



**The relative
value of**

**energy
concessions**

Part 1 of the Vinnies' Concessions project

**May Mauseth Johnston
January 2013**



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good works

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The relative value of energy concessions

Part 1 of the Vinnies' Concessions Project

May Mauseth Johnston, Alviss Consulting Pty Ltd

Melbourne, 25 January 2013

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Acknowledgements

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About this project

The purpose of this project is to analyse the relative value of energy concessions for eligible card holders in South Australia, Victoria, Queensland and NSW, and to examine changes during the 2009 to 2012 period. This analysis will take both energy price increases and changes to concession arrangements into account. It aims to compare the relative value over time as well as between jurisdictions.

With the move towards a national energy retail market and as states adopt the National Energy Retail Law (NERL) it is important that the relative value of the concessions and their impact on energy affordability is understood. Approximately 25% of the households receive concessions/rebates on their energy bills and the concessions represent an important tool to promote energy affordability.¹ The effectiveness of the concessions as a tool to enhance energy affordability does nonetheless relate to the broader customer protection framework embedded in the NERL (or state based regulation). Conversely, the effectiveness of the customer protections designed to address energy hardship also depends on the concessions arrangements.

This report (Part 1 of the project) presents analysis of electricity bills post July 2012 price re-sets and the impact of current standard state concessions in Victoria, NSW, Queensland and SA for households holding a concession and/or pensioner card. The next step is to analyse estimated electricity and gas bills from 2009 to 2012 and the relative impact of state and federal concessions at different points in time over the three-year period. Part 2 of the project, and the final Project Report, will be completed by late February 2013.

Scope

This paper focuses on on-going, mainstream concessions/rebates delivered as discounts on energy bills (electricity and natural gas) to eligible households in Victoria, Queensland, NSW and South Australia. Concessions subject to medical conditions (i.e. medical cooling concessions), classified as one-off or occasional assistance (i.e. utility relief grants) and assistance delivered separately from energy bills (i.e. EAPA vouchers and pension supplements) are outside the scope of this analysis.

Methodology

The analysis presented in this report calculates the value of concessions for medium and low consumption households. The medium consumption level is based on typical household consumption for each jurisdiction and is consistent with the consumption levels assumed in the St Vincent de Paul Society's tariff-tracking

¹ AGL reports that 26% of their residential customer base receive concessions. See Simshauser, P and T, Nelson, The Energy Market Death Spiral – Rethinking Customer Hardship, AGL Applied Economic and Policy Research, Working Paper No 31 available at <http://www.aglblog.com.au/wp-content/uploads/2012/07/No-31-Death-Spiral1.pdf>

reports.² However, research shows that concession card households have lower consumption levels than the rest of the population and we have therefore included a low consumption level based on 20% less than medium consumption.³ As surveys of concession card households are skewed towards pensioners and/or smaller households, we believe the medium consumption level used for this analysis is representative for families while the low consumption is representative for aged pensioners and single benefit recipients.

The table below sets out the annual consumption levels (kWh and Mj) assumed for medium and low consumption households in each of the four jurisdictions.

Table 1 Assumed usage for low and medium consumption households in each jurisdiction

		Medium Usage	Low Usage
VIC	Dual fuel	4,800kWh 63,000Mj	3,840kWh 50,400Mj
	All-electric	7,000kWh	5,600kWh
SA	Dual fuel	6,000kWh 21,000Mj	4,800kWh 16,800Mj
	All-electric	7,500kWh	6,000kWh
NSW	Dual fuel	7,200kWh 24,000Mj	5,760kWh 19,200kWh
	All-electric	8,000kWh	6,400kWh
QLD	Dual fuel	8,000kWh*	6,400kWh
		6,000kWh* 10,000Mj*	4,800kWh 8,000Mj
	All-electric	8,000kWh*	6,400kWh

* As energy concessions are not provided to health care card holders in Queensland, concession recipients are more likely to be in the low consumption group.⁴

² The tariff-tracking reports are available at www.vinnies.org.au/energy

³ See for example the *Victorian Utility Consumption Household Survey 2007* by Roy Morgan Research for Dept. of Human Services, Final report, April 2008, p 75

⁴ See methodology section above

Finally, the analysis presented in this report compares the value (\$) of assistance available to concession card households across the four jurisdictions. To compare the value of the assistance provided we have used the same consumption levels for each jurisdiction. An annual consumption of 6,400 kWh and 24,000 Mj has been assumed for this comparison. The consumption levels are thus not representative for all states; Victorians' typically have lower electricity consumption while Queenslanders' is higher and vice versa for gas. However, these charts have been included to illustrate the difference in annual cost between the states and, most importantly, the value of the concessions provided.

VICTORIA

The main Victorian energy concessions are calculated as a percentage of the bill. Concessions included in the analysis below are the Annual Electricity Concession, the Off-peak Concession (applied to controlled off-peak load), the Service to Property Concession and the gas Winter Energy Concession.

	Description	Value
Annual Electricity Concession (AEC)	All year discount on electricity bills	17.5% off electricity bills (inc GST)*
Off-peak Concession	All year discount on off-peak (controlled load) electricity consumption	13% off off-peak consumption (inc GST)
Service to Property Concession[^]	Applied if the cost of electricity used is less than the supply charge	Reduces the supply charge to the same amount as the cost of electricity over the billing period
Winter Energy Concession (WEC)	Discount on gas bills during the 6 winter months (1 May – 31 October)	17.5% off gas bills (inc GST)*
<p>* On July 2012 a threshold for the electricity and gas concessions was introduced to offset the Federal Government's carbon tax compensation. The AEC is not applied to the first \$171.60 of a household's annual electricity bill and the WEC is not applied to the first \$62.40 of a household's winter gas bill.</p> <p>[^] None of the estimated bills included in this analysis qualified for the Service to Property Concession</p>		

Energy customers with a Commonwealth Pensioner Concession Card (CPCC), a Health Care Card (HCC) or a Department of Veteran's Affairs gold card (DVA Gold Card) are eligible for Victorian energy concessions. Approximately 1/3 of Victorian energy consumers receive concessions.

In terms of estimating annual bills the following assumptions regarding typical consumption have been used for Victoria:

Electricity Single rate

- Medium consumption - 4,800 kWh per annum
- Low consumption – 3,840 kWh per annum

Electricity with off-peak (controlled load)

- Medium consumption – 7,000 kWh per annum
- Low consumption – 5,600 kWh per annum
- Off-peak proportion – 30%

Two-rate electricity (peak/off-peak)

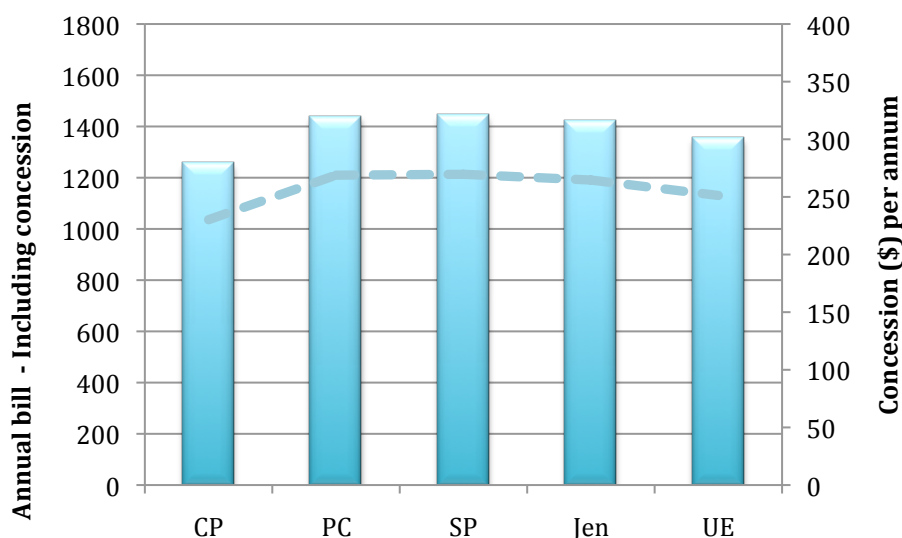
- Medium consumption – 7,000 kWh per annum
- Low consumption – 5,600 kWh per annum
- Off-peak proportion – 30%

Gas

- Medium consumption – 63,000 Mj per annum
- Low consumption – 50,400 Mj per annum
- Consumption has been allocated evenly over the year (i.e. no increase during the winter months – which may underestimate the value of the gas concession for many households)
- As the gas tariffs are seasonal (winter peak) and the concession applies to the winter bills, the concession has been deducted from the 6 or 4 months of winter peak usage (as per tariff). In those cases where the tariff only has a 4 month winter peak, the concession has been applied to 2 months summer off-peak consumption as well.

Chart 1 shows the annual electricity bill for medium consumption households on the single rate (these households typically have gas as well) for each of the five Victorian network areas. As the concession is percentage based, the discount is higher in network areas where the bill is higher (and vice versa). Based on July 2012 prices, concession recipients with medium consumption face an annual electricity bill of approximately \$1,200 -1,400 (depending on their network area).

Chart 1 Single rate: Annual bill and concession amount for medium consumption households (4,800kWh)



As these households typically have gas connected as well, their annual *energy bill* amounts to \$2,400-2,600 (medium consumption electricity and gas). Chart 2 shows that the average annual gas bill for concession households is approximately \$1,200. Based on these medium consumption levels for electricity and gas, the concessions reduce the annual *energy bill* for dual fuel households by around \$350.

Chart 2 Average annual gas bill (incl concession), 63,000Mj

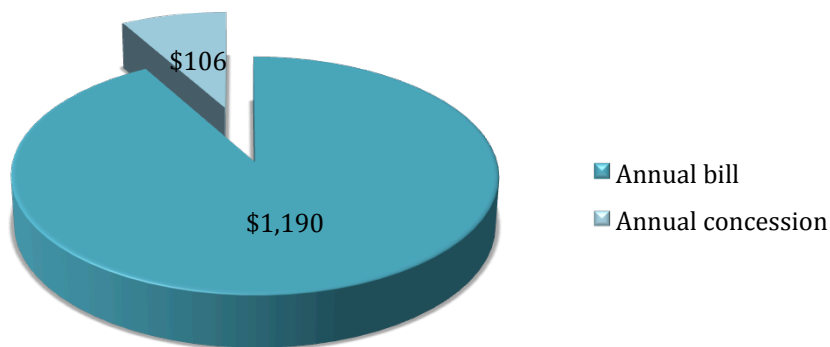
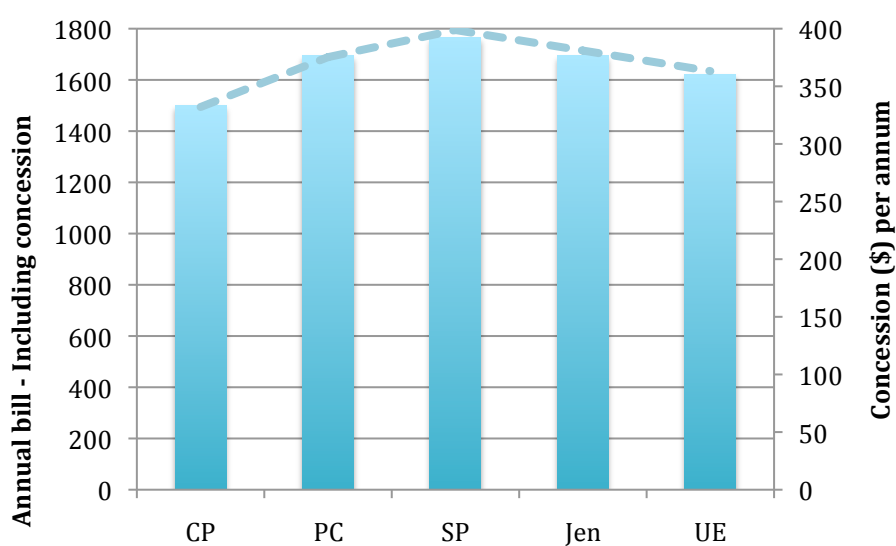


Chart 3 shows the annual electricity bill for medium consumption households on the off-peak (controlled load) tariff for each of the five Victorian network areas. However, as these households are typically all-electric (i.e. no gas connection) they are most common to the two rural networks, Powercor (PC) in western Victoria and SP Ausnet (SP) in eastern parts of the state. The concession for this tariff type includes both the annual electricity concession and the off-peak concession. Based on July 2012 prices, concession recipients with medium consumption in the PC and SP networks face an annual electricity bill of approximately \$1,700 -1,800. For all-electric households in non-metropolitan areas the concessions reduce the annual electricity bill by almost \$400.

Chart 3 Controlled off-peak: Annual bill and concession amount for medium consumption households (7000kWh, 30% off-peak)



Charts 4 - 6 below show the annual bill and concession calculations for low consumption households. The consumption for these households is 20% less than what is assumed in the charts above, and is more representative for single resident or two-resident households and/or smaller housing units.

In relation to dual fuel households, the annual electricity bill (chart 4) is between \$1,000-1,200 and the annual gas bill (chart 5) amounts to approximately \$1,100. As such, low consumption concession recipients face an annual energy bill of between \$2,100-2,300 (depending on their network area) after having received a concession valued between \$290-320.

Low consumption all-electric households with controlled off-peak load in non-metropolitan Melbourne face an annual bill of approximately \$1,650 after having received a concession of around \$350 (chart 6).

Chart 4 Single rate: Annual bill and concession amount for low consumption households (3,840kWh)

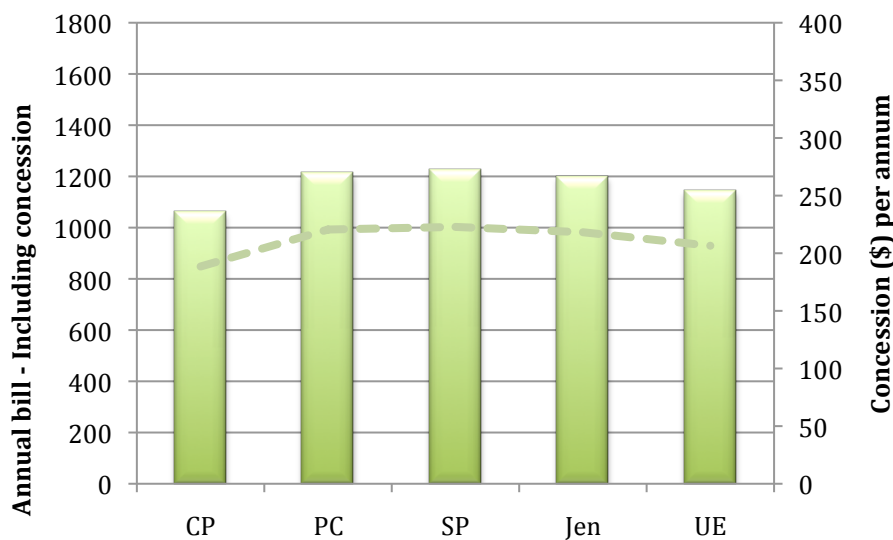


Chart 5 Average annual gas bill (incl concession), 50,400Mj

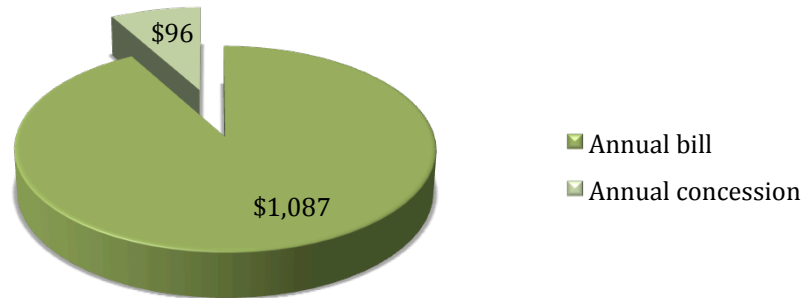
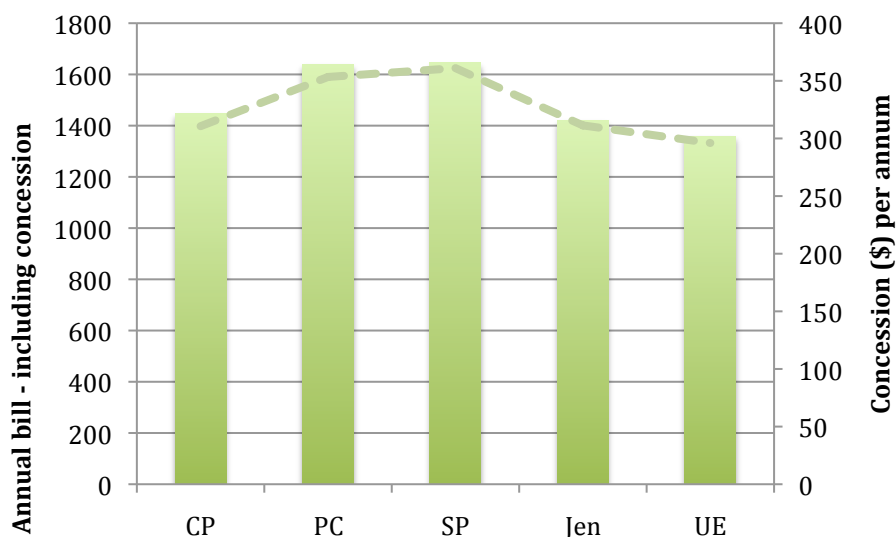
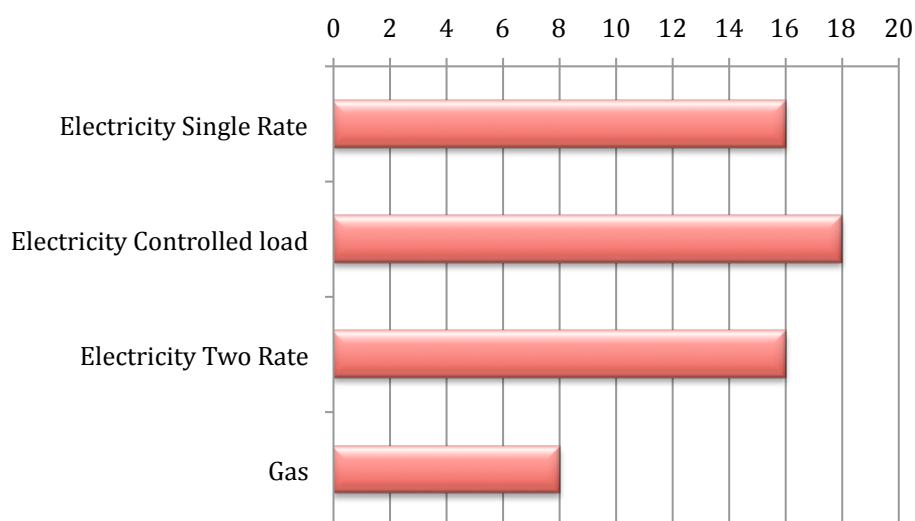


Chart 6 Controlled off-peak: Annual bill and concession amount for low consumption households (5,600kWh, 30% off-peak)



Another less common electricity meter/tariff type available in Victoria is the two-rate tariff (also known as the 'winner' tariff), which is a time based peak/off-peak tariff. As its off-peak consumption is based on time of day rather than separate controlled load assigned to specific appliances, the off-peak concession does not apply to this tariff type. Chart 7 below shows the average annual percentage discount for the different electricity tariffs as well as gas, and it is clear that all-electric households eligible for energy concessions get the greatest value from the controlled load off-peak tariff. As time of use (TOU) pricing is set to commence by July 2013, it is important that concession card holders are aware of the value of the off-peak concession for controlled load that does not apply to time based off-peak rates.

Chart 7 Average annual concession discounts (%) per fuel/meter type for medium consumption households



In summary, the Victorian energy concession is quite similar for all-electric and dual fuel households. All concession recipients receive the all year electricity concession and while dual fuel households receive additional assistance through the gas winter energy concession, the majority of all-electric households receive additional assistance through the off-peak concession. Table 2 below shows the average (across all networks) annual concession amount for medium and low consumption households.

Table 2 Average annual concession amounts for eligible households with low and medium consumption levels

VIC – Average annual concession amount [^]		
	Medium consumption	Low consumption
Dual fuel	\$363	\$307
All-electric w/controlled load	\$370	\$326

[^] **Note:** these are averages across all network areas and the amounts therefore differ somewhat to those included in the text above. In relation to all-electric households, for example, this table shows average across 5 network areas while the comments above discuss figures for Citipower and Sp Ausnet’s network areas where all-electric households with controlled off-peak load is most prevalent.

South Australia

South Australia has one single standard energy concession, the Energy Rebate, which has been included in the analysis below. The Energy Rebate is capped at \$165 per annum, the equivalent of \$0.452/day, and may be applied to electricity *or* gas. For the analysis presented below, the full amount has been applied to electricity (as nearly all households have electricity while this is not the case for gas).

Energy customers with a Commonwealth Seniors Health Card (CSHC), a Health Care Card (HCC) or a Department of Veteran's Affairs gold card (DVA Gold Card) are eligible for South Australian energy concessions. There are almost 193,000 state electricity concession recipients in South Australia, which accounts for just over one quarter of the residential customer base.⁵

In terms of estimating annual bills the following assumptions regarding typical consumption have been used for South Australia:

Electricity Single rate

- Medium consumption – 6,000 kWh per annum
- Low consumption – 4,800 kWh per annum

Electricity with off-peak (controlled load)

- Medium consumption – 7,500 kWh per annum
- Low consumption – 6,000 kWh per annum
- Off-peak proportion – 20%

Seasonality

- The electricity tariffs are seasonal (summer peak) but all consumption has been allocated evenly over the year (i.e. no increase during the summer months – which may underestimate the total cost of electricity for some households, especially those with high summer cooling costs)

Gas

- Medium consumption – 21,000 Mj per annum
- Low consumption – 16,800 Mj per annum

For all-electric households with medium consumption, the annual electricity bill amounts to approximately \$2430 (as per July 2012 prices) after the energy rebate of \$165 has been applied (chart 8).

⁵ ESCOSA, Annual Performance Report 2011/12 available at http://www.escosa.sa.gov.au/library/121129-APR_2012-AnnualPerformanceReport_2011-12Package.pdf

The same rebate applies to dual fuel households, and while these households use less electricity, the additional supply charge for reticulated gas means that their annual bill is much higher than that for the all-electrics. Chart 9 shows that the annual *energy* bill for medium consumption households is approximately \$3,120.

For low consumption households, the all-electric and dual fuel households face annual bills of \$1,925 (chart 10) and \$2,565 (chart 11), respectively.

Chart 8 Annual bill for all-electric households (with controlled off-peak load) - medium consumption

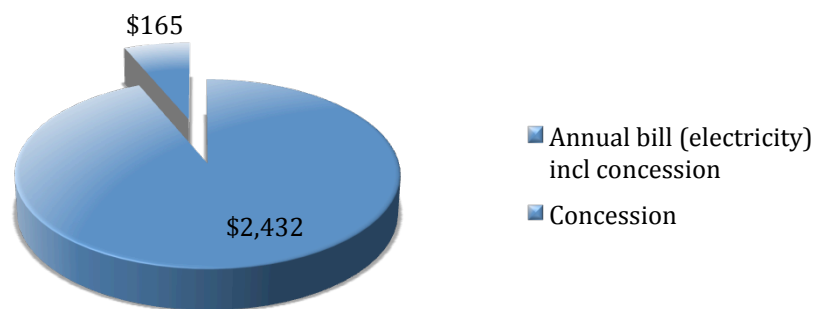


Chart 9 Annual bill for dual fuel households - medium consumption

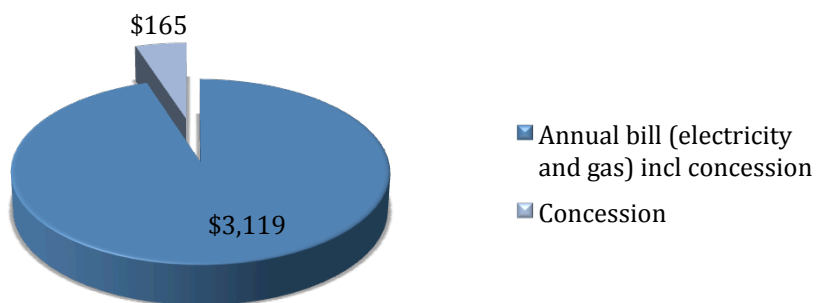


Chart 10 Annual bill for all-electric households (with controlled load) - low consumption

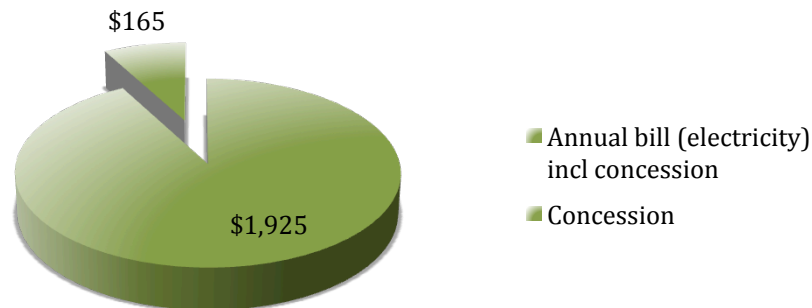
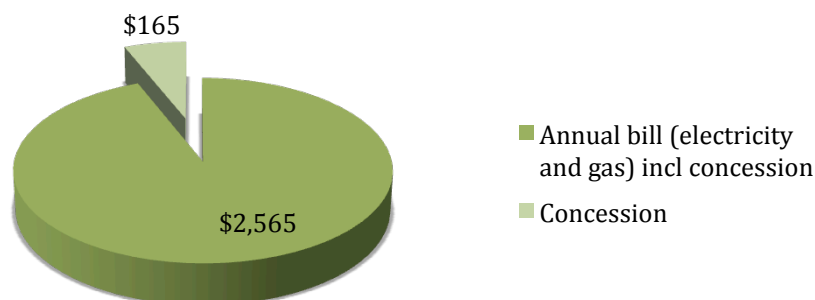
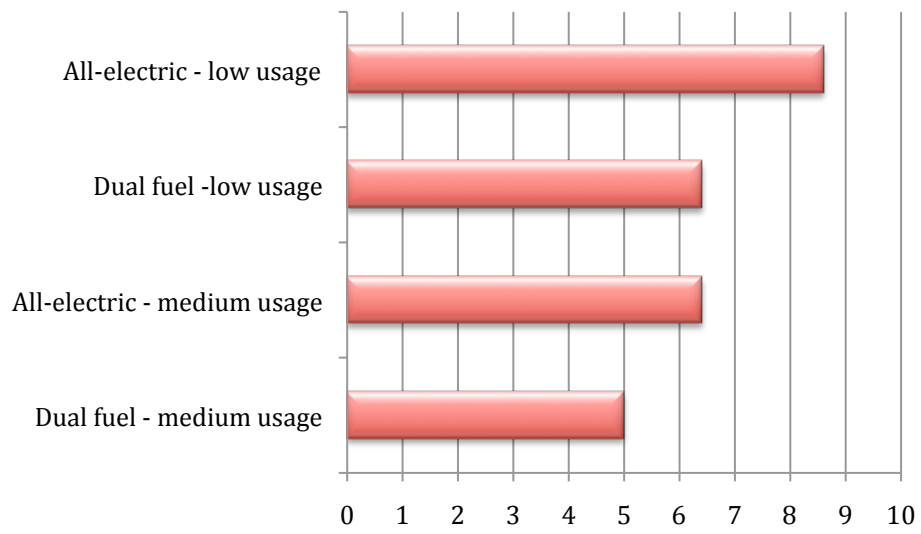


Chart 11 Annual bill for dual fuel households - low consumption



As the South Australian Energy Rebate is a single flat rebate (i.e. not linked to consumption or number of fuel sources), medium consumption households receive proportionally less assistance than low consumption households. Chart 12 shows that the rebate covers 8.5% of the annual bill for an all-electric household with low consumption, while the rebate is 6.5% of the annual bill for all-electric households with medium consumption and dual fuel households with low consumption. For dual fuel households with a medium consumption level the rebate is only 5% of the annual energy bill.

Chart 12 **Concession as % of annual bill**



New South Wales

New South Wales has one single standard energy concession, the Low Income Household Rebate, which has been included in the analysis below. The Rebate is capped at \$215 per annum, the equivalent of \$0.589/day, and applies to electricity only.⁶

Energy customers with a Commonwealth Pensioner Concession Card (CPCC), a Health Care Card (HCC) or a Department of Veteran's Affairs gold card (DVA Gold Card) are eligible for the NSW energy rebate.

In addition to the Low Income Household Rebate, families that received the Commonwealth Government's Family Tax Benefit A or B are eligible for a NSW Family Energy Rebate (FER). For households receiving the Low Income Household Rebate the FER amounts to \$35 per annum and the total energy rebate is thus \$250.⁷

In terms of estimating annual bills the following assumptions regarding typical consumption have been used for NSW:

Electricity Single rate

- Medium consumption – 7,200 kWh per annum
- Low consumption – 5,760 kWh per annum

Electricity with off-peak (controlled load)

- Medium consumption – 8,000 kWh per annum
- Low consumption – 6,400 kWh per annum
- Off-peak proportion – 30%

Gas

- Medium consumption – 24,000 Mj per annum
- Low consumption – 19,200 Mj per annum

The annual electricity bill varies significantly between network areas. NSW's rural network area, Essential Energy, has significantly higher electricity costs than AusGrid and Endeavour Energy. As the rebate is flat (i.e. not linked to consumption) the rebate's proportionality varies between areas as well as consumption levels.

Chart 13 shows that all-electric (including controlled load off-peak) households with medium consumption in Essential's area face an annual bill of \$2,500 per annum including the rebate. As such, the rebate covers less than 8% of a household's

⁶ While it is an *energy rebate* it is applied to electricity for administrative simplicity (as gas customers will typically have electricity but electricity customers do not necessarily have gas)

⁷ Families eligible for the FER but do not qualify for the Low Income Energy Rebate receive a rebate of \$75 per annum. The FER has not been included in the calculations for the charts below but the text refers to the impact of FER on annual bills/discounts.

annual bill. In AusGrid and Endeavour’s areas, on the other hand, the rebate covers almost 11% of the annual bills (approximately \$1,800). Families receiving the FER in addition to the low income rebate receive a marginally higher discount of 8.2% in Essential’s area and 11.3% in AusGrid and Endeavour’s areas. Chart 14 shows a similar picture for households on the single rate electricity tariff.

Chart 13 Controlled off-peak: Annual bill and low income rebate (%) for medium consumption households (8,000kWh)

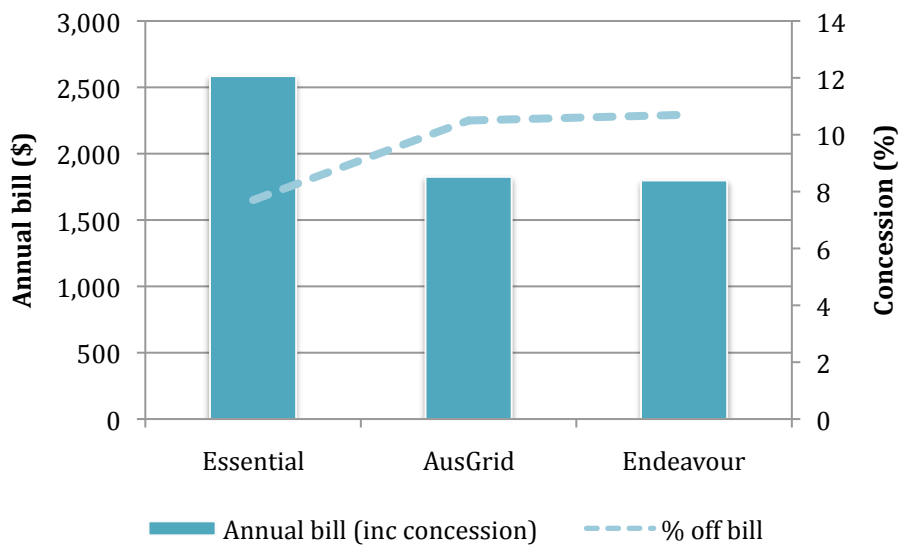
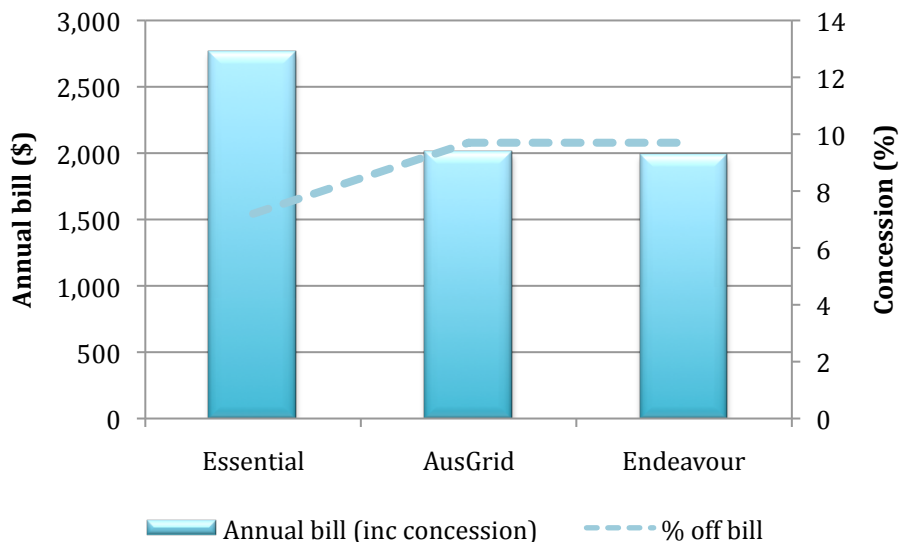


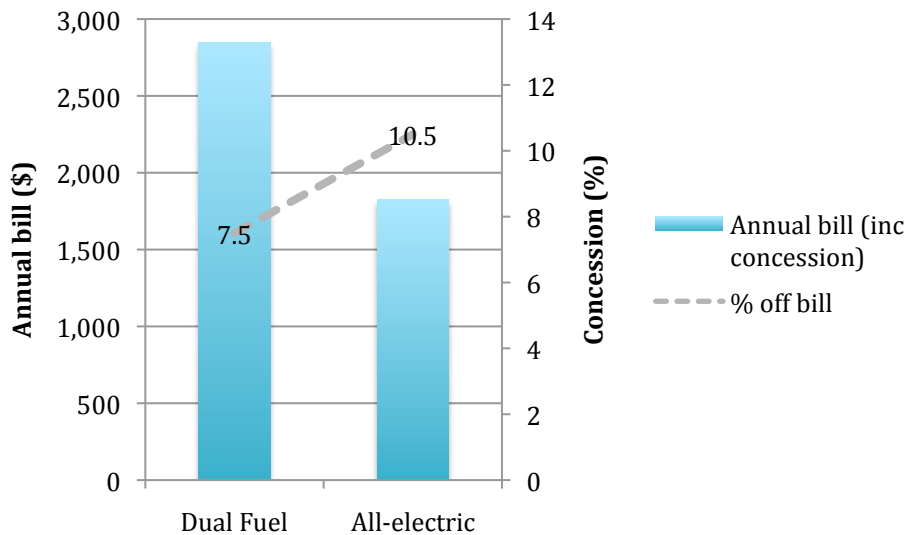
Chart 14 Single rate: Annual bill and low income rebate (%) for medium consumption households (7,200kWh)



As the low income rebate applies to electricity only, dual fuel households receive a smaller proportion of assistance with their energy bills than all-electric households.

Chart 15 compares medium consumption dual fuel homes to all-electric (with controlled off-peak load) in the AusGrid electricity network and the Jemena gas zone, and it shows that dual fuel households face an annual *energy* bill of \$2,750 including the low income rebate covering 7.5% of the annual cost. The annual bill for all-electric households is approximately \$1,000 less and the rebate covers 10.5% of their cost.

Chart 15 **Medium consumption households in Sydney (AusGrid/Jemena)**



Charts 16-18 draw a similar picture for low consumption households. While the percentage discount delivered by the rebate is higher for low consumption households, it is still lower for dual fuel households compared to all-electric and lower for electricity consumers in Essential’s area compared to other networks.

Chart 16 **Controlled off-peak: Annual bill and low income rebate (%) for low consumption households (6,400kWh)**

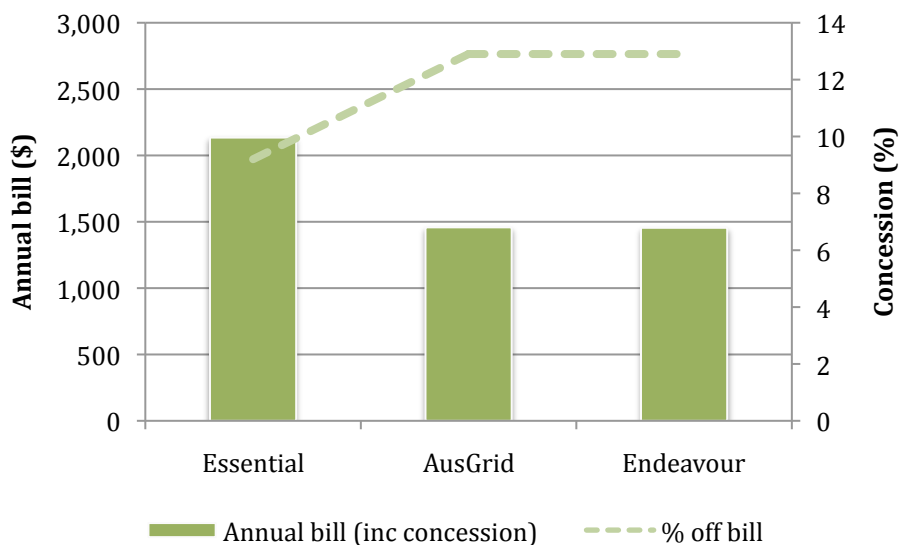


Chart 17 Single rate: Annual bill and low income rebate (%) for low consumption households (5,760kWh)

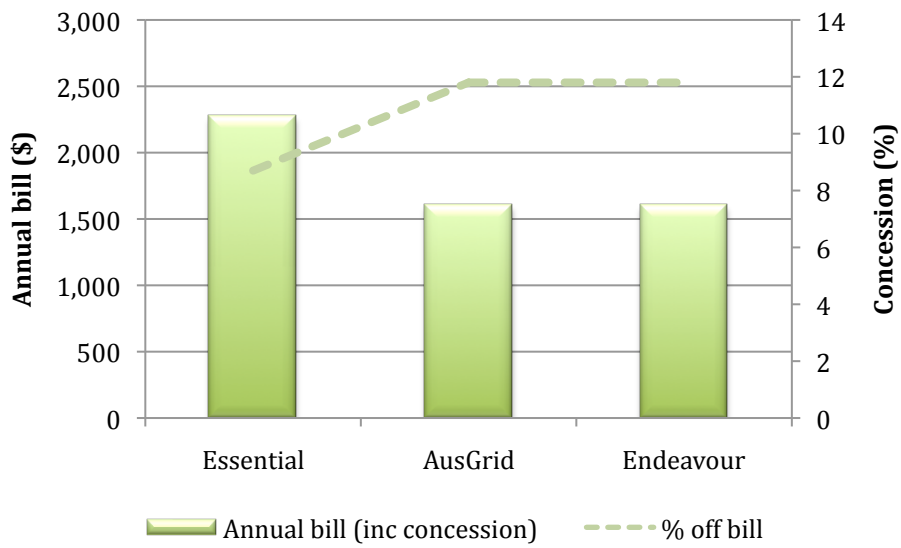
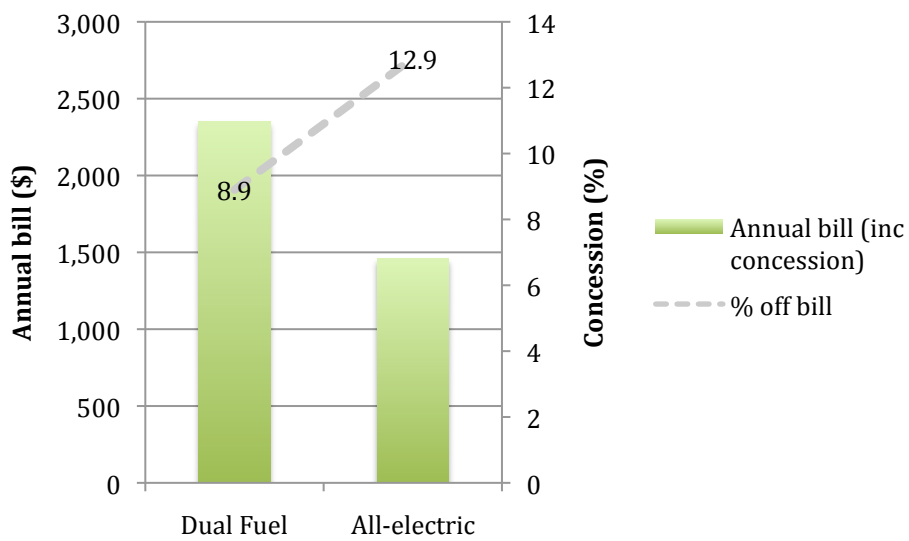


Chart 18 Low consumption households in Sydney (AusGrid/Jemena)



Queensland

Queensland has two standard energy concessions, the Electricity Rebate and the Reticulated Gas Rebate, which have been included in the analysis below. The Electricity Rebate is capped at \$230 per annum, the equivalent of \$0.63/day, and the Gas Rebate is capped at \$64.23 per annum (\$0.176/day).

Energy customers with a Commonwealth Pensioner Concession Card (CPCC), a Veterans' Affairs Pensioner Concession Card (VAPCC), a Department of Veteran's Affairs gold card (DVA Gold Card) or a Queensland Government Seniors Card are eligible for the Queensland energy rebates. Commonwealth Health Care Card (HCC) holders are not eligible for assistance through the Queensland energy rebate scheme and the assistance is thus directed at pensioners and seniors.

In terms of estimating annual bills the following assumptions regarding typical consumption have been used for Queensland:⁸

All-electric, Single rate (Tariff 11)

- Medium consumption – 8,000 kWh per annum
- Low consumption – 6,400 kWh per annum

All-electric w/ off-peak controlled load (Tariff 31 & 33)

- Medium consumption – 8,000 kWh per annum
- Low consumption – 6,400 kWh per annum
- Off-peak proportion – 15%

All-electric w/ Time-of-Use (Tariff 12)

- Medium consumption – 8,000 kWh per annum
- Low consumption – 6,400 kWh per annum
- Peak proportion – 20%
- Shoulder proportion – 55%
- Off-peak proportion – 25%

Gas

- Medium consumption – 10,000 Mj per annum
- Low consumption – 8,000 Mj per annum

Dual fuel

- Medium consumption – 6,000 kWh (tariff 11) and 10,000 Mj per annum
- Low consumption – 4,800 kWh (tariff 11) and 8,000 Mj per annum

⁸ Note: As both gas penetration and household consumption levels are low in Queensland we have estimated bills using the same consumption level for all-electric households on the single rate tariff (T11) and off-peak tariff (T31 & T33). For dual fuel households we have estimated the cost of energy based on lower electricity consumption (T11) combined with gas costs.

Chart 19 shows that all-electric households with medium consumption face an annual bill of \$1,800 - \$2,100; tariff 31 producing the lowest bill while tariff 12 produces the highest. Consequently, the electricity rebate covers a greater proportion of the bill for households with off-peak electricity (tariff 31 and 33). Chart 20 shows the same result for low consumption households.

Chart 19 Annual bill and concession discount (%) for all-electric households with medium consumption (8,000kWh)

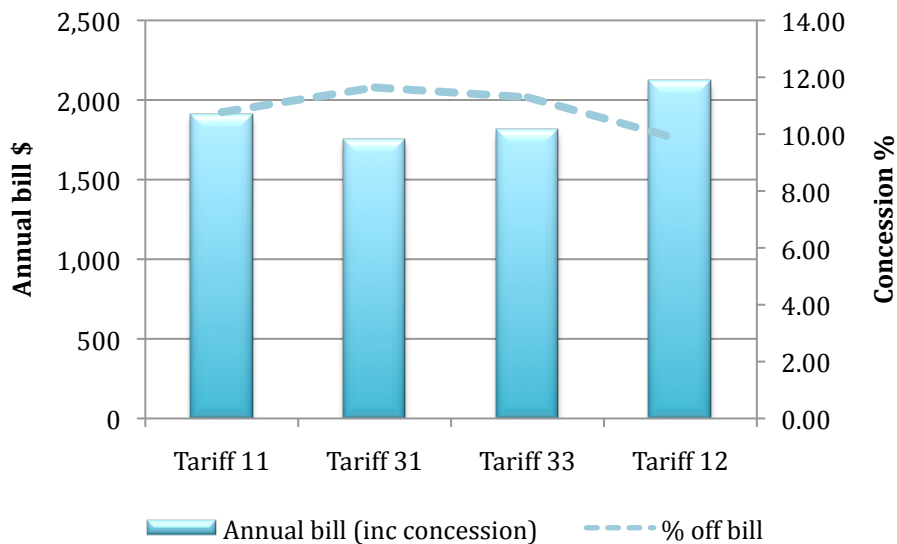
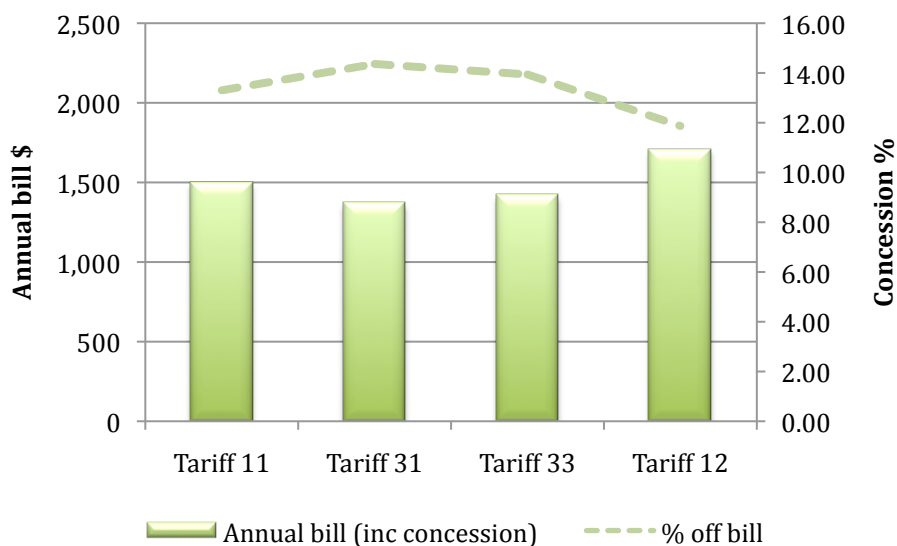


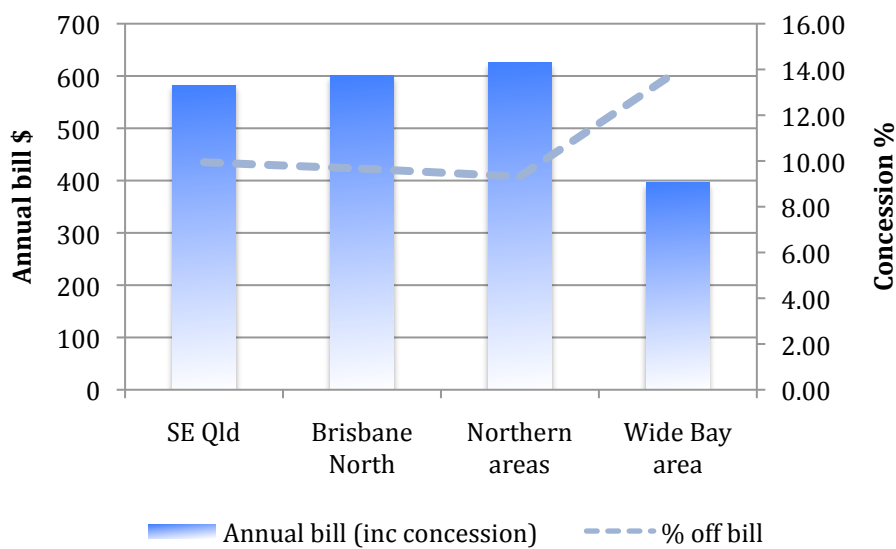
Chart 20 Annual bill and concession discount (%) for all-electric households with low consumption (6,400kWh)



Both household gas connections and gas consumption levels are low in Queensland, and while there are four distinct gas zones, it is worth noting that the vast majority of household gas connections are in the South East zone or the Brisbane North zone.⁹ Charts 21-22 below show that an annual gas bill in these two areas amounts to approximately \$600 for medium consumption and \$500 for low consumption, and that the gas rebate covers 10-11% of the annual bill.¹⁰

As the annual bill for households in the Wide Bay area (Bundaberg, Maryborough and Hervey Bay) is significantly lower, the rebate covers 14-16% of the annual bill for low to medium consumption households.

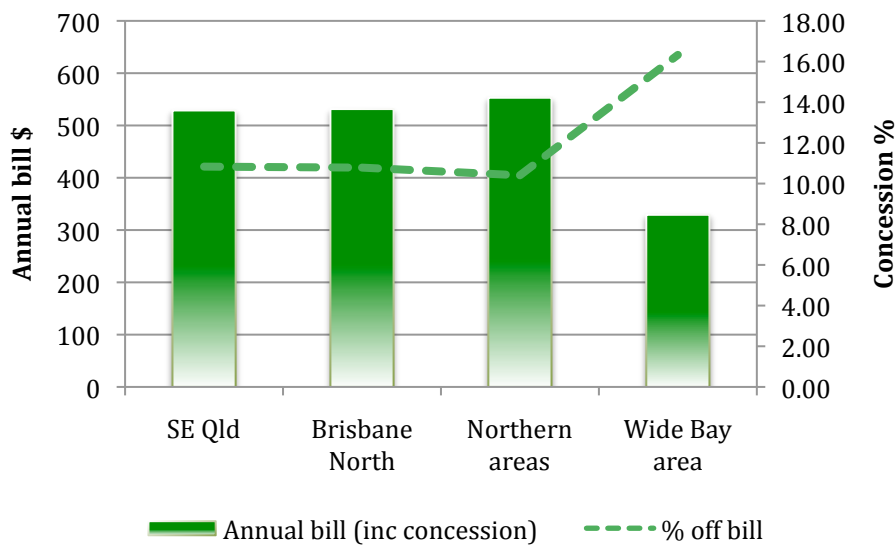
Chart 21 Gas: Annual bill and concession discount (%) for households with medium consumption (10,000Mj)



⁹ The Brisbane North Zone includes Ipswich.

¹⁰ The annual gas bill calculations for Queensland are based on the average of AGL and Origin's standard offers (where they both have offers) or Origin's gas tariffs alone. Gas retail prices are not regulated in Queensland.

Chart 22 Gas: Annual bill and concession discount (%) for households with low consumption (8,000Mj)



Charts 23-24 show annual *energy* bill and total concession for dual fuel households with medium and low consumption level, and chart 25 shows the percentage discount these households receive. Dual fuel households in the South East and North Brisbane with a medium consumption level face an annual *energy* bill of \$1,990 after rebates have been applied.¹¹ Combined, the electricity and gas rebates amount to \$294 per annum and households with a medium consumption level therefore receive a discount of approximately 13%. The annual *energy* bill for low consumption households is around \$1,620 and the annual discount is 15.5%.

¹¹ Gas bill calculation is based on the average of AGL and Origin’s standing offers and the average of Brisbane South and Brisbane North gas zones. The electricity bill is based on tariff 11.

Chart 23 Dual fuel: Annual bill and concession for medium consumption households (6,000kWh & 10,000Mj)

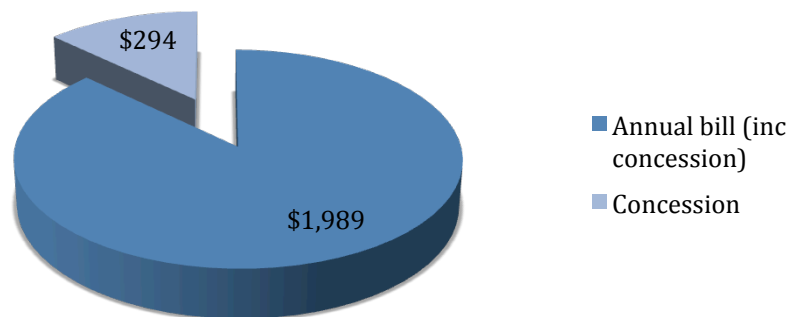


Chart 24 Dual fuel: Annual bill and concession for low consumption households (4,200kWh & 8,000Mj)

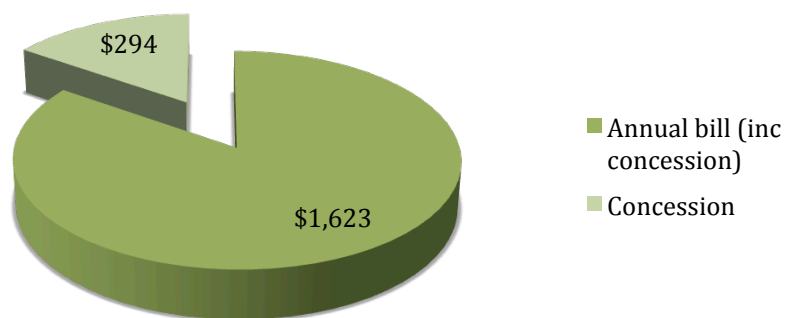
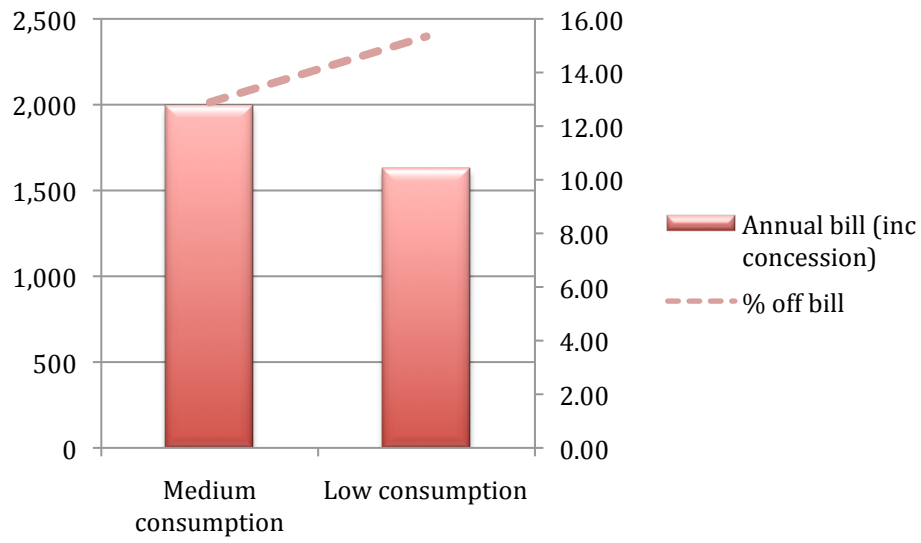


Chart 25 Dual fuel: Annual bill (electricity and gas) incl concessions and % off annual bill

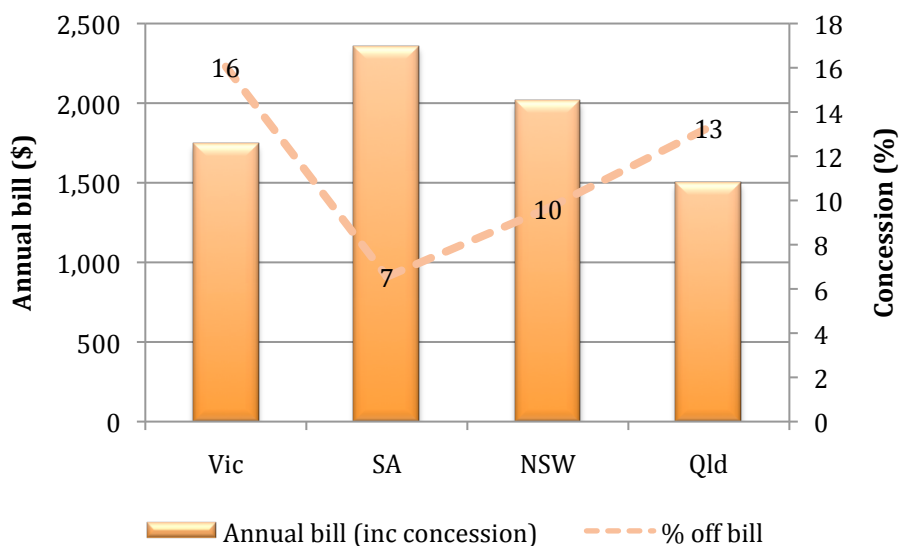


Interstate Comparison

Typical household energy consumption varies significantly between the four states included in this analysis both due to climate and fuel mix/sources. Charts 26 and 27 compare the impact of state based concessions for electricity and gas bills across the four states at an annual consumption of 6,400 kWh and 24,000 MJ. The consumption levels are thus not representative for all states; Victorians' typically have lower electricity consumption while Queenslanders' is higher and vice versa for gas. However, these charts have been included to illustrate the difference in annual cost between the states and, most importantly, the value of the concessions provided.

Chart 26 shows that a South Australian household using 6,400 kWh per annum face an annual electricity bill of approximately \$2,350 after the concession has been applied, while a Queensland's annual bill would be \$850 less, at \$1,500 per annum.¹² Victorians receive the greatest discount at 16%, while on the opposite end of the scale, the South Australian concession covers 7% of the annual bill for households with this consumption level. If we include the additional family rebate for NSW households, the discount counts for 11% of the bill rather than the 10% shown in the chart below.

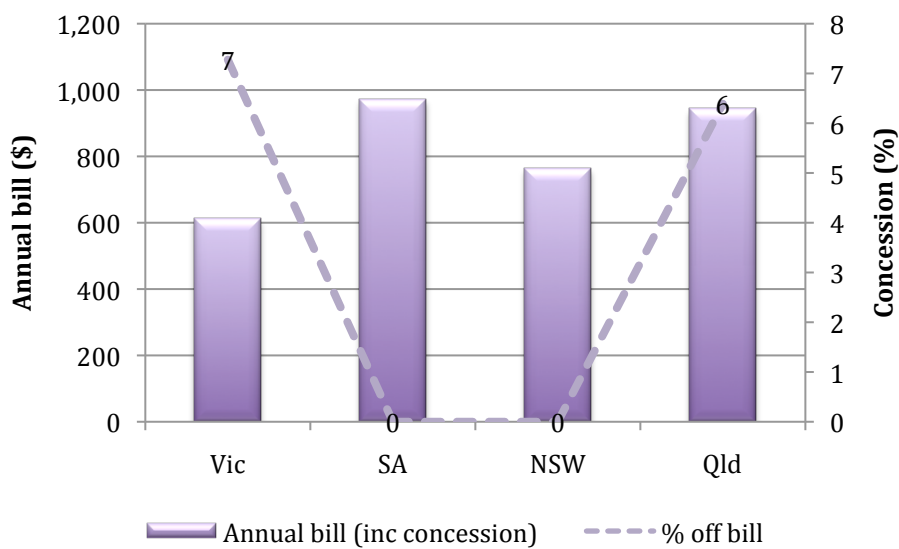
Chart 26 Estimated annual electricity bill (6,400kWh) and discount (%)



¹² Note regarding bill calculations: For Victoria, annual bill is based on the average of the three incumbents' single rate standing offers across five distribution areas. For South Australia, it is the single rate regulated offer. For NSW, it is based on the average single rate regulated offer across three distribution areas. For Queensland, it is the single rate (tariff 11) regulated offer.

Annual gas bills are, as with electricity, highest in South Australia. A household consuming 24,000 Mj per annum typically faces a gas bill of almost \$1,000 per annum. As the annual bills presented in chart 27 include concessions, the cost of gas is highest in Queensland but as concession card households receive a gas rebate, the annual gas bill is lower for dual fuel households in Queensland than in South Australia.¹³ For this consumption level, Victorians and Queenslanders receive the greatest discount on their bills and Victorian households face the lowest annual gas bills of around \$600 (noting that 24,000 Mj would be regarded as a very low annual gas consumption in Victoria).¹⁴

Chart 27 **Estimated annual gas bill (24,000Mj) and discount (%)**



¹³ The South Australian rebate can be applied to gas instead of electricity but as the capped amount covers both fuel types, the full rebate has been included in the calculation of electricity bills (chart 26 above).

¹⁴ Note regarding gas bill calculations: Victorian calculation based on the average of the 3 incumbents' standing offers across 8 main gas zones; SA calculation based on average regulated offer for 5 gas zones; NSW calculation based on average regulated offer for Jemena/Sydney zone, 6 Country Energy zones, 3 ActewAGL zones and two Origin zones; Qld based on average of AGL/Origin offers (where applicable) across 4 gas zones.

Federal concessions

The Federal Government provides assistance through allowances as part of the pension payments. This assistance has not been included above as the purpose of this analysis was to examine on-going assistance provided as discounts on energy bills. The Federal Government's assistance includes \$214 per annum in "household expenses allowance" to Commonwealth Pensioner Concession Card (CPCC) holders and a \$105 "utilities allowance" to recipients of the Age Pension.¹⁵ The Utilities Allowance is currently paid as part of the pension supplement.¹⁶

Summary

The analysis presented in this report has clearly highlighted vast differences in the assistance provided to low income households in South Australia, Victoria, NSW and Queensland to pay for energy costs. After years of price increases, reforms and moving towards a national energy market, including the development of a National Energy Customer Framework, energy affordability and assistance packages for low income Australians remain fragmented and largely untouched by inter-governmental processes.

Furthermore, the on-going retail price deregulation agenda means that both the South Australian and NSW governments should immediately review their concession arrangements. We strongly believe a percentage based concession system is the most appropriate approach governments can take to promote energy affordability in markets where governments/regulators have handed over the price setting to retailers. Price deregulation will in all likelihood produce a greater range of retail products and tariff structures (as seen in Victoria), and as percentage based concession frameworks are more flexible they can deliver adequate assistance in an equitable manner in a more rapidly changing market environment.¹⁷

Other key findings in this report include:

- Concession card holders in South Australia receive the least in energy concessions while they face the greatest energy bills. Furthermore, in light of South Australia's recent retail price deregulation announcement, the government should review its concession arrangements to ensure that

¹⁵ AEMC, *Power of Choice review – giving consumers options in the way they use electricity*, Draft Report – Appendices, 6 September 2012, P 32

¹⁶ Other parts of the pension supplement include the GST supplement, the telephone allowance and the pharmaceutical allowance.

¹⁷ For more information about tariff structures and product differentiation in deregulated versus regulated energy retail markets, see *The National Energy Market – In a bit of a state?* Observations from the Vinnies' Tariff-Tracking Project, by Gavin Dufty and May Mauseth Johnston, November 2012 at www.vinnies.org.au/energy

adequate and equitable assistance will be provided to low income South Australians in the immediate future.

- The NSW concession/rebate arrangements raise some equity issues due to having a flat, single rate applied to different network areas. Households in rural NSW (Essential Energy's area) thus receive less proportional assistance than households in the two other network areas.
- NSW is also the only jurisdiction examined without a gas concession/rebate and while gas penetration is relatively low in NSW, excluding gas from the energy assistance package can further disadvantage some households (especially tenants in cooler areas where gas appliances are installed).
- Queensland does not offer assistance to Health Care Card holders and its energy rebates are thus heavily skewed towards pensioners and seniors. Many low income families in Queensland are thus facing high energy bills without receiving any assistance. Clearly we do not oppose pensioners and seniors receiving assistance with their energy costs but as discussed at length in a recent paper by Simshauser and Nelson, the primacy of energy hardship is a subset of the "Family Formation cohort".¹⁸ According to their analysis of AGL customer numbers, 25% of customers in the "Family Formation cohort" display signs of hardship compared to 16% of the total customer base. Eligibility for assistance should at least encompass a means based criteria for all before simplistic criteria such as age is used to determine eligibility.
- Victoria is the only jurisdiction with a percentage based energy concession. It offers the greatest discount (% off bill) out of the four jurisdictions and has the most equitable arrangements in place in terms of assistance provided in the different network areas and according to household fuel mix.
- The Australian Energy Market Commission's (AEMC) extensive Power of choice review has recommended the introduction of more flexible pricing structures and the Standing Council on Energy and Resources has "agreed to develop the market settings to allow for jurisdictions to provide consumers with the option to move to time-varying pricing".¹⁹ These developments together with the introduction of Time of Use (TOU) tariffs in Victoria (July 2013) highlight the importance of well designed concession arrangements that offer enough flexibility to adequately cope with new tariff developments. Currently the Victorian off-peak concession for controlled load adequately off-sets the winter energy concession on gas received by

¹⁸ Simshauser, P and T, Nelson, The Energy Market Death Spiral – Rethinking Customer Hardship, AGL Applied Economic and Policy Research, Working Paper No 31 at <http://www.aglblog.com.au/wp-content/uploads/2012/07/No-31-Death-Spiral1.pdf>

¹⁹ AEMC, *Power of Choice review – giving consumers options in the way they use electricity*, Final Report, 30 November 2012 at <http://www.aemc.gov.au/Media/docs/Final-report-1b158644-c634-48bf-bb3a-e3f204beda30-0.pdf> and SCER Meeting Communiqué, Hobart 14 December 2012

dual fuel households, as the off-peak concession does not currently apply to time based off-peak rates (rather than controlled off-peak) however, all-electric households may experience an erosion to their concession if moving to a TOU tariff.