Advice on compensating disadvantaged and vulnerable households following introduction of a price on carbon

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COMPENSATION PRIORITIES AND MECHANISMS

There should be a two-stream approach to compensating households:

- Stream one prioritises the most vulnerable households at highest risk of hardship (unable to meet cost of bills and/or reduce energy use to level that is unsafe). We estimate there would be between 70,000-100,000 households needing this level of assistance each year. This estimate is based on figures from ombudsman offices, hardship programs in energy retailers and experience of emergency relief services. This group would be entitled to access a Kildonan model program that aligns and co-ordinates responses to very vulnerable households across retailer hardship responses, energy auditing - enabling behaviour change and infrastructure modifications, and support to address whole of household risk factors for ongoing financial instability. (further information on the Kildonan model can be provided if required)

- Stream two assists households in the bottom 30% of incomes who are at risk of spending an unsustainable proportion (between 6-10%) of their income on energy costs. We estimate there would be around 1million households. This estimate is based on ABS material cited below. This group would receive access to information about existing energy auditing, efficiency and adaption support programs (retailers, state and territory governments) and where necessary, access to energy auditing - enabling behaviour change and infrastructure modifications.

UnitingCare Australia also identifies three broad categories for compensation, these being

1. The direct costs associated with increase in standing energy (electricity and gas) charges, as a direct result of pricing carbon
2. The direct cost increases associated with transport fuels (Petrol and diesel), if transport fuels are included in the carbon pricing scheme and
3. The indirect costs of imbedded carbon pricing in goods and services, eg food, groceries, building supplies

There are, in general terms, two mechanisms to deliver compensation to households:

1. Through the income support system - pensions and allowances
2. As a direct discount on the energy bill – our assumption is that government pays the retailer direct and then reports to customer, on their bill, the amount of carbon price rebate they have been allocated.

UnitingCare Australia has collected survey data on household preferences for the payment of compensation for the impacts of a price on carbon. The survey was a representative sample of 1000 people in Australia conducted in early 2011. Our survey found:

- Lower income households, particularly people on benefits, prefer receiving the compensation through their income support payment
- Older people prefer receiving the compensation through their income support payment
- Middle income, younger and people whose income is not primarily received via income support payments prefer the direct discount/rebate via their bill.

Summary Position

UnitingCare Australia recommends that the carbon pricing compensation package includes the following minimum measures:

1. Adoption of a policy objective that no Australian household should pay more than 10% of their income for essential energy services
2. Direct compensation, paid to retailers and identified on bills for “stream 1 and 2” households
3. Access to ‘Kildonan’ Energy efficiency program for all Stream 1 households
4. Increase pension and benefits to compensate recipient households for indirect costs of carbon pricing, through equal increases to benefit and pension payments

COMPREHENSIVE POLICY RESPONSE

There are four ways to reduce energy poverty in energy:

1. consumer protection
2. energy efficiency
3. pricing
4. concessions

Each of these methods of reducing energy poverty should be part of the carbon price compensation for households.

UnitingCare Australia also notes the inadequacy of income support payments, especially non-pension payments, and the decreasing buying power of households dependent on income support payments as the costs of goods and services needed for a decent life are rising at a higher rate than income support payments. In addition to overall payment inadequacy, there are many people on income support payments who are not eligible for utilities allowances.

A fifth measure to reduce energy poverty is to increase base levels of income support payments, and provide universal eligibility for utility allowances across all income support payments.

Consumer Protection and Pricing responses should be the responsibility of industry, with relevant legislative frameworks as needed:

Consumer protection can be improved via hardship provisions and responses managed by energy retailers. Minimum essential criteria to be included in hardship programs:

- affordable payments
- energy efficiency information and audits
- protection from credit pathways
- granting of concessions and checking for concession eligibility
- information for IDR system
- information on EDR system
- ability to have payment reviewed in line with affordability
- offer of payment plan
- strategy of working toward sustainable outcome
- processes to access hardship programs must be clear, easy to follow and considered promptly
- Access to Ombudsman and any other appropriate dispute resolution schemes.

This list of minimum requirements has informed UnitingCare Australia advocacy in development of the National Energy Customers Framework and the Australian Energy regulators work on developing national hardship indicators.

Pricing can be improved via implementation of a lifeline tariff approach to pricing energy supply, as per proposal from St Vincents de Paul:

“Lifeline price cap” on daily electricity consumption at a fixed price per kWh (reference Gavin Dufty, 2007). This “lifeline” cap should be set at a level of consumption that would equate to a minimum household usage to provide hot water, space heating, refrigeration and minimum lighting. As such, all energy consumed within the “lifeline” cap is protected from the pass through of costs associated with carbon trading and excessive profiteering by the electricity retailers. Price setting for consumption above the “lifeline” price cap, however, would be for

each individual retailer to determine. Thus allowing the industry to price according to marginal cost or what the market will bear.

This price cap would

- partially protect many low-income energy consumers from the cost of carbon pricing being incorporated into the first block or the fixed charge of electricity consumption.
- provide a reward for those households with low electricity usage
- serve as an incentive for all households to reduce consumption to a particular level, thus supporting and rewarding those households that have sound environmental practices.
- make retrofitting and adoption of alternative energy sources, such as solar photo voltaic technologies, more cost competitive.
- constrain demand for government-funded concessions by providing an incentive to reduce consumption
- align with government plans to further deregulate pricing
- complement the planned interval meter (smart meter) roll out allowing these principles to be implemented as the smart meters are installed in households providing a real and practical use for this technology that every consumer ultimately pays for

Energy Efficiency measures can be a joint responsibility of industry and government:

Energy efficiency measures – primarily education and support for behaviour change and secondarily domestic infrastructure changes – can be improved via auditing, behaviour change support, referral to relevant existing programs and services (retailer, ombudsman and community sector), and advocacy support (with energy retailers, landlords, creditors)

Concessions are the responsibility of government:

Concessions can be addressed through the state and territory programs and by extending eligibility for utility allowances to all income support recipients.

REASONS FOR INCREASING ENERGY HARDSHIP

The cost of energy is rising at a higher cost than the cost of other goods and services included in the assessment of the Consumer Price Index.

"Compared to the fourth and highest income quintiles, the lowest and second lowest household income quintiles pay a higher proportion of the weekly household budget for housing costs, domestic fuel and power and food and non-alcoholic beverages. The trend for transport costs is in the opposite direction – lower income households spend a smaller proportion of their income on transport costs than higher income households. However, this fact is to some extent misleading. The category of 'transport costs' includes expenditure on luxury motor vehicles. It is unlikely that higher income households spend proportionately more on transport costs because they are making a larger number of trips. Rather, they choose to buy more expensive cars. The price of luxury cars is not expected to be significantly impacted by climate change, but the cost of making private trips in any kind of car is expected to rise significantly. Therefore, even in the case of transport, low income households are likely to bear the greatest proportionate impact of the costs of climate change." (*Social Impacts of Climate Change in the ACT Final Report* ACT Chief Minister's Department May 2008, including references to ABS publication 6530.0 - Household Expenditure Survey, Australia: Summary of Results, 2003-04 (Reissue)]

The income of low income households is growing at a slower rate than the income of higher income households.

"For low income people (i.e those people with household income in the second and third deciles) average equivalised disposable household income grew by 12% ($44 per week) from 2005-06 to 2007-08 or 10% when adjusting for the break in series. For middle income people the rise was 14% (11% when adjusted for the break in series) and 20% for high income people (16% when adjusted for the break in series)." [reference ABS Publication 6523.0 - Household Income and Income Distribution, Australia, 2007-08: sourced 1 June 2011 from http://www.abs.gov.au/Ausstats/abs@.nsf/Lookup/5F4BB49C975C64C9CA256D6B00827ADB]

S1. Income inequality, 1994-95 and 2007-08

	1994-95 %	2007-08 (excluding new coverage adjustments) %
Income share		
Lowest quintile	7.9	7.6
Second quintile	12.8	12.7
Third quintile	17.7	17.4
Fourth quintile	23.7	22.9
Highest quintile	37.8	39.4
Second and third deciles	10.8	10.4
Precentile ratios		
P90/P10	3.78	4.11
P80/P20	2.56	2.54
P80/P50	1.55	1.53
P20/P50	0.61	0.60

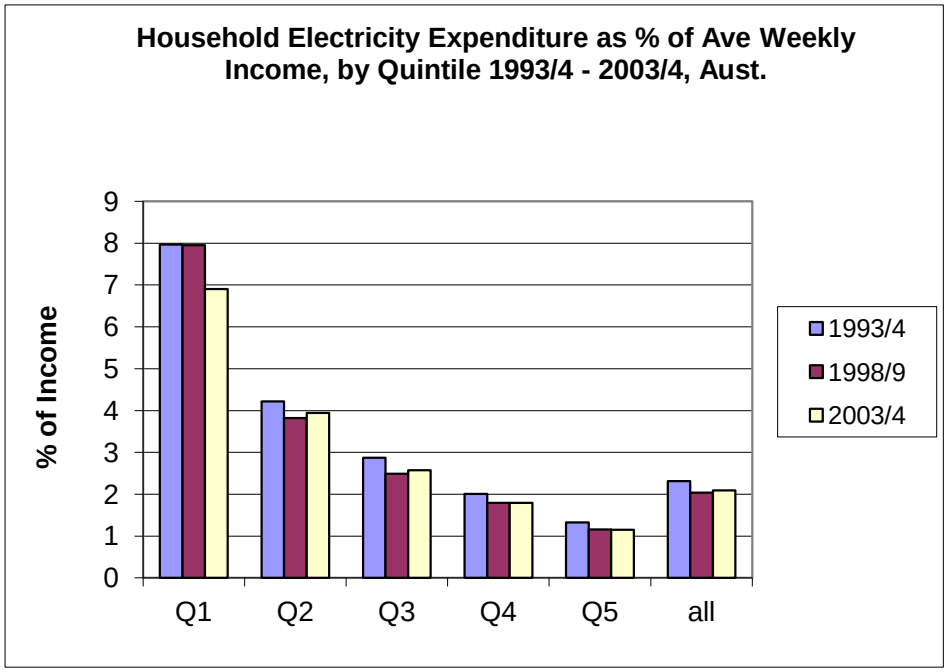
(source: ABS publication 6523.0 - Household Income and Income Distribution, Australia, 2007-08)

The proportion of households comprised of people living on a low income who have relatively higher need for energy is growing – people living with health conditions and

disabilities that require aids and equipment that increase energy use, increasing number of households where there is someone at home all day so are liable for full 24 hour cost of temperature control (older people, people living with disabilities), growing number of relatively large family groups (more than 5 dependent children) that have high needs not balanced by higher household income.

CURRENT EVIDENCE OF ENERGY HARDSHIP

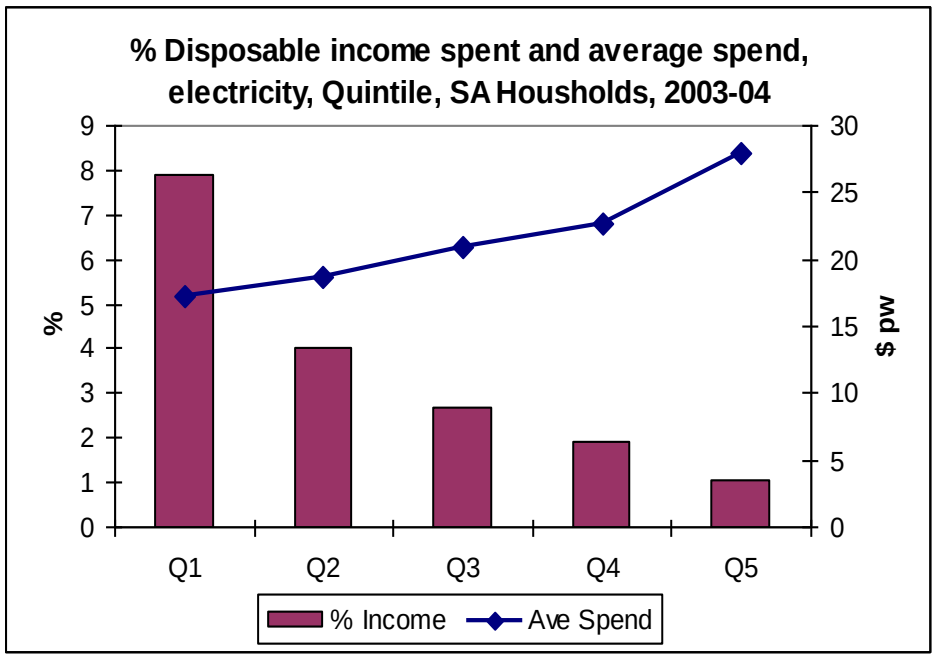
The Australian Bureau of Statistics (ABS) data on household electricity expenditure is given in Graph 1 below:



Graph 1 Source ABS

A key observation from this graph is that for the poorest 20% of the Australian (equivalised) income distribution, electricity counted for about 7% of expenditure in 2003/4, whereas electricity expenditure was not much more than 1% of weekly income for the richest 20% of households. Indeed, for about half the population, electricity accounts for less than 2½ % of expenditure. Graph 2 shows the household expenditure data from graph 1, for 2003/4 and overlays average electricity use by quintile.

Graph 2 shows that while actual electricity use increases with income, the proportion of household income spent on that electricity decreases sharply with income. This highly regressive incidence of electricity pricing is a crucial issue that needs to inform the current distribution price reviews, and energy policy more generally. Energy pricing needs to be more equitable than is currently the case.



Graph 2 Source ABS

Financial Stress

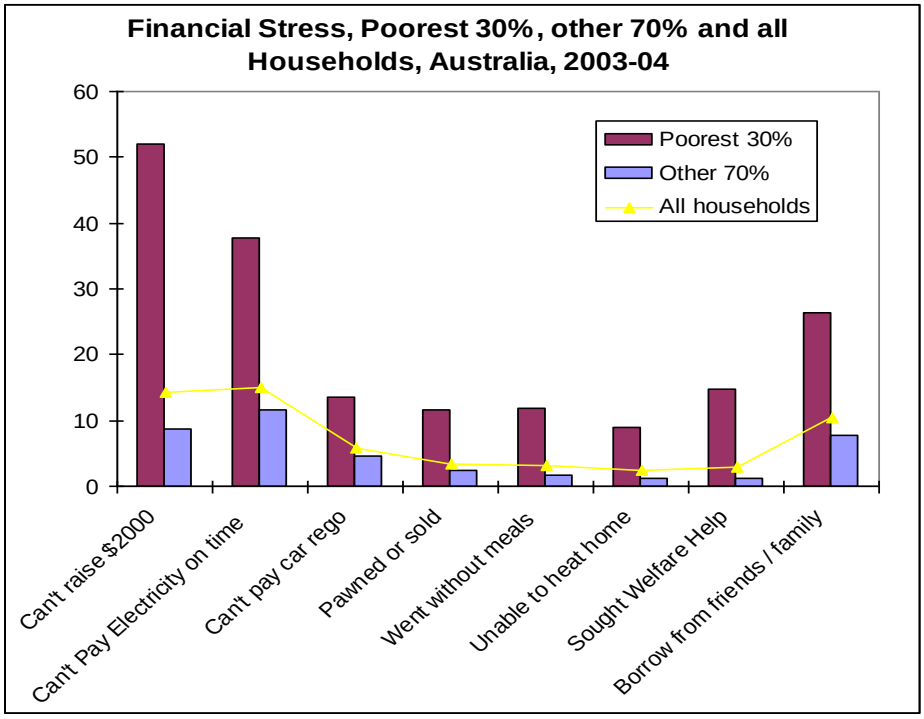
Table 1 shows a number of "financial stress" indicators for Australia, and considers the poorest 30% of the household income distribution, against the remaining 70% of the income distribution, using eight financial stress indicators. The data is taken from the 2003/4 ABS household expenditure survey and was reported in the ABS' Australia's Social Trends 2007.

Financial Stress Measure	Poorest 30%	Other 70%	All households
Can't raise $2000	52.1	8.6	14.3
Can't Pay Electricity on time	37.8	11.5	14.9
Can't pay car rego	13.5	4.6	5.7
Pawned or sold	11.7	2.3	3.5
Went without meals	11.8	1.8	3.1
Unable to heat home	8.9	1.2	2.3
Sought Welfare Help	14.7	1.2	2.9
Borrow from friends / family	26.4	7.8	10.3

Table 1, Source ABS

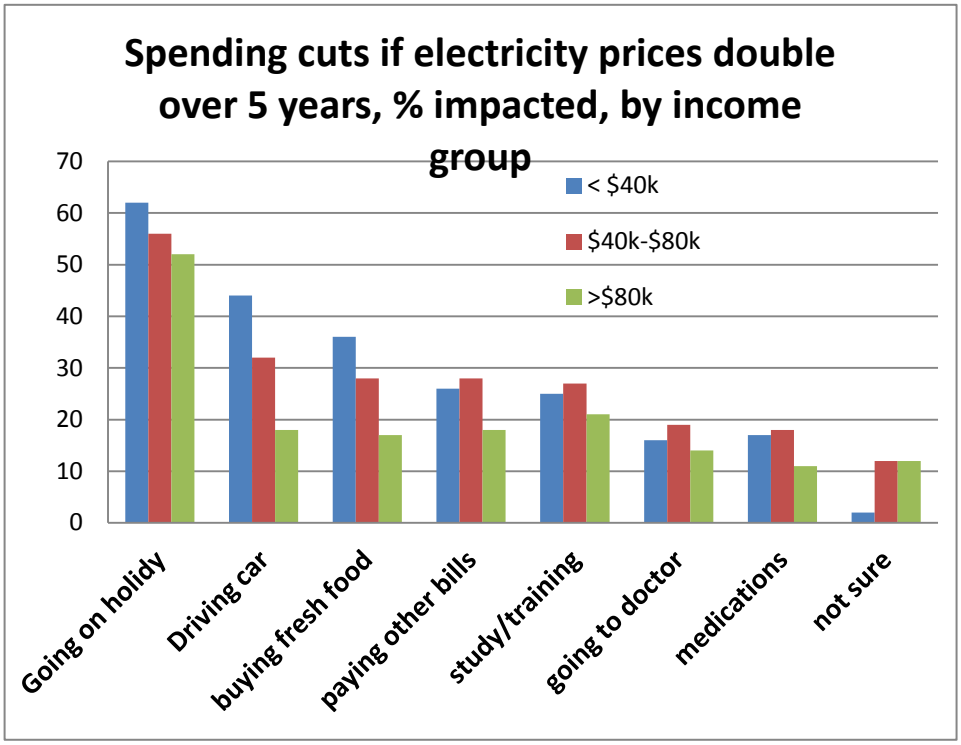
Information from this table is presented in Graph 3. Of particular relevance to this discussion is the observation that 38% (rounded) of the poorest 30% of Australia's households were

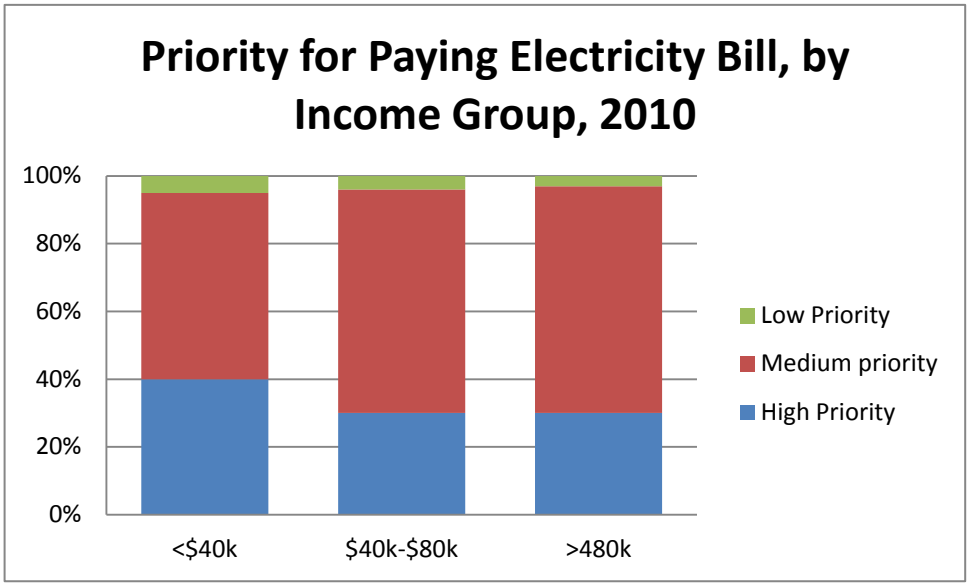
unable to pay electricity bills on time, due to financial stress, while 15% (rounded) of Australia's total population were unable to pay for electricity on time, a significant indicator of financial stress. Also worthy of note is that, considering the whole Australian population, inability to pay electricity bills on time was the most common indicator of financial stress, in 2003-04. It is most likely that a higher proportion of the population would now be unable to pay electricity bills on time, because electricity costs have grown at a much faster rate than CPI or minimum wages.



Graph 3 Source ABS

In August 2010 UnitingCare Australia incorporated energy affordability questions into the Australia Institute/Roy Morgan representative community survey. The graphs below summarise some of the key findings from this survey.


Spending cuts if electricity prices double over 5 years, % impacted, by income group
70
60
50
40
30
20
10
0
< $40k
$40k-$80k
>$80k
Going on holidy
Driving car
buying fresh food
paying other bills
study/training
going to doctor
medications
not sure


Priority for Paying Electricity Bill, by Income Group, 2010
100%
80%
60%
40%
20%
0%
Low Priority
Medium priority
High Priority
<$40k
$40k-$80k
>480k

FUTURE ESTIMATES OF ENERGY HARDSHIP

With expected increased in electricity prices lowest income quintile households in could be paying 12-16% of their disposable income on electricity costs by 2015, while the second quintile households could be paying 7-8%, on average, of household disposable income for electricity. We cannot estimate the impact this will have on financial stress measures, but can be certain that increases in energy costs will significantly increase financial stress for more Australian households.

There is no generally accepted measure for 'energy stress' in Australia, however, in the UK, a household needing to pay 10%, or more, of their income for heating is regarded as facing 'fuel poverty'. Using a 10% of household disposable income needing to be spent on the essential service of electricity as a 'rough' measure for 'energy stress' in Australia (and more work is needed on this matter), then it is likely that over 20% (and possibly nearer 30%) of Australian households are likely to be facing 'energy stress' by 2015.

The majority of households will see a marginal decline in electricity affordability due to the projected electricity price increases. This is outlined in the table below:

Household Income Quintile	Current Spend on Electricity as % of Household Income	2015 Spend on Electricity as % of Household Income[1]
First	1.5	1.6
Second	2.8	3.1
Third	3.8	4.4
Fourth	5.3	5.9
Fifth	8.7	9.7

Under a fuel poverty definition of expenditure more than 10% of household income on energy, the average household in each income quintile is unlikely to experience fuel poverty. However analysis suggests, in the absence of policy intervention, there is a real risk that a significant number of low income households are likely to experience fuel poverty.[2]

To monitor the prevalence and emerging risks of energy poverty, a base line should be established, using the latest data from the Household Expenditure Survey, that shows:

- The proportion of households in the bottom 10-50 % of the distribution of household disposable income that spend more than **6%, 8% and 10%** of income on energy.
- The proportion of households in the bottom 10-50% of the distribution of household disposable income that, due to a shortage of money, were unable to heat their home.

These should be updated with every new Household Expenditure Survey, and with the General Social Survey, conducted by the ABS.

[1] Assumes mid-point of forecast increases ($275 per MWh)

[2] For more information, see Simshauser, Nelson and Doan, *The boomerang paradox: how a nation's wealth created fuel poverty and how to defuse its impacts,* 2010

UnitingCare Kildonan
Making a positive difference

Addressing Energy Efficiency & Financial Affordability

Original Kildonan Energy Efficiency Model

Developed over a 10 year period, Kildonan's energy efficiency program is based on an empowerment model and developed through the knowledge and experience of financial counsellors in addressing fuel poverty.

Key features of national model:

- Collaborative partnership with Energy retailers. Households are identified and referred to Kildonan via the retailers respective hardship programs.
- A focus on energy audit through a behaviour change lens as the initial driver and where appropriate access to retrofit items
- A focus on financial stability, advocacy and access to relevant community and government support programs (eg relief grants, mental health services, tenancy advice services, ombudsman, etc)

Program Aims

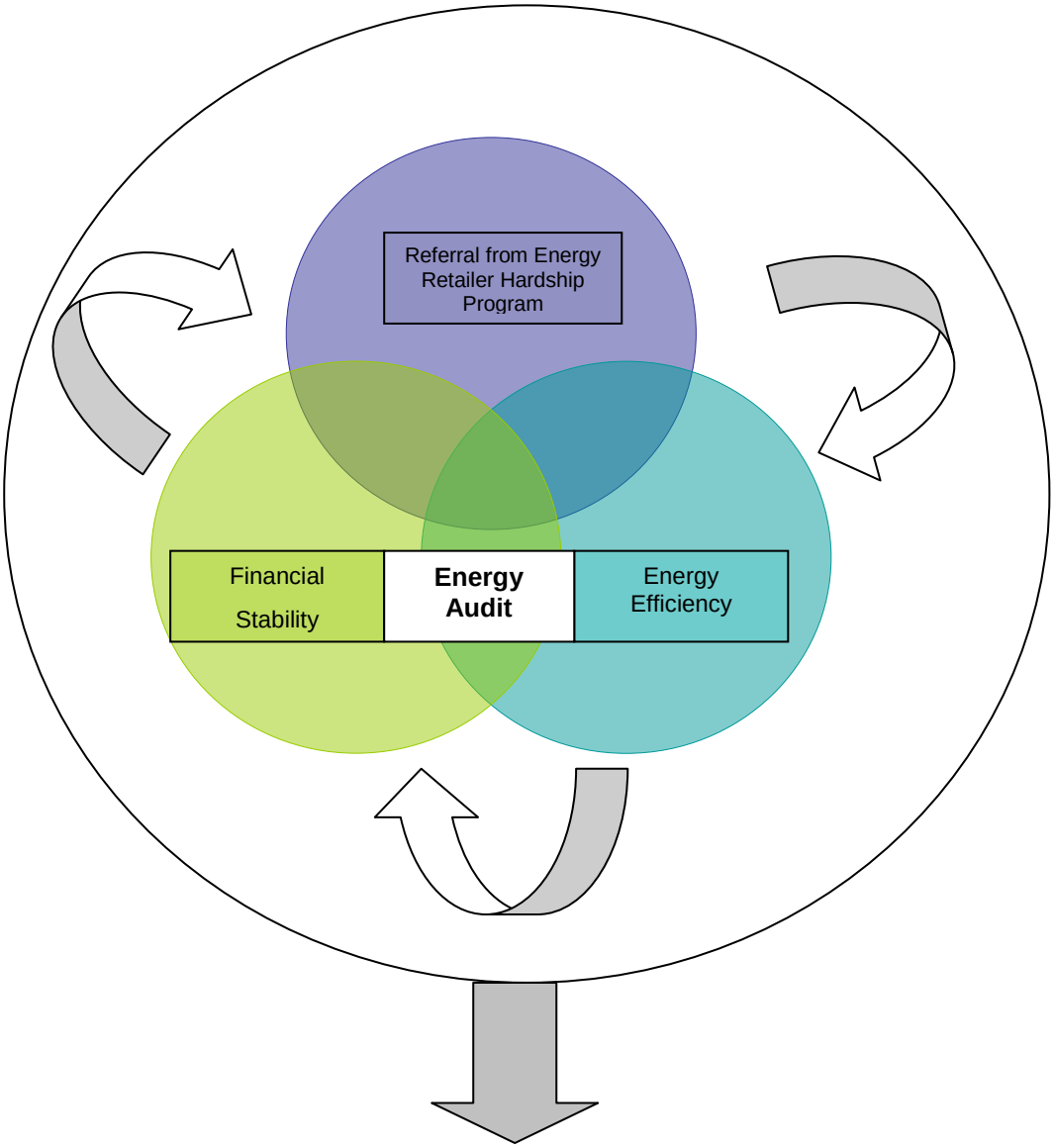
- To increase energy affordability for individuals and households, particularly those who are disadvantaged or in hardship
- To assist individuals and families increase energy efficiency and reduce energy consumption through a holistic approach
- To enhance consumer's rights and access to utilities and other community supports
- To enhance clients' comfort, health and quality of life as relating to their energy consumption/or facilitate equitable access to energy related health and comfort

Program outcomes

- Average saving of $207 per year on electricity bills alone across the three years (2004-2006). ***This translates to more than $400 dollars in electricity savings according to current day tariff charges***. Further, the mean annual saving in kilowatts was 1,637 across the three year period
- Reported additional savings in water, gas and waste
- Clients empowered to take the necessary steps to advocate for themselves, understand and stabilise their energy use to work towards financial stability
- Increase linkages for clients with community service organisations, government and industry schemes
- Informed and educated utility retailers regarding issues affecting the energy affordability of their consumers

SUPPORT PROVIDED TO ASSIST HOUSEHOLDERS INCREASE FINANCIAL STABILITY INCLUDES:

- Discussing the affordability of utility bills and current payments facing the householders in order to stop the cycle of bill stress and defaults
- The provision of information and advocacy (e.g. letters to landlords requesting maintenance, the identification of billing anomalies, promoting access to government assistance, referral to specialist community services etc)
- Referrals to local support services



Follow up work by Energy Auditor
to link household to relevant external supports and programs
For example:
Appliance replacement assistance, utility relief grants, negotiation with landlords, microfinance, matched savings schemes, mental health services, family support services, household budgeting support