



REPORT

Prepared for:

Consumer Advocacy Panel
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Stakeholder consultation forum to identify current and emerging consumer energy issues 2009-14

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The views expressed in this document do not necessarily reflect the views of the Consumer Advocacy Panel or the Australian Energy Market Commission.

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1. INTRODUCTION

The Consumer Advocacy Panel (the Panel) supports the participation of consumer organisations in policy and regulatory decisions pertaining to the national energy market, through the provision of grants for capacity building, research and advocacy. The Panel also undertakes research for the following purposes:

- To raise awareness of emerging consumer energy issues;
- To provide information that can be used to facilitate consumer advocacy; and
- To stimulate discussion or debate on consumer energy issues.

The Panel identified three priorities in its 2008-09 research agenda, one of which was landscaping consumer energy issues for 2009-14. In this context, the Panel provided a grant to Etrog Consulting Pty Ltd to facilitate a stakeholder consultation forum that was convened by the Panel. The forum was held on 12 October 2009 at Monash University Law Chambers, 472 Bourke Street, Melbourne. This document reports on the forum discussions, identifying the key issues that were discussed, and the main areas of consensus.

2. REPORT OF FORUM HELD ON 12 OCTOBER 2009

This section reports on the discussions that were held at the forum, based on the agenda that is included in Appendix A of this report.

2.1. SESSION 1

2.1.1. Breakout group 1: Implications of smart metering for consumers

Discussion points

Discussion in initial brainstorming in this session covered the following:

- It will be important for consumers to have access to information and education about the benefits of smart meters to consumers, to give consumers the ability and the incentive to make “smart decisions” about their energy use. Who will be responsible for educating and informing consumers about the implementation program itself, and about the ongoing impacts of smart metering? What should be the roles of industry (retailers and distributors), governments, regulators, associations, consumer groups, and the media?
- There is inconsistency in the approach to smart metering across jurisdictions. Although COAG has agreed in principle to national rollout of smart metering, in practice Victoria is pressing ahead, EnergyAustralia in NSW has rolled out tens of thousands of manually read interval meters, and other jurisdictions have either no policy or no timetable for rollout of smart metering. This results in jurisdictional-specific impacts on consumers.
- Smart metering must fit with broad energy policy and social policy. The regulatory framework must ensure that best practice policy positions and consumer protection frameworks are not adversely affected through rollout of smart metering. These include protection of access and affordability for an essential service. There needs to be policy accountability; currently it is unclear who takes overall responsibility and leadership.
- The rollout of smart metering will increase costs, due to the costs of the new metering and communications infrastructure. Various cost benefit analyses have been undertaken, with varying findings, both nationally and in individual jurisdictions. In some cases, it has been shown that overall societal benefits can be achieved. Some of the benefits of smart metering will accrue in the first instance to industry participants in increased operational efficiency. What mechanisms will ensure that those benefits are passed through to consumers, to ensure that consumers see the benefits that have been projected in the cost benefit analyses? How will consumers know they are reaping those benefits? How will the realisation of benefits be disclosed?

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- Complexity will increase, through new technology, new tariffs, and new products being offered to consumers. Consumers will need to understand the key important issues for them – these will not necessarily be the same for all. Risks often increase with complexity, and some forum participants expressed concern that there will be too much complexity, and hence too much risk. There is also a need to take into account cultural differences in communicating messages to consumers.
- New tariffs: will they be mandatory or voluntary? How and when will consumers be informed regarding new tariffs and new tariff options, and how will consumers evaluate their options to find what suits them best?
- Pricing and bill impacts are expected to result from increasing use of differential pricing, as against existing postage stamp charging across an area. This change is expected to come from two different sources:
 - Through changed regulated network tariffs, which may include nodal pricing; these are then passed on to consumers by retailers; and
 - Through retailers themselves seeking the removal of price regulation, and increasingly seeking to set prices based on increased segmentation of their customer base to compare the desirability of various customer groups in a competitive environment.
- Billing is a primary source of customer information. What role will governments, regulators and consumer groups have in influencing the bill format and contents?
- Changes may cause new customer billing issues to arise. How can a large wave of new billing problems be avoided, and how can billing problems best be resolved once they arise?
- There will be changes in risk allocation between retailers and between their customers. As individual end-users' profiles become exposed through interval metering, retailers will be faced with the need to hedge and settle in the wholesale market based on those profiles. To what extent will retailers seek to pass on the associated risks to their customers?
- There will be changes in market dynamics between big retailers and small niche retailers. Fixed costs may increase, in the new more complex environment, thus favouring the large retailers, and the large retailers' access to more complex hedging arrangements may also favour those retailers. On the other hand, small retailers may be more nimble and more able than their larger competitors to adapt to the new environment. There will be new costs to retailers of handling smart metering requirements including data and billing. Related concerns arise if the new environment lessens competition (through smaller retailers merging or exiting the competition) or challenges the robustness of Retailer of Last Resort arrangements.

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- In Home Displays – what will they be used for? One forum participant raised a concern that In Home Displays may be used for inappropriate advertising. This highlighted that there are a range of non-metering and non-energy related laws, regulations and codes, such as advertising codes and standards, which may need review because of smart metering and In Home Displays.
- Will load control in the hands of distributors or retailers, and what impact does this have on consumers, noting that the NECF envisages more direct customer-distributor relationships?
- Smart metering highlights the costs of peak demands and peak energy use. What will be the consumer response to TOU pricing? There are expectations of behaviour change and shifting of load – will they be realised? What will be learnt about the price elasticity of demand? How will low income consumers' use of electricity at peak periods change if they face much higher prices in those periods? It was noted in this context that the definition of time-bands for TOU rates can be important, and that there may be lack of flexibility in the use of electricity for those who are unwell, frail, or with disabilities.
- Pricing changes may change the incentives for the use of electricity vs. gas for off-peak loads.
- There will be different effects as between residential and business consumers, and between smaller and larger businesses. There will be differences between metro and rural/remote consumers (residential and small business / farming); and on specific groups such as non-English speaking, indigenous, and remote communities. There is a need to test policy impacts across different groups.
- Implementation issues will include site access, site safety, consumer information, billing changes, disruption to supplies, continuity of arrangements for dedicated circuits, and peak-time boosts.
- Some functionalities may concern consumers, including load control, supply capacity control, and remote energisation and de-energisation. This last item may involve safety concerns.
- New technology should not be deployed before its readiness has been determined and ensured. Concerns that may arise include teething problems, meter accuracy and data integrity, privacy concerns with metering data being personal data, master meters / sub-divisions, and robustness of communications in regional, rural and remote areas.
- Use of smart metering as pre-payment metering would be a concern for some consumers.
- Tenants may be less able to invest in conservation and demand response, and thus less able to avoid paying higher prices for peak energy.

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- Advantage should be taken of the ability to use smart metering for enhanced and more numerous energy audits, and to increase consumer awareness.
- Consideration should be given to the environmental benefits and costs of smart metering.

Desired outcomes and pre-requisites to achieve those outcomes

Following the brainstorming session, a list of desired outcomes and pre-requisites in order to achieve these outcomes was drawn up. It soon became clear that some of the pre-requisites were desired outcomes in themselves. Table 1 below shows the desired outcomes and pre-requisites as drawn up and with comments as discussed at the forum.

Table 1: Smart metering for consumers: desired outcomes and pre-requisites

Desired outcomes	Pre-requisites
Consumers see the benefit of distribution operational services.	AER regulatory processes and rules behind multiple processes
Consumers have an understanding in order to enable choice and to benefit from the new technology. This should apply to all categories of consumers.	All smart meters should include an in-home display with information available to enable informed choice. A comment was made that such in-home displays should not include any advertising or additional information which is not pertaining to the smart meter itself. An education / information program must precede smart meter implementation.
Consumers change behaviour where they "can". This should apply to all categories of consumers.	Consumers have an understanding in order to enable choice and to benefit from the new technology. Safety nets may be a pre-requisite to changing behaviour, as well as pricing signals to encourage change.
"Fair cost" allocation; equity. It is desirable that the allocation of the costs of the new technology be shared equitably and fairly amongst all relevant groups, including consumers, government, shareholders.	
Reduce peak demand: - lower infrastructure cost - flow through to consumers The desired outcome of reducing the load at peak times would lead to the lowering of infrastructure costs and ideally these lowered infrastructure costs would flow through to the consumers. All parties would therefore benefit from the reducing of the peaks.	TOU network pricing
Retain safety. It is desirable that the current level of safety for consumers be retained under any new metering system.	

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Desired outcomes	Pre-requisites
<p>Consumer protection from disconnection.</p> <p>It is desired that the current protections against disconnection be retained at a very minimum and strengthened if possible.</p>	
<p>Safety nets.</p> <p>Appropriate safety nets need to be in place to ensure assistance is available for those consumers who have difficulty in paying their energy/electricity bills.</p>	
<p>Technology implementation:</p> <ul style="list-style-type: none"> - smooth - secure - privacy/data security <p>The transition to smart metering technology needs to be tested prior to going live in order to ensure a smooth and secure implementation of the changes.</p> <p>Customer privacy and protection and security of private data obtained through the smart metering technology needs to be in place. Any data obtained from the technology is not to be used for any other purpose and safeguards should be in place before the technology is installed.</p>	
<p>Consumer access to remedies.</p> <p>In the event of problems experienced by consumers under the smart metering system, they need to have easy and ready access to remedies. This would apply to concerns surrounding supply and billing.</p>	<p>Energy providers need to have staff trained before the implementation of the new technology so that they can adequately deal with any concerns which may arise.</p>
<p>Benefits outweigh the costs.</p> <p>The benefits of the smart metering must clearly outweigh the cost of the new technology.</p>	
<p>Positive for the environment.</p> <p>Is smart metering positive environmentally? Smart meter units need to be replaced more frequently than existing meters. Can they be recycled? What is the cost to the environment?</p>	
<p>Existing frameworks accommodate the new technology.</p> <p>Can the existing frameworks accommodate the new technology? This would be preferable to coming up with a whole new set of frameworks.</p>	

Source: Etrog Consulting documentation of stakeholder consultation forum discussion

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2.1.2. Breakout group 2: Impact of climate change policies / Carbon Pollution Reduction Scheme (CPRS) on consumers, and environmental issues more generally

There were a wide range of issues raised concerning the impacts of climate change mitigation policies and measures, with some contrary views expressed. Key concerns centred around the impacts of the costs of climate change on households and business and what is being done to prepare consumers in dealing with these impacts.

Climate change mitigation activities will result in increases to electricity and gas retail prices. It was of particular concern that very little analysis has been undertaken on the impacts of these increases on consumers, including the impact on employment and on vulnerable segments such as single-parent families.

There has been limited analysis undertaken on the energy retail price paths and how these prices will change in future. It was suggested in future energy prices could double. Arising from this, there was uncertainty over what is being done to prepare consumers for these price impacts and what policies are being put in place to assist people in dealing with these increases.

Fuel poverty¹ is a recognised phenomenon in the UK and Europe and is increasingly becoming a concern in Australia. Some Australian households spend 20-25% of their income on utilities. The CPRS will place further financial strains on these households. Resources and mitigation strategies are required to research and address this.

There is no established framework for compensating consumers for climate change induced costs and how such compensation and safety net measures would work. A significant proportion of the Climate Change Action Fund (CCAF) (\$2.75b) appears to be going to business. This needs to be addressed. Lessons from the NECF could be useful in helping to inform the development of compensation packages.

Many small medium enterprise (SME) non-energy businesses may not be able to pass on all the costs of the CPRS. This will place strain on some businesses and some businesses will shut as a result. There is a sense of powerlessness in the SME sector about CPRS, and a concern that there is very little that these businesses can do to offset climate change costs.

Some segments are missing out on mitigation measures. An example is the case of tenants in leased accommodation. They are missing out on mitigation measures due to the 'split incentive' barrier in non owner occupied occupation. Effectively, the landlord has no incentives to apply for and install mitigation measures, as the tenant derives all the benefit.

¹ In the UK, fuel poverty is defined as a household needing to spend a significant proportion of household income – more than 10% – to heat the home to a reasonable level of comfort.

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SMEs located in regional areas are less likely to have access to mitigation services and solutions, locally.

The expanded Renewable Energy Target (RET) scheme imposes further costs and uncertainty for businesses, as it will add to further costs. The RET may have a greater impact on businesses than CPRS, but there has not been any compensation forthcoming for cost increases associated with RET. Nor have the costs of the scheme to end-use consumers been adequately quantified. For both CPRS and RET, a proportion of the cost for businesses will be passed through – possibly 70-80% according to the modelling. It is unclear what proportion of costs will be passed through to consumers and what proportion will be absorbed by business and what will be the impacts; this is ultimately important for all consumers.

There is a lack of clarity on potential cost increases to consumers of government investment in mitigation schemes such as energy efficiency programs and feed-in tariffs. It is not clear who will ultimately pay for these schemes.

Consumers have limited capacity to influence climate change policies. This contrasts somewhat with other countries, such as Europe, where consumer groups have been a lot more effective in this debate. There is a lot that could be learnt from the European experience.

Some contrary views to those expressed above were raised. The notion that insufficient compensation is being provided to assist consumers in dealing with the impacts of climate change was challenged. Compensation for disadvantaged sectors is available already through the CCAF mechanism. It was suggested that there is no basis for compensation being given to coal-fired generation, as these plants will continue to operate irrespective of compensation.

It was further suggested that if climate change is not averted, then this outcome could have far more dramatic impacts and impose greater costs on the economy than the costs of mitigation measures such as the CPRS. For instance, more incidences of high temperatures will increase the peak power demands, and energy consumption will increase. The NEM does not facilitate reductions in energy consumption, because environment and sustainability objectives are not built into the market design. This contrasts with the UK, where sustainability objectives are built into the market design.

2.2. SESSION 2

2.2.1. Breakout group 1: Demand side participation / energy efficiency

Understandably, there was some overlap of matters raised in this breakout group with those raised in the climate change breakout group, as documented in section 2.1.2 above. The main concerns related to barriers associated with the take-up of distributed generation, making energy efficiency programs more effective, and the need for harmonisation of state and federal energy efficiency and demand management initiatives.

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There are still significant barriers to the take-up of distributed generation. There are no incentives in the current market framework for consumers to reduce demand or install own generation, and as a result take-up is low. There are no network benefits in reducing demand even though demand reductions can lessen the requirements for network infrastructure. A significant challenge is how to reduce the complexity of decision-making for consumers.

There are perverse incentives that encourage increased infrastructure spending, such as network regulated returns. These incentives do not encourage demand management and energy efficiency alternatives.

While large consumers generally want to engage in energy efficiency and demand management, it can be difficult to do, without assistance and knowledge. There is often a lack of internal knowledge and the time and resources required to investigate grid connection requirements can be onerous. Property developers will often consider co-generation as there is a lot of interest in this sort of technology in facilities such as large office buildings. However, there are information and regulatory barriers that prevent these projects going ahead. Often proponents do not have the expertise and knowledge to evaluate the viability of co-generation.

There are barriers associated with the ability of proponents to engage with and have meaningful discussions with the distribution businesses on grid connection and safety and protection requirements.

Programs such as the ETSA Utilities \$20 million demand management program in South Australia have shown that residential and small business consumers' energy consumption can be reduced and peak demand dropped. An energy efficiency program managed by Communities Council has attained a 65% take-up rate among metro small businesses with high energy usage. Energy efficiency has been shown in other countries to be a key measure for dealing with climate change. However, there are several challenges that need to be addressed.

There is a need to provide greater levels of assistance to households. Energy audit programs for household consumers are not effective over the phone or over the internet. Audits need to be done in person and be offered for free with incentives made available to offset the cost of installing energy efficiency measures. Such a program should provide a full solution to energy efficiency concerns, rather than being piecemeal.

While there are mandatory energy efficiency requirements that cover new residential and commercial buildings, there are no regulations that cover mandatory requirements for existing buildings, although several programs cover voluntary installation of measures in existing buildings.

As mentioned in the climate change discussion, a "split incentive" barrier exists whereby tenants in rented accommodation miss out on some energy efficiency measures because there is no incentive for the landlord to implement these measures, as the tenant derives all the benefit.

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An important consideration in these programs is that they need to be credible, well organised integrated programs that instil confidence in consumers. There could be a role for energy services businesses to co-ordinate demand side responses for end-users, by selling energy services (not energy) to consumers. These businesses might help consumers to make more informed decisions and to take advantage of demand management and energy efficiency programs.

Demand management and energy efficiency programs need to consider public policy and social objectives that take into account basic regulatory and consumer protection rights, which is not currently the case. For example, there have been instances of solar panels that have been poorly installed. Public policy should also recognise which consumers are likely to need energy efficiency support, including perhaps low-income households, as against those consumers who may be more able to offer more demand response.

Businesses currently face a multitude of similar Federal and State energy efficiency obligations. These include the Commonwealth Energy Efficiency Opportunities (EEO) program, the Greenhouse Challenge Program, the Victorian Environment Protection Authority's Environment and Resource Efficiency Plans (EREP), NSW Energy Savings Action Plans (ESAP) and Queensland's Smart Energy Savings Program (SESP). There are inconsistencies across some of these schemes adding to unnecessary duplication and added compliance costs. Further, these schemes and others like them have varying longevity, with some of the schemes not lasting for very long. A consistent ongoing single national scheme would be less onerous on business.

2.2.2. Breakout group 2: Implications of changes to legislative and regulatory frameworks: the National Energy Customer Framework (NECF) and beyond

Discussion points

Discussion in initial brainstorming in this session covered the following:

- The future can be different from the past. There is a need to be forward-looking. The market is evolving, and the transition is taking many years.
- Current envisaged changes include those related to smart metering, retail price deregulation, and increased private ownership in the energy industries.
- There is a need to differentiate laws vs. rules in the framework. Broad policy statements and legislative objectives should be in the law, while details and practical implementation should be in the rules. For example, the law could state that inability to pay should not result in disconnection of supply, and then the rules would put in place Community Service Obligations, compliance and enforcement arrangements.
- The NECF should be considered alongside other legislation such as the Trade Practices Act, and telecommunications industry legislation and consumer protection frameworks.

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- The framework is not an end in itself; it has to be viewed alongside market mechanisms.
- The framework should be recognised as being for essential services, and should be focused on providing consumer protection in the energy markets. Best practice should prevail – and not a lowest common denominator. The NECF should seek to optimise access, affordability and reliability. The AER should establish national hardship standards and policies, based on best practice.
- Consumers have become accustomed to seeking local jurisdictional redress for energy concerns, including if appropriate approach to the jurisdictional Energy Minister; there will be consumer confusion if local means of redress are no longer available.
- A consistent national framework must still be flexible for differences between regions, including climate and access to gas.
- There was concern expressed at small business' capacity to operate effectively in the market, and some discussion about the most effective way to set the thresholds enabling access to protections for those consumers.

Purpose of the NECF

Following the brainstorming session, discussion turned to consideration of the purpose and objectives of the NECF:

- Although this is a competitive market, and is a “user pays” market, electricity is still an essential service that requires reliable and affordable supply to be available to all consumers.
- Should there be a clear statement of the policy outcomes / objectives in the framework or at least stated at MCE level? What is the overall purpose of the NECF? It was suggested that it is not necessary to provide a clear statement of policy outcomes / objectives in the framework. There is a national electricity objective and a national gas objective and the overriding principle is to bring all these disparate regimes over all jurisdictions together successfully in a format that will be signed off by the politicians. However, there was a general feeling that a clear statement of policy objectives is required in the framework. It was suggested that the current Victorian policy objectives could be used as a reference point because the MCE has not put forward an alternative.
- Victoria currently has a strong competitive market, strong consumer protection, and improved efficiencies. It was suggested that this was evidence that a strong consumer protection framework is fully compatible with and a desired component of overall good business practice.
- There are cost advantages of a single framework – to retailers and to consumers – but this should not be the sole focus of the NECF.

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- An objective should be to have national consistency with strong consumer protection measures across all jurisdictions. Could this be obtained by adopting best practice by looking at the existing policies across the States and Territories, and combining the best parts of each? The policies need to be enforceable and enforced.
- Interface with other national consumer frameworks was suggested, to ascertain what is specific to energy legislation as against other national legislation; is there interaction / convergence between different pieces of legislation; and how does national energy legislation sit alongside other legislation?

2.3. SESSION 3

2.3.1. Breakout group 1: Issues in the gas market

An overarching theme of the forum discussion on gas markets was that gas pricing and gas availability were becoming increasingly important.

With the development of LNG exports out of Queensland and Western Australia, the cost of gas for local consumption is increasing, due to competing demands between export and local uses. In addition, the increasing use of gas as a fuel for electricity generation as the economy transitions to a low carbon future is placing further pressures on availability and price. There is uncertainty over the impact of the CPRS on consumers, and the effect this will have on future gas price increases.

There is also perceived to be lack of price transparency to large end-users. While there have been changes to the Short Term Trading Market (STTM) in Victoria that have increased transparency of spot pricing, for end-users there still remain many other cost components that are not transparent, such as haulage charges of uncovered pipelines. In general, consumers need to have better information on gas pricing.

As their current supply contracts expire, large end-users are also finding that access to longer-term contracts for gas is becoming increasingly difficult. Pipeline access arrangements and pipeline capacity are among the factors impacting on the availability of gas.

It is a common feature across all jurisdictions that there is less competition in the retailing of gas than there is in electricity. Whereas electricity is marketed by both large and small energy retailers, gas is sold only by larger retailers, and gas retail products are not marketed as widely as electricity. The relevant factors are the lack of availability of gas contracts for new entrant retailers, and that retail margins are lower in gas than in electricity. The result is decreased availability, choice and price competition for consumers.

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In South Australia, developers and house builders used to pay a built-in gas connection charge for new estates to have gas connected to each household, as part of the development costs. However, gas connection charges are now imposed as an additional charge to consumers, in addition to the costs of building the trenches. It was suggested that a Rule change may be required in order to address this.

It was suggested that there should be greater transparency over what the commercial thresholds are to have natural gas extended to regional towns. For example, there are several towns in Victoria that are lobbying for connection to reticulated gas, but the criteria used to assess when a project is commercially viable are not clear, meaning that applications will be made even if projects will never eventuate. There must be a more efficient means of facilitating connection.

In Western Australia, the broadening of gas quality specifications will mean that gas with a wider range of quality will be allowed to be sold to consumers. While this is expected to increase security of gas supply and increase gas price competition, there are concerns over safety to consumers. Households with older appliances may find that their appliances are unsafe as a result of the revised gas quality standards. Who will help pay for appliance replacement or modifications so that they do not place consumers at risk?

How much investment should be focused on gas if it is only a short to medium term fuel? That is relevant to infrastructure considerations, and also to individual consumers. Technological improvement of electrical appliances, such as reverse cycle air-conditioning and heat pumps, means that gas appliances are now becoming less efficient in comparison.

Fuel poverty has an impact on gas, as discussed in section 2.1.2 above. How do advocates help consumers make the right choices about what fuel to use, and what appliances to buy?

Stronger consumer advocacy on gas market issues impacting on consumers was seen to be important, as there is not significant consumer representation on gas matters.

2.3.2. Breakout group 2: Affordability / hardship / pricing issues for consumers

Discussion points

Discussion in initial brainstorming in this session covered the following:

- Policy consideration needs to be given to how much consumers are prepared to pay and are able to pay, and what proportion of their income is spent on energy.
- Government policy on affordability, hardship and pricing for consumers is not always clear or consistent.

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- There is often lack of price transparency, and need for more disclosure of the factors that affect end-use pricing. Concern was raised that the industry and the media are talking up price increases, justifying the increases as being required to pay for infrastructure, climate change, CPRS, expanded RET, smart metering, etc. It is often reported that electricity prices may double. This may enable industry to over-inflate price increases, while blaming the increase on all the above. Hence the need for transparency of the effect of each individual cause.
- There are concerns regarding volatility of pricing, and not just overall pricing levels. Volatility can be based on time-of-day, month or season, and is likely to increase with smart metering rollout and new tariff structures, and for other reasons such as effects of climate change. In contrast, consumers with hardship and affordability concerns need smooth cash flows.
- Volatility hits retailers' risk management, and could lead to increased risk of market failure among retailers.
- Safety nets vary in application and between jurisdictions.
- Retailer hardship programs are intended to help consumers to stay on supply; bills still need to be paid.
- More use should be made of research to date: what has already been done well or not, including international experience.
- There is lack of transparency and understanding of how price determinations feed into network tariffs. Regulation is in places very intrusive and in some places not at all. Rebalancing of tariffs is not constrained on price resets at the beginning of each regulatory period. There is no consultation on actual pricing within a regulatory period. Within a regulatory period, there are side constraints that are not clearly understood, and network operators can rebalance significantly between fixed and variable charges and between tariff bands without consultation. There are charges set for other services as well which do not always have clear consultation processes associated with them. In general, hardship does not figure in the network pricing determinations.
- It is understood that consumers have to pay for the costs of electricity generation, transmission, distribution and retailing. However, besides the overall costs, who pays and in what proportion is a key affordability concern. Revenue from fixed vs. variable charges can be important. Higher fixed charges vs. variable charges impact on low usage consumers, and limit consumers' ability to control their bills through moderating their consumption. More could be done to unbundle bills from a consumer's perspective, to enable the consumer to see where they could act to reduce their costs.

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- It was suggested that consideration could be given to “basic” tariffs or “conservation” tariffs, targeted and available to consumers with hardship and affordability concerns; currently these consumers face the same tariffs as other consumers. The facilitator suggested that an example might be drawn from the banking industry where “basic bank accounts” which are free of charges for limited basic services are offered to eligible bank customers. This was noted but not discussed in any further detail.
- Issues in the gas market were discussed in section 2.3.1 above. Gas market issues also featured in this discussion, as follows. Off-peak electricity competes with gas for off-peak storage heating applications for space heating and water heating. Changes in the price of off-peak electricity and/or gas can change this competitive dynamic. Gas pipeline access is a problem for consumers in small towns, thus limiting the energy fuel choice.
- Affordability could be helped if reduced consumption through demand side programs could provide the consumer with a financial reward.
- Lack of access to energy or fear of using energy because of cost or over-aggressive and inappropriate conservation can lead to detrimental effects on health.
- In some jurisdictions, such as Queensland, retailers are not marketing even to large end-users; this is of concern particularly in jurisdictions where there is a very dominant retailer, and in rural and regional areas.
- Beyond home energy, there are affordability and pricing concerns associated with accessing infrastructure and the use of electricity for such purposes as increased electrification of transport, including plug-in electric vehicles. In the future, there will be increased demand for electricity from householders, and there will also be an increase in demand from big public works projects such as new desalination plants to produce potable water, and new commercial and industrial land development. This will have implications on infrastructure needs, which could increase costs dramatically, and it will have implications for the affordability of electricity to consumers, increasing the numbers experiencing hardship. What is the way forward for infrastructure for such “big ticket items”, and how will this impact on affordability?

Focus of the affordability / hardship / pricing issues for consumers

After the brainstorming session, discussion turned to what should be the focus of affordability, hardship and pricing concerns, and the following matters were raised:

- There is no doubt that there will be increasing pressures on electricity prices in the future, which means there should be transparency and accountability on network and retail prices. The reason for increased prices should not be just that “costs have gone up”. Consumers need to understand why the price goes up.

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- There is a need to understand why consumers get into hardship. Is increased hardship arising due to electricity price increases, or other pressures in the economy? More research needs to be done into the reasons for high energy usage which lead to hardship and affordability problems. Some consumers use more than they can afford, and this is not sustainable. Other factors may impact on their level of usage, such as housing, health, appliances, unemployment.
- It was suggested that there should be an audit assessment of the value of concessions across jurisdictions.
- It was noted that tariff structures impinge on hardship, not just the charge per unit of electricity consumed (c/kWh).
- The volatility of pricing over the seasons can create affordability problems and hardship for many consumers of electricity. Is there a way to smooth out these charges to make them more affordable/manageable?
- What are the guidelines, and what is the national policy framework on access and affordability in the NECF?

2.4. SESSION 4

2.4.1. Breakout group 1: Reliability, quality and security of supply

Forum participants raised concerns regarding supply reliability, and quality and security of supply.

There was agreement that more work needed to be done to determine consumers' willingness to pay for increased reliability. A major willingness to pay (WTP) study conducted in South Australia has found that consumers, in general, were not willing to pay more for increases in supply reliability. The levels of current supply reliability, as reported, were deemed adequate by consumers relative to current distribution pricing. Although it is an expensive exercise for a regulator, the AER should consider similar research methodology to test WTP in other jurisdictions.

There ought to be a review of fundamental reliability assumptions and parameters in the NEM as these have a direct impact on electricity costs. For example, the NEM Reliability Panel sets a reliability threshold of a maximum of 0.002% of unserved energy. However, this threshold does not appear to be based on research; it is rather a "rule of thumb". Is this threshold appropriate, or should research be undertaken to verify this level or possibly adjust it?

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Regional areas tend to experience lower levels of reliability than in urban areas. In Victoria for instance, rural communities experience poor power quality and supply reliability. The Essential Services Commission is now reporting reliability statistics down to pole level across Victoria. This provides transparency of supply performance at the community level, and has enabled communities to engage network businesses and the regulator in discussions to improve supply. However, this level of reporting is not available nationally, with one participant noting that the AER performance reporting regime works on average performance, and reduces the incentive for businesses to improve quality.

There is a need to broaden the type and range of information on energy issues, including those that are related to reliability of supply, which ought to be made available in the public domain. Providing information at a pole level is difficult for a national regulator, but it is not impossible.

Increasingly, consumers in Victoria are getting involved with distribution businesses in planning network infrastructure investment solutions to improve reliability, following reporting of poorly performing assets. This level of consumer engagement with distributors is unique to Victoria, and mechanisms for community participation in network planning could be encouraged elsewhere. The development of incentives regimes for distribution businesses needs to have a consumer focus.

Overall there needs to be greater engagement by distribution businesses in informing and educating local communities of their options for improving supply reliability and quality. This could include local generation, uninterruptible power supplies (UPSs), new lines.

Compensation guidelines and mechanisms to address poor reliability and quality of supply, such as the Voltage Variation Compensation Guideline, exist in Victoria, and the NECF should ensure that the compensation mechanism is included nationally.

There is a lack of clarity on how regulators ensure that consumers' expectations for reliability match what is being spent on reliability by the distributors.

2.4.2. Breakout group 2: Resourcing consumers and consumer advocates

Discussion points

Discussion in initial brainstorming in this session covered the following:

- Policy issues are many and complex, and it is difficult to keep up-to-date; there are different needs to service different jurisdictions, and electricity and gas are different from each other – both are markets in transition.
- The National Consumers' Roundtable on Energy has high value to consumer groups as a forum for sharing of learning between consumer groups.

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- What is the best way to engage individual consumers and others who represent them? It is particularly difficult to engage with small business consumers – they have their own trade and business associations, with very limited resources for energy issues.
- Requirements on industry, government and regulatory bodies to consult with consumer groups are important.
- Linking energy consumers with other consumers can be advantageous.
- The use of web meetings, webinars, and technology for consumer consultation should be encouraged to increase communication among consumers, and should enable costs to be cut.
- There is need for more resources. The committed resources of consumer groups are small compared to the size and importance of the energy industry, and the changes that are constantly occurring. Consumers are generally responding rather than leading the debate. There is asymmetry of spending on regulatory processes between industry and consumers, and hence asymmetry in relevant influencing capabilities. There may be a role for a national consumer advocacy body, perhaps equivalent to the Energy Users Association of Australia (EUAA) for larger energy users.²
- There is lack of understanding among consumer groups of the MCE/SCO involvement in Panel funding.
- Consumer groups expect that there will be a reduction in State/Territory funding of advocacy in the move to national regulation.
- Training of new consumer representatives is important; perhaps there is a need to develop training tools.
- Sharing of resources (such as academics and international contacts) between consumer groups should be considered.

Focus on resourcing consumers and consumer advocates

After the brainstorming session, discussion turned to what should be the focus of resourcing consumers and consumer advocates, and the following matters were raised:

- Strong consumer groups are active and strategic.

² It was noted here that energy consumers in UK in contrast have an annual budget for research and advocacy of the equivalent of AUD 20 million, and have been much more effective in achieving changes in law and other positive outcomes for consumers. See documentation of the final plenary session in section 2.5.2 for further discussion of the possible role of a national consumer advocacy body and related matters that were mentioned in this breakout group.

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- Due to underfunding, consumer groups and advocates are often just reacting to what is put in the marketplace via reports and regulations, and there is no time or funding left to be pro-active or to initiate research.
- The effectiveness of consumer groups and advocates is limited by insufficient resources when they are making representation on proposed legislation or rule changes. Industry groups have a much higher level of representation due to less funding constraints; therefore industry has a louder voice than consumer groups. The playing field is not level, and insufficient funding leads to an asymmetry in knowledge.
- Funding arrangements for consumer advocates need to be long-term, as twelve months is simply not long enough to gain knowledge and be effective.
- The current National Consumers' Roundtable on Energy is working well – should this model be continued? Are there alternatives?
- Will the States and Territories become less interested in funding consumer advocates if there is a national consumer advocacy body? This is an emerging concern.
- Can more information be posted on the Panel website, not long after decisions have been made, and with reasons for the decisions? This information would be valuable in understanding how and why decisions on funding are made. Panel funding is limited. Is the Panel spreading its resources too thinly? Should the Panel tie research funding and advocacy in future in order to bridge Panel research gaps?

2.5. PLENARY SESSION: WRAP-UP OF DAY AND DISCUSSION OF OUTCOMES

In the plenary session, the author of this report presented a summary wrap-up of the day. The session was then opened up for question from stakeholders which were answered by the Chair of the Panel. The discussion that ensued focused largely on the role of the Panel, and resourcing national energy consumer advocacy more generally.

Key points from the discussion in the plenary session in both of these areas are recorded here. There was some overlap between the discussion in this session, and the earlier discussion in the breakout group on resourcing consumers and consumer advocates, which was recorded in section 2.4.2 above.

2.5.1. The role of the Panel

- Panel-funded reports should be circulated. Maybe the Panel should include an abstract of each report on its website with information on what comes out of each report from a policy perspective. Panel applicants can then use the reports to help in future advocacy.
- The Panel can see gaps – rural, small business – in applications for funding. The Panel could do more to be pro-active to seek to fill those gaps.

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- Ideas from this forum may lead to more applications for funding, and/or Panel initiated funding on concerns that have been raised in this forum.
- Is the Panel's own resourcing adequate? Does the Panel need more people at an administrative level? Alternatively, as a grants organisation, should the funding be going to the advocates rather than to the Panel itself?

2.5.2. Resourcing national energy consumer advocacy

- Many changes to the energy sector that are expected over the next five years were discussed in earlier sessions of this forum. Essentially, the national reforms are seen to be moving from a phase of creation and initial implementation to a phase of more sophisticated and complex development. There are also currently gaps in the Australian consumer energy advocacy model, compared with some of the consumer advocacy models internationally. Consideration should be given to the appropriate advocacy models that will meet world-class standards and provide the most benefit to Australian consumers in this new phase of reforms.
- In such a complex environment, consumer advocates need to be able to turn advocacy policy and research into information and education, to benefit consumers, and to assist them to participate effectively in the market.
- There is a gap in funding people to work in energy advocacy, which impacts on the expertise of advocates. Where funding of energy advocacy is committed only twelve months at a time, it is very difficult if not impossible to recruit, to train and to retain staff on a long-term basis.
- Consumers lack a national information research resource / database. If an organisation in a local jurisdiction loses funding and stops working in the area of energy advocacy, its intellectual property is lost, and consumer advocacy as a whole suffers a setback as a result. Under the current model, Australian consumers are missing out on the ability to draw information together and act on it and benefit from it, to build something better for consumers.
- On the basis of the above, the forum considered what models for consumer advocacy might provide more value in the coming years.
- A national Australian model could provide more centralised resources and "one loud voice", which may be more effective than the current advocacy from smaller localised and under-resourced consumer organisations. A national consumer organisation may be able to communicate better and have a higher profile with its consumer representatives. Many policy matters now are national, and increasingly so with the NECF. This includes CPRS, RET, energy advertising, contracts, and billing.
- It was suggested that a national advocacy organisation could be run with a full-time staff of three to four people, with the capacity to bring others in as required. Two models for a national advocacy organisation were discussed:

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- A national advocacy organisation specifically to cover energy / utilities; and
- Funding of energy staff within an existing national body. No particular existing national body was identified as having funding or capacity to accommodate additional energy staff at the moment.
- Other models were also discussed, recognising that there can be value in having a diversity of views and approaches, and this may be lost within a single national advocacy organisation. Besides the existing model where there are diverse jurisdictional organisations involved in consumer advocacy on energy matters, another model might be a hybrid model, which could establish new national technical expertise building on the existing strong jurisdictional networks.
- The Panel indicated it would welcome applications to research effective models for resourcing national consumer advocacy, but the Panel itself would not force any particular model.

3. SUMMARY AND CONCLUSIONS

The consumer energy issues for the next five years that have been raised in this report can be categorised as being:

- Ongoing: These issues are always of relevance to consumers;
- Short-term: These issues are likely to be of concern to energy consumers over the next one to two years, but less so after that; or
- Medium-term: These issues are not likely to be of concern to energy consumers in the short-term, but are likely to be of concern after that, i.e. in the medium term.

Table 2 below considers the categorisation by timeframe of the issues that were discussed in the stakeholder consultation forum.

Table 2: Consumer energy issues: timeframes

Consumer energy issue	Timeframe
Implications of smart metering for consumers	Rollout of smart metering has commenced in Victoria. In Victoria, and is scheduled to complete by the end of 2013. Thus in Victoria, smart metering will be an ongoing issue over the next five years. In other jurisdictions, the issues will arise only in the medium term, or even in the longer term, i.e. after 2014.
Impact of climate change policies / CPRS on consumers, and environmental issues more generally	The impacts of CPRS and environmental issues more generally are a current issue, and as this report is being completed the passing of the CPRS legislation in Parliament is still in doubt. We expect that CPRS and other environmental issues will evolve and remain an issue for energy consumers throughout the coming five years.
Demand side participation / energy efficiency	Demand side participation and energy efficiency issues have been ongoing issues for energy consumers over many years. While they have attracted increasing attention in recent years, we expect that there will be much larger interest in these areas once substantial numbers of smart meters are installed, with smart grid capabilities starting to be deployed to provide new demand management and smart appliance capabilities. In summary, these issues are always ongoing, and interest is likely to increase in the medium to longer term.
Implications of changes to legislative and regulatory frameworks: the NECF and beyond	The NECF is currently being finalised. The NECF is therefore of short-term interest, and may be of less concern in the medium term.
Issues in the gas market	The gas market has not received as much attention in the past as has the electricity market. The current concerns are likely to be ongoing over the coming five years, with the development of LNG exports out of Queensland and Western Australia.
Affordability / hardship / pricing issues for consumers	These are always ongoing issues for energy consumers. There is currently increased focus in the light of increased prices and pricing changes that are expected to result from infrastructure investments, the CPRS, and the rollout of smart metering.
Reliability, quality and security of supply	These are always ongoing issues for energy consumers. There is likely to be increased focus on these issues as the NECF envisages more direct relationships between distributors and consumers.

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Consumer energy issue	Timeframe
Resourcing consumers and consumer advocates	These are always ongoing issues for energy consumers.

Source: Etrog Consulting analysis of stakeholder consultation forum discussion

This report has documented the discussions that took place at the forum. The forum objectives were:

- Incorporating perspectives from the range of Panel stakeholders, identify future priority consumer energy issues and opportunities for advocacy in policy and regulatory processes for the next five years; and
- Informing Forum participants of the views and priority consumer energy issues of the range of key stakeholders.

The Panel's objective for the forum was to assist the Panel to determine funding priorities for the future.

We believe that the forum has met its objectives, and this report has documented the views and priority consumer energy issues of the range of key stakeholders.

The forum was run with an intensity of action and participation, and feedback from participants has indicated that the stakeholders valued the time they spent at the forum, the information they gave, and their own objectives in informing the Panel of their views. It remains to be seen how the Panel will use the outcomes from the forum in its own future actions and decision making processes.

APPENDIX A: AGENDA OF FORUM HELD ON 12 OCTOBER 2009

9.45 am	<i>Tea and coffee available on arrival</i>
10.00 am	Welcome by Frank Peach, Chair, Consumer Advocacy Panel
10.10 am	David Prins, Facilitator, Etrog Consulting: outline of program
10.20 am	<i>Outlining the policy and regulatory agenda</i>
	Steven Graham, Chief Executive Officer Australian Energy Market Commission
	Tom Leuner, General Manager, Markets Branch Australian Energy Regulator
	Brendan Morling, Head of Division, Energy and Environment Dept of Resources, Energy and Tourism
	<i>Discussion groups</i>
11.00 am	Session 1
	Breakout group 1: Implications of smart metering for consumers
	Breakout group 2: Impact of climate change policies / CPRS on consumers, and environmental issues more generally
12 noon	Session 2
	Breakout group 1: Demand side participation / energy efficiency
	Breakout group 2: Implications of changes to legislative and regulatory frameworks: the NECF and beyond
1.00 pm	<i>Lunch</i>
1.45 pm	Session 3
	Breakout group 1: Issues in the gas market
	Breakout group 2: Affordability / hardship / pricing issues for consumers
2.30 pm	Session 4
	Breakout group 1: Reliability, quality and security of supply
	Breakout group 2: Resourcing consumers and consumer advocates
3.15 pm	<i>Afternoon tea</i>
3.30 pm	Plenary session: wrap-up of day and discussion of outcomes

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APPENDIX B: ISSUES FROM STAKEHOLDERS' REPLY FORMS

All participants were invited to identify their top five consumer energy issues when they responded to the Panel's invitation. Those issues were categorised by Etrog Consulting. Points were also assigned for mentions of key issues: 5 points for a 1st place listing, down to 1 point for a 5th place listing. Some judgement was necessary to amalgamate categories and to decide into which category to place each issue. Table 3 below shows the number of mentions and the number of points for each category.

Table 3: Issues from stakeholders' reply forms

Category	Mentions	Points	Rank by mentions	Rank by points
Energy affordability / hardship	11	44	=4th	1st
Climate change / GHG / RET / CPRS	12	40	=2nd	2nd
Smart meters / grids and demand side participation	14	37	1st	3rd
NECF and other national market, regulatory and ombudsman arrangements, including harmonisation across jurisdictions	12	36	=2nd	4th
Consumer advocacy, resourcing and capacity building: funding; best use of Panel funds; communication with customers	11	30	=4th	5th
Cost / pricing / tariff design / price volatility	7	28	=7th	6th
Energy efficiency	7	23	=7th	7th
Retail market: competition, retailer billing, retail contract terms, retailer compliance, and customer switching	8	19	6th	8th
Structuring of market participants e.g. vertical (re-) integration; market power	5	13	9th	9th
Small-scale distributed generation / feed-in tariffs / solar hot water	4	10	10th	=10th
Jurisdictional customer assistance measures	3	10	11th	=10th
Reliability / security and quality of supply	2	6	=12th	12th
Network regulation	1	4	=14th	13th
Pre-payment meters	1	3	=14th	14th
Synchronising of energy regulation with general consumer law, and enforcement	2	2	=12th	=15th
National energy policy / white paper	1	2	=14th	=15th

Source: Etrog Consulting analysis of stakeholders' reply forms