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Senate Select Committee on Energy Planning and Regulation in Australia

PO Box 6100
Parliament House
Canberra ACT 2600

Lodged online via [portal](#)

Re: Submission to the Energy Planning and Regulation Inquiry – the National Energy Objectives

SACOSS is the peak body for the non-government health and community service sector in South Australia and has a mission to advocate for the interests of vulnerable and disadvantaged people across the state, including in relation to energy affordability and consumer rights, where we have a long history of funded advocacy. We thank the Select Committee for the opportunity to make a submission to the inquiry on Energy Planning and Regulation in Australia.

While the Committee's Terms of Reference are very broad, our submission focuses on just one high-level area, namely the National Energy Objectives. This relates directly to Terms of Reference (a) the National Energy Law, and (g) the statutory framework which supports consideration of stakeholder views and the public interest. However, the NEO (and any changes to the NEO) is also relevant to all the other entities and operations referred to in the Committee's Terms of Reference.

The National Energy Objectives

Decisions in the National Energy Market are made according to a set of legislated objectives known as the [National Energy Objectives](#), incorporating:

- The National Electricity Objective (NEO) in the National Electricity Law;
- The National Energy Retail Objective (NERO) in the National Energy Retail Law; and
- The National Gas Objective (NGO) in the National Gas Law.

The objectives in each of these laws are similar in form and content, are largely supply-side focused, and define the long-term interests of consumers as an energy system that promotes system security, reliability and economic efficiency.

While in recent years the Objectives have been expanded to include the achievement of emissions reductions targets, they remain very narrow and are inappropriate or inadequate to deal with the social and economic challenges of the energy system as it exists now, let alone the transition to a future energy system. We believe that additional objectives are

needed to better address the needs of energy consumers, and the fairness of the market and the energy transition. We propose two such new objectives:

- A social equity objective; and
- A consumer harm/risk minimisation objective.

A Social Equity Objective

While the ABS has left a significant data hole by not updating its flagship *Household Expenditure Survey*, the [last iteration](#) – and all other analysis of spending patterns – shows that expenditure on energy is highly regressive when measured by both income and wealth. That is, poorer households spend a greater proportion of their income on energy costs than average and better-off households.

This means that any energy policy changes or outcomes will inevitably have social equity implications, for better or worse. Recent changes to energy market design, rules and regulations; changes in technologies, services and market conditions; and the unequal distribution of energy market costs, have already created wide-ranging and negative social equity impacts. Unfortunately, there is potential for this to get worse.

Apart from just struggling with the size and regressive impact of energy bills, people experiencing financial disadvantage struggle to afford and access energy technologies such as efficient appliances, insulation or solar power that can help them reduce their energy bills. This is particularly so for those don't own their own home, and as energy prices increase the incentive for higher income households to invest in energy-saving technology increases, as does the gap to lower-income households without those options.

As more and more costs of the energy transition are being loaded on energy bills people experiencing financial disadvantage are paying disproportionately more of the costs of the transition. For example, [research](#) shows that subsidy schemes for small-scale solar panels and solar feed-in tariffs recovered through electricity bills are inequitable and regressive.

Network costs make up two-fifths of the electricity bill (more in some network areas) and at present are recovered via consumption tariffs through a combination of fixed and usage charges. Households able to substantially reduce their grid consumption pay less for the cost of the network, which leads to other households paying a greater share of all network costs (under regulated network revenue caps).

Further, a shift to “time-of-use” cost-reflective tariffs will leave some consumers worse off if they don't have the “life flexibility” or resources to afford technology to enable them to change energy usage patterns. Again, [research](#) suggests that that vulnerable and low-income households are likely to end up paying higher prices for their electricity under time-of-use tariffs.

Finally, SACOSS has identified that the cost of removing gas from residential homes is an equity issue because the expenditure required (for exit fees and new appliances) is less affordable for low-income households, leaving them potentially paying higher energy costs in dual fuel households. As [Energy Consumers Australia has shown](#), this is likely to have a

further impact as wealthier households go all electric, because with fewer customers to share network costs, the energy bills will rise even further.

Many of these issues are not being appropriately addressed because equity is not an objective in the NEO. A joint statement in February 2023 signed by 37 community, business, environment and research organisations, including SACOSS, argued that clear equity and demand-side objectives could change market design, rules and regulations to create greater social equity by:

- Distributing costs, benefits and risks transparently and fairly to allow for equitable outcomes regardless of people’s ability to engage with the energy system;
- Incentivising energy market participants to innovate in ways that bring benefits to all consumers; and
- Providing appropriate protections to support people to access affordable, efficiently priced basic energy supply regardless of how much or little they interact with energy services.

We have attached that joint statement to this submission, and ***ask that the Committee recommend a change to the national energy objectives to incorporate a social equity objective.***

A Consumer Harm/Risk Minimisation Objective

We would like to draw the Committee’s attention to a recent paper by Ron Ben-David from the Monash Business School, [What if the Consumer Energy Market Were Based on Reality Rather than Assumptions?](#). In that paper, Ben-David outlines the assumptions about consumers and consumer behaviour which have been embedded in energy market and regulatory design. Consumers were initially seen as active and discerning shoppers of electricity, and more recently as market participants who are interested, willing and capable of trading and shaping their energy consumption in response to price signals. With these constructions the role of the regulator is simply to support consumer sovereignty through transparent flows of information and removing barriers to consumers shopping as they please. In economic theory, this would ensure the best outcomes for consumers.

While SACOSS recognises these assumptions as being those of the perfect market in neoclassical economics, we agree with Ben-David that those assumptions do not fit the habits, abilities or realities of energy consumers in the real world – and that the mischaracterisation of the relationship of consumers to the energy “market” has come at great cost to consumers.

Ben-David outlines eleven key ways in which real behaviour and position of consumers differs from this conceptual framework and posits a series of “truth statements” as a better starting point for energy regulation. He proposes an exploration of five market and regulatory design changes, any of which the Committee might like to consider. However, in this submission we wish to focus only on the top-level recommendation for a new and additional regulatory objective.

Given consumers don't have the skills and attributes assumed in the neoclassical market theory, they are not able to identify, manage or price into their behaviour a range of market risks (and incentives). Accordingly, Ben-David proposes a new regulatory objective:

To avoid exposing consumers to risks they are ill-equipped to understand, manage or price

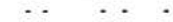
Ben-David argues that this does not compete with the existing National Energy Objectives which focus on efficiency but may temper how they are applied. Indeed, as noted above, the existing NEOs are largely supply-side management objectives which either assume that the supply outcomes will inevitably be good for consumers or that consumers are equipped to navigate how those objectives play out in the market. The history of significant energy price rises and the challenges of the energy transition suggest that this is simply not the case. Given this, there is a clear need for a more robust regulatory objective to ensure that, *if the market is not guaranteed to result in benefit to consumers, and/or consumers are not able to protect themselves from adverse market forces, then it is only reasonable that the regulator has the responsibility to protect consumers from harm.*

In SACOSS' reading, the objective proposed by Ben-David is not about and does not require taking away decision-making from consumers, but is rather about ensuring that those decisions are between reasonable and beneficial options, or only carry risks that consumers have the power to manage. Accordingly, ***we ask that the Committee recommend the addition of a harm or risk minimisation objective in the national energy objectives.***

Thank you for your attention to this submission. If you wish for any further information, or would like SACOSS to appear before the Committee, please contact our Senior Policy and Research Analyst, Dr Greg Ogle at

Yours,

Ross Womersley, CEO
17 October 2024



Built-in not bolted-on: Statement of support to include social equity and demand side objectives in amendments to the National Energy Objectives

We are a broad coalition of community, business, environment, and research sector organisations who are calling on energy Ministers to incorporate social equity and demand side objectives, in addition to emissions reduction objectives, into the National Energy Objectives (NEO).

Energy is an essential service. It plays a critical role in the health and well-being of people, and powers the economy. However, the energy system is rapidly and profoundly changing and the laws that govern our energy system have not changed to meet the new challenges. If we get the settings and systems right, our future energy system won't just be clean, it will also be cheaper and fairer for everyone. If we get the settings and systems wrong, the transition will be unnecessarily costly, inequitable, unreliable, and slow.

Our organisations welcome the collective leadership of Energy Ministers on emissions reduction inclusion in energy law and support the proposal to introduce an emissions reduction objective in the NEO. We agree it will send a clear signal to the wider industry, market participants, investors and the public of the need to achieve a decarbonised, modern and reliable grid.

However, the inclusion of a decarbonisation objective will not on its own address the challenges around increasing energy systems costs, rising energy bills, reliability and resilience, and growing inequity. As outlined below, we believe social equity and demand side objectives must also be included in the current proposed amendments to the NEO.

Social equity objective will reduce energy poverty and inequality

With the rapid pace of energy transition, people experiencing financial and social disadvantage, particularly First Nations communities, are at risk of being left behind and energy poverty and inequality increasing. Changes to the energy market design, rules and regulations; growth in new technology, products and services; shifts in global and local energy market conditions; and the unequal distribution of energy market costs, have already created wide-ranging and severe social equity impacts, with the potential to get worse. People experiencing financial disadvantage pay disproportionately more for the energy transition and many are missing out on some of the benefits.

The current framing of the NEO does not give regard to the social or distributional impacts of energy policy or regulatory decisions, especially for low-income and disadvantaged households that go beyond just 'price'. We believe with clear objectives, market design, rules and regulations can make a positive contribution to social equity, by:



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- Distributing costs, benefits, and risks transparently and fairly to allow for equitable outcomes regardless of people’s ability to engage with the energy system
- Incentivising energy market participants to innovate in ways that bring benefits to all consumers
- Providing appropriate protections to support people to access affordable, efficiently priced basic energy supply regardless of how much or little they interact with energy services.

Given the essential nature of energy supply, it is important that market bodies and market participants place social and distributional impacts at the center of energy policy and regulatory decisions. Incorporating an explicit reference to social equity in the NEO would ensure this fundamental consideration is part of decision-making.

Reduce energy bills and improve energy affordability by improving energy performance

The NEO needs to focus on reducing total energy bills and making energy affordable for all Australian households and businesses. The NEO’s current focus on ‘price’ fails to encourage improvements in energy performance and efficiency that can slash energy bills, even as the prices charged for energy go up.

Energy efficiency, electrification and energy management can have a direct and immediate impact on reducing emissions and energy bills, reducing the exposure of consumers to energy price shocks. Study after study has noted energy efficiency techniques as some of the cheapest abatement available and it remains a substantially untapped resource in Australia.

Including a focus on the ‘cost of energy bills’ or ‘energy affordability’ in the objectives would place greater emphasis and investment into energy performance and demand management both in front of the meter (energy system) and behind the meter (the house or business).

More efficient, effective and in the interest of consumers to make a suite of changes now

Given the time and resources required to amend energy laws as well as to socialise and implement changes, it would be more efficient and effective to make a suite of interrelated changes now. This will also ensure that the broader benefits to consumers, society and the economy are realised sooner.

In the consultation paper, Ministers acknowledged these as important matters for future consideration. At a minimum, it is our shared view that all Australian governments should commit in principle to making these changes and outline at the next Energy Ministers meeting their next steps and timeline on these important system reforms.