Maximising consumer benefits:

Submission to the Power of Choice - Stage 3 Demand Side Participation Review

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1. The Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation. PIAC works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues.

PIAC identifies public interest issues and, where possible and appropriate, works co-operatively with other organisations to advocate for individuals and groups affected. PIAC seeks to:

- expose and redress unjust or unsafe practices, deficient laws or policies;
- promote accountable, transparent and responsive government;
- encourage, influence and inform public debate on issues affecting legal and democratic rights; and
- promote the development of law that reflects the public interest;
- develop and assist community organisations with a public interest focus to pursue the interests of the communities they represent;
- develop models to respond to unmet legal need; and
- maintain an effective and sustainable organisation.

Established in July 1982 as an initiative of the (then) Law Foundation of New South Wales, with support from the NSW Legal Aid Commission, PIAC was the first, and remains the only broadly based public interest legal centre in Australia. Financial support for PIAC comes primarily from the NSW Public Purpose Fund and the Commonwealth and State Community Legal Services Program. PIAC receives funding from the NSW Department of Trade and Investment, Regional Infrastructure and Services for its work on energy and water, and from Allens Arthur Robinson for its Indigenous Justice Program. PIAC also generates income from project and case grants, seminars, consultancy fees, donations and recovery of costs in legal actions.

2. Energy + Water Consumers' Advocacy Program (EWCAP)

EWCAP was established at PIAC as the Utilities Consumers' Advocacy Program in 1998 with NSW Government funding. The aim of the Program is to develop policy and advocate in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to EWCAP from a community-based reference group the members of which include:

- Council of Social Service of NSW (NCOSS);
- Combined Pensioners and Superannuants Association of NSW;
- Park and Village Service;
- Ethnic Communities Council NSW;
- Rural and remote consumers; and
- Physical Disability Council of NSW.

3. Introduction

PIAC welcomes the opportunity to make this submission to the Australian Energy Market Commission (AEMC) Demand Side Participation (DSP) 3 Review, *Power of Choice*. The AEMC outlines that the objective of the current review is to identify a number of opportunities. For consumers, these opportunities may lead to a greater ability to make informed choices about their electricity consumption. For participants on the supply side and others, incentives may lead to efficient and balanced investment in supply and demand side options to deliver energy services to the community.[1]

The AEMC notes that the current review defines 'demand side participation' as:

> the ability of consumers to make informed decisions about the quantity and timing of their electricity use, which is derived from the value that they obtain from using electricity.[2]

Additionally, the AEMC explains that the review operates under a key assumption that

> consumers will always make the best decision from their viewpoint, based on the prices they face, the technology and equipment they have access to, the information they have and their individual transaction costs.[3]

PIAC acknowledges that consumers can gain cost benefits from using their energy efficiently and buying energy under clearly explained tariffs that are affordable and suitable for their individual circumstances. At this stage, PIAC believes that it is vitally important to map where any future benefits of DSP are likely to be achieved, and develop strategies to broaden those benefits to a range of consumers that is as diverse as possible. This will help to ensure that the benefits of DSP are not limited to well resourced, technically savvy consumers, but can be shared by people of various ages, technical abilities, physical capacities, cultural and linguistic backgrounds and incomes. Employing this strategy will not only maximise consumer-based opportunities — it will help to promote greater equity in the energy market.

PIAC has responded to a selection of questions posed in the Issues Paper.

4. Consumer Participation and DSP opportunities

5. What are considered the drivers behind why consumers may choose to change their electricity consumption patterns? Please provide examples or evidence where appropriate.

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1 Australian Energy Market Commission, *Power of Choice – giving consumers options in the way they use electricity* (2011) i.

2 Ibid ii.

3 Ibid.

The consumers and consumer advocates that PIAC has contact with explain that a desire to reduce electricity bills is the main driver for changing consumption patterns. This fits with research from the Independent Pricing and Regulatory Tribunal (IPART) which notes that rising electricity prices may account for falling energy consumption in Sydney and surrounding areas.[4]

In recent times, PIAC has become increasingly aware of cases where low-income and vulnerable consumers are under-consuming. This means that concerns about cost lead them to use less electricity than is needed to meet essential basic needs.

According to the AEMC, one reason why residential consumers have been fairly passive electricity market participants may be that electricity costs have been a relatively small proportion of total household expenditure.[5] Taking account of 2011 electricity price rises, IPART predicts that households in Sydney and surrounding areas with incomes above $42,000 are likely to spend 5% or less of their disposable income on electricity, while those with incomes between $13,000 and $18,000 may spend 10% or more on electricity bills.[6] IPART also estimates that 27% of households in country NSW are likely to spend above 6% of their disposable income on electricity, while in Sydney and surrounding areas only 12% of households will have this electricity spend.[7]

PIAC provides this information to show that, while electricity may be a small proportion of expenditure for some households, for others it is by no means a small concern. Many consumers, who are concerned about electricity costs, are taking action to reduce their consumption. Strategies often employed include underutilising space heating and/or cooling appliances and using only minimal lighting.

In terms of the current review, there may be an enormous opportunity to harness the motivation of these consumers through targeted energy efficiency programs, energy literacy campaigns and the provision of information that is relevant to their circumstances.

It is important to mention here that consumers are not a homogenous group, and while price may be a common driver for both low and high income consumers, programs to encourage demand side participation need to be designed with the full range of end consumers in mind. Failure to do so will mean the full potential of consumer participation to reduce demand is not captured. For example, information about, and incentives for purchasing, efficient hot water heaters will do little to assist a person in rental accommodation reduce their energy consumption. Programs aimed at these consumers may realise better outcomes by providing thermally lined window coverings and/or incentives for landlords, including public housing authorities, to replace inefficient water heaters.

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4 Independent Pricing and Regulatory Tribunal, *Residential energy and water use in Sydney, the Blue Mountains and Illawarra* (2010) 34.

5 AEMC, above n1, 22.

6 Independent Pricing and Regulatory Tribunal, *Changes in regulated retail electricity prices from 1 July 2011* (2011) 81.

7 Ibid 84.

8. Are their other DSP options that are not currently available to consumers, but could be available if currently available technologies, processes or information were employed (or employed more effectively) in the electricity (or related) market?

The *Report of the Prime Minister's Task Group on Energy Efficiency* notes,

> Smart meter and grid technologies will fundamentally change the tools available to consumers, retailers and networks for increasing energy efficiency. New tools could include visible real- time monitoring and enhanced information (for both consumer response and loss detection), a wide range of off-peak tariffs, and direct load control of appliances.[8]

If these tools are key aspects of the energy market of the future, PIAC argues that there is a need to assess how accessible these tools are and whether they are effective for a diverse range of consumers. For instance, some consumers may not have the skills or the access to technology needed to gain benefits from more complex product offerings.

Real-time monitoring relies on access to technology. Whether that means a simple in-home display device, a more advanced Home Area Network (HAN) device or access to usage data via a web-based portal, PIAC is concerned that low-income consumers may have less access to this technology and therefore be less able to make informed choices about their energy consumption.

Low-income households, households without children under 15 and households in non-urban areas are less likely to be connected to a computer and/or the Internet.[9] Similarly, in-home display units may not be affordable for low-income households to purchase outright. Where these devices are provided as part of a market offer, PIAC has concerns that people may sign up for longer term contracts, thereby reducing their access to the competitive market and tariffs that may be more suitable for their needs.

There may also be groups of consumers that have difficulty benefiting from real-time data because they do not have the computer skills or confidence with technology to operate electronic devices. A 'lack of skills, anxiety about technology' and 'security fears'[10] have been cited in consumer research as reasons why older people have lower internet usage than other groups.

In PIAC's view, it is important to educate consumers about new electricity tariffs and means to manage consumption. After decades of purchasing electricity as a generic product, consumers are moving to a time where energy offers may be increasingly complex — with inclusions such as remote load control, time of use pricing, energy storage and other value adds. PIAC contends that, without community education and simply explained contracts and tariffs, consumers who do not understand these new product offerings may end up with higher than expected bills.

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8 Australian Government, *Report of the Prime Minister's Task Group on Energy Efficiency* (2010) 168.

9 Australian Bureau of Statistics, '8146 Household Use of Information Technology, Australia, 2008-09' (2009) 6.

10 S Palmer, 'Where do I start? Female seniors and the Internet*' (*Council on the Ageing (WA) with support from the Australian Communications Consumer Action Network, 2010) 5.

It is important that the broad-scale innovation in the energy market does not only provide benefits to consumers who are technically savvy, well-resourced and proactive researchers. To avoid this, PIAC advocates for a range of measures including:

- education programs targeting a diverse range of consumers to explain the technology that enables the delivery of real-time data, as well as actions consumers can take when high cost pricing signals are received;
- targeted programs to provide and install in-home devices to low income and/or vulnerable consumers;
- incentives for bespoke energy efficiency programs aimed at particular consumer groups, such as rural and regional consumers, tenants of public or social housing and people with physical disability;
- widely publicised, simplified information about innovative tariffs, which is available in a range of languages and accessible formats; and
- trial periods for innovative energy offers, such as those that include direct load control, to reduce the risk of consumers attracting exit penalties if these products are not suitable for their circumstances.

5. Market Conditions required for efficient DSP

5.1 Pricing

11. What market conditions (technologies, processes, tariff structures, information etc) are needed, that are not currently employed in the electricity market, to make DSP options available to consumers?

PIAC understands that smart grids and other innovations may see household energy management include a range of add-on applications, such as storage batteries and renewable generation. As this review acknowledges distributed generation as one aspect of demand side participation,[11] PIAC thought an example of dispute resolution processes, involving distributed generation in NSW, may provide some useful insights.

Solar photovoltaic systems are a popular form of distributed generation in NSW. There are three organisations involved in resolving disputes related to these systems.[12]

Fair Trading NSW deals with disputes related to:

- price;
- warranty; and
- level of service provided by the designer/installer.

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11 AEMC, above n1, 2.

12 Clean Energy Council, *Consumer guide to buying household solar panels (photovoltaic panels)* (2010) [23-26] <http://www.cleanenergycouncil.org.au> at 18 August 2011.

The Clean Energy Council deals with:

- faulty workmanship;
- breaches of Australian Standards; and
- misinformation/dishonesty regarding payments, rebates and grants.

The Energy + Water Ombudsman NSW deals with:

- connection or transfer issues;
- metering; and
- billing.

Separate responsibilities for dispute resolution produce complexity for consumers and can generate protracted timeframes in resolving disputes. PIAC understands that open lines of communication and goodwill between the stakeholders mentioned above have served to reduce consumer inconvenience. However, it is unclear whether informal arrangements would be capable of producing quality outcomes for consumers if future disputes were to involve several service providers, especially where it was unclear which dispute resolution service (if any) had jurisdiction.

As the review is considering opportunities for the future, PIAC recommends that the AEMC consult further with Energy Ombudsman Schemes, Departments of Consumer Affairs and other relevant stakeholders, to explore options to resolve disputes involving products that will enable greater DSP. PIAC suggests that consideration be given to providing consumers with a single point of contact for resolving such disputes, via the consolidation of dispute resolution in this area, or through the provision of a triage service offered by a key dispute resolution stakeholder.

15. Do all consumer groups, including vulnerable consumers, benefit from having cost reflective prices in place? If not, are any special provisions required to protect certain classes of consumers?

PIAC takes the view that there are inherent risks in assuming that consumers are able to respond to price signals without having a thorough understanding of various consumer groups and how their environments, income and other issues affect their ability to respond.

Consumers who can shift load to off-peak periods will be best placed to maximise financial gains from time of use tariffs. In contrast, consumers with low levels of discretionary use may see any gains realised in off-peak times easily eroded by consumption that could not be shifted from peak and/or shoulder periods.

By virtue of their respective situations, some consumers have fewer choices about when and how much electricity they use. For instance, people with physical disability may rely on Attendant and Home Care services to assist them with domestic duties and personal care. These services operate on fixed timetables over which the client has little or no control. Additionally, some people's medical conditions mean they need longer showers, controlled temperatures and other essential devices to assist in their daily life. While energy rebates are available to help with some of these costs, the shortfall must be met by the consumer.

Other consumers, such as shift workers and people who are at home for longer periods during the day, may also struggle to realise benefits from cost reflective pricing.

PIAC is supportive of the investigation of how a social tariff may be made available to protect low-income and vulnerable consumers from rising electricity prices. PIAC's policy position is that no consumer should be disconnected from an essential service solely because of an inability to pay. Cost reflective pricing for electricity may be suitable for people who are financially able to absorb higher than expected bills during protracted periods of peak demand. In PIAC's view, the essential nature of electricity as a service requires that vulnerable consumers have access to electricity at an affordable price. In NSW, rebates are not high enough to offset electricity price rises. Those on low incomes, who are not eligible for rebates, are increasingly struggling to absorb cost increases.

A social tariff could offer a safe haven to low income and vulnerable consumers, while consumers who are in a position to take the risks can gain commensurate rewards from cost reflective pricing.

5.2 Information

17a. To what extent do consumers understand how they can reduce their electricity bill?

It is difficult to gauge the level of understanding consumers, as a homogenous group, have about actions they can take to reduce their electricity bill. PIAC understands that consumers on low and fixed incomes are increasingly concerned about the amounts of electricity they use in their homes because of anxiety about unaffordable bills. Anecdotal evidence suggests that consumers are employing a range of strategies to reduce their consumption; however, they often express doubts about whether their actions are will have the desired impact.

PIAC and the Physical Disability Council NSW are presently researching energy use for people with physical disability. During a focus group that was part of this research, participants expressed their desire for more information about energy efficiency, particularly on the cost of running specific appliances.

> I have often heard that there is a pamphlet that gives you the price on different electrical appliances [to tell you] roughly how much it is costing you… I have never seen one of those pamphlets – I wouldn't know where to get one and if they are out there it would make me more aware and I would be able to work it out for myself when to turn something off or if I am going overboard. I have not come across that. Have they got them out there?[13]

What came across from this group was a sense that people were active and motivated to take steps to reduce their energy costs; however, they did not feel well equipped to make an informed decision about which steps to take for maximum effect.

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13 Focus Group Participant, *Energy and People with Physical Disability*, Focus Group held by the Public Interest Advocacy Centre and the Physical Disability Council, April 2011.

Focus group participants were asked how they weighed up choices about purchasing energy efficient appliances. Though people expressed awareness of energy ratings and the potential to save money with more efficient appliances, they noted that higher purchase prices for more efficient appliances posed a significant barrier to that purchase.

> You can't afford to replace these appliances to get the energy reduced kinds [of appliances], and that's hard for a lot of people.[14]

PIAC is also aware of consumers who have low levels of understanding about how they are charged for the electricity they use. A common example of this is people doing household tasks late at night, because they believe their off peak hot water rates apply to their other usage also.

17b. What information do consumers need in order to increase their understanding of how they can reduce and manage their electricity consumption and hence bills?

Energy literate consumers will be better equipped to make informed choices about their energy consumption. As a first step, PIAC is supportive of an energy literacy campaign aimed at residential consumers, which explains the basics of purchasing and managing energy. Basic information, such as how to read a bill, can assist consumers to understand how much they are being charged and at what rate/rates. Consumers armed with this information will be better positioned to set a baseline of their energy consumption, should they wish to take steps to reduce it.

As noted earlier, focus group participants expressed a desire for information about the cost of running household appliances. Information of this nature would help them to assess whether to use their heater on a cold day or whether they would save little or a lot by using an electric frypan in place of a stove top hot plate. The point to be made here is that information that resonates with people's lifestyles is what will help them to make informed choices about their energy consumption.

For this reason, information resources that are targeted to particular consumer groups may be best placed to give people relevant skills to reduce and manage their electricity consumption. As an example, people who are renting could benefit from information about behaviour change, energy efficient appliances and heat retention. They may also gain great benefits from learning how to gauge whether potential rental properties will offer them the ability to use energy efficiently, because of their structure, orientation and ability to retain or expel heat.

Much of the information about energy efficiency points out the 'low hanging fruit' options for energy efficiency, such as getting rid of a second refrigerator. An energy literacy campaign that explains low, medium and high cost options for reducing energy consumption could be helpful in presenting options that fit the situations of people with various levels of motivation and financial resources.

As innovation becomes a bigger part of the energy market, it will be important to provide simple explanations of new energy offers and energy management tools to consumers. Real time

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14 Ibid.

monitoring will do little unless people understand what they can do if they receive a high price signal. Similarly, for consumers to get the maximum benefits from remote load control they will need to be educated about how these products operate and what the penalties will be, should they choose to override.

Demand side participation offers a lot of opportunities for consumers to bring down their consumption, and in doing so gain a financial benefit. It is also likely that more participation on the demand side will see consumers not only engaging with their retailer, but also with other energy related businesses. Under more complex arrangements, it will be important that consumers are informed of who has responsibility for services or hardware offered, especially where these services interact.

18. What issues are associated with provision of existing information in the market? Are there arrangements that could improve delivery of such information? If so, how and by whom?

There is no doubt that online information provision is cost effective, easy to update and interactive. However, with an abundance of information online, there are no guarantees that the information will reach its target.

Consumers' technical skills, literacy levels, language and physical ability to access electronic information should also be considered when designing strategies to provide information. Peak bodies can offer invaluable guidance on how best to provide information to their constituents. For example, the Council on the Ageing (COTA) NSW, notes that older people have a preference for receiving information through face-to-face delivery from trusted sources such as community leaders and GPs.[15] While Vision Australia advocates for the use of high colour contrast, non-glossy stock and minimum 12 point font for maximum print accessibility.[16]

As stated earlier, there are a range of households that have low levels of access to computers and the internet.[17] For this reason, PIAC is cautious about an over reliance on web-based tools and information aimed at providing advice to consumers about managing electricity consumption and reducing bills.

Brochures, fact sheets and consumer education sessions can be useful ways to get information to consumers. One way of maximising the spread of information is to offer information in various formats, thereby reducing any barriers to access. Essential Energy (formerly known as Country Energy) has done this with their *Appliance Energy Usage Guide*.[18] The Guide is available as a hard copy brochure and a printable copy can be downloaded from the internet. Consumers are

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15 Council on the Ageing NSW, *A guide to communicating with older people in NSW (*2010) 7. < http://www.cotansw.com.au> at 18 August 2011.

16 Vision Australia, *Legibility Guidelines* (15 February 2011) <http://www.visionaustralia.org.au/info.aspx?page=785> at 16 August 2011.

17 Australian Bureau of Statistics, above n 9, 6.

18 Essential Energy, *Appliance Energy Usage Guide* (Brochure, June 2010) <http://www.essentialenergy.com.au/asset/cms/pdf/ApplianceGuide.pdf> at 15 August 2011.

also provided with a toll free number that they can call if they want energy efficiency ideas and advice.

Working with consumer organisations can help to ensure that the content and delivery of information is appropriate to the consumers being targeted. Trusted channels of communication presently exist in the community to promote energy literacy. Many of these programs are especially beneficial to consumers for whom the internet is often not a primary source of information.

PIAC is aware of a program being run by the Council on the Ageing (COTA) NSW that uses a peer education model to deliver information about ways to reduce energy consumption.[19] COTA NSW trains older people to deliver *The Power to Change* session to seniors groups and clubs. One of the benefits of this model is that the audience is able to readily identify with the presenter as someone who, as a peer, has much in common with them and this assists in the transfer of information.

The program is funded by Ausgrid (formerly known as Energy Australia) and Ausgrid staff provide the factual training on energy efficiency measures. COTA NSW operates the Seniors' Peer Education Centre and charges Ausgrid per session on a fee for service basis. A session fee of approximately $400 is paid as a contribution toward administration, general volunteer training and coordination and travel costs. The session is delivered to community groups free of charge.

While *The Power to Change* sessions are not currently offered in other languages, the Seniors' Peer Education Centre does offer sessions on depression in Greek, Italian, Cantonese, Mandarin and Vietnamese.

6. Conclusion

PIAC thanks the AEMC for the opportunity to provide this submission. PIAC places a high importance on encouraging the AEMC to use this review to investigate ways in which the benefits of demand side participation can be shared equitably across the customer base.

The provision of information is important in helping consumers to make informed choices; however, PIAC is cautious not to suggest that all consumers armed with information alone will be capable of choosing ways to use their electricity to their advantage. Harnessing the power of choice is a positive goal. Yet choice implies that a decision involves weighing up a number of options that are available. PIAC hopes that, with a greater understanding of consumer diversity and by employing strategies to make the benefits of DSP more broadly accessible, the review will facilitate realistic options to assist consumers use electricity in ways that work for them.

[19] Council on the Ageing NSW, *NSW Peer Education Centre* (web page, 2011) <http://www.cotansw.com.au/peer-education.aspx> at 17 August 2011.