

Policy briefing notes for

**Minister for Resources and Energy, the
Hon. Martin Ferguson AM MP**

prepared by participants of the

**National Consumers Roundtable on
Energy**

10-11 March 2011

At the National Consumers Roundtable on Energy, held in Melbourne 10-11 March 2011, participating consumer, social welfare and environmental organisations collectively raised three core areas of concern for consumers including; energy affordability, demand side participation and community engagement and education on energy issues.

We believe these issues need to be central elements of the current government's energy agenda.

Energy Affordability

1. Federally commissioned modelling to investigate likely impacts of increased electricity prices on low and modest income households and inform discussion on appropriate policy, regulation and programs to address potential adverse impacts. This modelling to be widely available to help inform all stakeholders.
2. Creation of a time limited National Energy Affordability Forum, which would include representatives from Community Service organisations, energy industry and all government departments with a major interest in aspects of energy affordability, including concessions, energy efficiency and greenhouse gas abatement issues. The National Energy Affordability Committee would be tasked with developing a comprehensive strategy to maintain energy affordability, within the constraints of the various, relevant policy settings.

Demand Side Participation

3. The Federal government includes a review of responses to the above issues as part of the terms of reference for the upcoming *AEMC Review of the Role of Demand Side Participation in the National Energy Market Stage 3*, particularly the incorporation of a Demand Management Target.
4. Previous stages of the *AEMC Review of the Role of Demand Side Participation in the National Energy Market* have not adequately to address these problems. Among other issues, the second stage omitted potential for development of incentives for Network Service Providers (NSPs), inadequately examined the limitations of the wholesale market, and did not address the potential for Transmission NSPs to implement demand management.

Community engagement and education on energy issues

5. The Federal Government should develop a coordinated program to improve “energy literacy” in the Australian community as a response to rising energy prices and the introduction of a carbon price.
6. Along with campaigns involving mass media, school based programs and other well targeted communications, the Federal Government should resource community agencies who already have knowledge of energy issues to engage, educate and support consumers and other community agencies on energy issues. A specific strategy should be developed together with participants of the Roundtable and other community agencies to support the sector improve the capacity of consumers to understand energy issues.
7. The Roundtable, having started this dialogue, is eager to continue the discussion as the Government further develops the design of the carbon price and supporting arrangements.

Federal Government support for:

Increased focus on energy affordability

Purpose

1. To propose an approach to tackle the growing concern of energy affordability.
2. To seek your support for the acceptance of a 'shared responsibility' approach to energy affordability, with all relevant stakeholders, so that vulnerable customers are able to afford the electricity that they need to live a decent life.

Background and issues

3. In 2003-4, 15% of Australian households were unable to pay their electricity bills on time; with 38% of the poorest 30% of the household income distribution and 12% of the remaining 70% of households unable to pay energy bills on time. Inability to pay energy bills on time was the most common measure of financial stress reported by the ABS financial stress survey, 2003-4.
4. Household energy bills have nearly doubled over the last decade and are likely to double again over the next 5 years or so.
5. Retailers are providing hardship programs for the most vulnerable customers at a rate of about 3-5 per 1,000 customers, yet about 25% of current customers experience affordability problems and this rate could rise to 30-35% over the next 5 years.
6. The Commonwealth has recognised the merits of energy efficiency measures and, along with most jurisdictions, is currently interested in reviewing concessions.
7. Energy affordability is an issue of growing mutual interest to consumers, governments and retailers, in particular. This affords an opportunity for shared responsibility to tackle future energy affordability by bringing together all interested stakeholders, at a 'high level', in order to develop a multifaceted approach to keep energy affordable into the future.

Recommended policy responses

8. Federally commissioned modelling to investigate likely impacts of increased electricity prices on low and modest income households and inform discussion on appropriate policy, regulation and programs to address potential adverse impacts. This modelling to be widely available to help inform all stakeholders.
9. Creation of a time limited National Energy Affordability Forum, which would include representatives from Community Service organisations, energy industry and all government departments with a major interest in aspects of energy affordability, including concessions, energy efficiency and greenhouse gas abatement issues. The National Energy Affordability Committee would be tasked with developing a comprehensive strategy to maintain energy affordability, within the constraints of the various, relevant policy settings.

Federal Government support for:

Increased demand-side participation in the National Energy Market

Background

1. Billions of dollars are invested in network augmentation to service less than a day's worth of electricity each year. This situation is economically inefficient and unfair to consumers, particularly unfair to low-income and disadvantaged consumers because energy costs make up a greater proportion of their total living costs.
2. If demand management initiatives are properly implemented, they will lead to lower power bills for all electricity consumers. By lowering power bills, increased demand-side participation would greatly assist with the implementation and acceptance of a carbon price.

Demand Management Target Options

3. A Demand Management Target would be a regulatory instrument designed to reduce peak demand on transmission and distribution networks and could be configured in a number of different ways. Targets, for example, could be:
 - i. based on either a percentage or MVA based reduction of peak demand below forecast;
 - ii. applied to all or part of transmission and/or distribution networks;
 - iii. set annually or in line with five yearly distribution pricing reviews; and
 - iv. derived from detailed modelling taking into account:
 1. projected peak demand increases
 2. projected average demand increases
 3. areas of constraint on transmission and distribution networks.
4. To ensure it delivers cost-effective reductions in network augmentation, a Demand Management Target could be met through a national certificate scheme which imposes direct requirements on NSPs to support demand management opportunities in their operations and for their customers.
5. Registered generators, retailers and NSPs would be able to create peak demand reduction certificates, verified and registered by an independent regulator.
6. NSPs would then be required to surrender certificates equivalent to their target or pay a penalty. The penalty rate effectively places a cap on the price of energy efficiency and peak demand reduction certificates. Consideration would need to be given to how a penalty based scheme would work effectively in a regulated monopoly environment where NSPs costs are passed through.

Issues and Discussion

7. Demand-side participation includes all actions which change the demand on an electricity system. For the purposes of this briefing paper, this particularly includes (but is not limited to) demand response, direct load control, distributed generation, pricing initiatives, and smart grid technologies.
8. Demand-side participation reduces congestion and improves the safety, reliability and security of supply, and is overwhelmingly more cost effective than network augmentation at meeting peak demand. For these reasons, demand management has become a core

component of energy markets in the United States, Europe, Asia, as well as New Zealand and Western Australia.

9. The National Consumer Roundtable on Energy advocates for the inclusion of demand-side participation in the National Energy Market in response to the negative impacts on consumers from rising electricity costs and greenhouse gas emission reduction initiatives.
10. Electricity bills have increased and are increasing significantly for consumers. Over the five years to December 2010, electricity prices in Australia increased by 54 per cent. On average, electricity prices over this period increased at an annual rate of 9 per cent compared to an average annual CPI increase over the same period of just 3 per cent.¹
11. Electricity prices are predicted to increase by at least 100% from 2008 levels by 2015.²
12. Several factors have caused this cost increase, but the largest factor is increasing investment in infrastructure augmentation, which is primarily a response to increasing peak demand.³
13. Peak demand is growing disproportionately to average demand across the NEM. Since 1999, peak demand has increased at twice the rate of average demand,⁴ with seasonal peaks rising from around 26 GW in 1999 to 34 GW in 2010. ⁵ This is an increase of 30 per cent.
14. Increases in peak demand have led to a situation where the top ten percent of network use (GW) occurs for less than a 24 hours a year across the NEM.
15. Billions of dollars are therefore invested in network augmentation to service less than a day's worth of electricity each year. This situation is not only economically inefficient, but unfair to consumers who bear the costs of this inefficiency. It is particularly unfair to low-income and disadvantaged consumers because energy costs make up a greater proportion of their total living costs and despite using only a small amount of energy, they share the costs of peak driven network augmentation.
16. If demand management initiatives are properly implemented, they will lead to lower power bills for all electricity consumers, which will particularly benefit disadvantaged and low income consumers. Demand management (and energy efficiency) will also benefit consumers through increased economic efficiency of the entire economy.
17. By lowering power bills, increased demand-side participation would greatly assist with the implementation and acceptance of a carbon price.
18. In the broader context of social welfare, undertaking demand management and energy efficiency projects in the residences of low-income households would greatly assist them with increasing costs of energy.
19. The regulations of the NEM are intended to serve the National Electricity Objective (NEO) and supply electricity to consumers through efficient investment. However, after ten years of operation it is evident that the structure and regulations of the NEM do not lead to efficient levels of demand management, especially in regards to the long term interests of consumers.
20. This is because:
 - a. the regulatory structure of the NEM inhibits demand-side participation and biases supply-side solutions, including network augmentation and centralised supply; and
 - b. the National Electricity Rules do not include appropriate incentives for Network Service Providers to invest in demand management projects.

¹ Australian Bureau of Statistics (2011) *6401.0 Consumer Price Index*, Table 1 and Table 7, Canberra

² Australian Industry Group (2011) *Energy Shock: Confronting Higher Prices* Available at: <http://www.aigroup.com.au/policy/reports>

³ Ibid, and Total Environment Centre (2010) *Demand Management and Energy Policy Development: A Case Study of New South Wales*, Available at: <http://www.tec.org.au/reports-and-submissions/393?task=view>

⁴ AEMO (2011) *AEMO Load Profiles* Available at: <http://www.aemo.com.au/electricityops/nslp.html> . These load profiles were compiled by Energy Response, and presented to TEC during personal correspondence.

⁵ AER (2010) *State of the Energy Market 2010*, p. 19

21. Incentive schemes like the NSW D-Factor have had mixed success in overcoming these issues, but have not led to efficient levels of demand-side participation in the NEM. The jurisdictional nature of such schemes is also problematic.
22. If the negative impacts on consumers are to be appropriately addressed, preliminary analysis by Roundtable members suggests that amendment of the national electricity rules is particularly prospective. However, regulatory change is difficult to implement and can occur over a long timeframe. A prospective interim measure could be the implementation of a demand management target in the NEM, along with a supporting scheme.
23. Energy efficiency is also of particular benefit to consumers as it lowers both peak demand and average demand, avoiding the need for network augmentation and additional electricity use. Consequently, the Roundtable is separately advocating for the greater implementation energy efficiency in the NEM, and urges the Federal government to implement the changes outlined in the Report of the Prime Minister's Task Force on Energy Efficiency, particularly to incorporate any national energy efficiency target into NEM governance arrangements, and enhance the assessment and verification requirements and expand the coverage of the Energy Efficiency Opportunities Act 2006 to include large energy generators and NSPs.

Recommendations

24. The Roundtable therefore urges the government to include a review of responses to the above issues as part of the terms of reference for the upcoming AEMC Review of the Role of Demand Side Participation in the National Energy Market Stage 3, particularly the incorporation of a Demand Management Target.
25. Previous stages of the AEMC Review of the Role of Demand Side Participation in the National Energy Market have not adequately to address these problems. Among other issues, the second stage omitted potential for development of incentives for Network Service Providers (NSPs), inadequately examined the limitations of the wholesale market, and did not address the potential for Transmission NSPs to implement demand management.

Federal Government Support for:

Increased community engagement and education on energy issues

Purpose

1. To brief you on the need for increased community engagement and education on energy issues in the context of rising energy prices and the forthcoming introduction of a price on carbon.
2. To seek your support for increased Federal Government resourcing for community engagement and education on energy issues.
3. To provide examples of successful community engagement and education programs led by the community sector. (See Attachment 1)

Background

4. Energy prices have risen sharply in recent years. Over the five years to December 2010, electricity prices in Australia increased by 54 per cent.⁶ According to a recent report by the Australian Industry Group, over the next five years, electricity prices are predicted to increase by a further 100%.⁷
5. Much of the price increase has been driven by the rising cost of Australia's energy network infrastructure. Peak demand growth and policy uncertainty around carbon pricing have also undoubtedly had an impact, as will the likely introduction of carbon pricing in 2012.
6. We acknowledge the Government's commitment to establishing appropriate compensation arrangements for households under the proposed carbon pricing mechanism, particularly low income households. This is supported by members of the Roundtable and we are eager to work with you to ensure the appropriate design and implementation of programs in these areas.
7. In addition to these measures, the Roundtable is of the view that the Commonwealth needs to encourage greater consumer awareness of energy issues through engagement and education programs.

Need for and benefits of consumer education and engagement

8. Engaged and educated consumers are better able to manage their consumption and costs in the context of rising energy prices and carbon pricing. Engagement and education programs give households a better understanding of energy consumption, drivers of cost and ways to save money, for example through energy efficiency or 'shopping around' in a competitive market.
9. An "energy literate" community is also better able to understand the justification for policies such as carbon pricing and other energy market reforms. Rising energy prices have generated considerable community concern across Australia, and present a political risk for governments responsible for energy market regulation or wishing to pursue energy sector reform. The Victorian experience with the roll out of smart meters demonstrates how insufficient attention to community education and information can result in a significant community backlash.

⁶ Australian Bureau of Statistics (2011) *6401.0 Consumer Price Index*, Table 1 and Table 7, Canberra

⁷ Australian Industry Group (2011) *Energy Shock: Confronting Higher Prices* Available at: <http://www.aigroup.com.au/policy/reports>

10. Research by consumer groups on the Victorian smart meter roll out also revealed a substantial need and demand for better community information and education programs on broad energy issues to promote energy efficiency and consumer participation in the energy market.

Community sector delivery of education and engagement programs

11. Community agencies that have specialist knowledge of energy issues and strong links to end users and other community groups are well placed to quickly and effectively deliver targeted programs to improve the energy literacy of Australians.
12. Community organisations have already successfully engaged consumers on energy issues with programs that involve local presentations and direct engagement with consumers. Community organisations are also well equipped and experienced in reaching the most vulnerable consumers, who are particularly affected by rising prices. While a more centralised approach – such as education campaigns run on television, radio, newspapers and through schools – is necessary, it is on its own insufficient. The reach and effectiveness of community engagement programs could be improved with a small amount of secure, medium to long term funding.
13. Community organisations are also uniquely placed to provide invaluable intelligence to Government, and assist Government to work consultatively with consumers to ensure assistance packages and policies are responsive, realistic and meet consumer needs.

Recommended policy responses

14. The Commonwealth Government should develop a coordinated program to improve “energy literacy” in the Australian community as a response to rising energy prices and the introduction of a carbon price.
15. Along with campaigns involving mass media, school based programs and other well targeted communications, the Commonwealth Government should resource community agencies who already have knowledge of energy issues to engage, educate and support consumers and other community agencies on energy issues. A specific strategy should be developed together with participants of the Roundtable and other community agencies to support the sector improve the capacity of consumers to understand energy issues.
16. The Roundtable, having started this dialogue, is eager to continue the discussion as the Government further develops the design of the carbon price and supporting arrangements.

****Examples of successful community engagement on energy issues is provided in Attachment 1.**

Attachment 1

Examples of successful community engagement on energy issues

The following are some brief descriptions of programs that have been effective at assisting both consumers and community organisations. These provide a model as to the types of programs that would be worthy of additional support from Government to develop grass roots knowledge and awareness of energy issues and the energy market. A contact person is provided for each program if you or your staff would like to contact the relevant organisation to discuss these further.

UnitingCare Kildonan – Energy and Finance Programs

UnitingCare Kildonan helps children, young people, families and those facing hardship or disadvantage, including support, information, advocacy, case management and activity-based programs across a number of locations in Victoria. Kildonan currently works with a number of organisations to improve the financial sustainability, reducing the energy and water footprint and improving comfort levels of vulnerable or at risk households. In total we currently provided more than 1500 energy efficiency visits to vulnerable households per year.

Kildonan's approach to assisting vulnerable and/or lower income households is based on over a decade of experience and developed understanding that retrofitting and behaviour change strategies both impact in reductions to energy and water consumption. Householders play a pivotal role in determining how and where energy is used within their homes and this is influenced by a range of factors, which include education, motivation, household dynamics, social practices, housing type and orientation, health, financial situation, and comfort levels.

Ongoing feedback from our clients indicates that the energy program is highly valued. More than 90% of service users consistently rate the energy visit and our staff as "outstanding" and "highly successful, yielding substantial savings ... even in the face of considerable situational and systemic barriers ..."⁸

If you would like to know more about Kildonan's energy program please contact Sue Fraser, Senior Manager – Social Advocacy Services, UnitingCare Kildonan on 0414 507 494

Brotherhood of St Laurence – Navigating Energy Markets Trial Program

Navigating Energy Markets aims to increase the capacity of social and community workers to advise low income and disadvantaged households on household energy efficiency and energy consumer rights in the context of climate change. The program is based on the Brotherhood's financial literacy programs which work through existing support networks to educate and change behaviour. The program is delivered as a half day interactive seminar and covers:

- climate change and energy issues and how one's clients might be affected by them
- saving money on energy bills and adapting to increasing energy prices
- consumer rights in relation to the deregulated energy market, including payment plans and hardship policies
- where to get help, make complaints and take action on issues in the energy market
- behavioural changes and grant opportunities for household energy efficiency measures

A program trial was delivered to 34 people in four workshops between June and November 2010. Feedback indicates participants felt they improved their knowledge of household energy use, the operation of the energy market and consumer rights and entitlements. The Brotherhood and partners are seeking to expand the program in future.

⁸ Borrell, J., Lane, S., 2009, Kildonan Energy Audit Program Evaluation 2004 to 2006 Data, Kildonan UnitingCare, Melbourne

If you or your staff would like to know more about the Navigating Energy Markets Program, contact Damian Sullivan, Manager – Equity in response to climate change, Brotherhood of St Laurence on 03 9483 1176.

Moreland Energy Foundation – Zero Carbon Moreland Program

The Zero Carbon Moreland program aims to provide practical tips to the residents of the City of Moreland on how they can become more energy efficient. The program initially provides participants with a simple pack with practical advice on energy efficiency. From there, it provides support to participating households, businesses and community organisations with access a range of other programs and support services. The program has already engaged over 3,000 participants and is on track to reach 10 per cent of Moreland households, businesses and community organisations.

Comprehensive evaluation of the program will be complete in April, but preliminary results show that residents can on average reduce their energy usage by 20% in the space of a year by implementing simple energy efficiency measures with advice and assistance from an independent organisation. Similar results have been achieved for businesses across retail, manufacturing and SMEs.

Part of the program has involved targeted programs for low income households. The Warm Home Cool Home program in partnership with Brotherhood of St Laurence involved over 250 home audits and retrofits for low income households. While comprehensive results are not yet available, participants have already realised energy savings in the space of a year. We have also worked with Arabic, Turkish, East African and Aboriginal communities, training local leaders to disseminate energy and energy efficiency information through their networks.

If you or your staff would like to know more about the Zero Carbon Moreland Project, contact Eli Court, Energy Policy Advocate, Moreland Energy Foundation on 03 9385 8529.

Ethnic Communities' Council of New South Wales – Ethnic Communities Sustainable Living Project

The Ethnic Communities' Council of New South Wales (ECCNSW) is the peak body for all culturally and linguistically diverse communities in New South Wales. The Ethnic Communities Sustainable Living Project delivers householder education to culturally and linguistically diverse communities in eight community languages, a biodiversity education and environmental citizenship program for newly arrived migrants, and waste education for Chinese communities within the City of Sydney. The Project's business programs target water conservation in Asian restaurants (saving 252,000,000 litres of Sydney water every year) and energy conservation in Asian drycleaners (reducing peak demand by 177 kW, saving 845 tonnes of greenhouse gases annually).

The success of our programs is due primarily to our effective and meaningful community engagement processes. This includes engaging skilled bilingual educators, gaining support and participation of community networks and role models, publicly recognising and celebrating achievements, utilising community media and appropriately communicating messages.

If you or your staff would like to know more about the Ethnic Communities Sustainable Living Project, contact Helen Scott Energy, Program Coordinator, Ethnic Communities' Council of NSW on 02 9319 0288.