

**Martin Jones, Speech to Gippsland Gas Price Roundtable,
11 September, Morwell**

CUAC acknowledges the traditional owners of this land and we pay our respect to their elders past and present.

I also thank the Latrobe City Council for the invitation to speak at this forum.

CUAC is a specialist consumer organisation representing Victorian energy and water consumers in policy and regulatory processes. We are Australia's only consumer organisation focused specifically on energy and water, and our focus is on residential consumers, particularly low-income, disadvantaged, and vulnerable consumers.



Our Gas Challenge

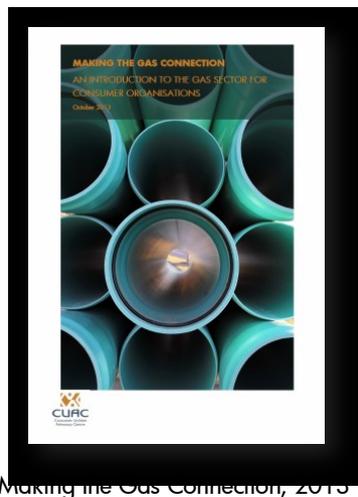
Martin Jones
Consumer Utilities Advocacy Centre

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The developments in the eastern gas markets have been several years in the making, but unfortunately the small consumer sector has not been as active in thinking about the ramifications as many in the industrial sector have been.

Recognising this, last year CUAC started focussing on gas to develop not only our internal capacity – I had recently joined after a research job at the University of New South Wales – but also to increase the capacity of the consumer sector. This led to our first gas report, *Making the Gas Connection*, which provided a high level, easily understandable introduction to the east coast gas sector for consumer and community organisations.

CUAC's Gas Reports



Making the Gas Connection, 2013



Our Gas Challenge, 2014

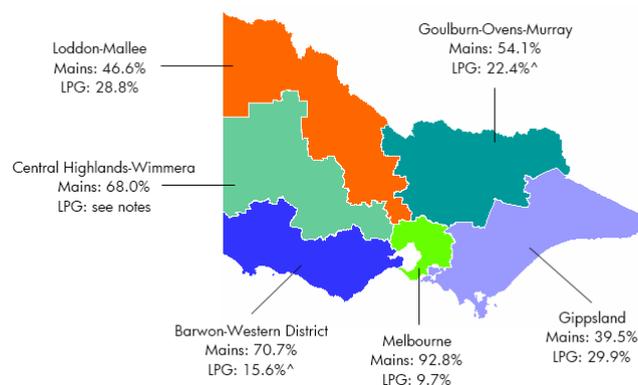
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We followed this up with a report focussing on Victoria: *Our Gas Challenge: The role of gas in Victorian households*. We launched this report last week, and have been getting quite a run in the media since.

I'd like to present some of the key findings from our latest report and our associated recommendations.

Coverage

Penetration rates of mains gas and LPG/bottled gas by Labour Force Region, 2011



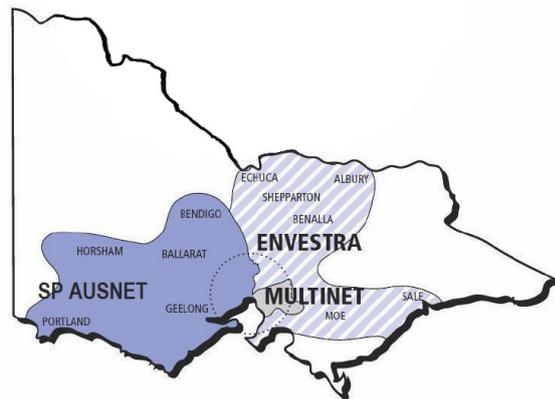
Source: CUAC/ABS

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The vast majority of Victorians households use gas at home. Around 83% of Victorians use gas from the mains network, and another 10% or thereabouts use LPG or bottled gas. (There's not much overlap.)

Within Melbourne, mains gas penetration rates range from 88% of households to 96%, while beyond Melbourne mains gas is used by between 40% and 70% of households. As mains gas penetration falls, almost entirely due to the gas network not extending to those regions, LPG usage rises: 30% penetration in Gippsland, and around 10% across Melbourne.

Victorian gas distribution businesses supply area boundaries, 2009



Source: ESC

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Gas connections are common across incomes as well as across tenure and dwelling types. In Melbourne, owners are a little more likely to have gas than renters; in the rest of the state, it's the other way around.

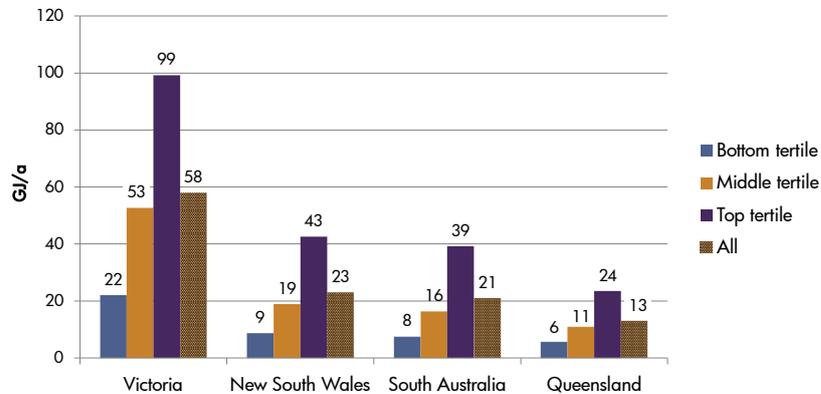
The take away is: rising gas prices will directly affect nine out of 10 Victorian households, regardless of whether they are high or low income; owners or renters; living in houses or apartments.

Usage quantity

Victorians are the largest household users of gas in Australia, by a large margin; only the ACT comes close. A low usage Victorian household uses as much or more gas than the average household in any other state, and a high usage Victorian household uses five times that much.

(WA and Tasmania aren't on the graph, but WA has similar average per capita consumption levels to SA while Tasmania is a bit lower.)

Average annual mains gas usage for AGL customers by state and tertile, 2012 (GJ/a)



Source: AGL

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Usage levels don't vary much with income. A median household in the lowest 20% of equivalised disposable incomes has less than half as much to spend as the overall median, but has gas usage that is 83-95% as high. Low earning households spend almost three times as much of their incomes on energy as the average household.

Australian weekly gas usage and income by equivalised disposable income quintile, 2012

	Lowest	Second	Third	Fourth	Highest	Overall
Mains Gas	547.9 MJ	610 MJ	690.7 MJ	722.7 MJ	725 MJ	661.9 MJ
% of overall average	83%	92%	104%	109%	110%	100%
LPG/bottled gas	175.0 MJ	167.5 MJ	232.5 MJ	170.0 MJ	182.5 MJ	185.0 MJ
% of overall average	95%	91%	126%	92%	99%	100%
Median Income	\$381	\$583	\$790	\$1,048	\$1,555	\$790
% of overall median	48%	74%	100%	133%	197%	100%

Source: ABS

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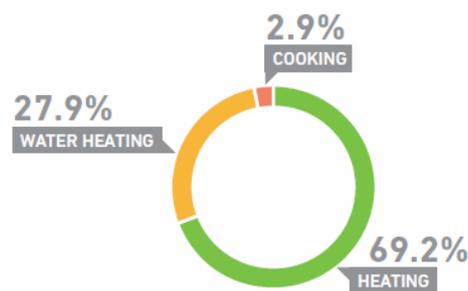
Usage is, as one would expect, strongly seasonal: Sustainability Victoria estimate average usage is around 600 MJ per week from December to April and 1,600 MJ per week from May to November.

Take away: gas prices will affect Victorian households much more severely than those in other states.

Usage purpose

The big driver of household gas use is heating. Except for Tasmanians, who don't tend to heat with gas, Victorians face the coldest winters in Australia. 68% of Victorians use gas as their main heating source, and unlike other states we also tend to heat our whole homes with it: our rate of ducted gas heaters, at 40%, is 10x as high as anywhere else in Australia except the ACT. We also like gas hot water systems and stovetops, though gas ovens are falling out of fashion.

Breakdown of the average gas bill in Victorian households, 2014



Source: Sustainability Victoria

Gas main fuel source for:

- Heating: 68%
(43 pp ducted)
- Hot Water: 68%
- Stovetops: 67%
- Ovens: 34%

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Take away: Victorians rely heavily on gas for essential services, though the high rate of ducted heating and the associated higher usage is probably better characterised as being driven by comfort rather than necessity.

Spending

In 2013, the average Victorian household spent around \$1,200 on gas. Gas makes up around 30-45% of household energy costs.

Retail gas prices have risen 66% since 2008, and are expected to rise another 24% to 2015. This would add around \$300 to the average annual household gas bill, of which most will fall in the winter bills.

The size of the increase and the 'lumpiness' of the bills will make them particularly difficult for low income and vulnerable households to deal with. Households on government pensions and allowances spend twice as much on energy as the average household; low earning households spend almost three times as much. Their capacity to cut back on other expenditure to pay energy bills is lower, and the essential nature of energy services means reductions in usage is also limited. They also often lack the financial means to absorb lumpy bills or 'smooth' them over the year.

Along with renters, low income households and those on government support will have lesser ability to upgrade the energy efficiency of their homes because they can't afford the upfront costs or because they lack the right to make major changes.

Recommendations

1. The Victorian Government should develop a comprehensive information and education strategy to build consumers' awareness of gas price changes and their options to respond.
2. The Victorian Government should increase consumer awareness of My Power Planner.
3. The Federal Government should update appliance energy ratings and labels to allow comparisons of estimated appliance life cycle costs across fuel types (e.g. gas versus electricity, rather than just gas versus gas).
4. Complementing Recommendation 3, the Federal and/or Victorian Governments should conduct further research into the relative costs of gas versus electric (or other) appliances for different household types and regions, expanding on the Alternative Technology Association's work.
5. The insights from the ATA's work and Recommendation 4 should inform the Federal and Victorian Governments' choices of appliances in social housing.
6. The Federal and Victorian Governments should develop energy efficiency programs to target households with high energy use, particularly low income and vulnerable households.
7. The Victorian Government should improve the energy efficiency rating of Victoria's housing stock to an average of five stars to lower Victorians' need for energy, e.g. through improved building standards, retrofits, and/or incentives for landlords to increase the energy efficiency of private rental accommodation.
8. The Federal and Victorian Governments should offer households assistance to upgrade the energy efficiency of their own homes and appliances, including assistance that addresses information, behavioural, and – where appropriate – capital barriers. (See e.g. the Federal Government's No Interest Loans Scheme or the Victorian Energy Efficiency Target.)
9. Federal and State Government policies to improve households' energy services or help with their costs should become fuel and technology neutral. For example, inefficient appliances should be upgraded to the most cost effective appliance of any technology, rather than only the most efficient gas appliance.
10. Similarly, the Energy for the Regions program could be evaluated to determine whether the goals of the program require gas distribution networks to be expanded, or whether they could be met more effectively – and at lower long term cost to consumers – through other methods that may not involve gas, such as appliance or building efficiency upgrades.
11. Energy retailers should review their hardship programs and payment plans, and the Federal and Victorian Governments should review their concessions, to assess whether they are suited to dealing with consumers experiencing higher and 'lumpier' gas bills.
12. Decision makers and stakeholders should consider whether rising gas prices will cause households to leave the gas network, and what effect this might have on network businesses and remaining consumers.