing the value of the benefit in the cost-benefit analysis.

Consequently, if a VCR weighted more heavily towards residential consumers is used, a cost-benefit analysis supports making adjustments to reliability standards that could potentially put significant downward pressure on electricity bills.

PIAC also notes that if a VCR drives decisions on whether or not to invest in infrastructure, a higher VCR would become an instrument to justify residential consumers cross-subsiding a network that is reliable enough to meet the needs of small and large business users. In addition, business users factor energy costs into the prices of their goods—prices that can be adjusted when input costs increase. Conversely, residential consumers do not have a mechanism to pass on increasing electricity costs and are left to dedicate a higher proportion of their income to electricity.

2.2.3 Surveying consumer preferences against a range of options

PIAC has criticised the AEMC's examination of reliability in NSW for only surveying modest reductions in reliability in exchange for modest price reductions.¹² The AEMC scenario for an 'extreme' reduction in reliability standards only resulted in a projected \$18 reduction in costs per customer, in exchange for a 15 minute increase in outages (in the year 2028/29).¹³

Similarly, consumers were polled about their willingness to accept a discount of 'greater than 2%' (as well as 1-2% and less than 1%) in exchange for lower reliability.¹⁴ PIAC argued that these figures are not high enough to meaningfully reflect the diversity of consumer opinion on this

¹¹ AEMC, above n 9, 58.

¹² PIAC, *Reliably Affordable?*, 2012, 5. Available at: www.piac.asn.au/publication/2012/07/reliably-affordable.

¹³ AEMC, above n 9, 89.

¹⁴ AEMC, *Information Sheet: Review of electricity distribution reliability outcomes and standards*, 2012, 3.

issue. According to the survey results, 34.1% of respondents would be prepared to accept lower reliability in exchange for a discount of greater than 2%.¹⁵ PIAC believes that it would be useful for policy makers to know how many consumers would accept a more significant reduction in reliability in exchange for a 5-10% reduction in bills, or greater. This issue will become even more important in light of the continued growth in distributed generation technologies such as solar panels, which make reliability less of a consideration for an increasing number of consumers.

Recommendation 2

PIAC recommends that future examinations of consumer VCR survey preferences based on a wide variety of scenarios.

2.2.4 Use of reliability standards in benchmarking network performance

PIAC believes that the standardisation of reliability standards would assist the AER in benchmarking the economic performance of NSPs. PIAC has previously argued that the AER should use a combination of high-level economic indicators and more detailed performance measures in benchmarking NSP performance.¹⁶ This overcomes claims that high-level indicators do not take account of the circumstances of particular NSPs (size, population density and age of existing assets), while avoiding being bogged down or lost in multiple categories and sub-categories.

Aggregating category benchmarking provides a useful, and relatively low cost 'middle ground' of analysis. This approach is of considerable value for consumers because it enables higher-level comparisons of performance while controlling for the more obvious expenditure drivers such as size and load density. Standardised reliability standards would enhance the effectiveness of such a comparison between the performance of different NSPs.

2.3 Asset privatisation and cost

The Issues Paper notes that 'the Government will encourage Standing Council on Energy members to pursue privatisation initiatives'.¹⁷ With NSW having sold its state-owned retailers, any further moves to privatisation could potentially include the sale of distribution network assets. PIAC is not, in principle, opposed to the privatisation of network assets. However, PIAC notes that the NSW Government, as owner of the networks, was able to commit to 'capping rising network prices at CPI or below from 1 July 2013'.¹⁸ This move benefited consumers by stabilising recent significant price increases. PIAC believes that it is less likely such an outcome would have been achieved if the networks had not been state owned.

PIAC also notes that where members of SCE are the major (or only) shareholder in the energy networks, and those members have the capacity to input into policies guiding the regulation of those networks, split incentives exist between minimising costs for consumers and earning returns from those businesses. It is not always clear to PIAC how these split incentives are managed. PIAC's primary concern in relation to network costs is that expenditure should be as efficient as possible. While PIAC welcomed the NSW Government's move to cap network prices at or below CPI, if the existing level of expenditure is not as efficient as it could be, consumers will still pay higher network prices than necessary.

¹⁵ Ibid.

¹⁶ PIAC, *A firm basis: PIAC submission to the AER's Draft expenditure forecast assessment guideline*, 2013, 15. Available at:

¹⁷ Australian Government Department of Industry, above n 2, 17.

¹⁸ The Hon Chris Hartcher, Minister for Resources and Energy, *Media Release – NSW Libs & Nats Government puts a stop to Labor's double-digit price hikes: prices to rise just 1.7%*, 17 June 2013. Available at: www.energy.nsw.gov.au/media-releases, as at 13 January 2014.

There is evidence that state-owned electricity networks have experienced declining productivity in recent years.¹⁹ Under these circumstances, inefficient prices are built into the cost base for energy networks, and will continue to be paid by consumers even if prices do not increase by more than CPI.

Ideally, PIAC would like policy regarding network regulation to be developed by parties independent from the ownership of the businesses in question. However, as long as networks are owned by State and Territory Governments, this may not be possible. Accordingly, the most effective way to keep network prices as low as possible is through strong and effective regulation by the AER, with appropriate resourcing and support from government.

PIAC also supports transparency in all aspects of the network businesses, which generate up to 50% of consumers' final bills in NSW. Accordingly, PIAC recommends that the Australian Government consider options to increase transparency of network prices and how various ownership structures impact on pricing and productivity.

Recommendation 3

PIAC recommends that the Australian Government support the strong and effective regulation of NSPs, including through ensuring the AER has sufficient resources to carry out its functions.

Recommendation 4

PIAC recommends that the Australian Government explore ways to increase transparency surrounding all aspects of network pricing, including how shareholder governments manage the split incentive created by their status as both owners of assets and policy makers.

3. Consumers in the energy market

Historically, residential consumers have experienced the energy market through interactions with their retail supplier. However, in recent years consumers have increasingly interacted with other market players and become more aware of ways to participate in the market. For example, the increasing number of businesses in the retail market has seen a dramatic increase in unsolicited marketing from retailers seeking to acquire customers. The recent price increases have also coincided with a dramatic increase in consumer complaints about issues including marketing, bills and disconnection.²⁰ In light of these increases, effective and efficient regulation of retailers and market participants is vital to promoting positive outcomes for consumers.

Technological advances have also seen consumers given options to generate some of their own electricity or be charged for their use on a time-of-use (TOU) basis. In light of these advances—and other possible market developments—customers should be offered diverse tariffs that allow them to find an offer that suits their circumstances.

3.1 Complaints against retailers

Figures recently published by IPART show an extremely concerning increase in complaints by small retail customers about energy supply matters. These figures are outlined in Table 1 and Table 2, below.

¹⁹ Mountain, B, *Australia's rising electricity prices and declining productivity: the contribution of the electricity distributors*, 2011, Energy Users Association of Australia, 32.

²⁰ IPART, above n 10, 16.

TABLE 1: Complaints to NSW electricity retailers from small retail customers.²¹

	2011/12	2012/13	Percentage increase
Number of complaints related to marketing	7,193	10,268	43%
Number of complaints related to billing	25,482	45,156	77%
Number of complaints about other matters	18,417	36,158	96%
Total number of complaints	51,092	91,582	79%
Total complaints as a percentage of customers	1.6%	2.8%	75%

TABLE 2: Complaints to NSW gas retailers from small retail customers.²²

	2011/12	2012/13	Percentage increase
Number of complaints related to marketing	1,130	1,576	39%
Number of complaints related to billing	9,369	13,485	44%
Number of complaints about other matters	6,867	11,758	71%
Total number of complaints	17,366	26,819	54%
Total complaints as a percentage of customers	1.5%	2.3%	53%

PIAC is concerned by these increases in complaint figures. Energy is an essential service, which people have no choice about consuming. Accordingly, strong and effective regulation has an important role to play in reducing the negative experience of consumers in the competitive market.

In particular, PIAC is concerned that retailers may not always fulfil their obligations regarding customer hardship programs and protection from disconnection. This concern is re-enforced by recent data from IPART. The data shows an increase in overall disconnections of residential consumers and in the number of consumers receiving the Low Income Household Rebate (LIHR) prior to disconnection, but also a reduction in the number of consumers on payment plans prior to disconnection. According to IPART, there were 24,888 residential disconnections for non-payment of bills in 2012/13, up from 23,207 (an increase of 7% from the previous year).²³ Over the same period, the number of residents receiving the LIHR prior to disconnection rose from 5,064 to 6,421 (an increase of 26.7%). However, the number of residential customers on payment plans decreased from 8,688 to 5,728 (a drop of 34%).²⁴

PIAC's own research found that 54% of customers who had been offered a payment plan did not think it was affordable.²⁵ Prior to 1 July 2013, electricity retailers in NSW were required to offer customers in hardship a payment plan that 'provide[d] for instalments to be calculated having regard to a customer's consumption needs, a customer's capacity to pay and the amount of any arrears a customer is required to pay'.²⁶ Now that NSW has implemented the National Energy

²¹ Ibid.

²² IPART, *Customer service performance of gas retail suppliers: 1 July 2008 to 30 June 2013*, 2013, 14.

²³ IPART, above n 10, 8.

²⁴ Ibid, 9.

²⁵ Urbis, *Cut off III: The social impact of utility disconnection*, report prepared for PIAC, 2013, 30. Available at: www.piac.asn.au/publication/2013/04/cut-iii.

²⁶ *Electricity Supply (General) Regulation 2001* (NSW), cl 13A(2)(c) (repealed 1 July 2013).

Customer Framework (NECF), retailers are required to offer hardship customers a payment plan that is calculated with regard to capacity to pay, any arrears owing and the relevant customer's expecting energy consumption needs 'over the following 12 month period'.²⁷ IPART's most recent figures show that 5,728 residential electricity customers were on a payment plan prior to disconnection last financial year.²⁸ When coinciding with increased disconnection, PIAC finds this statistic concerning. More people are failing to pay their bills, but fewer are being assisted through a payment plan prior to disconnection.

As the NECF is implemented in more jurisdictions within the National Energy Market (NEM), the AER is increasingly assuming responsibilities previously fulfilled by State and Territory-based regulators. PIAC accepts that it will take some time for the AER to identify trends in retailer non-compliance as data sets for various periods are generated. In an environment where retail complaints have increased by 75% in the past year, effective enforcement of regulation is vital to the continuing health of the retail energy market, delivery of consumer protections under the law and positive benefits to consumers. Therefore, PIAC urges the Australian Government to ensure that resourcing of the AER grows in line with all of its responsibilities—especially as more jurisdictions adopt the NECF.

Further, given the significant changes that are occurring in the NEM, it will be important that the on-going adequacy of regulation is assessed, to ensure those measures in place remain effective. PIAC anticipates that the growth of TOU pricing, facilitated by the rollout in new metering technology, may result in consumers struggling to pay their bills. For example, those consumers who are not in a position to shift their consumption away from peak times would be worse off under TOU pricing. Specific regulations would, therefore, need to be introduced to ensure that any move to more cost-reflective energy prices (discussed further below) do not result in an increase in the number of consumers experiencing energy hardship or being disconnected from essential services.

PIAC is not advocating additional layers of regulation that create a burden on energy providers, and hence increase costs for final consumers. Rather, PIAC is advocating for the effective enforcement of existing regulation or the improvement of measures that have proved ineffective in delivering their intended function or contributed to perverse market outcomes.

Recommendation 5

PIAC recommends that the Australian Government ensure that effective regulations are in place to minimise negative impacts that innovative pricing may have on small retail consumers.

Recommendation 6

PIAC recommends that the Australian Energy Regulator be sufficiently resourced to carry out its retail compliance and enforcement role, and that any new responsibilities attributed to the AER are matched with funding to undertake these responsibilities in an efficient and effective manner.

3.2 New tariff designs

As previously stated, the progressive installation of more advanced energy metering technology will allow consumers to be charged for their energy use in more sophisticated ways. TOU tariffs could be used to send more accurate price signals to consumers about the true cost of their consumption at different times of the day (including that the cost of this consumption is greater at peak periods).

²⁷ *National Energy Retail Rules Version 1*, cl 72(1)(a)(i-iii). Available at: www.aemc.gov.au/retail/national-energy-retail-rules/current-rules.html.

²⁸ IPART, above n 10, 9.

Given energy is an essential service, PIAC submits that it would not be equitable to increase the cost for consumers who have limited capacity to move their electricity use to other times. For example, families with young children have little choice about cooking or using temperature control measures in extreme weather events. Similarly, people with a physical disability who receive in-home care must use electricity for cooking, cleaning and personal care activities during these visits. There is limited scope to align these visits with off-peak periods and the person who has responsibility to pay the electricity bill has little control over this.

As part of its recent review of distribution network pricing arrangements, the AEMC examined a proposal by SCE (then SCER) for network tariffs to be more firmly based on long-run marginal cost (LRMC). The rationale for this approach is that it sends signals to consumers about avoidable network costs, or 'costs which consumers can influence by changing their behaviour because they are yet to be incurred'.²⁹ An example of this in practice would be to set lower network charges in areas of a network where excess capacity already exists, reducing the marginal cost of new connections.

In its submission in response to the AEMC, PIAC noted that consumers have limited capacity to move the location of their consumption in response to price signals about where excess capacity exists in the grid.³⁰ Even if households were prepared to uproot their lives and leave their current communities, the transaction cost of such a move would outweigh the benefits that could be gained through lower network charges. At best, PIAC submits that such signals might be followed by industrial users looking for a location for new facilities.

PIAC is not opposed to consumers being offered more cost-reflective prices, provided there is a genuine choice about whether or not these offers are taken up. New tariff offerings should increase consumer choice, rather than reduce it. In its recent submission to the AEMC, PIAC argued that network tariffs should be set in a way that allows all consumers to reduce their bills through lower consumption.³¹ PIAC also argued that DNSPs should offer multiple tariffs in each tariff class (residential, commercial, industrial), to allow individual account holders choice in selecting the option that is best for them. PIAC, therefore, recommends that the Australian Government take steps to ensure all consumers have access to a broad range of tariff shapes, to facilitate meaningful choice and the selection of an offer that best suits their circumstances.

Recommendation 7

PIAC recommends that the Australian Government examine ways to ensure that all consumers have access to a range of tariff structures and shapes.

3.3 Effective low-income support measures

PIAC recognises energy as an essential service that all residential consumers should have access to in amounts that facilitate a dignified life. PIAC also acknowledges that there are significant productivity benefits to ensuring that all energy consumers have an affordable on-going supply of energy. People's productive capacity is not assisted where energy cost prevent them from heating water for bathing or cooling their homes in during times of extreme heat. Similarly, the educational attainment of children who are living in such an environment will inevitably be compromised, with long-term implications for them and society more broadly. Consequently, PIAC believes that assistance measures that help consumers remain connected

²⁹ AEMC, *Network Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014: Consultation Paper*, 2013, 56.

³⁰ PIAC, *Reflecting prices and preferences*, 2013, 10. Available at: www.piac.asn.au/publication/2014/01/reflecting-prices-and-preferences

³¹ *Ibid*, 7.

to electricity have positive social and economic benefits for the Australian community and the broader economy.

In NSW, there has been a significant increase in the amount paid by the State Government in energy customer assistance. PIAC has welcomed recent increases in the LIHR, from \$200 in 2011/12 to \$225 in 2013/14. Combined with higher uptake of the rebate, this increase has seen the NSW Government allocate \$207 million to the LIHR in 2013/14, up from \$148 million in 2011/12 (an increase of more than 40%). The NSW Government has also introduced the Family Energy Rebate, on which it spent \$5 million in 2012/13 and has budgeted \$19 million in 2013/14.³²

With the ageing Australian population, PIAC anticipates that there will be an increasing demand for the LIHR rebate, as well as the Medical Energy Rebate and Life Support Rebate, for which the NSW Government has allocated a combined \$6 million in 2013/14. The NSW Government also funds the Energy Accounts Payment Assistance (EAPA) Scheme, which is designed to offer emergency support to energy account holders experiencing sudden financial hardship. The EAPA budget has remained stable in recent years (\$15 million in 2013/14), despite energy price increases meaning more consumers are seeking such assistance for greater levels of energy debt.

PIAC has called for increases to the Life Support Rebate and the EAPA Scheme as funding of these measures has failed to keep pace with price increases and demand for emergency assistance with energy debt. However, PIAC also believes that there is significant scope to improve the effectiveness of current expenditure on customer assistance in NSW and beyond by providing energy rebates and assistance according to best practice.

PIAC considers that the method of delivery of customer assistance measures should be standardised across Australia. PIAC, therefore, recommends that SCE undertake a review of the effectiveness of current customer assistance measures and design a national best-practice framework for their delivery. Such a review could be informed by the work being undertaken by the National Energy Affordability Roundtable, convened by the Energy and Water Ombudsman NSW, the Australian Council of Social Service and the Energy Retailer's Association of Australia.³³

PIAC recognises that each jurisdiction is responsible for setting the quantum of rebates and is not seeking a Commonwealth concession or a standard amount for rebates. Rather, it believes there is scope for efficiencies in standardising delivery methods, reporting, eligibility criteria, indexation and structure of assistance (eg, percentage based rebates). With retailers presently working across multiple jurisdictions a standardised framework would be beneficial.

PIAC also notes that current customer assistance measures are unlikely to be adequate in an environment of new product offerings. In particular, PIAC is concerned about the ability of flat energy rebates to offer effective assistance to consumers who are on a TOU energy supply contract. Accordingly, the proposed SCE review of customer assistance measures should examine whether other options, such as percentage-based rebates, are a more appropriate form of support in light of new pricing structures.

³² NSW Government Department of Treasury, *Budget 2013-14, Budget Paper 2: 2013-14 Budget Statement, Appendix D: Tax expenditure and concessional charges statement*, 25.

³³ For further information, see www.ewon.com.au/index.cfm/publications/annual-reports/annual-report-20122013/national-energy-affordability-roundtable/

Recommendation 8

PIAC recommends that SCE review the effectiveness of energy concessions and customer support measures across Australia and develop a framework for consistent, best-practice delivery of these measures. The review should also examine the effectiveness of traditional customer support and rebates in light of the increasing prevalence of new pricing structures.

3.4 Monitoring the delivery of customer assistance

PIAC submits that to encourage retailers to consistently fulfil their responsibilities in relation to customer assistance measures, their performance should be assessed and reported on. In NSW, retailer responsibilities in relation to customer assistance measures are outlined in the NSW Government's Social Programs for Energy Code (the Code). However, there is no public reporting of retailers' performance in delivering the measures in the code to consumers, including in relation to the obligation on retailers to ensure customers continue to receive the rebate when their circumstances change.³⁴

Further, PIAC considers that methods used by retailers to comply with their obligations to inform consumers of the existence of social programs for energy³⁵ could be improved. PIAC's recent research into the experience of energy customers with a physical disability found that less than 30% of surveyed consumers were aware of the existence of either the Medical Energy Rebate or the Life Support Rebate.³⁶

In line with its increasing responsibilities in the retail energy market, PIAC understands that the AER will compile a hardship report covering states that have introduced the NECF. As part of this report, PIAC would like to see public reporting on retailer performance in the promotion and delivery of social programs.

Recommendation 9

PIAC recommends that the AER publicly report on the performance of energy retailers in fulfilling their responsibilities to promote and deliver social programs.

3.5 Considering consumer preferences for the exploration of new energy reserves

The Issues Paper notes that 'the opaque nature of gas markets... has fuelled debate about domestic gas security'.³⁷ PIAC would welcome any initiative to increase transparency in the domestic gas market and facilitate greater community consultation about the potential exploitation of new energy reserves, such as coal seam gas (CSG).

As part of the consideration of any new project, it is vital that the community has a clear understanding of the potential environmental impact of a new project, as well as the economic benefit to the local area and the costs to the broader economy from increasing gas prices. The environmental impact of CSG extraction has received increasing attention in recent times, particularly in jurisdictions where such resources exist. PIAC, therefore, recommends that where a new project is proposed, independent research on the environmental impact should be made available in an easy to understand format, to assist community consultation about a project. This

³⁴ NSW Government, *NSW Social Programs for Energy Code*, 2013, 7. Available at: www.energy.nsw.gov.au/retailers/ministerial-directions, as at 14 January 2014.

³⁵ Ibid, cl A4.1.1

³⁶ PIAC, *More power to you: Electricity and people with a disability*, 2012, 19. Available at: www.piac.asn.au/publication/2012/11/more-power-you

³⁷ Australian Government Department of Industry, above n 2, 13.

information should be compiled by an independent source, such as the Chief Scientist in a particular jurisdiction, with funding provided by the project proponent.

Recommendation 10

PIAC recommends that the Chief Scientist in a State or Territory produce independent information about the potential environmental impact of new CSG projects, to assist with community consultation on these issues.

3.5.1 Timelines for consumer consultation

PIAC also notes that the timeline for consumer consultation is central to the effectiveness of the process. In particular, meaningful consultation must occur on a schedule that allows sufficient time for consumers to provide input into the process. There are two aspects to this issue.

Firstly, in setting consultation periods, policy makers must remember that many consumers will be providing input in addition to their professional and family responsibilities. Accordingly, PIAC recommends a period of at least four weeks to allow consumers sufficient time to provide input. Secondly, consultation must occur at a time that allows consumer input to be considered as part of the approval or policy development process. Consultation that occurs after decisions appear to have been made will alienate consumers and is unlikely to foster broad acceptance of the final outcome.

Recommendation 11

PIAC recommends that community consultation processes on new resource extraction projects occur in a manner that allows consumers sufficient time to provide input and for that input to be considered in the approvals process.

3.5.2 Apportioning costs and benefits of resource extraction

PIAC also notes that if local residents or the broader community accept the cost of gas exploration and extraction, they should receive the benefit in the form of access to those resources. In particular, PIAC is concerned that new facilities may be built to extract unconventional gas deposits, which in the long term may be exported to overseas consumers, and thereby do not resolve the supply issues currently facing NSW.

Different consumer groups, including those representing households and businesses, have canvassed options including a domestic reservation policy and a national interest test for new extraction projects.³⁸ Without advocating a particular position, PIAC submits that it is vital that the Australian Government develop policy positions on these issues now, before the expansion of export capacity comes into play. The supply of energy is vital to both the quality of life of residential consumers and the prosperity of the Australian economy. It is, therefore, vital that governments develop well-reasoned, coherent and clear policy positions in relation to Australia's energy challenges.

Recommendation 12

PIAC recommends that the Australian Government develop policy positions on gas extraction now, to address the potential that the Australian community bear the cost of resource extraction without the benefit of access to those resources.

³⁸ Consumer Utilities Advocacy Centre (CUAC), *Making the Gas Connection*, 2013, CUAC: Melbourne

4. Conclusion

Once again, PIAC thanks the Australian Government for the opportunity to provide comment on the Issues Paper and contribute to the development of the White Paper. PIAC's primary concern is that the cost of essential services should remain as low as possible and to improve the experience of residential consumers in the competitive market.

PIAC believes that electricity prices will be lower in the long term in NSW following the change in reliability standards. PIAC supports any further efforts to harmonise reliability standards in this state with those across the nation, using a probabilistic approach. PIAC also believes that any calculation of a VCR should be more heavily weighted in favour of the preferences of residential consumers, who make up a majority of consumers in NSW. Regulation of NSP costs must be effective and based on efficient costs in order to deliver prices to consumers that are as low as they can be for a given level of service.

PIAC is extremely concerned by the significant increase in consumer complaints to retail energy suppliers. More effective regulation (or better enforcement of current regulations) may reduce the number of complaints, especially if retailers fulfil their statutory responsibilities. PIAC argues that any new tariff designs, such as TOU pricing, should be offered to consumers in addition to current options. This will ensure that consumers without the ability to shift their use away from peak periods are not left worse off. PIAC also argues that there is scope to more effectively use current resources devoted to low-income consumers of energy, potentially forestalling increased expenditure in this area. SCE should examine the most effective way to provide this support, and develop a best-practice framework for use across Australia.