

Monday August 10th, 2009.

**Ms Kerry Connors
Executive Director
Consumer Advocacy Panel
PO Box A2258
Sydney South NSW 1235**

Dear Kerry,

Please find attached the Progress Report for CAP Research Project: Investigation of the Impacts of the National Rollout of Smart Meters on Consumers.

**CI Dr Jeremy Moss
Social Justice Initiative**

Progress Report#1

Introduction

The Consumer Advocacy Panel awarded funding to the Social Justice Initiative to conduct an analysis of the potential consumer impacts arising from any large-scale introduction of dynamic pricing structures within the retail energy market following the national rollout of smart meters. The main focus of this research was to examine the potential impacts of Time-of-Use tariffs (TOU), Critical Peak Pricing structures (CPP), and Direct Load Control (DLC) on low-income and disadvantaged consumers in particular, and to assess the adequacy of existing hardship policies and consumer protections to cope with the expected rise in the cost of electricity following a transition to these methods of pricing household electricity consumption. Funding was provided for the employment of a senior research associate to work full-time on the project for six months, as well as for costs associated with the organization of consumer focus groups in Qld, NSW, VIC, and SA and the administration of a household energy consumption survey to a representative sample of consumers. The purpose of the focus groups was to gather detailed qualitative data on consumer behaviour by providing a forum for consumers to discuss their perceptions of TOU, CPP, and DLC; to discuss how the new pricing initiatives would impact upon their behaviour; the particular cost-minimisation strategies that they would employ in response to these new pricing initiatives; and the affect that these would have on their quality of life. The aim of the survey on households' energy consumption was to gather information regarding general trends in household energy use, expenditure on energy, and the appliance mix of different households across consumer groups so as to determine levels of exposure to the impacts of higher energy costs across consumer groups.

Progress to Date

The project has had a delayed start due to the fact that a number of issues needed to be resolved in relation to the funding agreement originally presented to the University of Melbourne before the project could commence. Thankfully, these issues have now been resolved, although this has regrettably caused a delay of several months in commencing the project. Nevertheless, considerable progress has been made since the commencement of the project.

The senior research associate, Michael McGann, has been recruited and he has prepared an application for ethics clearance from the University of Melbourne to carry out the focus groups and to administer the household energy consumption survey, which the University of Melbourne has now granted. Work has also been completed on the design of the household energy consumption survey and on the formulation of topics and questions for the focus group sessions. The survey will be administered in September and the focus groups will also commence at this time.

A background paper reviewing the findings of national and international pilot studies on time-of-use tariffs, critical peak pricing, and direct load control mechanisms and analysing existing research reports on the consumer impacts of these pricing initiatives was drafted as part of the process of preparing and designing the household energy survey and focus group topics and questions.

In April, the Department of Resources, Energy and Tourism released six discussion papers as part of the consultative process in preparation of the forthcoming government White Paper on Energy (the Green Paper is due for release in August or September). The Social Justice Initiative has since made a submission on the discussion paper, 'Maximising the Value of Technology in the Energy Sector'. The content of this submission was addressed towards the paper's discussion of the potential for 'market structures that allow price signals that reflect the cost of actions' to elicit a reduction in energy demand in the residential sector. Drawing upon this project's review of national and international TOU and CPP trials, and its analysis of existing research reports on the consumer impacts of these tariffs, the submission drew attention to the significance of the order of price increase that would be needed to elicit a sizeable demand side response and pointed to the potential hardship issues that would arise for low-income consumers and consumers with health-related energy needs if such a price increase were to be introduced (for instance, although the Integral Energy trial of CPP in Australia has managed to achieve a 40% reduction in critical peak demand amongst consumers on CPP tariffs, it has done so only by charging a critical peak period per unit price that is more than eleven times that of the unit price paid on flat tariff structures). The submission also raised the issue of whether market structures based around a "user-pays" approach to resource distribution are an appropriate mechanism for allocating such an essential utility as energy (without which people would struggle to achieve basic functionings). The submission is available from the Energy White Paper website:

<http://www.ret.gov.au/energy/Documents/ewp/pdf/EWP%200071%20DP%20Submission%20-%20SJI.pdf>

The project researchers have also met with Dr Michael Summers, Senior Policy Advisor for MS Australia, to discuss his work on air conditioner use by Australians with MS and to discuss the involvement of people with MS in the project's focus groups. Dr Summer's research has helpfully drawn attention to the extreme vulnerability to rising electricity prices—especially to time-of-use tariffs and critical peak pricing structures—of consumers with a health-related dependency on electricity consumption, such as people with MS reliant on cooling devices to secure a minimally decent level of comfort.

The lead researcher, Dr Jeremy Moss, and the senior research associate, Michael McGann, have also become involved with Melbourne Energy Institute as a direct result of their work on this project. Michael McGann attends regular meetings of the Energy Futures group—a network of young researchers from across the faculties of the University working on energy policy, energy generation, and energy use. New developments in energy research are discussed at these meetings, while the researchers are also working together on the development of a public seminar series on Energy Policy, scheduled to begin in March 2010. The social implications of energy policies for disadvantaged groups will be a key theme of this seminar series. The research associate has also written a briefing on energy policy and social justice for the Melbourne Energy Institute website that draws upon work carried out for this project. Dr Moss has been asked by the director of the Energy Institute, Dr Mike Sandiford, to represent the Energy Institute at a forthcoming conference on “Behaviour, Energy, and Climate Change” in Washington D.C. in November. The conference is being organised by the American Council for an Energy-Efficient Economy. As the focus groups and household energy survey will have been completed by November, the “Behaviour, Energy, and Climate Change” conference represents a valuable opportunity to discuss the research findings of this project with other researchers working on consumer behaviour in the energy sector.

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