

**INQUIRY INTO ELECTRICITY SUPPLY, DEMAND AND  
PRICES IN NEW SOUTH WALES**

**Organisation:** Combined Pensioners and Superannuants Association

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# Submission to the Legislative Council Select Committee's inquiry into Electricity Supply, Demand and Prices in New South Wales

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**Combined Pensioners & Superannuants Association of NSW Inc (CPSA)**

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*CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA has 76 branches and affiliated organisations with a combined membership of 26,000 people living throughout NSW. CPSA's aim is to improve the standard of living and well-being of its members and constituents.*

## Summary of Recommendations

- **Recommendation 1:** That the NSW Government ensure that electricity is affordable for all, regardless of income.
- **Recommendation 2:** That the Low Income Household rebate be calculated as a percentage of the total household bill, rather than as a flat rate, with a minimum rebate and maximum cap.
- **Recommendation 3:** That it be mandatory for retailers to backdate rebate payments (at least for 2 years) for consumers who were unaware that they were eligible.
- **Recommendation 4:** That the rebates are advertised using more offline strategies, to ensure that information about the rebates reach consumers who have less internet access.
- **Recommendation 5:** That electricity retailers be made responsible for determining a customer's eligibility for any of the available rebates and informing them of any other related energy assistance programs.
- **Recommendation 6:** That CPSA be involved in the planning and implementation of the energy relief package.
- **Recommendation 7:** That changes are made to reduce the complexity of electricity contracts and that all critical information is summarised clearly.
- **Recommendation 8:** That exit fees and late fees (including discounts for on time payments) charged by energy companies be banned under the Energy Relief Package.

CPSA welcomes the opportunity to provide comment as part of the Legislative Council Select Committee inquiry into electricity supply, demand and prices.

As an organisation representing the interests of pensioners and low-income retirees, CPSA welcomes the NSW Government's Energy Relief Package. With electricity prices predicted to continue rising into the future, this package will provide much needed relief to the most vulnerable households in NSW. CPSA is however concerned that this package is not enough to ensure that electricity will remain affordable for low income households in NSW.

This submission responds primarily to issues relating to vulnerable customers' interactions with the market and NSW electricity rebate schemes.

## **Vulnerable consumers and the market for essential services**

Electricity is an essential service which all households require to ensure a minimum standard of living. This means that access to electricity should be guaranteed to everyone regardless of the cost. However, significant price increases in the cost of electricity, create a barrier to accessing this necessity, particularly for low income households.

In NSW electricity prices have increased over 66% in real terms between 2006 and 2016, far exceeding growth in the Consumer Price Index (CPI)<sup>1</sup>. The large majority of people living on low incomes spend all their income on essential goods and services and don't have a financial buffer to insulate themselves against increases in the cost of goods and services they need to survive. This is forcing these people to make difficult decisions about how to survive without these necessities.

Research by the NSW Council of Social Services (NCOSS) reveals that low income households are struggling to meet the rising costs of living, with the cost of essential services like electricity a top concern<sup>2</sup>. These households are putting off medical and dental treatment, borrowing money from family and friends and selling personal possessions in order to pay for electricity bills they can no longer afford. The report also highlights that low income households struggling to meet the rising costs of living are much more likely to have their energy disconnected than other households<sup>3</sup>. Disconnections have an immediate and highly detrimental impact on a household's quality of life. This highlights the abject failure of the market to deliver affordable electricity.

- **Recommendation 1:** That the NSW Government ensure that electricity is affordable for all, regardless of income.

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<sup>1</sup> Phillips, B. (2017) 'Research Note: Household Energy Costs in Australia 2006 to 2016' ANU Centre for Social Research and Methods. Available: <http://csmr.cass.anu.edu.au/sites/default/files/rsss/Household%20Expenditure%20on%20Electricity%20Trends.pdf> pp. 5 [Accessed 19/10/2017]

<sup>2</sup> NSW Council of Social Service (2017) 'Turning off the lights: The Cost of Living in NSW' Available: <https://www.ncoss.org.au/sites/default/files/Cost-of-Living-Report-16-06-2017-FINAL.pdf> [Accessed 16/10/2017]

<sup>3</sup> NSW Council of Social Service (2017) 'Turning off the lights: The Cost of Living in NSW' Available: <https://www.ncoss.org.au/sites/default/files/Cost-of-Living-Report-16-06-2017-FINAL.pdf> [Accessed 16/10/2017]

## Adequacy of rebate schemes

The NSW Government rebates including the Low Income Household Rebate, The Family Energy Rebate, the Life Support Rebate and the Medical Energy Rebate play a vital role in supporting low income households and those who require higher levels of electricity for medical reasons. CPSA welcomes the recent 20% increase to these rebates but is concerned about the sustainability and efficiency of these rebates for ensuring the affordability of electricity for vulnerable Australians.

### Percentage based rebates

The rebate programs must maintain value over time to ensure that low income households have access to affordable electricity as prices rise into the foreseeable future. Currently, the rebates are a fixed yearly amount that is applied directly to electricity bills to assist eligible households with the affordability of their electricity. The recent Audit Office of NSW report on rebates revealed that because of the way that current rebates are administered they do not target varied circumstances and need<sup>4</sup>.

CPSA proposes that the Low Income household rebate should be set as a percentage of the overall bill. At present, everyone eligible to receive a rebate is afforded the same amount. Households receive the same amount each year regardless of the size of their household, the location of their house, the efficiency of their appliances or the quality of insulation in their house, which all impact electricity bills. The current rebate scheme is not distributed based on need and it also doesn't protect vulnerable customers from increases in the price of electricity. A percentage based rebate would be more targeted and would ensure that the value of the rebates is maintained regardless of price changes and inflation.

- **Recommendation 2:** That the Low Income Household rebate be calculated as a percentage of the total household bill, rather than as a flat rate, with a minimum rebate and maximum cap.

### Marketing and communication of rebates

CPSA is concerned that awareness of rebates among eligible households is low. CPSA regularly hears from pensioners who are not aware that they are eligible for an electricity rebate and who accordingly have not been receiving a rebate. A survey by NCOSS found that there was 'a universally low level of awareness of the range of government supports available to people who are experiencing poverty or are otherwise vulnerable to high energy costs'.<sup>5</sup> Given the

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<sup>4</sup> Audit Office of NSW (2017) 'Energy Rebates'. Available at <https://www.audit.nsw.gov.au/publications/latest-reports/performance/energy-rebates/key-findings/4-key-findings-pdf> pp. 8 [Accessed 16/10/2017]

<sup>5</sup> NSW Council of Social Service (2017) 'Turning off the lights: The Cost of Living in NSW' Available: <https://www.ncoss.org.au/sites/default/files/Cost-of-Living-Report-16-06-2017-FINAL.pdf> pp. 23 [Accessed 16/10/2017]

vulnerability of these consumers, electricity retailers should be obliged as part of the sign-up process to determine whether the consumer is eligible for any of the rebates.

Eligibility for most of the rebate schemes is predicated on low income status. According to the 2017 Australian Digital Divide Index low income households have a lower level of digital inclusion<sup>6</sup>. Many eligible households are not aware of assistance programs because they do not have internet access where information about the rebates is most commonly provided. This poses as a barrier to participation for some eligible customers.

- **Recommendation 3:** That it be mandatory for retailers to backdate rebate payments (at least for 2 years) for consumers who were unaware that they were eligible.
- **Recommendation 4:** That the rebates are advertised using more offline strategies, to ensure that information about the rebates reach consumers who have less internet access.

### Administration of assistance schemes

The structure and administration of rebates and other government assistance schemes are complex and inefficient.

The Department administers six different energy rebate schemes. The Low Income Household Rebate, Gas Rebate, Medical Energy Rebate, Family Energy Rebate and the Energy Accounts Payment Assistance are targeted towards low income households, and the sixth scheme, the Life Support Rebates assist households who use specified life support equipment. Each one of these has its own eligibility criteria, separate application process, and different payment process, in many cases consumers may be receiving none or one of these rebates but be eligible for more. For example, low income households who use both electricity and gas may be eligible for the Gas Rebate and the Low Income Household Rebate. Households receiving the Life Support Rebate must also reapply for the subsidy every two years to confirm ongoing eligibility. Many consumers are not aware of this and will only realise once they are not receiving the rebate. The multiple schemes with the different eligibility criteria and application processes contribute to inequity and inefficiency.

The NSW Government also funds and administers the Home Energy Action Program, which assists low income households to reduce energy consumption through in-home energy assessments and subsidised energy-efficient appliances. This program is administered by The Good Guys.

Currently, the onus is on vulnerable consumers to discover the existence of these programs and rebate, and then navigate the complexity of applying and managing their receipt of them. However, the complexity and separation in how these schemes are administered hinders

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<sup>6</sup> The Australia Digital Inclusion Index (2017) Available: <https://digitalinclusionindex.org.au/the-index-report/report/> [Accessed 16/10/2017]

consumer awareness of the support that is available to them. CPSA proposes that retailers should be responsible for ensuring that consumers are aware of all the schemes and programs they are eligible for at the point of sign up. This would consolidate the responsibility and communication of assistance available to vulnerable consumers.

- **Recommendation 5:** That electricity retailers be made responsible for determining a customer's eligibility for any of the available rebates and informing them of any other related energy assistance programs.

## **Consumer Protection**

Vulnerable consumers face additional barriers to accessing and benefiting from a competitive market. For example, as mentioned above, vulnerable consumers have greater difficulty accessing enough information to compare all plan options. Factors like a person's age, disability, income, housing tenure, language, education and access to the internet influence their capacity to participate in electricity market transactions<sup>7</sup>. However, measures proposed under the Energy Relief Package to bolster consumer protection could be useful to protect vulnerable consumers from some of the disadvantages they experience.

Vulnerable consumers face higher barriers accessing and assessing the range of information required to make an informed decision about electricity plans and providers. In many cases, this is due to information being online, lack of transparency and complexity of contracts. This can lead to less choice, poorer quality of services and payment of higher prices. Making energy retailers more responsible for vulnerable consumers, by ensuring they place them on the lowest price plan, will go some way in overcoming the disadvantaged market participation vulnerable consumer's experience. The effectiveness of consumer protection measures proposed in the Energy Relief Package relies on the way that they are implemented. CPSA proposes that organisations representing vulnerable consumers must be involved in the refinement of this process to ensure that retailers are properly aware of their responsibilities.

- **Recommendation 6:** That CPSA be involved in the planning and implementation of the energy relief package.
- **Recommendation 7:** That changes are made to reduce the complexity of electricity contracts and that all critical information is summarised clearly.

Charging exit fees also hampers a vulnerable consumer's ability to benefit from electricity market competition. Low income households are by definition restrained financially, thus exit fees represent a barrier for these vulnerable groups to changing electricity supplies and obtaining the best energy prices.

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<sup>7</sup> Chester, L. (2011) 'The participation of vulnerable Australians in markets for essential goods and services' *Journal of Australian Political Economy*, 68(Summer), 169-193



An NCOSS report found that households struggling to pay their bills will often pay their electricity bill late, enter into debt or be forced to have their electricity disconnected<sup>8</sup>. The number of NSW households who have entered a payment plan with their electricity retailer has increased significantly from 60,960 in June 2014 to 86,327 in March 2017<sup>9</sup>. This is compelling evidence that low income households are not coping with rising electricity prices and the existing supports are not adequate enough to ensure vulnerable consumers have access to affordable electricity.

Late payment fees and exit fees disproportionately impact low income households who are already struggling to pay their electricity bills. Discounts offered by some electricity retailers to consumers for paying on time essentially act as late payment fees for those without the liquidity to pay their bills within the very narrow 'on-time' windows. Late fees further increase the cost of electricity and add to the compounding experience of stress and hardship over time.

The Energy Relief Package proposes to put an end to 'unnecessary' charges from retailers. Late fees and exit fees should be considered in context to this commitment and low income consumers should not be charged with these unnecessary fees.

- **Recommendation 8:** That exit fees and late fees (including discounts for on time payments) charged by energy companies be banned under the Energy Relief Package.

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<sup>8</sup> NSW Council of Social Service (2017) 'Turning off the lights: The Cost of Living in NSW' Available: <https://www.ncoss.org.au/sites/default/files/Cost-of-Living-Report-16-06-2017-FINAL.pdf> [Accessed 16/10/2017]

<sup>9</sup> Australian Energy Regulator (2017) 'NSW - customers on payment plans' Available: <https://www.aer.gov.au/retail-markets/retail-statistics/nsw-customers-on-payment-plans> [Accessed 16/10/2017]