

The rise of fuel poverty as an Australian issue: Customers – Understanding their Needs, Wants and Expectations

Presentation by Jo Benvenuti, CUAC Executive Officer to Energy Networks 2012: Brisbane, 1 May 2012



The rise of fuel poverty as an Australian issue



Jo Benvenuti
Executive Officer
1 May 2010

I am pleased to be invited to speak with you today and to note that the ENA has included consumer perspectives in the conference. At the end of the session I hope that we can talk about why these issues should be of concern to energy network businesses, in particular, why changes are needed in how you respond to your consumers and how you get started on making these changes.

Background to “fuel poverty”

Background to “fuel poverty”

- ▶ UK Fuel poverty defined– because of the **essential** nature of the service
- ▶ Related to cold climate, deaths resulting from insufficient heating, rising prices, and poor quality housing.
- ▶ UK Labor Government 2001 Fuel Poverty Strategy – to “end fuel poverty by 2016”



Background to fuel poverty cont.

- ▶ UK Coalition 2010 –commissioned an independent review of fuel poverty
- ▶ Findings released in March 2012
- ▶ Formula for measuring fuel poverty flawed
- ▶ New formula counts people who have to spend more than the “median” amount on fuel bills and who are pushed below the poverty line as a result
- ▶ Fuel poverty increased = to 8 million 2009



Concerns about fuel poverty first emerged in the United Kingdom following the oil crisis of the seventies and there have been a number of attempts to define fuel poverty and to develop appropriate policy strategies to address it. In the UK, fuel poverty was carved out as a specific characteristic of poverty because of the essential nature of the service -.in the UK this was related to a cold climate, deaths resulting from insufficient heating, rising prices, and poor quality housing. Other European countries use a range of different terms/definitions to apply to similar issues.

So the term fuel poverty is still most commonly used in the UK and while there are obvious climatic differences between the UK and Australia, many of the strategies to address fuel access issues have been similar. The UK Labour Government pledged in its 2001 Fuel Poverty Strategy, to end fuel poverty by 2016 and they developed a number of measures to address fuel poverty, including:

- Policies to address poverty generally
- Winter fuel payments for seniors
- Cold weather payments for the poorest households
- Energy efficiency measures (insulation and heating system replacement)
- Carbon Emissions Reduction Target certificate scheme (40% to low income)
- Decent Homes program, retrofit program for social housing
- Community Energy Saving Program

With a change of government in 2010, the UK Coalition commissioned an independent review of fuel poverty by John Hills, director of the [Centre for Analysis of Social Exclusion](#) at the London School of Economics, the findings of which were released in March 2012. He was charged with investigating how to better define and measure fuel poverty, and tackle the underlying problems that cause it.

In the final report, Hills claims the standard formula for measuring fuel poverty – that is, any household needing to spend more than 10% of their income on fuel to heat a home to an

adequate standard of warmth – is flawed because it includes some people who are not poor, but ignores some families on low incomes who are struggling.

His new formula, counts people who have to spend more than the “median” amount on fuel bills and who are pushed below the poverty line as a result.

The bad news is that fuel poverty is far from eradicated in the UK and the report revises upwards the 2009 figure to 7.8 million and claims scheduled government interventions will only reduce the poverty gap by a tenth by 2016 and called on the government to set out a "renewed and ambitious strategy" for tackling fuel poverty.

So what does fuel poverty mean in the Australian context?

What does fuel poverty mean in the Australian context?

- ▶ Term used loosely by media and business
- ▶ Climate considerations different in Australia
- ▶ AGL Economic think tank paper redefines fuel poverty
- ▶ AGL Definition: household *actually* spends more than 10% of its income on energy, and therefore takes into account the actual energy utilised in keeping a home warm/cool rather than the UK's use of an ambient target
- ▶ AGL research (conducted using NSW and QLD data) 6.6% of households could be said to be in fuel poverty – 343,902 households in those states alone.



My search of the internet references found that the term “fuel poverty” is used more commonly in Australia by the media and to some extent business interests and that it is used loosely and does not necessarily equate to the UK definition.

Of course climate is a key difference in any comparison with the UK. Our highest peak loads in Australia are as a result of air conditioning rather than heating and lack of access to or use of cooling rather than heating devices can result in death and health implications. For example in the January 2009 Victorian heatwave, there were an estimated 374 extra deaths in the five day period as a result of heat stress. So the primary notion of keeping a home at an ambient temperature is different but also somewhat similar in the Australian context.

There has been a recent industry study that has attempted to adjust the term for the Australian context. In a 1999 paper entitled, *The Boomerang Paradox: how a nation's wealth creates fuel poverty – and how to defeat the cycle*, Paul Simshauser, Tim Nelson and Thao Doan from the AGL Economic think tank, draw some parallels and come up with an Australian fuel poverty definition and analysis. They argue that the increasing growth in household income in Australia, together with the plunging costs of electric appliances have resulted in rising peak demand and the need for significant augmentation – which in turn makes fuel poverty a future reality unless we take steps to do something about it. The paper goes on to define fuel poverty as a condition in which a household *actually* spends more

that 10% of its income on energy, and therefore takes into account the actual energy utilised in keeping a home warm/cool rather than the UK's use of an ambient target.

The analysis in this paper demonstrates that as income increases, the expenditure on energy declines, as electricity is an essential service rather than a luxury good. It argues that it is therefore only the bottom quintile of disposable income that should require the specific consideration of policy makers.

On the basis of the AGL research (conducted using NSW and QLD data) 6.6% of households could be said to be in fuel poverty – 343,902 households in those states alone.

CUAC's policy position

CUAC's policy position

- ▶ Energy is an essential service and is necessary for social and economic participation in the 21st century
- ▶ CUAC prefer term “energy affordability”
- ▶ Need to take into account broader needs
- ▶ People from all kinds of economic backgrounds can experience hardship from time to time



While we agree that particular focus should be placed on people on low incomes, our policy position takes into account a number of additional factors. Firstly, we start from the position that energy is an essential service and is necessary for social and economic participation in the 21st century. If access and affordability is compromised the costs and flow on impacts are significant.

We prefer to use terms such as “energy affordability” or “utility stress” to that of fuel poverty and in addition, take into account the needs of people who are on low incomes, experiencing other or additional disadvantage such as people from rural and regional areas, those with disabilities, those who are from culturally and/or linguistically diverse backgrounds and the experiences and the needs of Indigenous Australians.

In addition, we are aware from our work, particularly with financial counsellors and emergency relief providers, that people from all kinds of economic backgrounds can experience circumstances such as unemployment, sickness, family breakdown etc. that may make them vulnerable at various times in their lives, resulting in their facing payment difficulty or disconnection of supply.

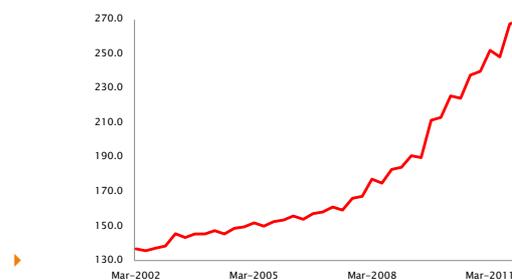
We also talk more in terms of people who are experiencing hardship to reflect the fact that this is not necessarily a life sentence and can impact people at different times in their lives depending on their individual circumstances. But we acknowledge that for many, lack of income and other forms of disadvantage can result in an ongoing cycle.

What is happening to energy price and affordability?

The AEMC's 2010 paper entitled "Future Possible Retail Price Movements 1 July – 30 June 2013" projected nominal energy price increases of 20-40 per cent for most states and territories over the period 2009-10 – 2012-13. This will only add to the significant price increases that have occurred in recent years. This is evidenced by the following graph of the electricity component of the Australian Bureau of Statistics' Consumer Price Index. This data indicates that electricity prices have doubled in 10 years.

What is happening to energy price and affordability?

▶ Electricity price increases – Australia 2002–2012



Source: Australian Bureau of Statistics (2012)



How is this price increase impacting? We need to look at a range of indicators here.

Energy affordability is declining as prices increase. While for many Australians rising incomes have offset the impacts of rising prices, the reality for many of Australia's most vulnerable consumers is different. This is reflected in various data from Victoria. For example, disconnections from electricity supply for failure to pay increased by 33 per cent in electricity in 2010-11. In 2010-11, the number of customers disconnected from the electricity supply was 17,871. This compared to 6,968 disconnections in 2006-07. Alarming, increasing numbers of customers who were disconnected were also reconnected at the same addresses. This is normally an indicator that customers are being disconnected because they are struggling with their payments.

The latest reports from the Energy and Water Ombudsman (Victoria) (EWOV) indicate the increasing pressure on ordinary households arising from energy affordability. This is demonstrated by the below quote from the Ombudsman in the 2011 EWOV annual report.

The issue of customer financial hardship is still very obvious in our cases. Given energy and water are essential services, this is of great concern. Our Credit issues category is about customers being able to pay their bills and stay on supply. In 2010-11, 8,566 customers raised Credit as their main issue of complaint and a further 6,029 customers raised Credit as an associated issue. Electricity, gas and water prices are up. People are facing other cost of living pressures. Many of the customers who contacted us were concerned about paying their bills and making ends meet. It was also evident that energy retailers were taking a harder line on account arrears and pursuit of energy debt.

Energy and Water Ombudsman (Victoria) 2011 Annual Report

- ▶ *The issue of customer financial hardship is still very obvious in our cases. Given energy and water are essential services, this is of great concern. Our Credit issues category is about customers being able to pay their bills and stay on supply. In 2010-11, 8,566 customers raised Credit as their main issue of complaint and a further 6,029 customers raised Credit as an associated issue. Electricity, gas and water prices are up. People are facing other cost of living pressures. Many of the customers who contacted us were concerned about paying their bills and making ends meet. It was also evident that energy retailers were taking a harder line on account arrears and pursuit of energy debt.*



But what about the most vulnerable?

In 2011, CUAC undertook a research project aimed at understanding how our most vulnerable Victorian community, our Aboriginal Victorians were faring in the competitive energy market. We examined the experiences of Aboriginal communities in Melbourne, Gippsland and the Murray.

Difficulty paying bills was the single most common energy issue raised. Consumers told us about struggling to keep their heads above water on low and fixed incomes, making difficult choices about whether to pay bills or buy other life essentials, and simply not opening bills that they know they can't afford. Utility stress was also a key theme in contributions from service providers and advocates who we met with, nearly all of whom said that bill payment difficulties were 'very common' among Victorian Aboriginal consumers. Consistent with this, they also indicated that energy disconnection or water restriction because of payment difficulties is more common for Aboriginal Victorians than it is for non-Aboriginal Victorians.

The research highlighted the potentially serious consequences of disconnection and restriction for health, wellbeing and safety. Directly, lack of energy exposes consumers in hot regions to heat stress and heat-related illness. This is of greatest concern for the very young, the elderly and those with illnesses such as diabetes which render the person

sensitive to high temperatures. Similarly, lack of heating may contribute to illness associated with low temperature, a particular concern for the elderly.

Less directly, restriction and disconnection can affect health through lowered hygiene standards and poorer nutrition. Research participants also identified a safety risk associated with using fire and candles as alternative sources of heating, cooking and lighting. Stress, anxiety and depression can also result from having no power and being unable to provide for family. Even where payment difficulties do not culminate in restriction or disconnection, utility stress impinges on health and wellbeing. Aboriginal consumers described making the difficult choice to prioritise electricity bills to stay connected, leaving little left over for other essentials – essentials like groceries, medicine, rent and school uniforms. Unmanageable finances and the threat of energy disconnection impacts on self-esteem and contributes to stress, anxiety and depression.

Aboriginal experiences Victoria

- ▶ *Sometimes you're weighing it up like do you worry about the electricity or do you worry about putting food on the table. I've gone without electricity. I've gone without it for six to eight months... I've made choices. I was on a pension... Do I try and pay a little bit, which I did, and then but you couldn't get the rest up, so you get cut off so you go without, so I just went without. You find other ways of doing things, which I did. I just went without. Like I said, you've got to weigh it up: food on the table for the kids, or electricity?*
– Consumer, the Mallee



While the research focus was on Aboriginal community, the findings are of relevance to other vulnerable communities experiencing utility stress.

Why should networks care about energy affordability issues?

Energy affordability and the contribution of the energy networks

“The increase in the cost of network services, particularly distribution services, is the most significant driver in the increasing residential electricity prices..”

Australian Energy Market Commission (2010) Future Possible Retail Electricity Price Movements: 1 July 2010 to 30 June 2013



“The increase in the cost of network services, particularly distribution services, is the most significant driver in the increasing residential electricity prices...”

Australian Energy Market Commission (2010) Future Possible Retail Electricity Price Movements: 1 July 2010 to 30 June 2013, Sydney, p. 6

Given the substantial impact of network prices on utility bills, it is unsurprising therefore that CUAC is advocating for systemic reforms aimed at providing further incentives for distribution businesses to deliver satisfactory levels of supply for the most efficient cost. Currently we believe that the Merits Review Process instead provides for perverse incentives to cherry pick those aspects of the regulator’s decision that are not in their favour and there is no incentive to challenge decisions in their favour or real opportunity for consumers to be represented in the process to do this on their own behalf.

We need to get the design of the regulatory system right. The Energy White paper predicts that \$240 billion of investment will be needed in the electricity and gas sectors by 2030 in order to maintain supply. These price increases are, in CUAC’s view, a “game changer” in that consumer awareness and concern will increase and expectations will change. Yes fuel poverty or energy affordability or utility stress is currently a big issue but worryingly about to get bigger. Apart from system change, CUAC believes that distribution businesses must re-engage with their consumers, open the doors to consultation with consumers about what supply options are necessary or desirable and explore the best practice options for consumer involvement in decision making at the local level. We believe all segments of the industry together with government, regulators and consumers themselves, need to be proactively engaged together to address some of the serious energy affordability issues ahead and that distribution businesses have a key role to play in acknowledging the pricing/affordability reality and stepping up to that challenge.

What next?

- ▶ The price rises are a “game changer”
- ▶ Consumer awareness and concern increasing
- ▶ All segments of industry, government, regulators and consumers must proactively engage to address some of the serious energy affordability issues ahead
- ▶ Distribution businesses have key role to play in acknowledging the pricing/affordability reality and stepping up to that challenge.

