



THE UNIVERSITY OF
SYDNEY

**THE IMPACTS AND CONSEQUENCES
FOR LOW-INCOME AUSTRALIAN HOUSEHOLDS
OF RISING ENERGY PRICES**

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Dr Fiona Taylor conducted the focus groups and interviews, contributed substantial drafting to Section 4 of this report and compiled material for inclusion in Section 5. Julian Wood assisted with editing of Section 4. Kieran Latty, a University of Sydney PhD candidate, conducted the initial analysis of the data from the online survey.

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6. SUMMARY OF FINDINGS AND POLICY IMPLICATIONS

There is limited understanding of the impacts and consequences for low-income households of the substantive increases in household energy prices since mid-2007. Households are now dealing with the cumulative impact of annual electricity price increases far in excess of general price and wage movements. The average increase in Australian household electricity prices from 2007 to 2013 was nearly 83% with the highest experienced by NSW households (108%) and the lowest average increase for those living in the ACT (71%).

These averages indicate the quantum of change in electricity prices not the average increase in the dollar value of the household energy bill which is driven by energy use. Averages also do not shed any light on the day-to-day impacts for low-income households of rapidly escalating energy bills. Is expenditure being foregone on other essentials in order to pay energy bills? Are high energy bills, as found in the UK and Europe, contributing towards evidence of hardship such as inadequate nutrition, poor physical and psychological health, and social exclusion? Are there constraints on the ability for low-income households to change their energy use? What is the impact of housing conditions on energy use? What is the extent of assistance available to households experiencing difficulties paying energy bills?

This study provides a substantive evidence base of the lived experiences, well-being and lifestyle of low-income households as a result of rapidly rising household energy bills.

The study comprised two parts. An online survey was completed by 372 respondents across Australia during the period 1 February to 30 November 2012. Focus groups and interviews were conducted with 130 participants in the capital city and a regional centre of the four most populous States during October and November 2012.

Survey respondents were highly representative of the Australian population in terms of location, income, dwelling type, and housing tenure. Focus group and interview participants were highly representative of the poorest 20% of households which are nearly 25% of all Australian households, the majority of which are dependent on pensions and allowances. Participants included indigenous Australians, those from a non-English speaking background, full-time students, those with a disability or long-term illness, sole parents, the unemployed and age pensioners.

There has been anecdotal reporting by the media, welfare agencies, community organisations and charities of the deleterious effects of rising energy prices. The findings of this study indicate the nature of these damaging effects for low-income households is widespread and systemic.

Nearly all households have tried to reduce their energy use in response to rising energy bills. Many are of the view that they have cut back as far as they could and many are bewildered that their reduced energy use has not produced a commensurate bill reduction.

Measures generally adopted to reduce household energy use are: lights turned off in rooms not being used; the use of compact fluorescent globes instead of incandescent globes; appliances manually switched off at powerpoints and standby mode switched off; heating and cooling limited to days of extremely high or low temperatures; the use of hot water limited to showers and washing clothes; limits placed on television viewing and the use of ovens or stovetops for cooking; and, washing machines and dishwashers only turned on when full.

These shifts in behaviour have been driven primarily by higher electricity prices although 36% of survey respondents reduced home energy use because of 'better practical information'.

Many households have switched energy companies to reduce energy bills generally in response to door-knock selling but to little avail. The study received a considerable number of unsolicited complaints about retail marketing practices which are generally viewed as deceptive and pushy that prey on ignorance, fear and desperation. Some households also feel 'trapped' with their energy supplier because of the amount of arrears which they owe.

Those with the lowest incomes have more barriers preventing lower household energy use than those with relatively higher income levels. Predominant barriers to reducing energy consumption are being unable to afford energy saving appliances or household repairs/improvements (which is most problematic for renters), the need for health-related use of heating and cooling and life support equipment, and the presence of children. Households are loathe to cut heating or cooling too much in case it affects the health of children or exacerbates existing health vulnerabilities.

Consistent with past studies, it was found that household energy expenditure as a proportion of disposable income is much higher for poorer households and declines as income rises. The findings also show the acute differential between the poorest and wealthiest households.

Overall, living in older housing, located outside a capital city, unable to afford energy efficient appliances and/or housing repairs, being a renter, using energy for heating, no insulation and the need to use medical equipment, are all characteristics that will lead to comparatively higher household energy bills. On the other hand, insulation and solar panels, the absence of children in the household and energy saving household behaviours, are all drivers of comparatively lower energy bills.

The awareness of energy efficiency measures is strong. On the contrary, there is a surprisingly very low awareness of the assistance provided for households experiencing bill payment difficulties through State Governments hardship payments as well as payment plans with energy companies. Those households using instalment or hardship plans generally consider the payments are unaffordable, being set too high by their energy company and not reflecting their capacity to pay.

Current policy measures assisting households with energy bills are generally reactive and fragmented across States. More subtly, these policy measures shift the problem to one of poor financial management and individual (lack of) responsibility. Concessions, rebates and social tariffs aim to limit the impact of energy prices. This is the dominant policy measure across Australia and is generally an absolute amount (lump sum) rather than a proportion of a household energy bill as is the case only in Victoria. Australian Government eligibility criteria for income support payments and concession cards are also overwhelmingly used to determine eligibility.

At least 2.3 million low-income households are regularly receiving some form of State Government concession or rebate on their electricity bill. Yet the rate of electricity disconnections for the non-payment of bills is rising. All States record a higher proportion of residential consumers being disconnected in 2011-12 compared to 2007-08. The trend evidenced by the disconnection data strongly points to the increasing ineffectiveness of current measures to assist the payment of energy bills.

Access to assistance measures requires self-identification and hence the need for information. Many eligible households are ignorant of assistance programs because they do not have internet access where information is most commonly provided, mobile phone costs and call waiting times prohibit them making contact with an energy supplier, or communication difficulties are experienced when contact is made which leads to frustration and an unwillingness by the household to spend further time trying to engage with their energy company. The majority of the poorest Australian households, about 1.5 million, do not have access to the internet and use pre-paid mobiles, the calls from which can be quite expensive if placed in a call-waiting queue. Consequently the lack of awareness about assistance is not surprising but does starkly illustrate the need for government and energy suppliers to provide information about assistance in a more accessible form for the poorest households.

About 75% of focus group and interview participants nominated food as the expenditure which they had cut back in order to pay higher household energy bills. For many this was the only expenditure item they could cut and noticeable changes in diet were reported as a result such as no protein or

less fruit and vegetables. Some parents report sacrificing their own nutrition or going hungry so that their children are fed.

The most commonly mentioned restriction as a result of *reallocating* expenditure to pay energy bills was social participation such as having a coffee with friends. Parents mention doing everything they could to avoid cutting their child's participation in school-related activities, sport or hobbies. Children's health is also a priority for parents but general practitioner visits have been cut by some if bulk billing is not available. Deliberate delays in filling medical prescriptions or selling possessions to fund the payment of energy bills are other actions taken.

Using only one room, shorter (or occasionally, no) showers, watching less television, rarely having friends or extended family at home to avoid using cooking appliances and/or the room temperature being uncomfortable, never or rarely leaving home, going to bed fully clothed (or early) to avoid the use of heating, families using a common sleeping room when cold – these are some of the 'strategies' that low-income Australian households are using to 'manage' their energy use as they endeavour to control the size of bills. These actions are far more extreme than the commonly promulgated measures to improve household energy efficiency.

As a result of cutting expenditure on essentials such as food and reallocating expenditure on other items to be able to pay energy bills, and making relatively severe changes in household practices to reduce the size of energy bills, these households are suffering physical discomfort, reduced physical and mental well-being, loneliness and social isolation, strains within household relationships, and distress about the social and emotional well-being of children. Anger, frustration, anxiety and despair are some of the emotions which these households are experiencing as they struggle with managing energy use and paying household energy bills.

The well-being, health and lifestyle of low-income Australian households are suffering from the cumulative effects of ever-increasing electricity bills over a sustained period of many years which has compounded the circumstances of these vulnerable households.

Overall, the study's findings pose a number of critical issues for government and policymakers.

First, there is strong evidence of the inability of low-income households to become more energy efficient. Action and effort to reduce household energy use is widespread but has been highly concentrated on low-cost practices like the installation of low-energy light bulbs. More expensive actions such as roof repairs, the installation of solar panels, or the purchase of new energy-efficient appliances are not options for those with limited incomes. This means the scope for further – and substantive – improvements in the energy efficiency of these households, and improvements

dependent on individual actions, is highly constrained. Moreover, low-income households face a greater number of barriers to energy use reduction such as being renters, unable to afford energy saving appliances and the need to use heating or cooling for medical or life support equipment. Consequently, proposals to manage energy use through the use of smart meters and time-of-use pricing will not be able to provide low-income households with the same benefits as more wealthy households. More minor changes to household energy behaviours will also not result in sufficiently significant changes to be reflected in household energy bills and will undoubtedly aggravate already diminished levels of health and well-being.

These are also the very reasons that explain the (non)responsiveness of low-income household energy demand to price increases. Further price increases will not lead to the reduction in demand expected because of the multiple barriers to energy use reduction faced by these households.

Third, there is a problematic relationship between low-income households and energy retailers. This relationship is framed by the high reliance of companies on providing customer information on websites, the use of 1300 or 1800 numbers for customers to make telephone contact, the experience encountered when endeavouring to discuss payment difficulties or arrange a payment plan, and marketing practices such as door-knock selling. Nearly 1.5 million low-income households do not have home internet access and so cannot readily access information about programs intended to assist them such as payment plans or government rebate schemes. Alternative provision of information in a more easily accessible form is required for those without an internet connection as well as to community, welfare and emergency provider agencies that work closely with low-income households who may be experiencing energy hardship.

There is the related issue of a consumer's cognitive, negotiation and communication skills when engaging with their energy supplier which may lead to feelings of disempowerment or being coerced into an outcome more preferable to the company than the consumer. The new National Energy Customer Framework (NECF) requires a more proactive approach by energy retailers to identify and assist those likely to experience energy hardship although the extent to which this will translate to an improved consumer experience is as yet unknown given that the Framework has not commenced in all States at this time. The cessation of door-knock selling by *some* energy companies partly addresses this issue by reducing the possibility of intimidation and pressure to sign a market contract without a full understanding of the obligations.

Low-income households also have a high reliance on pre-paid mobile phones to manage their telecommunication costs. From 1 January 2015 calls from mobile phones to an 1800 number will be

free and to 1300 numbers will be charged at no more than the rate of a local call from a fixed line telephone. In the meantime, call costs to energy companies pose a significant barrier to contact and obtaining information about programs to assist with the payment of energy bills and/or when payment difficulties are experienced.

A further critical policy issue is the purpose of assistance for low-income households with the payment of energy bills. Current assistance, primarily provided by State and Territory Governments through rebates, concessions and temporary financial assistance measures, is reactive. Assistance is directed at the bill which is really the end-point of household energy use and will only apply in a particular set of circumstances, that is, if eligibility criteria are met. In some cases, this may mean the assistance is limited to a one-off payment.

Concessions, rebates and financial payments, the monetary value of which varies considerably across all States and Territories, are not directed at the drivers of a household's energy demand. The capacity of a household to minimise its energy use is driven by the energy efficiency of housing, the size, composition and daily activities of the household, medical needs for heating or cooling, life support equipment or other special needs and thus the household's capacity to reduce its energy demand. Consequently this reactive form of assistance does not help low-income households manage their energy use to achieve the maximum possible energy efficiency level for the household's circumstances.

Payment plans and hardship policies are further types of assistance for households experiencing energy hardship which have emerged more recently. Under the new, and partially implemented, National Energy Customer Framework energy retailers are required to implement customer hardship programs which are generally framed around payment arrangements for energy bills owing, or for ongoing use, and the avoidance of disconnection. Like financial assistance, these payment plans are a reactive measure in that they are initiated when a household has reached a particular point of energy hardship commonly denoted by difficulties paying bills and the increasing possibility of being disconnected.

Measures for widespread, long-term improvements to the energy efficiency of housing address a key driver of energy use. Such measures for housing occupied by low-income households are non-existent. Policy measures to improve energy efficiency, and accessible by low-income households, are relatively limited in scale compared to energy bill assistance and focus on changing household behavioural practices not housing conditions to reduce energy use.

Overall the current suite of policy measures assisting households who are experiencing difficulties with the payment of energy bills is very reactive and fragmented. Consequently the effectiveness of these measures to reduce or ameliorate energy hardship is questionable.

There is no reliable data collection and reporting of take-up rates for any of the above assistance measures across all States and Territories, the extent to which eligible households are 'captured' by these forms of assistance.

This study estimates that *at least* 2.3 million low-income households are regularly receiving some form of rebate or concession for their electricity bill. Australian Government eligibility criteria for concession cards are generally used to determine eligibility for this assistance. In 2011-12 there were some 5.7 million Pensioner, Health Care and DVA Gold Care Card Holders.

¹²² There is no data to determine the extent to which eligible card holders are receiving energy bill assistance but it is clear that not all eligible households are receiving assistance. It has been reported that less than 20% of eligible NSW families applied for the Family Energy Rebate in 2012-13. ¹²³ This study also found many low-income households, along with welfare and community sector workers, to be unaware of the forms of available assistance. Even assuming two eligible card holders per household, there could be more than 1 million low-income households not receiving energy bill assistance for which they are eligible.

There have been many calls for a nationally consistent framework for energy bill concessions. ¹²⁴ Yet there is limited understanding of the effectiveness of the current rebates and concessions. As stated earlier, the increasing rate of residential electricity disconnections is one signal of the increasing ineffectiveness of energy bill assistance measures for those low-income households who are recipients – assuming the objective of these assistance measures is to help make bill payment easier and avoid disconnection. Johnston's study showed the relative value of energy concessions in 2012 across the four most populous States. ¹²⁵ But to understand 'effectiveness' more comprehensively requires a systematic evaluation designed around a series of questions and one that will display trends over time.

¹²² Australian Government Department of Families, Housing, Community Services and Indigenous Affairs (2012), *2011-2012 Annual Report: Paving the way*, Canberra: FaHCSIA, p.84; Australian Government Department of Veterans' Affairs (2012), *Annual Reports 2011-2012*, Canberra: DVA, p.21.

¹²³ Nicholls, S. (2013), 'Power price rebate goes unclaimed – and underfunded', *Sydney Morning Herald*, June 20.

¹²⁴ For example, see: Australian Energy Ombudsmen, Energy Retailers Association of Australia, and ACOSS (2013), *National Energy Affordability Roundtable Report for the Standing Council on Energy and Resources*, May 2013.

¹²⁵ Johnston, M.M. (2013) *The relative value of energy concessions: Part 1 of the Vinnies' Concessions Projects*, 25 January, Melbourne: St Vincent de Paul Society and Alvis Consulting Pty Ltd.

A preliminary framework of questions to understand whether energy bill assistance programs are achieving their objectives could be:

- [1] What are the program objectives for each type of energy bill assistance provided by each State and Territory Government?
- [2] What is the number of households eligible to receive the energy bill assistance provided by each State and Territory Government for each of the last 10 years?
- [3] What is the number of households actually receiving each type of energy bill assistance provided by each State and Territory Government for each of the last 10 years?
- [4] What is the method of delivery of each type of energy bill assistance provided by each State and Territory Government? Have any changes occurred during the last 10 years?
- [5] What has been the dollar amount of each type of energy bill assistance for each of the last 10 years?
- [6] What have been the annual income thresholds for Australian Government Pensioner, Health Care and DVA Gold Card Holders for each of the last 10 years?
- [7] What is the estimated average annual household electricity bill over each of the last 10 years?
- [8] What is the estimated annual household electricity consumption over each of the last 10 years?
- [9] What has been the total cost of each type of energy bill assistance provided by each State and Territory Government for each of the last 10 years?
- [10] What has been the cost of resourcing delivery of each type of assistance by each State and Territory for each of the last 10 years?

The first point to make about this 'analytic grid' is the data required to answer the questions. Data collected over the last 10 years will show trends in eligible households and the difference in numbers of recipient households which can be compared against method of program delivery and annual electricity price increases. The dollar amount of each type of assistance will allow calculation of its nominal and real contribution to available income to meet energy bills which can be compared against estimated annual electricity consumption and bills. The total cost of each type of energy bill

assistance and the resourcing cost to deliver each can be compared against the actual number of recipients to gain insight into the cost-effectiveness of each measure.

Each State and Territory Government should have the data to answer questions [1], [3], [4], [5], [9] and [10]. Data to answer questions [2] and [6] should be available from the Australian Government Departments of Human Services and Social Services. Data to answer questions [7] and [8] should be available from State and Territory Government regulators responsible for setting electricity prices and monitoring the performance of electricity retail companies.

This 'analytical grid' of questions could also be applied to energy efficiency programs that have been progressively implemented in more recent years.

An evaluation of current policy measures is, by its nature, backward looking. It should show how well program objectives have been met, actual versus intended coverage, the most effective delivery form in terms of coverage and cost, and an indication of the contribution which assistance has made over time to meeting the payment of annual energy bills for low-income households.¹²⁶ Such an evaluation is also a fundamental preparatory step to the development of a nationally consistent framework of household energy concessions and an appropriate level of concessions. Nevertheless, the evaluation is only dealing with current reactive policy measures and not providing preventative or remedial policies; preventative in the sense that low-households are 'prevented' from falling into energy hardship and remedial in the sense that households are 'removed' from energy hardship.

Energy hardship is caused by a conjunction of factors – low income, energy prices, the condition of housing, the capacity to adopt different household practices to manage energy use given its size, composition and needs. Not all low-income households will be subject to the same housing conditions and there will be considerable variability in household capacities to manage their energy use. Given the current extent of energy hardship, as evidenced by this study, there is a high need for reactive policies – and undoubtedly an improved level of assistance - to continue until preventative and remedial policies are implemented and successively operated for some years. Thus the threshold question for government and policymakers is whether there is the political will to directly address and eliminate energy hardship or whether the only form of assistance will remain reactive.

¹²⁶ With respect to the latter point, see the insightful analysis of Johnston, M.M. (2013) *The relative value of energy concessions: Part 1 of the Vinnies' Concessions Projects*, 25 January, Melbourne: St Vincent de Paul Society and Alvis Consulting Pty Ltd.