

The relative value of energy concessions: 2009 to 2012

Part 2 of the Vinnies' Concessions project

**May Mauseth Johnston
March 2013**



St Vincent de Paul Society
good works

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May Mauseth Johnston, Alviss Consulting Pty Ltd

Melbourne, 21 March 2013

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Acknowledgements

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1. 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.¹ 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 households receive concessions/rebates on their energy bills and the concessions represent an important tool to promote energy affordability.² 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 depend on the concessions arrangements.

The first report of this project (Part 1 published on 25 January 2013) presented an analysis of electricity bills post the 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.³ The second part of this project analyses estimated electricity and gas bills from 2009 to 2012 and the relative value of concessions at different points in time over the three-year period. This report presents this analysis.

1.1 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.

¹ As this project utilises data collected by the St Vincent de Paul Society's Tariff-Tracking project, we have only been able to include the four states that we have produced tariff tracking tools for to date. More information about the Vinnies' Tariff-Tracking project is available at www.vinnies.org.au/energy

² AGL reports that 26% of their residential customer base are concession recipients. 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>

³ The report, *The relative value of energy concessions 2009 -2012 - Part 1 of the Vinnies' Concessions Project* is available at www.vinnies.org.au/energy

1.2 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 reports.⁴ 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.⁵ 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.⁶

[^] The South Australian and NSW dual fuel analysis also include medium gas consumption combined with low electricity consumption.

⁴ The tariff-tracking reports are available at www.vinnies.org.au/energy

⁵ 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

⁶ See explanation in section 1.2 above

The energy bill calculations are based on the tariffs introduced as of July each year (from 2009 to 2012) and the concession amount or percentage is based on arrangements in place as of July the same year.⁷

Table 2 Changes to concession/rebate arrangements in each jurisdiction that have impacted on the analysis presented in this report

	July 2009	July 2010	July 2011	July 2012
Victoria	17.5% winter (6 months) electricity concession 17.5% winter (6 months) gas concession 13% off-peak concession (all year)	No change	The 17.5% winter electricity concession became an all year concession on 1 March 2010	The carbon tax compensation threshold was introduced, exempting the first \$171.60 spent on electricity each year and the first \$62.40 spent on gas each winter from attracting the concession
South Australia	Energy concession capped at \$120 per annum	Energy concession capped at \$150 per annum [^]	Energy concession capped at \$158 per annum	Energy concession capped at \$165 per annum
NSW	Energy rebate capped at \$130 per annum	Energy rebate capped at \$145 per annum ^{^^}	Low Income Household Rebate capped at \$200 per annum	Low Income Household Rebate capped at \$215 per annum A family energy rebate of \$35 per annum was introduced*
Queensland	Electricity rebate capped at \$190 per annum Natural gas rebate capped at \$59.42 per annum	Electricity rebate capped at \$216.21 per annum Natural gas rebate capped at \$61.21 per annum	Electricity rebate capped at \$230.46 per annum Natural gas rebate capped at \$63.40 per annum	No change to the electricity rebate Natural gas rebate capped at \$64.23 per annum

[^] Low-income Health Care Card holders became eligible for the energy concession

^{^^} The eligibility criteria amended from covering some Health Care Card types to all Centrelink Health Care Card holders

* The family energy rebate (FER) has not been included in the analysis presented in the charts in section 5 of this report but the discussion refers to the impact of the FER for eligible households

Finally, the analysis presented in section 7 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 level for

⁷ The analysis uses standing offer/regulated rates only and it should be noted that customers on market offer contracts may have had lower annual bills than those calculated for this report.

each jurisdiction.⁸ An annual consumption of 6,400 kWh has been assumed for this comparison. The consumption level is thus not representative for all states. However, these charts (42 and 43) have been included to illustrate the difference in annual cost between the states and, most importantly, the value of the concessions provided.

1.3 Concessions and equity

The Federal Government's assistance payments and the state based concession arrangements are in place to make an essential service such as energy more affordable to those on lower incomes. The Victorian Government, for example, describes its concession scheme as follows: "Discounts are available on essential services to ease the financial burden for low-income Victorians. For each concession and/or benefit, there is an eligibility criterion. Concessions programs are designed to ensure eligible cardholders have access to essential services."⁹

Nonetheless, the relative value of the assistance received by low-income Australians vary between geographic location (states but also within state boundaries), age groups (above or under Age pension age), the cost of energy, energy consumption levels, fuel sources (electricity and gas), household type (family vs. non-family) and even energy tariff types (controlled off-peak vs. time based off-peak).

The analysis represented in this report seeks to highlight some of the vertical and horizontal equity implications of the energy concession arrangements. For example, the various eligibility criteria impact on the horizontal equity of the assistance provided while a single fixed energy concession amount can have vertical equity implications, as households with higher energy rates and/or greater consumption needs will receive a lower discount.

While we are supportive of state based concessions arrangements that allow for discounts to be deducted from energy bills, we do believe the move towards a National Energy Market (NEM) presents a horizontal equity challenge for governments. As this report shows, there are significant differences in the level of assistance provided to low-income Australians and while social policy tools such as energy concessions are state responsibilities, NEM developments and policies do have a significant impact on energy prices for residential consumers.¹⁰ As such, we

⁸ This comparison does not include gas as only Victoria and Queensland offer a separate gas concession. For a similar analysis of gas bills and concessions as of July 2012, see chart 27 in the 1st report produced for this project: *The relative value of energy concessions 2009 -2012 - Part 1 of the Vinnies' Concessions Project* at www.vinnies.org.au/energy

⁹ See www.dhs.vic.gov.au/concessions

¹⁰ In addition to NEM policies and regulation, the Prime Minister also engaged in the debate in December 2012 by promising to cut energy prices by \$250 and taking the issue of energy reform to lower the cost of electricity to the Council of Australian Governments (COAG)

believe national principles that address equity implications of energy concession arrangements are required.¹¹

¹¹ The Ministerial Council on Energy (MCE) did develop a set of non-binding, high level principles for Community Service Obligations (CSOs) in 2008, however we do not believe these principles addressed equity issues.

2. Federal Government assistance

On the 20th of March 2008 the Federal Government's Utilities Allowance went from \$107 to \$500 per annum (maximum rate for singles).¹² This allowance is designed to assist eligible pensioners with the cost of electricity, gas and water.¹³ Since 2008 the utility allowance has been adjusted in March and September each year in line with the Consumer Price Index (CPI).¹⁴

In 2009 the quarterly utilities allowance payment was rolled in to the Pension Supplement payment.¹⁵ The Pension Supplement is paid to recipients of the Age Pension, Disability Support Pension (those aged under 21 without children do not receive the Pension Supplement but they do receive the utilities allowance), Wife Pension, Widow B Pension, Carer Payment, Department of Veterans' Affairs (DVA) Service Pension and Income Support Supplement. It is also paid to other income support recipients who are over Age Pension age.¹⁶

As of September 2012 the Federal Government's maximum utility allowance was: \$564 per annum, paid as \$141/quarter for singles and \$70.50/quarter for each eligible member of a couple.¹⁷ The utilities allowance is clearly a significant amount but it is important to remember that the assistance is paid as part of the pension and does not reduce the size of energy bills per se.

There is also a large group of low-income Australians that do not qualify for the utilities allowance. Unemployed or low-income earners below the Age Pension age thus depend on state based energy concession schemes alone for assistance.¹⁸ The remainder of this report analyses the relative impact of state based concessions on energy bills from 2009 to 2012 in Victoria, South Australia, NSW and Queensland.

¹² See www.fahcsia.gov.au/our-responsibilities/seniors/publications-articles/pension-review-background-paper?HTML

¹³ We have been unable to find a breakdown of the three components of the utilities allowance to identify the allowance for electricity and gas (excluding water). The first report we published as part of this project stated that the Utilities Allowance was \$105 per annum and was based on the figure published by the Australian Energy Market Commission (AEMC, *Power of Choice review – giving consumers options in the way they use electricity*, Draft Report – Appendices, 6 September 2012, P 32). The AEMC paper does not specify whether this \$105 figure is the electricity component of the Utilities Allowance or not, but we believe the figure is too low to represent the federal payment for energy costs (electricity and gas) and have therefore decided to refer to the total Utility Allowance amount, noting that this figure incorporates water costs as well.

¹⁴ See www.humanservices.gov.au/customer/enablers/centrelink/utilities-allowance/payment-rates-for-utilities-allowance

¹⁵ See www.fahcsia.gov.au/our-responsibilities/seniors/benefits-payments/australian-pensions-have-changed

¹⁶ See www.fahcsia.gov.au/our-responsibilities/seniors/benefits-payments/the-pension-supplement-0

¹⁷ See www.humanservices.gov.au/customer/enablers/centrelink/utilities-allowance/payment-rates-for-utilities-allowance

¹⁸ We note that further assistance may be provided under the Clean Energy Package, but as the focus of that package is to compensate households for the impact of the carbon tax we do not believe it is appropriate to include these measures in relation to this study.

3. 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 (previously the electricity Winter Energy Concession), the Off-peak Concession (applied to controlled off-peak load), the gas Winter Energy Concession and the Service to Property Concession.¹⁹

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.

3.1 The relative value of Victorian energy concessions 2009-2012

As the Victorian concessions are percentage based, we would expect to see a linear relationship between price increases and concession amounts. However, changes to the concession arrangements have resulted in a mixed picture. In March 2010 the 17.5% winter electricity concession became an all year electricity concession. As such, a medium consumption household (4,800kWh, single rate) went from receiving a discount on the annual electricity bill of almost 9% in 2010 to 17.5% in 2011. Furthermore, the Victorian Government introduced a threshold amount to reflect Commonwealth compensation arrangements for the carbon tax in July 2012, and as the threshold amount does not attract any concession the annual discount for this customer group was reduced to just below 16%.

Due to the changes to the electricity concession in 2011, Victorian concession card holders have experienced lower electricity price increases compared to non-concession card holders over the last three years. For medium consumption households (4,800kWh, single rate), the annual electricity bill has on average (across all five networks) increased by 44% since July 2009 for concession card holders while it has increased by 56% for non-concession card holders.

The analysis presented in sections 3.1.1. to 3.1.4 below shows annual bills including concession from July 2009 to July 2012 as well as the annual concession amount.

3.1.1 Households with single rate electricity

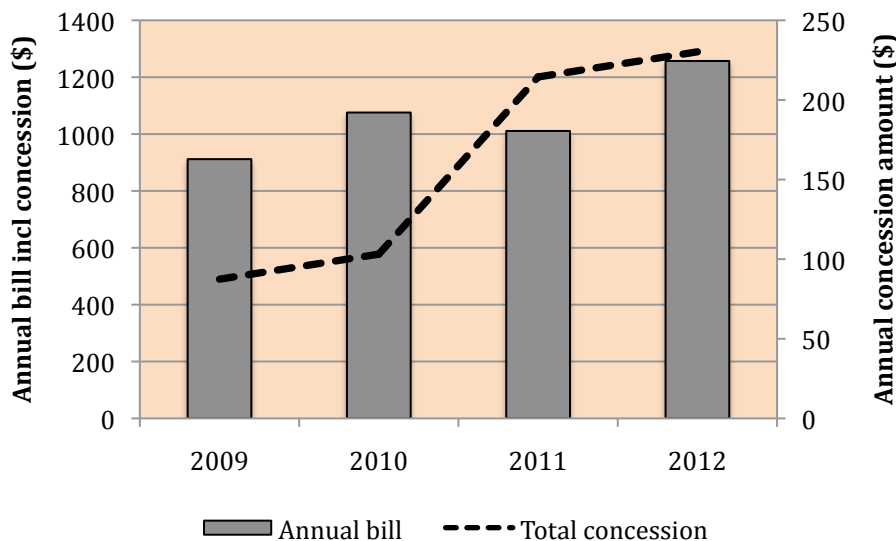
Charts 1 - 5 below show annual electricity bills, including concessions, for medium consumption households (single rate tariff) from July 2009 to July 2012. They also show the total concession amount applied to the annual bill for each of the years.

By examining chart 1, which covers data from inner city Melbourne (Citipower network), we can see that the annual electricity bill for concession card households

¹⁹ The Service to Property concession ensures that the fixed supply charge cannot be greater than the amount charge for energy used. However, the Service to Property concession was not applicable to any of the bill calculations produced for the analysis presented in this report.

with medium consumption was approximately \$910 in 2009 and that these households received a winter energy concession worth approximately \$90 per annum.²⁰ In 2010 the winter energy concession was worth approximately \$105 as the annual bill increased to \$1080. By July 2011 the winter energy concession had been extended to an annual concession and the annual concession amount thus jumped to \$215 and effectively reduced the annual bill, despite the price increases that occurred, to \$1010 (that is \$70 less than the previous year). In 2012 significant price increases resulted in an annual bill of \$1260 and an annual concession amount of \$230. As the Victorian Government introduced an annual threshold of \$171.60 that the concession does not apply to in order to reflect the Commonwealth’s carbon tax compensation, the Victorian concession was 15.5% off the annual bill in 2012 compared to 17.5% in 2011.

Chart 1 Citipower: Annual bill and concession amount for medium consumption households (4,800kWh, single rate), 2009 - 2012



Charts 2-5 show similar developments for the four other network areas, although it is worth noting that the annual bill did not decline in 2011 (compared to 2010) for concession recipients the SP Ausnet and Jemena networks.

²⁰ As the bill calculation assumes a flat consumption pattern throughout the year, the winter electricity concession may have been higher for households with electric heating.

Chart 2 Powercor: Annual bill and concession amount for medium consumption households (4,800kWh, single rate), 2009 - 2012

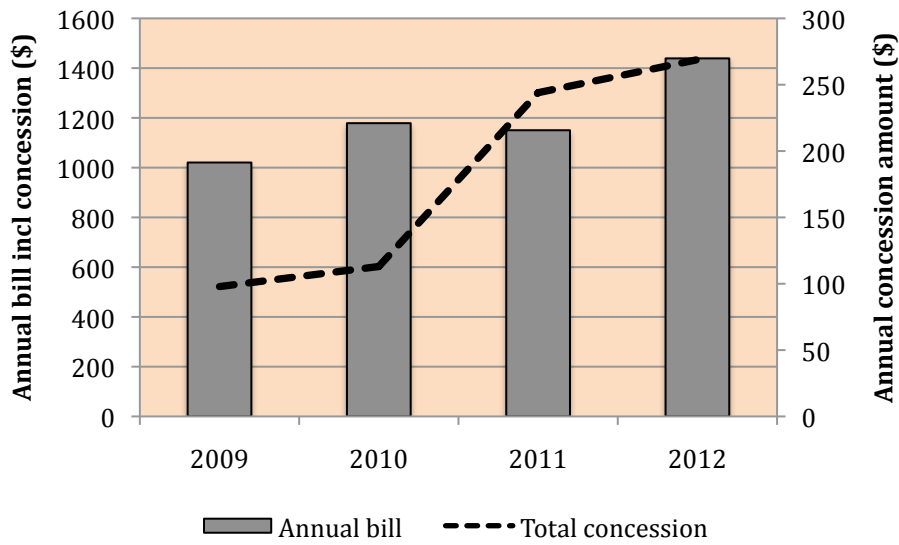


Chart 3 SP Ausnet: Annual bill and concession amount for medium consumption households (4,800kWh, single rate), 2009 - 2012

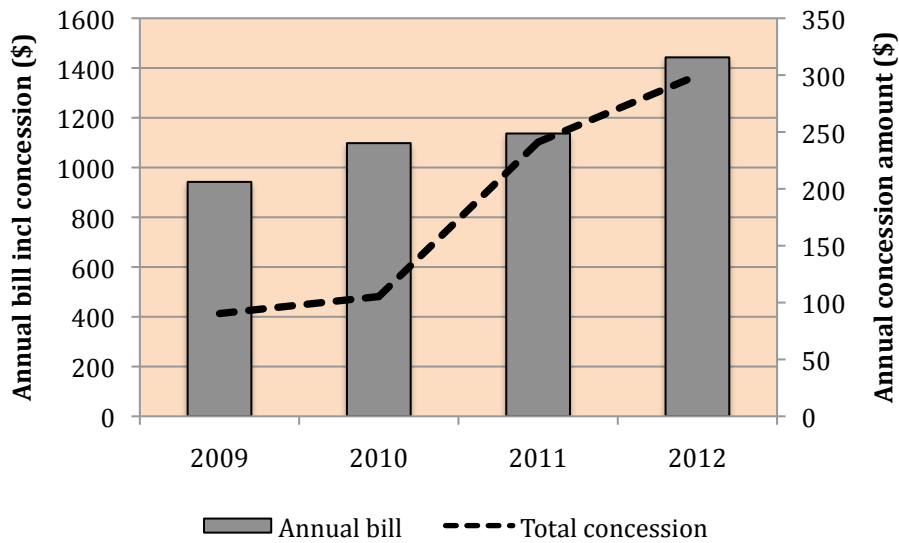


Chart 4 Jemena: Annual bill and concession amount for medium consumption households (4,800kWh, single rate), 2009 - 2012

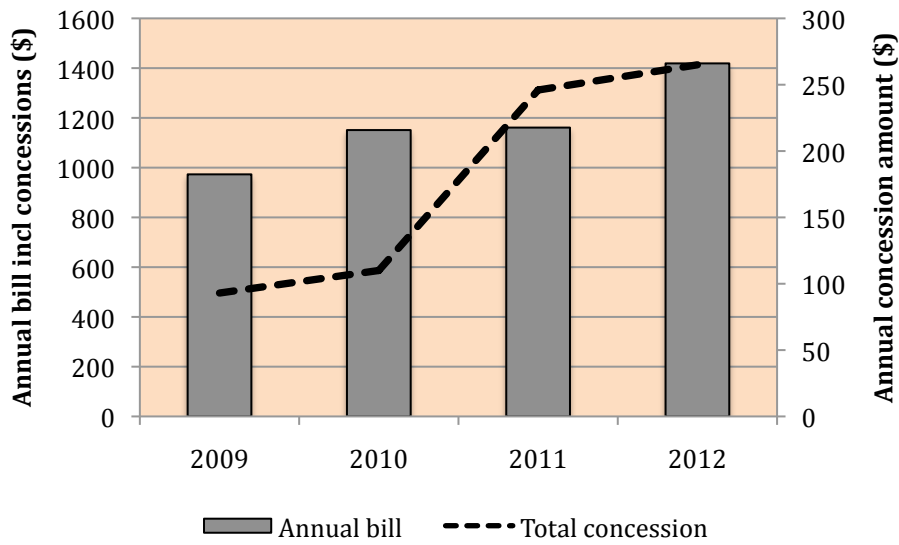
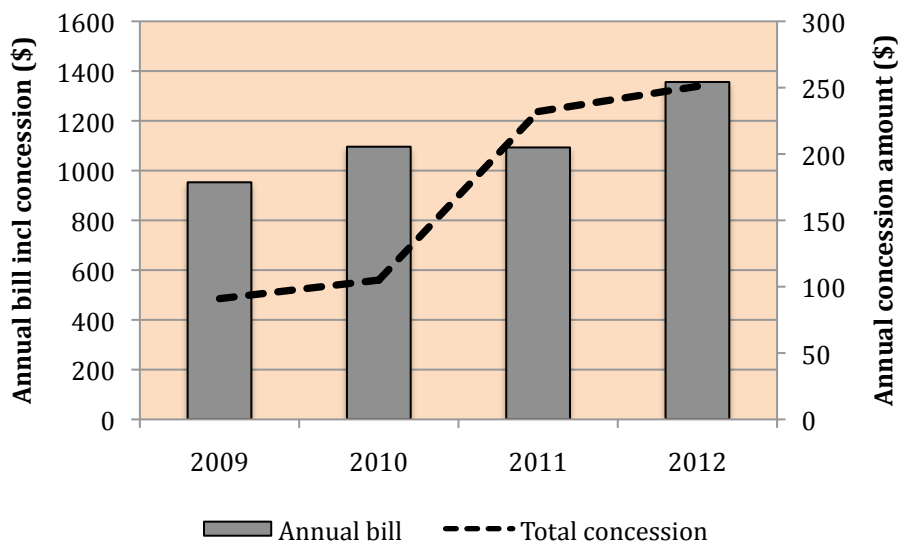
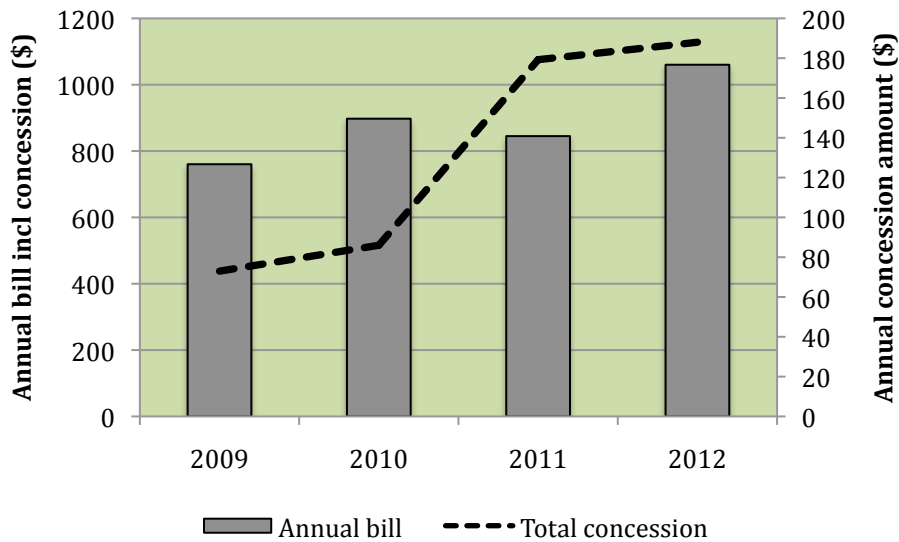


Chart 5 United Energy: Annual bill and concession amount for medium consumption households (4,800kWh, single rate), 2009 - 2012



As the Victorian electricity concession is percentage based, low consumption households have experienced the same developments as medium consumption households although their annual bills and concession amounts are of course lower by comparison (see chart 6).

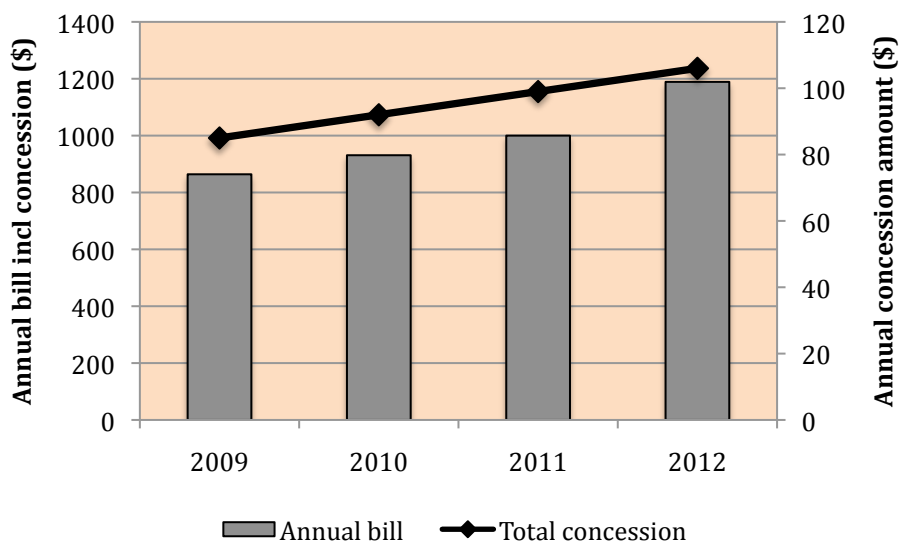
Chart 6 Citipower: Annual bill and concession amount for low consumption households (3,840kWh, single rate), 2009 - 2012



3.1.2 Dual fuel households

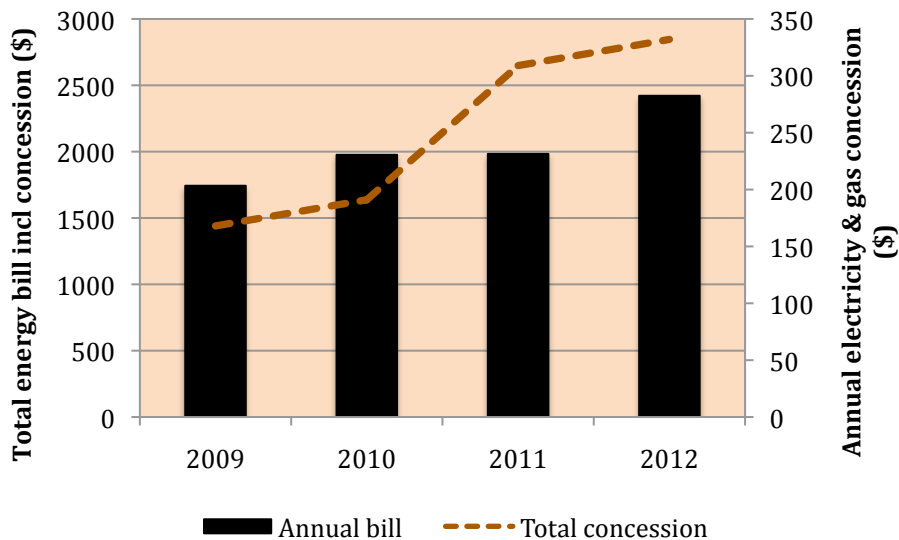
As households on a single rate electricity tariff typically have gas connected as well, chart 7 below shows average annual gas bills for medium consumption (63,000Mj per annum) concession card households from 2009 to 2012, as well as the value of the gas winter energy concession. The gas winter energy concession provides a 17.5% discount off the winter bills (a 6 month period). The only change to the gas winter energy concession since 2009 has been the Victorian Government's introduction of the carbon tax compensation threshold in 2012, which means that the concession does not apply to the first \$62.40 of households' winter gas bills. As such, the concession amount has inclined in line with bill increases since 2009, flattening somewhat in 2012 when the threshold was introduced.

Chart 7 Average across all gas zones: Annual bill and concession amount for medium consumption households (63,000Mj), 2009 - 2012



Dual fuel households eligible for concessions access both electricity and gas concessions. Chart 8 below shows combined annual energy bills (electricity and gas) for medium consumption (4,800kWh and 63,000Mj) households.²¹ It shows that dual fuel households received almost 9% off total energy costs in 2009 and 2010, and that this increased to 13.5% in 2011 with the introduction of the all year electricity concession, and then decreased to approximately 12% with the introduction of the carbon tax compensation threshold in 2012.

Chart 8 Dual fuel: Combined annual bill and concession amount for medium consumption households (4,800kWh and 63,000Mj), 2009 - 2012



3.1.3 Households with controlled off-peak electricity

All-electric households typically have controlled off-peak load and this load attracts a separate year round off-peak concession in addition to the standard electricity concession. Charts 9 and 10 below show annual bills and concession amounts for households with medium consumption (7,000kWh) in rural Victoria. The Powercor network covers the western part of the state (chart 9) and SP Ausnet covers the eastern part of the state (chart 10). The charts show a steep increase in the annual concession amount when the year round electricity concession was introduced in 2011. In both network areas the concession has gone from reducing bills by 10-11% in 2009 to just over 18% in 2012.

²¹ As the annual bills vary significantly between electricity networks and various gas zones, the annual bill calculations presented in this chart is based on bills within the Citipower electricity network and Envestra/Tru East gas zone (CBD and Melbourne’s inner north). The actual bills would be different in other networks/gas zones but the developments over time would be the same.

Chart 9 Powercor: Annual bill and concession amount for medium consumption households (7,000kWh, 30% controlled off-peak load), 2009 - 2012

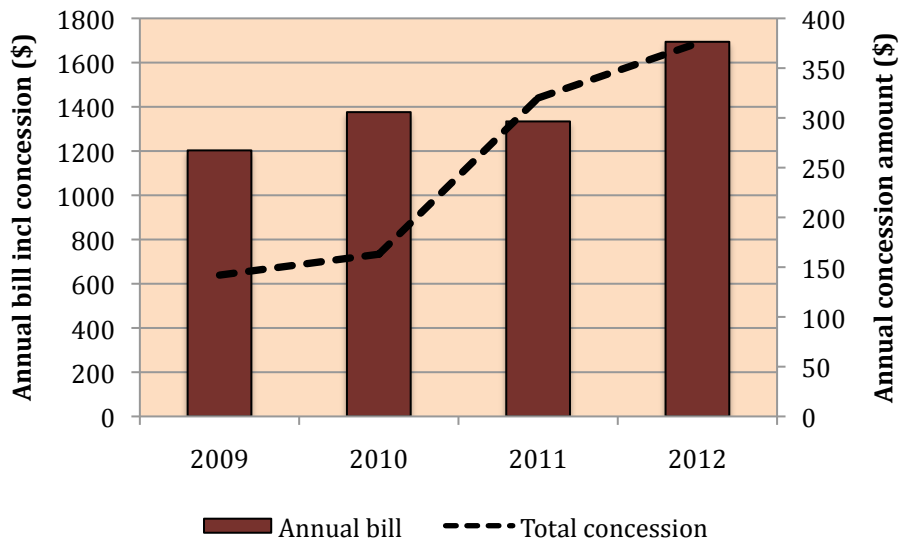
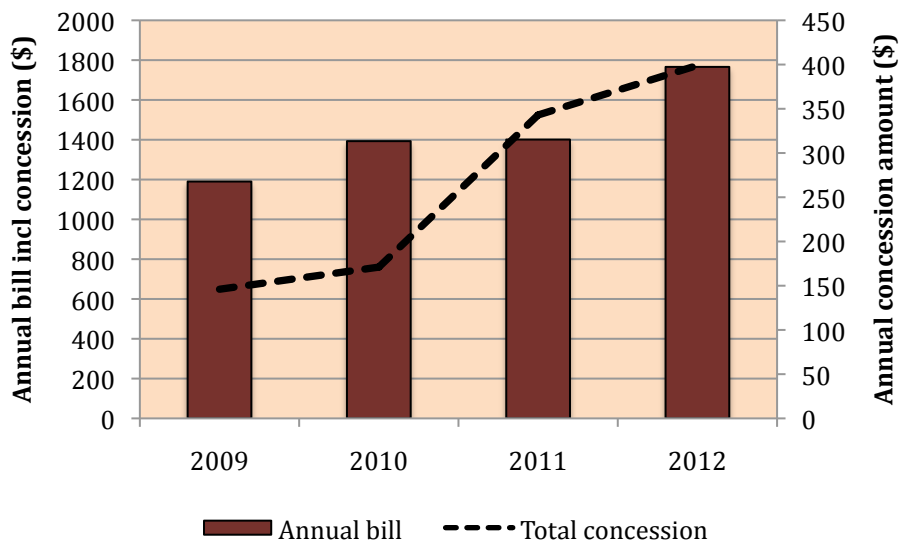
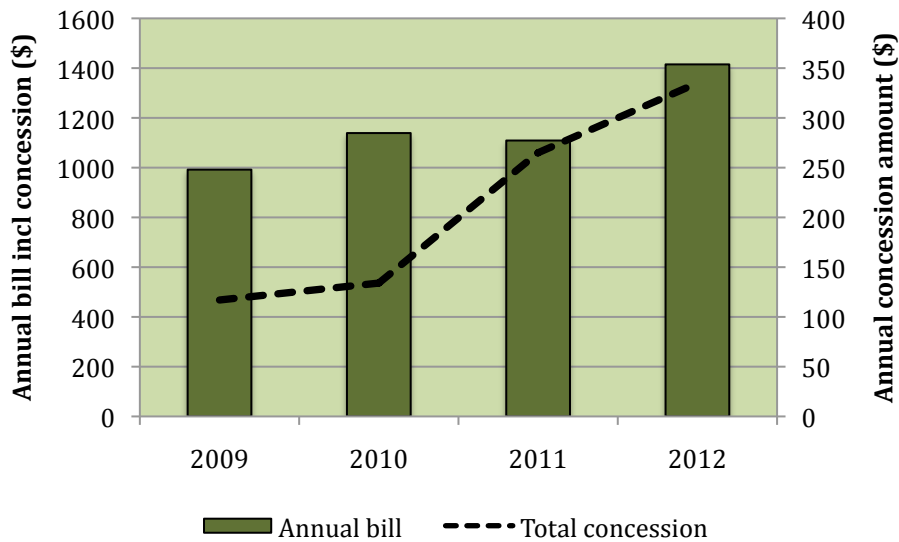


Chart 10 SP Ausnet: Annual bill and concession amount for medium consumption households (7,000kWh, 30% controlled off-peak load), 2009 - 2012



As is the case with single rate households, the percentage based concession results in low consumption and medium consumption households experiencing the same concession developments over time (chart 11 below).

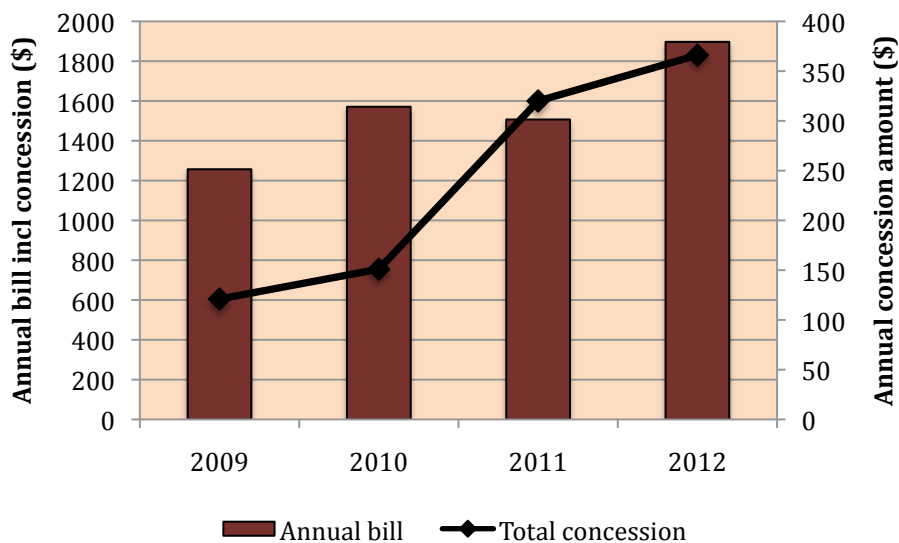
Chart 11 Powercor: Annual bill and concession amount for low consumption households (5,600kWh, 30% controlled off-peak load), 2009 - 2012



3.1.4 Households with time based off-peak electricity

Some all-electric households have a time based off-peak rate rather than a controlled off-peak load. This tariff allocates a peak rate to electricity consumed between 7am and 11pm on weekdays and an off-peak rate to electricity consumed outside that time. However, there is no additional off-peak concession to the standard electricity concession allocated to these households. Chart 12 shows annual bills and concession amounts for medium consumption (7,000kWh) households on a two-rate tariff (time based off-peak) in Powercor’s network area. Compared to chart 9 above, which shows bills and concession amounts for households with controlled off-peak load, it is clear that the households on the time based off-peak tariff have higher electricity bills and receive less concession.

Chart 12 Powercor: Annual bill and concession amount for medium consumption households (7,000kWh, 40% off-peak), 2009 - 2012



3.2 The Victorian concessions: Issues and recommendations

3.2.1 Ensuring that the concession reflects price increases

The analysis of the relative value of Victorian concessions highlights the benefits from having a percentage-based framework. Looking at the gas winter energy concession (chart 7), the structure of which has remained almost unchanged since 2009, illustrates the linear relationship between bill increases and increases to the concession over time. Furthermore, as Victorian retail prices have been deregulated since 1 January 2009, the percentage-based concession has ensured that concessions reflect price increases although the Government has not been involved in the price determination.

The decision to change the winter electricity concession to a year round concession in March 2010 has obviously had a major impact on the relative value of electricity concessions in Victoria. However, the analysis also shows that seemingly small changes to the framework, such as the introduction of the carbon tax compensation threshold in July 2012, do have a clear impact on the relative value of the concession for households at the point they receive their energy bill.

3.2.2 Impact of Time of Use (TOU) tariffs on the off-peak concession

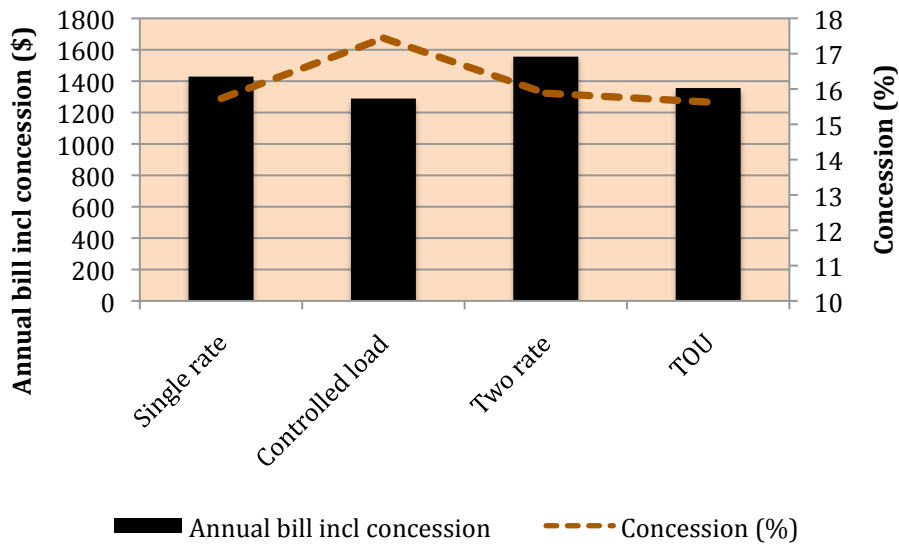
The above analysis shows that the additional off-peak concession for controlled load ensures that many all-electric households receive a similar concession to dual fuel households that access the gas winter concession. However, with the ongoing roll-out of smart meters and the introduction of TOU tariffs from 1 July 2013, many all-electric households will find themselves on a tariff with a time based off-peak rate (rather than controlled off-peak load) and therefore lose the 13% concession that the off-peak load currently attracts. In addition, rural Victoria has a greater proportion of concession recipients compared to metropolitan Melbourne and regional centres, which means that a significant proportion of electricity concession recipients will be affected by this change.²²

Chart 13 illustrates the difference in annual bills (including concession) for the different tariff types. It shows that households on a controlled load off-peak tariff will be worse off, as they receive less concession, if they move from a controlled load tariff to one of the other three tariff types.

To ensure that concession households without access to reticulated gas do not become worse off, the Victorian electricity concession should increase for all-electric households.

²² The Victorian Utility Consumption Survey found that 68% of the sample in 'LPG areas' (i.e. 'non-reticulated gas areas') was concession card holders compared to 38% of Melbourne households and 41% of households in regional centres. Roy Morgan Research on behalf of the Victorian Dept. of Human Services, *Victorian Utility Consumption Household Survey 2007*, Final report, 10 April 2008, Table 3.2.1, p 40

Chart 13 Example showing annual bill for medium consumption (4,800kWh) and concession (%) based on tariff type²³



²³ Example based on AGL's standing offer for United Energy network area as of January 2013. Annual consumption of 4800kWh has been applied to all four tariff types and the time based peak, off-peak and shoulder components have been calculated based on a flat consumption pattern. For the two-rate tariff, the 7am-11pm weekday peak rate thus applies to 48% of the consumption. For the TOU tariff, the 3-11pm weekday peak rate applies to 24% of the consumption, the 7am-3pm weekday shoulder rate applies to 24% of the consumption and the off-peak rate to the remaining 52% of consumption. For the controlled load off-peak tariff a 30% off peak has been assumed.

4. South Australia

South Australia has one single standard energy concession that has been included in the analysis below. The energy concession is currently 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 currently eligible for South Australian energy concessions. Recipients of various Centrelink allowances are also eligible for the concession.²⁴ There are almost 193,000 state electricity concession recipients in South Australia, which accounts for just over one quarter of the residential customer base.²⁵

4.1 The relative value of South Australian energy concessions 2009-2012

South Australians have experienced significant energy price increases over the last three years. Moreover, as the capped annual concession amount has not increased in line with these prices, the annual bill for concession card holders with a medium consumption level (6,000kWh, single rate) has increased by 64.2% compared to a 62% increase for non-concession card holders.

In July 2010 the South Australian Government extended eligibility for the energy concession to low-income Health Care Card Holders and the capped annual concession amount was significant increased.²⁶ However, as concession increases since have been below that of the price increases, the relative value of the energy concession has declined in South Australia. It is currently the energy concession that provides the least assistance out of the four state based arrangements analysed in this report.

The analysis presented in sections 4.1.1. to 4.1.3 below shows annual bills including concession from July 2009 to July 2012 as well as the concession as proportion of bills.

4.1.1 Households with single rate electricity

Chart 14 below shows annual electricity bills, including concessions, for medium consumption households (6,000kWh, single rate) from July 2009 to July 2012. It also shows the percentage discount off the bill that the rebate provided for each of the

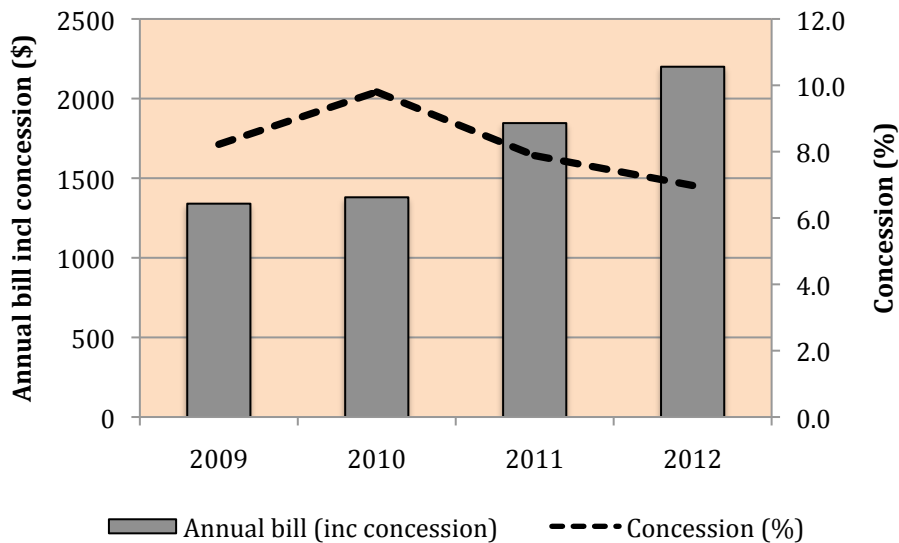
²⁴ Allowances include: Newstart allowance, Parenting Payment Partnered, Bereavement Allowance, Sickness Allowance, Special Benefit, Widow Allowance, Partner Allowance, Youth Allowance, New Enterprise Incentive Scheme or Commonwealth Development Employment Program (CDEP) allowance. See www.dcsi.sa.gov.au/pub/tabId/209/itemId/348/moduleId/795/Energy-bills.aspx

²⁵ ESCOSA, Annual Performance Report 2011/12 available at http://www.escosa.sa.gov.au/library/121129-APR_2012-AnnualPerformanceReport_2011-12Package.pdf

²⁶ From the Dept. for Communities and Social Inclusion's website: www.dcsi.sa.gov.au/pub/tabId/3442/Concession--Updates.aspx#Energy

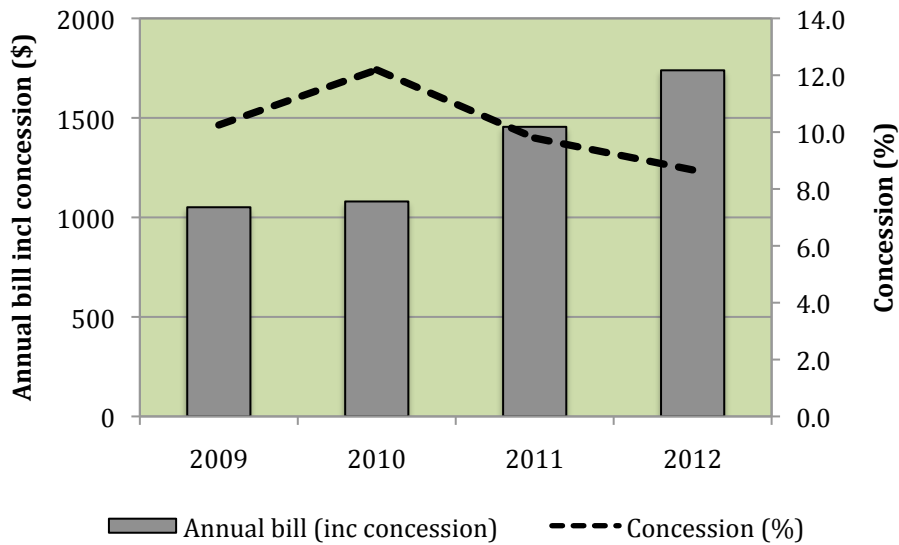
years. Chart 14 shows that the annual electricity bill for concession card households with medium consumption was approximately \$1340 in 2009 after receiving a concession of 8.2%. In 2010 there was an increase to the concession of \$30 per annum that resulted in a concession of 9.8% for medium consumption households. However, very moderate increases to the annual concession amount in 2011 and 2012 combined with steep price increases reduced the South Australian concession to 7.9% in 2011. It is now down at 7% for medium consumption households.

Chart 14 Single rate: Annual bill (\$) and concession (%) for medium consumption households (6,000kWh), 2009 - 2012



Because the South Australian concession is a capped annual amount (as opposed to Victoria's percentage based concession), low consumption households receive a greater percentage discount compared to those with medium consumption. Chart 15 shows that low consumption households have experienced the same developments as medium consumption households, but their discount peaked at 12.2% in 2010 and currently sits at 8.7%.

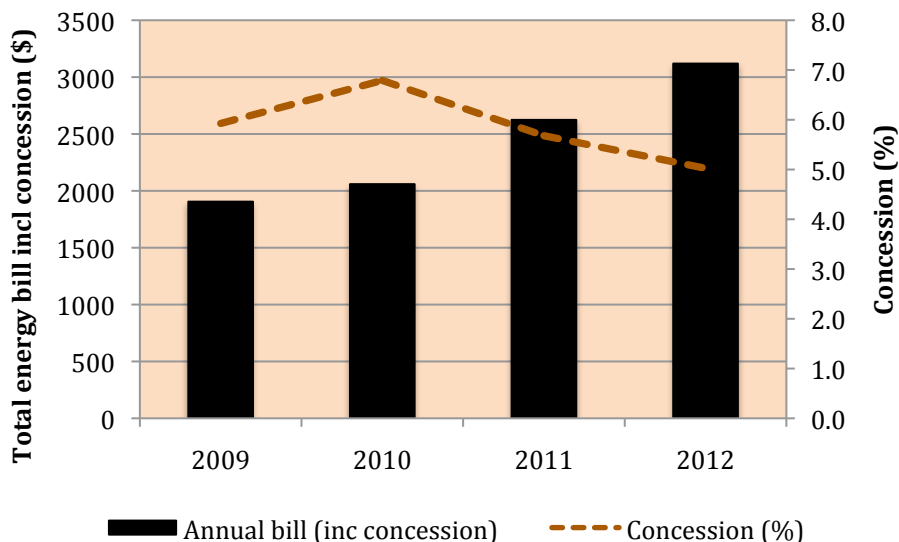
Chart 15 Single rate: Annual bill (\$) and concession (%) for low consumption households (4,800kWh), 2009 - 2012



4.1.2 Dual fuel households

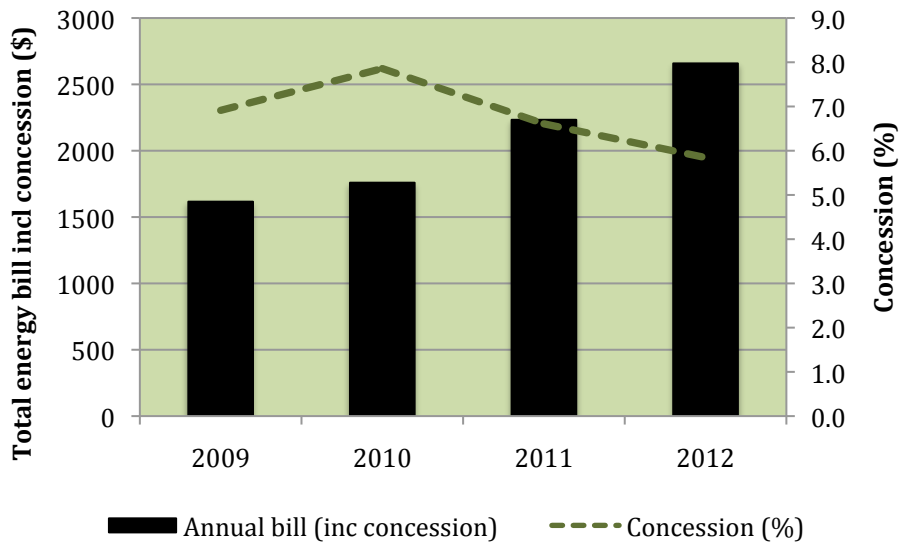
As the same capped annual concession amount applies to dual fuel households, and while these households generally use less electricity, the additional supply charge for reticulated gas means that their annual bill is much higher than that for the all-electrics. Chart 16 shows that the concession percentage for medium consumption households (6,000kWh and 22,000Mj) is currently 5%, almost 2% less than in 2010.

Chart 16 Dual fuel: Annual bill (\$) and concession (%) for medium consumption households (6,000kWh and 22,000MJ), 2009 - 2012



Even if we assume that dual fuel households have low electricity consumption (4,800kWh) as they use gas for key appliances such as hot water systems, heating and cooking, dual fuel households' proportion of concession to annual bill is less than that for all-electric households (chart 17 compared to chart 18).

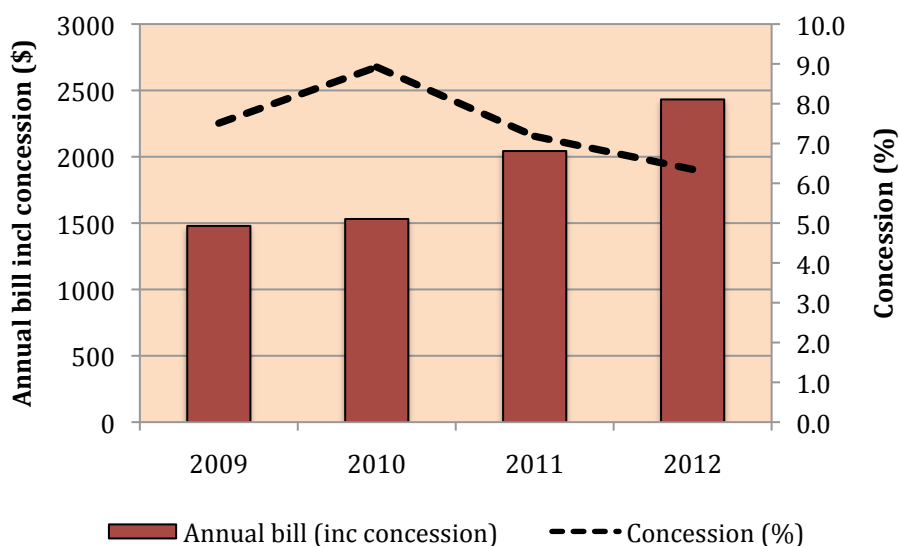
Chart 17 **Dual fuel: Annual bill (\$) and concession (%) for low (4,800kWh) electricity and medium gas consumption (22,000Mj) households, 2009 - 2012**



4.1.3 Households with controlled off-peak electricity

All-electric households with controlled off-peak electricity load have a medium consumption level of 7,500kWh per annum (thereof 20% off-peak).²⁷ As their consumption level is greater the proportionality of the concession is lower, albeit not as low as that for dual fuel households. Chart 18 shows that these households' concession, as a proportion of the total bill, peaked at 8.9% in 2010 and currently sits at 6.4%.

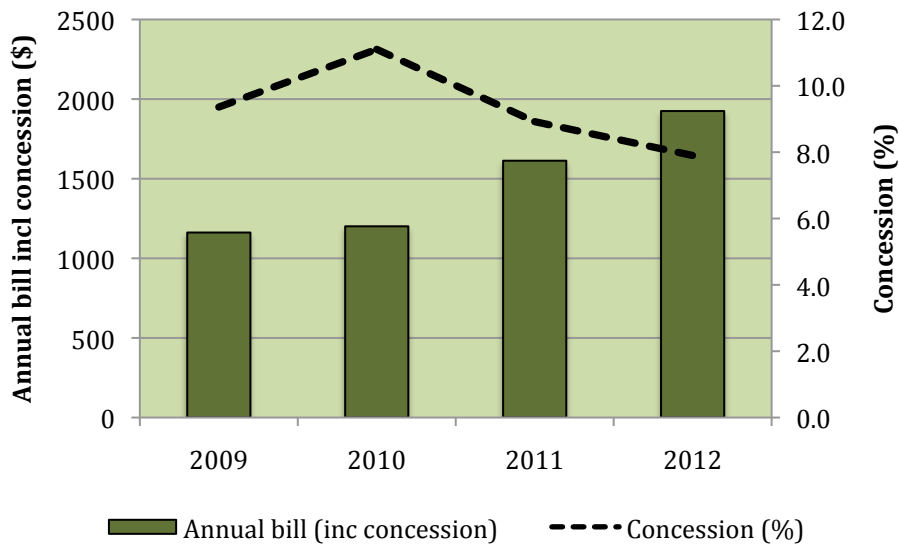
Chart 18 **Controlled off-peak: Annual bill (\$) and concession (%) for medium consumption households (7,500kWh, 20% controlled off-peak load), 2009 - 2012**



²⁷ Typical household consumption for the different tariff types were set out in the St Vincent de Paul Society, *South Australian Energy Prices July 2009 – July 2012, A report from the South Australian Tariff-Tracking Project* by May Mauseth Johnston, August 2012

Again, the proportional value of the concession increases with reduced consumption. Households with low consumption (6,000kWh and 20% off-peak load) received a concession covering approximately 11% of their annual bill in 2010 and it currently covers 7.9% (see chart 19).

Chart 19 Controlled off-peak: Annual bill (\$) and concession (%) for low consumption households (6,000kWh, 20% controlled off-peak load), 2009 - 2012



4.2 The South Australian concessions: Issues and recommendations

4.2.1 Ensuring that the concession reflects price increases

South Australian concession recipients are receiving assistance well below that of households in other states. Clearly the capped concession amount has not managed to increase in line with recent price increases. Furthermore, the South Australian Government has decided to deregulate the retail price setting, which means that they will no longer know the size of the price increases in advance.²⁸ If South Australia continues with a concession arrangement based on a capped annual amount, there is a risk that the relative value of the South Australian concession will continue to decline. If price increases above the CPI occur, the relative value of the concession will at least be lower until the Government has had time to respond (by increasing the concession amount) and there is thus a risk that the value of the concession will lag behind any price increases introduced by industry.

We strongly recommend that the South Australian Government reviews its concession framework to ensure that the assistance provided is sufficient to promote the affordability of essential services and changes its structure to a

²⁸ It should be noted that the South Australian Government made an agreement with AGL (for electricity) and Origin (for gas) that ensures price cuts for their standing offer customers for a two year period (the period commenced in January 2013).

percentage-based framework that allows the Government to deliver assistance to low-income households in a timely manner should price increases above CPI occur.

4.2.2 Assisting families

Naturally, the relative value of a fixed concession amount will be lower the higher the household consumption is. However, as research has shown that families are more likely to face energy hardship and disconnection than other customer groups, and families typically having higher consumption than pensioners, a fixed concession amount may be a less effective tool to promote energy affordability amongst families compared to an appropriately set percentage-based discount.²⁹

4.2.3 Recognising that gas is an essential service

The relative value of the fixed annual amount concession is lower for dual fuel households compared to all-electric. The above analysis shows that a medium consumption dual fuel household (6,000kWh and 22,000Mj) receives a 1.5% lower discount than a medium consumption all-electric household (7,500kWh, 20% off-peak) in 2012. The issue with one single energy concession is that it ignores the cost of being connected to a second fuel source. The St Vincent de Paul Society's South Australian tariff-tracking report found that as of July 2012: "The gas supply charge, at just over 71 cents/day (across all gas zones), is now almost as high as the electricity supply charge. This effectively means that South Australian households pay \$260 per annum in order to be connected to natural gas."³⁰ For a concession card holder living in a dwelling connected to natural gas, gas is an equally essential service as electricity. We therefore recommend that the South Australian Government review this aspect of its energy concession framework to ensure that dual fuel households receive equal assistance to all-electric households.

²⁹ For research showing the greater occurrence of energy hardship and disconnection amongst families compared to other household types, see Public Interest Advocacy Centre (PIAC), *Cut off II: The experience of disconnections*, 2009 and 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>

³⁰ St Vincent de Paul Society, *South Australian Energy Prices July 2009 – July 2012, A report from the South Australian Tariff-Tracking Project* by May Mauseth Johnston, August 2012, p 19

5. New South Wales

In July 2009 the NSW Government introduced a new Customer Assistance Package (CAP) that, amongst other things, included an increase to the Energy Rebate, extended energy rebate eligibility to Health Care Card Holders who are also recipients of Carers Allowances, Sickness Allowances, and Special Benefits, and an increase to the funding of the Energy Accounts Payment Assistance (the EAPA vouchers).³¹ These eligibility criteria were extended further in 2010 to include all Health Care Card holders. In 2011 the Energy Rebate was replaced by the Low Income Household Rebate program.³²

As of July 2012, 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 currently capped at \$215 per annum, the equivalent of \$0.589/day, and applies to electricity only.³³

Energy customers with a Commonwealth Pensioner Concession Card (CPEC), a Health Care Card (HCC) or a Department of Veteran's Affairs gold card (DVA Gold Card) are eligible for the NSW Low Income Household Rebate.³⁴

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 currently amounts to \$35 per annum and the total energy rebate is thus \$250.³⁵

5.1 The relative value of NSW energy concessions 2009-2012

The relative value of the energy rebate was steady within each network area in 2009 and 2010, before it increased in 2011. In 2012 the percentage discount off the annual bill decreased, and in rural NSW it is back at the 2010 level.

³¹ NSW Dept. of Water and Energy, *Customer Assistance Policy*, Consultation Draft, July 2009

³² NSW Dept. of Trade and Investment, Annual Report 2010-11

³³ 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)*

³⁴ Note that eligibility for DVA Gold Card holders only applies if the card issued is marked with War Widow or War Widower pension, Totally and Permanently Incapacitated (TPI) or Disability pension (EDI). See <http://www.myenergyoffers.nsw.gov.au/useful-information/pensioner-and-low-income-rebates-and-assistance.aspx>

³⁵ Families eligible for the FER but do not qualify for the Low Income Energy Rebate receive a rebate of \$75 per annum. In order to receive FER, customers must apply to the Dept. of Trade and Investment every year and have their eligibility (tax status) confirmed by Human Services. 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.

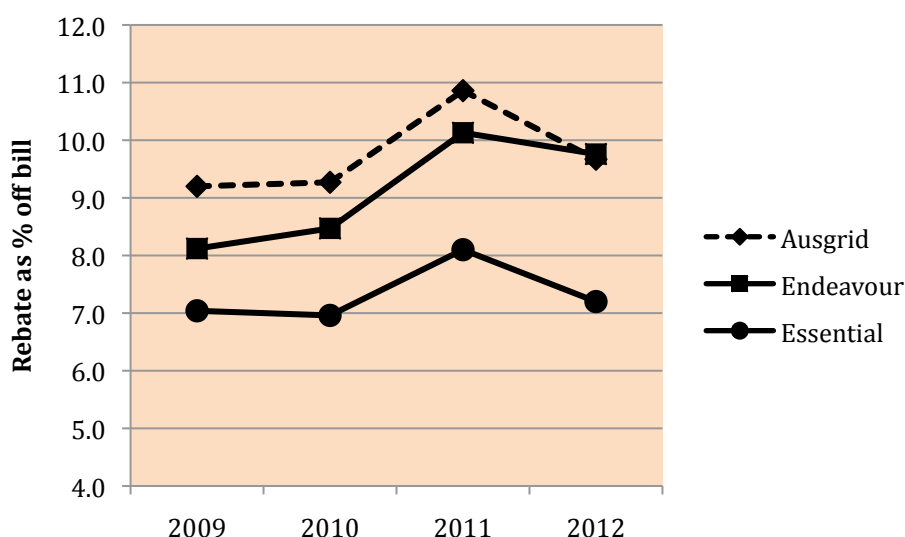
While NSW has a capped annual rebate as its energy concession, concession card holders and non-concession card holders have experienced very similar percentage increases to their energy costs over the last three years (approximately 59%).³⁶

The analysis presented in sections 5.1.1. to 5.1.3 below shows annual bills including concession/rebate from July 2009 to July 2012 as well as the rebate as proportion of bills.

5.1.1 Households with single rate electricity

As the NSW concession is based on a capped annual rebate while the jurisdiction encompasses three different electricity networks with significantly different prices, the relative value of the rebate differs between geographical areas. Chart 20 shows that the relative value of the rebate has been significantly lower in rural NSW (Essential Energy's network area) over the last three years.

Chart 20 Single rate: Rebate as % of annual bill for medium electricity consumption households (7,200kWh), 2009 - 2012



Charts 21 -23 below show annual electricity bills, including concessions, for medium consumption households (7,200kWh, single rate) from July 2009 to July 2012 in each of the three network areas (AusGrid, Endeavour and Essential). They also show the percentage discount off the bill that the rebate provided for each of the years. By examining chart 21, for example, we can see that the annual electricity bill for concession card households with medium consumption in AusGrid's area was approximately \$1280 in 2009 after receiving a rebate of 9.2%. A \$15 increase to the capped annual rebate on 1 July 2010 meant that concession card households continued to receive a similar discount of 9.3% in 2010. In 2011, the rebate amount changed and the discount now counted for 10.9% of the bill. However, with modest increases to the rebate amount on 1 July 2012, combined with significant price increases, the discount dropped to 9.7% in 2012.

³⁶ This increase is based on average bill for medium consumption electricity (single rate) across all network areas.

This chart does not include the Family Energy Rebate (FER) that was introduced in July 2012 and eligible families with this consumption level that have registered for the rebate will receive a total discount of 11.3% in 2012, which is a similar level to the 2011 Energy Rebate discount.

Chart 21 AusGrid: Annual bill (\$) and concession (%) for medium consumption households (7,200kWh, single rate), 2009 - 2012

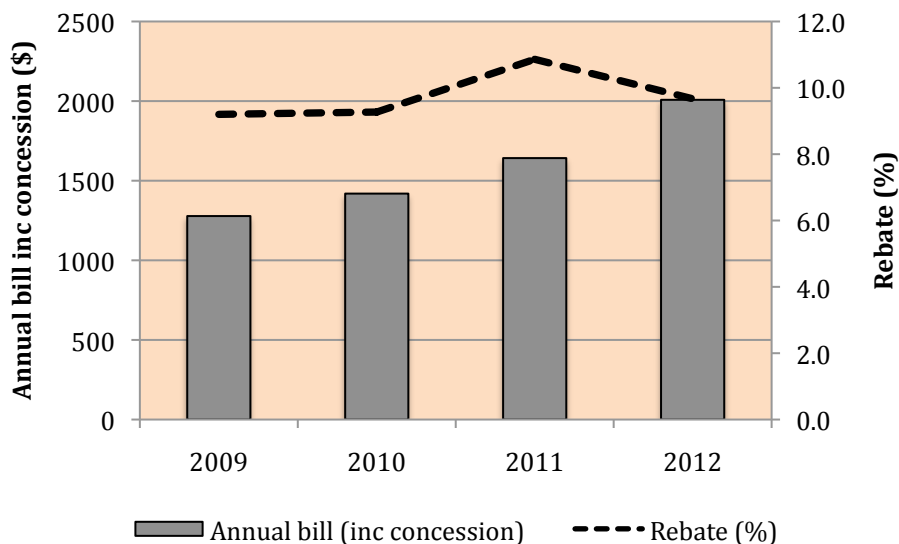


Chart 22 shows that households eligible for a concession in Endeavour energy’s network area, which includes western Sydney, the Blue Mountains and Wollongong, received a discount somewhat lower than customers in AusGrid’s area in 2009-2011 while the 2012 discount of 9.8% is approximately the same.

In rural NSW (Essential Energy), however, the cost of electricity is greater and the relative value of the rebate is lower. Chart 23 shows that the electricity rebate provides a discount of approximately 7% each year, apart from the slight increase (to 8.1%) experienced in 2011.

Chart 22 Endeavour: Annual bill (\$) and concession (%) for medium consumption households (7,200kWh, single rate), 2009 - 2012

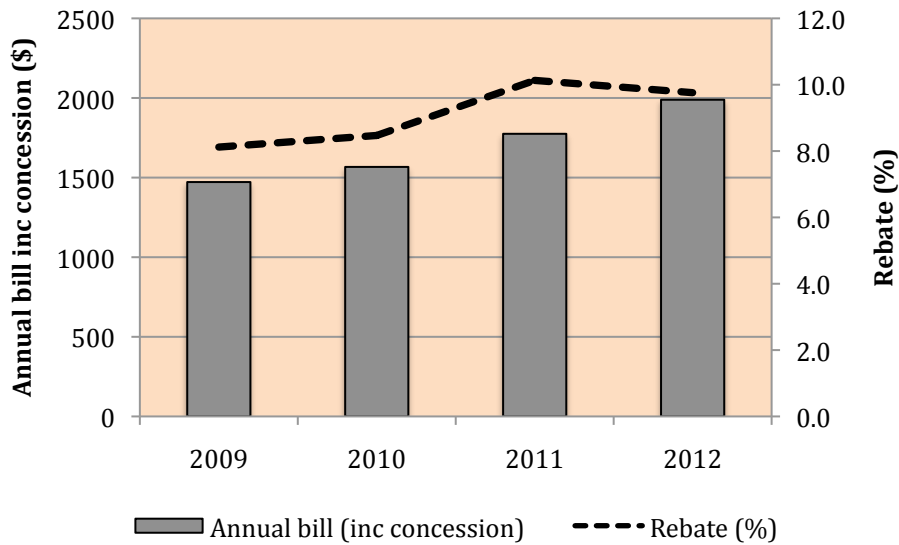
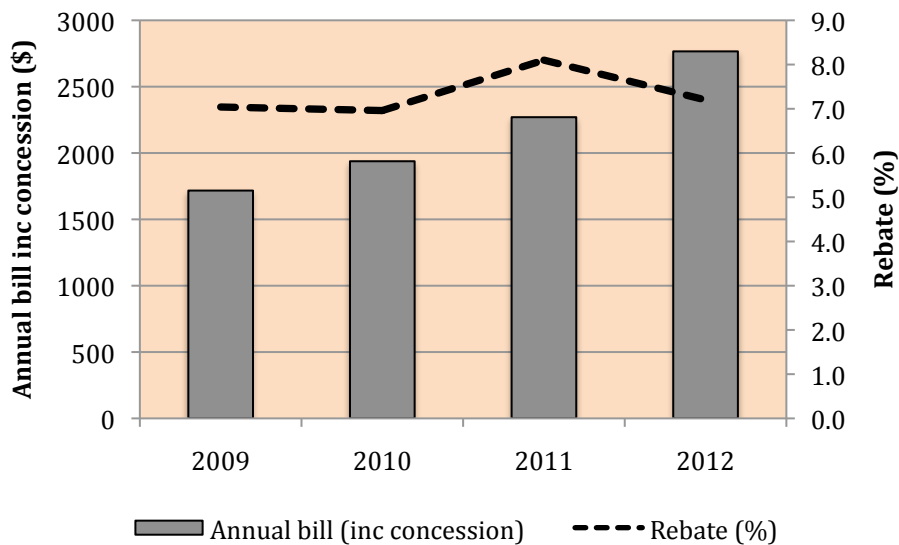


Chart 23 Essential: Annual bill (\$) and concession (%) for medium consumption households (7,200kWh, single rate), 2009 - 2012



Just as the relative value of a capped annual concession amount will vary between network areas, it will also vary between consumption levels. Low consumption households receive a greater percentage discount compared to those with medium consumption. Charts 24-26 show that low consumption households (5,760kWh) have experienced the same developments as medium consumption households (i.e. an increase to the percentage value in 2011 and a decrease in 2012), but their discount is typically 1.5-2% greater than that provided to medium consumption households.

Low consumption households eligible for FER, however, will receive an annual discount of 13.8% in 2012. As such, the combined effect of the FER and the Energy Rebate means that these recipients receive the same percentage discount off their bills in 2012 as the Energy Rebate provided in 2011.

Chart 24 AusGrid: Annual bill (\$) and concession (%) for low consumption households (5,760kWh, single rate), 2009 - 2012

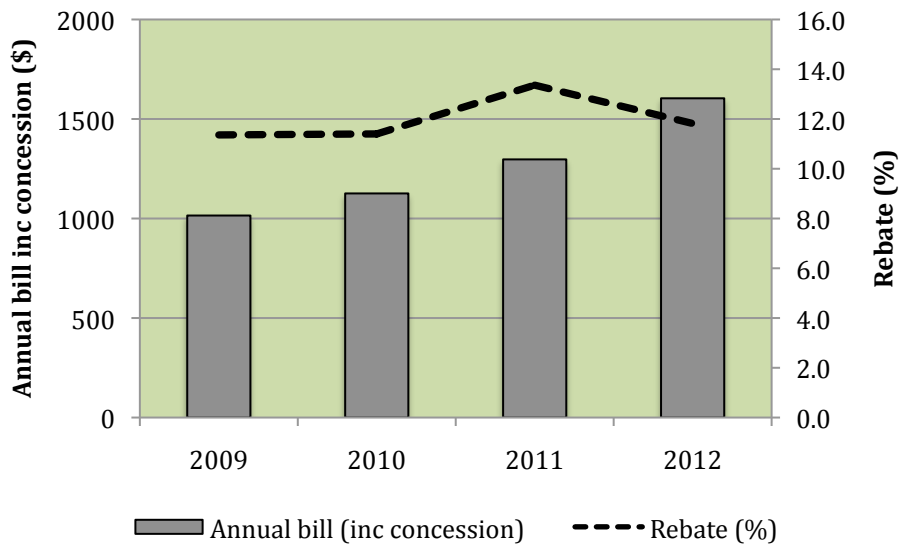


Chart 25 Endeavour: Annual bill (\$) and concession (%) for low consumption households (5,760kWh, single rate), 2009 - 2012

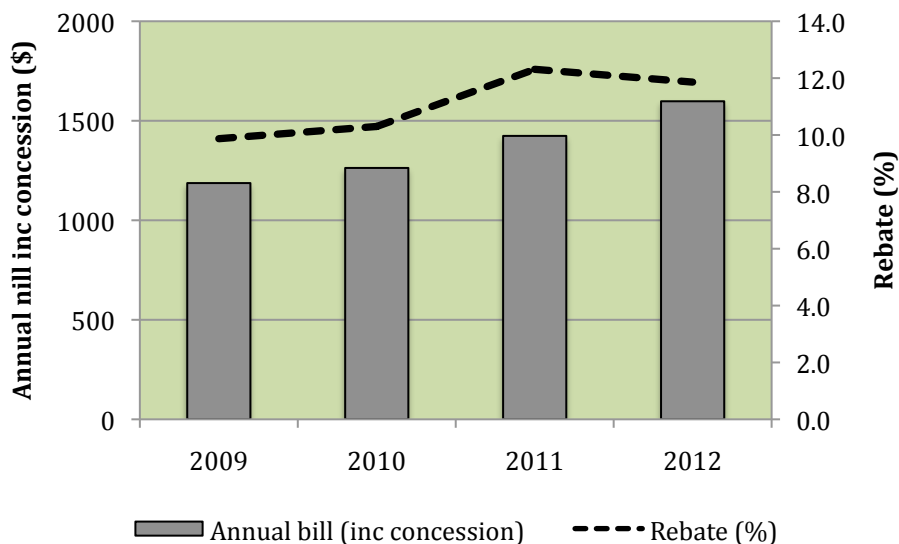
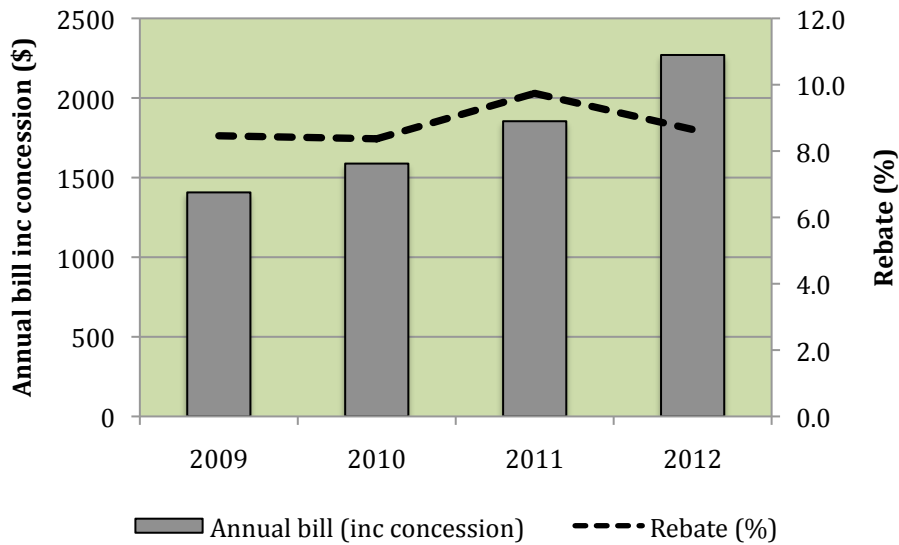


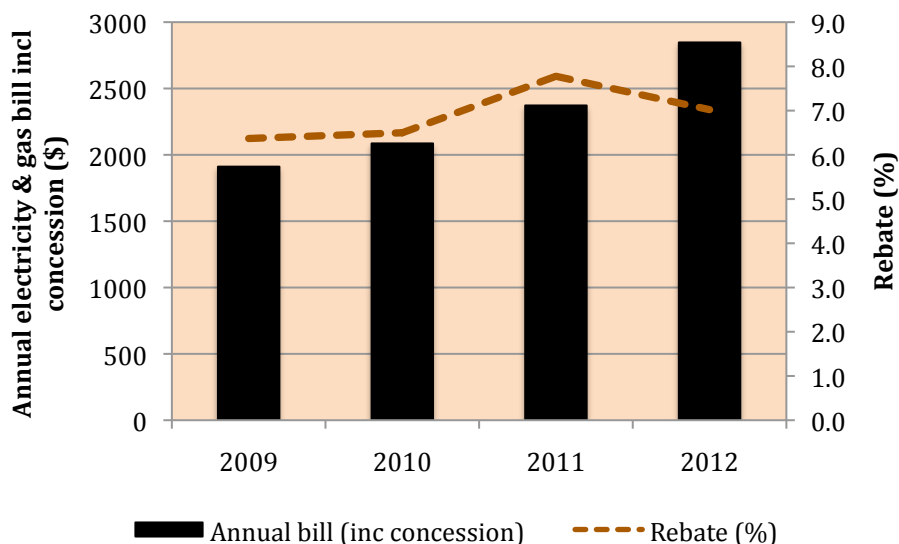
Chart 26 Essential: Annual bill (\$) and concession (%) for low consumption households (5,760kWh, single rate), 2009 - 2012



5.1.2 Dual fuel households

As there is no additional rebate applied to NSW gas bills, the proportional value of the concession is typically lower for dual fuel households compared to all-electric. Chart 27 shows that dual fuel Sydney households with a medium consumption level (7,200kWh and 24,000Mj) received discounts of approximately 6.5% in 2009 and 2010, 7.8% in 2011 and 7% in 2012.

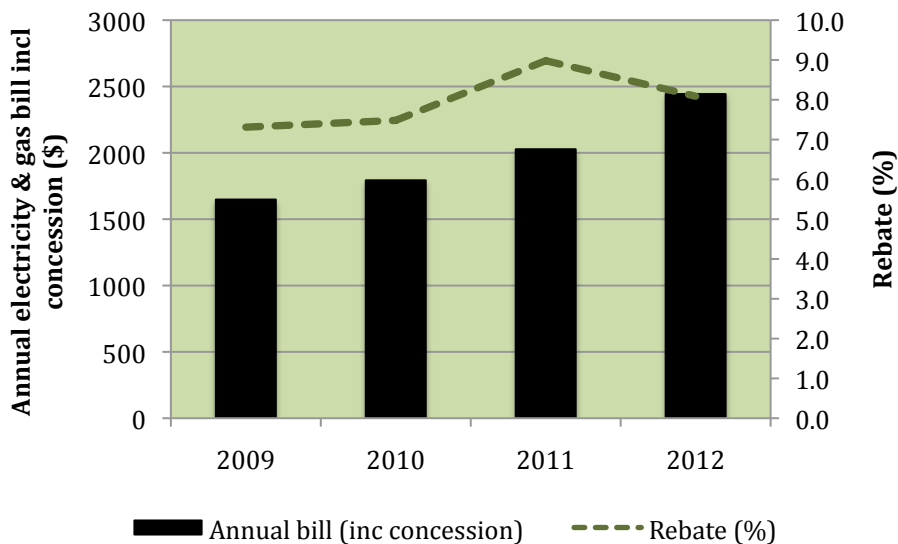
Chart 27 Dual fuel (AusGrid network and Jemena gas zone): Annual bill (\$) and concession (%) for medium consumption households (7,200kWh and 24,000MJ), 2009 - 2012



Even if we assume that dual fuel households have low electricity consumption (5,670kWh) as they use gas for key appliances such as hot water systems, heating and cooking, dual fuel households' proportion of concession to annual bill is less

than that for all-electric households in the same area (chart 28 compared to chart 21).

Chart 28 Dual fuel (AusGrid network and Jemena gas zone): Annual bill (\$) and concession (%) for low electricity and medium gas consumption households (5,670kWh and 24,000MJ), 2009 - 2012



5.1.3 Households with controlled off-peak electricity

All-electric households typically have a controlled off-peak load. Chart 29 shows that the annual discount off the bill varies more between network areas than over time. Medium consumption households (8,000kWh, 30% off-peak load) in rural NSW receive a discount that is significantly lower than that of households in metropolitan Sydney. Charts 30 -32 show annual bills as well as discounts for each of the three network areas.

Chart 29 All-electric: Rebate as % of annual bill for medium electricity consumption households (8,000kWh, 30% controlled off-peak load), 2009 - 2012

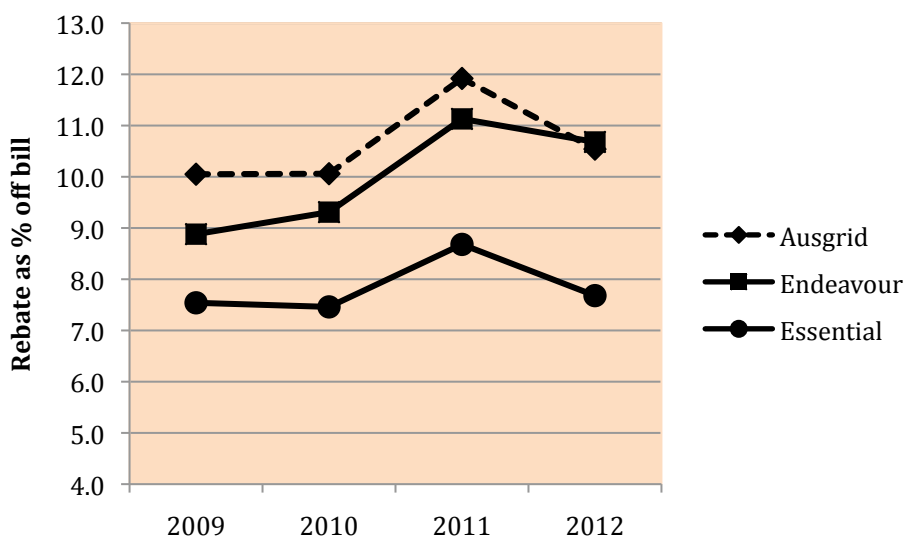


Chart 30 AusGrid: Annual bill (\$) and concession (%) for all-electric households with medium electricity consumption (8,000kWh, 30% controlled off-peak load), 2009 - 2012

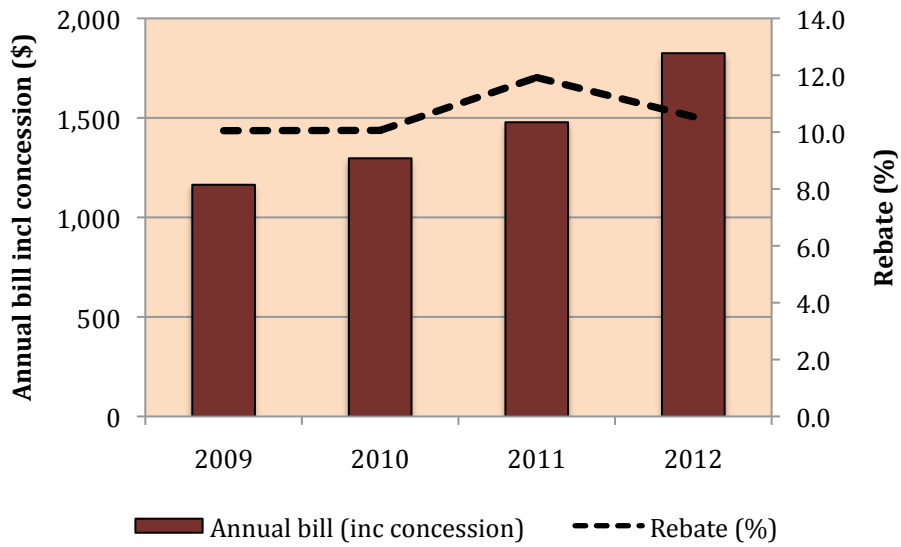


Chart 31 Endeavour: Annual bill (\$) and concession (%) for all-electric households with medium electricity consumption (8,000kWh, 30% controlled off-peak load), 2009 - 2012

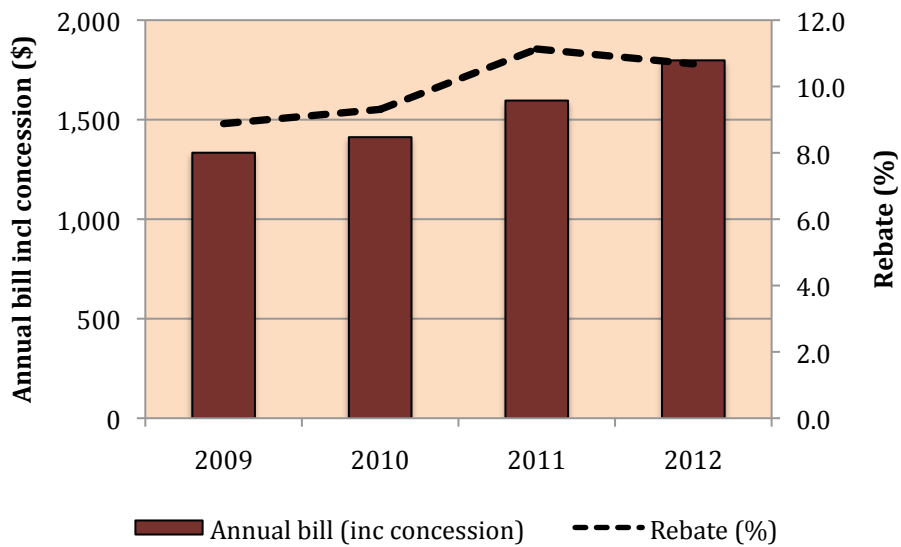
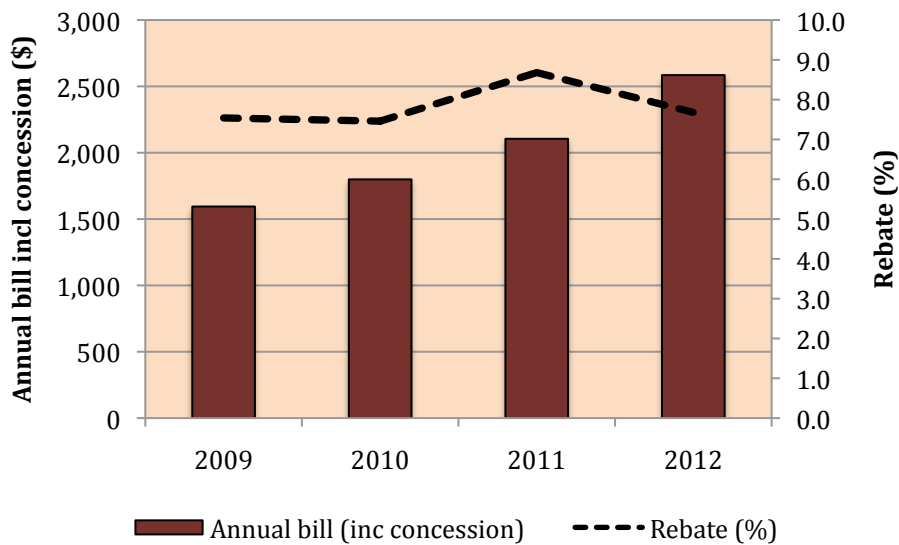


Chart 32 Essential: Annual bill (\$) and concession (%) for all-electric households with medium electricity consumption (8,000kWh, 30% controlled off-peak load), 2009 - 2012



5.2 The NSW concessions: Issues and recommendations

5.2.1 Ensuring that the concession reflects price increases

Analysing the total price increase from 2009 to 2012, NSW has been able to adjust the concession amount in line with price increases. That is, the three year price increases experienced by concession recipients on average are the same as those experienced by non-concession card holders, however it was the significant increase to the annual rebate in 2011 that secured this overall result. The more moderate increase to the annual rebate in 2012 resulted in a drop in the relative value of the concession from 2011 to 2012.

In the NSW context, it is important to note that the Australian Energy Market Commission (AEMC) is currently reviewing the effectiveness of the state's retail competition. Should the Government accept a potential AEMC recommendation of deregulation, it should simultaneously reform its concession program. As discussed in relation to South Australia, state governments removing themselves from a price setting role should ensure that a percentage-based concession framework is in place first. Government budget processes will not allow for concession amounts to swiftly respond to retailers' price announcements, and if we continue to see significant price increases the relative value of the concession can quickly deteriorate and adequate adjustments to the concession amount will lag behind. A time lag in concession adjustment will cause detriment to concession recipients whom, after all, have to respond immediately to fluctuations in energy prices.

5.2.2 Geographic differences to the relative value of the concession

Our single greatest concern in relation to the NSW concession framework is the use of a single capped annual rebate amount in a state that comprises three network areas with significantly different price levels. As a result, the relative value of the concession is significantly lower in rural NSW compared to greater Sydney. This causes serious equity issues and we cannot see any reasonable justification for why low-income households in rural NSW should receive a discount of 3% less than that of low-income households in Sydney. NSW is the only jurisdiction of the four examined in this analysis that operates with a single capped annual rebate amount across network areas with different energy prices.

This issue alone warrants us to urge the NSW Government to review their concession framework and seriously consider a percentage-based concession model.

5.2.3 Recognising that gas is an essential service

As was the case in South Australia, the relative value of the fixed annual amount concession is lower for dual fuel households compared to all-electric households in NSW as well. The above analysis shows that a medium consumption dual fuel household (7,200kWh and 24,000Mj) receives a 3% lower discount than a medium consumption all-electric household (8,000kWh, 30% off-peak) in 2012. The issue with one single energy concession is that it ignores the cost of being connected to a second fuel source. While the daily gas supply charge is a lot lower in NSW compared to South Australia, an annual gas supply charge of \$180, in addition to the \$250 annual electricity supply charge, has significant impact on the relative value of the energy rebate for dual fuel households.³⁷ It is important to remember that gas is not simply a 'fuel of choice' and for a concession recipient living in a dwelling connected to natural gas, gas is an equally essential service as electricity. We therefore recommend that the NSW Government review this aspect of its energy concession framework to ensure that dual fuel households receive equal assistance to all-electric households.

5.2.4 Assisting families

A survey of disconnected households in NSW, commissioned by the Public Interest Advocacy Centre, found that 73% of the households disconnected were in the 'family household' category, while 17% were 'single-person households'.³⁸ While this data indicates that family households experience energy hardship and become disconnected due to non-payment, it is important to note that it does not necessarily indicate that energy is affordable to single-person households. Clearly it would be easier to under consume energy and/or forego other needs and expenses in order to pay energy bills for a single adult than it is for a family household. Nonetheless, and as argued in the first report of the Vinnies' concessions project, low-income families are more inclined to experience energy hardship more frequently than other groups of concession recipients and it therefore important to keep this customer group in

³⁷ Supply charges for the AusGrid electricity network and Jemena gas zone as of July 2012. From the St Vincent de Paul Society's NSW Tariff-Tracking tool, Workbooks 1 and 3

³⁸ PIAC, Cut Off II: The experience of utility disconnections, Final Report 2009, p 11

mind when assessing the relationship between consumption levels and discounts, as well as eligibility criteria.³⁹

A key issue for a concession arrangement based on a single capped amount, is its ability to appropriately assist families due to the declining proportion of the bill that an energy rebate covers for households with higher consumption. The above analysis show that while the rebate provides a discount of just below 12% for a low consumption household (5,760kWh, single rate) in the AusGrid area, a medium consumption household (7,200kWh, single rate) will receive a discount of just below 10%.

The FER component of the concession arrangements, introduced in July 2012, means that the relative value of the total electricity concession (energy rebate and FER) available to eligible families would be the same for a family with medium level consumption (7,200kWh, single rate) as a low consumption household (5,760kWh, single rate) receiving the energy rebate only. For the AusGrid area, this means that both groups, the family household with medium consumption and the non-family household with low consumption, will receive a discount of just below 12% in 2012. The FER component of the concession framework thus closes the above gap between low and medium consumption households, in this respect at least demonstrates a sensible targeting of assistance by the NSW Government.

Despite this, the FER component of the concession arrangement is not without potential flaws. We do question the efficiency and accessibility of the FER program because it requires individual households to apply to the department every year (as family tax benefit status is the criteria) in order to register for the rebate. In addition, we are concerned about the potential impact the FER can have on switching activities amongst recipients. To be a FER recipient the department also needs to be notified every time the customer changes retailer and if this deters customers from switching to a better deal, the additional \$35 per annum available to concession card holders eligible for FER, may be money just as easily saved if they switched retailer. The St Vincent de Paul Society's most recent tariff-tracking report for NSW found that households switching from the regulated offer to a market offer could in many cases save \$200 on their annual bill (based on July 2012 offers) and it is as such important that low-income households can easily identify and switch to a better deal.⁴⁰ Moreover, it is crucial that programs aimed at assisting low-income households do not cause barriers to market participation and/or make the switching process more cumbersome for these households.

³⁹ The report (available at www.vinnies.org.au/energy) referred to the Simshauser and Nelson paper that found that 25% of AGL customers in the "Family Formation cohort" display signs of hardship compared to 16% of the total customer base. 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>

⁴⁰ St Vincent de Paul Society, *NSW Energy Prices July 2011-July 2012, An update report on the NSW Tariff-Tracking Project* by May Mauseth Johnston, August 2012

6. 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 currently 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.

6.1 The relative value of Queensland energy concessions 2009-2012

From 2009 to 2011 the relative value of the electricity rebate was steady on approximately 12% off the annual bill for medium consumption households on the single rate/tariff 11 before it dropped slightly to 10.8% in 2012. The relative value of the gas rebate, on the other hand, has decreased every year since 2009.

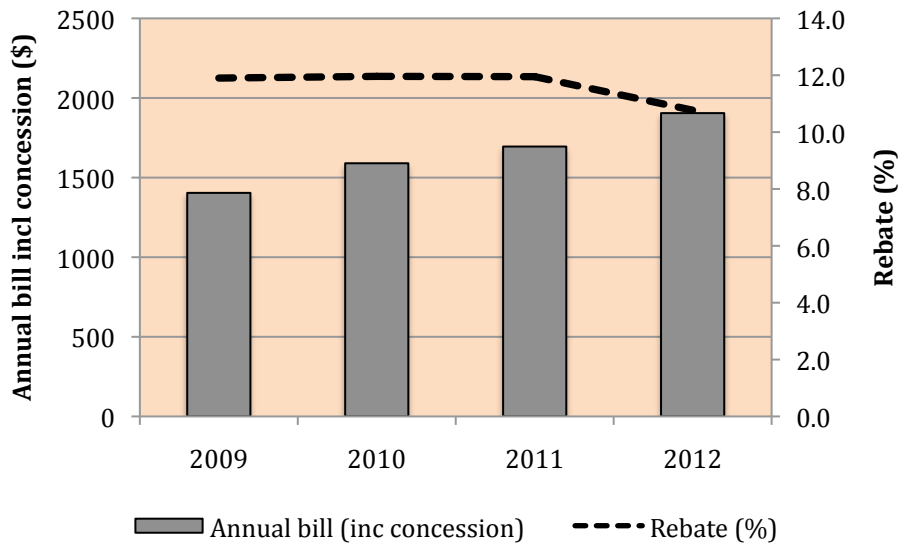
Based on medium consumption households on the single rate tariff (tariff 11), concession card households have experienced a slightly higher price increase over the last three years compared to non-concession card holders: concession card holders have experienced a 35.7% increase to annual bills compared to 34% for non-concession card holders.

The analysis presented in sections 6.1.1. to 6.1.3 below shows annual bills including concession/rebate from July 2009 to July 2012 as well as the rebate as proportion of bills.

6.1.1 Households with single rate electricity (tariff 11)

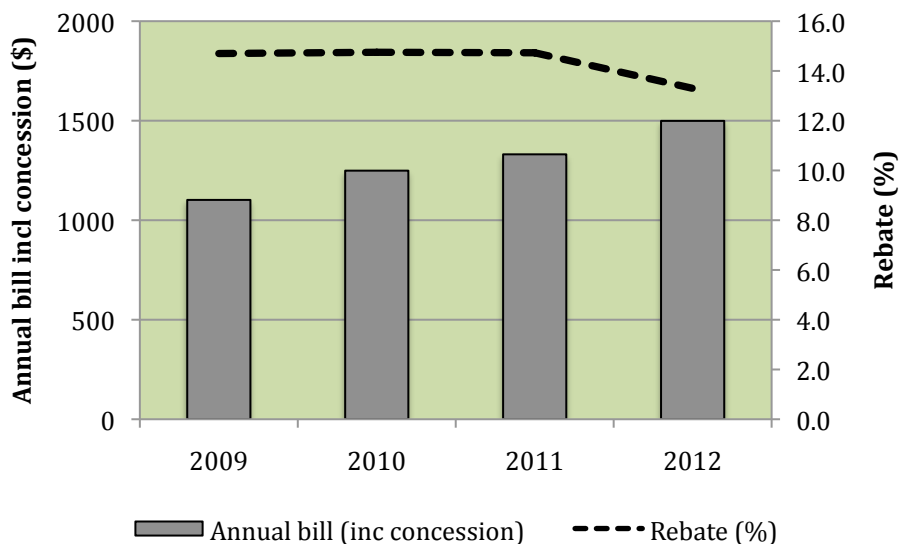
Chart 33 below shows annual electricity bills, including concessions, for medium consumption households (8,000kWh, single rate) from July 2009 to July 2012. It also shows the percentage discount off the bill that the rebate provided for each of the years. The annual electricity bill for concession card households with medium consumption was approximately \$1400 in 2009 after receiving a rebate of 12%. A \$26 and \$14 increase to the capped annual rebate in July 2010 and 2011 respectively, meant that concession card households continued to receive a similar discount in these years. In 2012, the rebate amount did not increase, and the discount now counts for 10.8% of the bill.

Chart 33 Single rate/tariff 11: Annual bill (\$) and concession (%) for households with medium electricity consumption (8,000kWh), 2009 - 2012



Low consumption households (6,400kWh, single rate) receive a slightly greater discount as proportion of the bill. During the 2009-2011 period low consumption households received a 14.7% discount off their electricity bills and in 2012 this discount dropped slightly to 13.3%.

Chart 34 Single rate/tariff 11: Annual bill (\$) and concession (%) for households with low electricity consumption (6,400kWh), 2009 - 2012



6.1.2 Dual fuel households

Although the penetration of gas in Queensland is relatively low, some households on a single rate electricity tariff (tariff 11) also have a gas connection. Charts 35 and 36 below show average annual gas bills for medium consumption (13,000Mj per

annum) concession card households from 2009 to 2012, as well as the percentage discount the natural gas rebate delivers to the annual bill. Chart 35 shows the calculations for the APT gas zone that covers South Brisbane, the Gold Coast, Toowoomba and Oakey, while chart 36 presents the calculations for the Envestra gas zone (Brisbane North and Ipswich). There have been slight increases to the gas rebate every year since 2009 but the relative value of the rebates have decreased as gas bills have gone up more than the rebates themselves.

Chart 35 Gas (South Brisbane/APT): Annual bill and concession (%) for medium consumption households (10,000Mj), 2009 - 2012

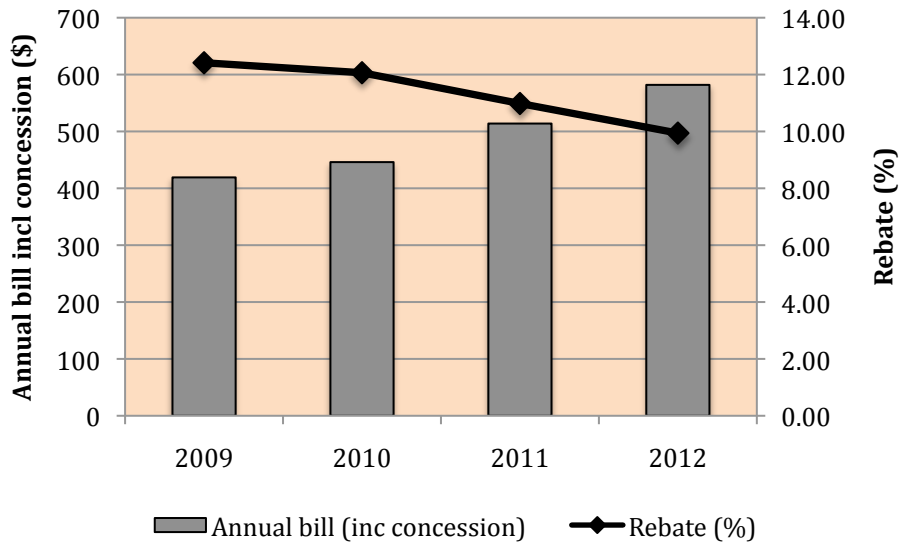
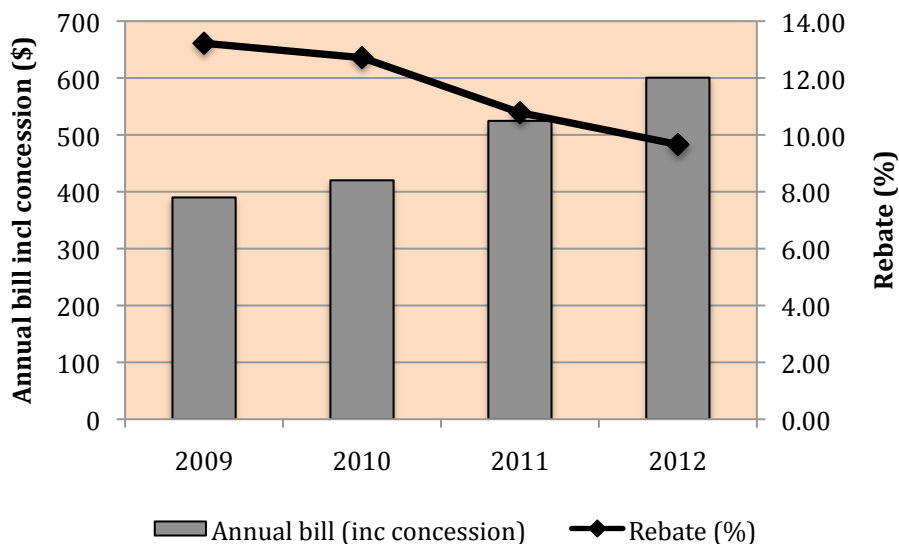
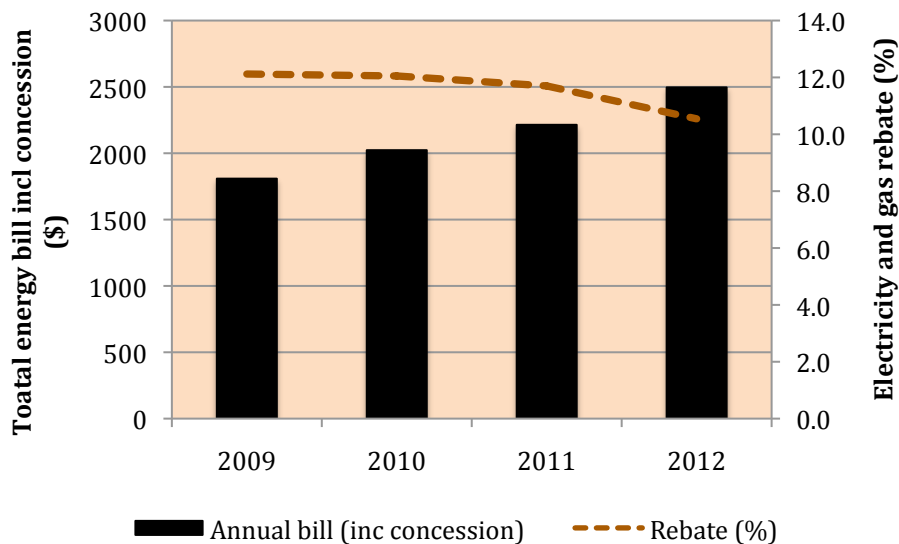


Chart 36 Gas (North Brisbane/Envestra): Annual bill and concession (%) for medium consumption households (10,000Mj), 2009 - 2012



Dual fuel households eligible for concessions access both electricity and gas rebates. Chart 37 below shows combined annual energy bills (electricity and gas) for medium consumption households (6,000kWh and 10,000Mj).⁴¹ It shows that dual fuel households received 12.1% off total energy costs in 2009 and 2010 but that this decreased to 11.7% in 2011 and is now down to 10.5%.

Chart 37 Dual fuel: Combined annual bill and concession (%) for medium consumption households (6,000kWh and 10,000Mj), 2009 – 2012



6.1.3 Households with controlled off-peak electricity (tariff 31 & 33)

All-electric households typically have a controlled off-peak load and charts 38 – 39 show annual bills including concession and the rebate percentage for households on tariff 31 with medium consumption (8,000kWh, 15% off-peak load) and low consumption (6,400kWh, 15% off-peak load). As the case with single rate electricity bills, the rebate proportion remained flat from 2009 to 2011, before decreasing in 2012. However, as the off peak rates make this tariff type less expensive, the relative value of the rebate is somewhat greater for customers on tariff 31 compared to the single rate (tariff 11). That said, some customers on tariff 11 are able to access the gas rebate that of course is not applicable to all-electric households. Tariff 33 is also an off-peak tariff but the relative value of the concession is slightly lower for this tariff type (see chart 40) compared to tariff 31.

⁴¹ The gas bill calculations presented in this chart are based on the average of the APT and Envestra zones. As shown in charts 35 and 36, the annual gas bills vary slightly between the two gas zones.

Chart 38 All-electric (tariff 31): Annual bill (\$) and concession (%) for households with medium electricity consumption (8,000kWh, 15% off-peak load), 2009 – 2012

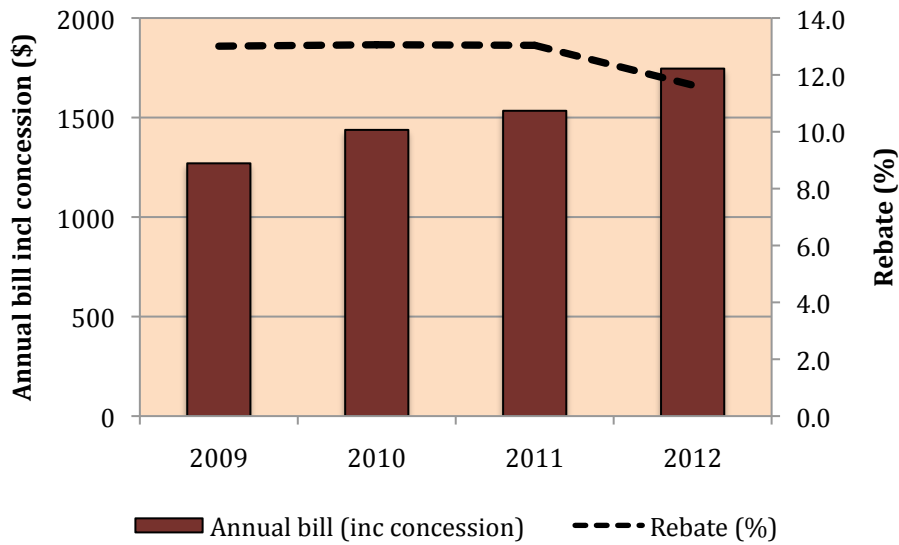


Chart 39 All-electric (tariff 31): Annual bill (\$) and concession (%) for households with low electricity consumption (6,400kWh, 15% off-peak load), 2009 – 2012

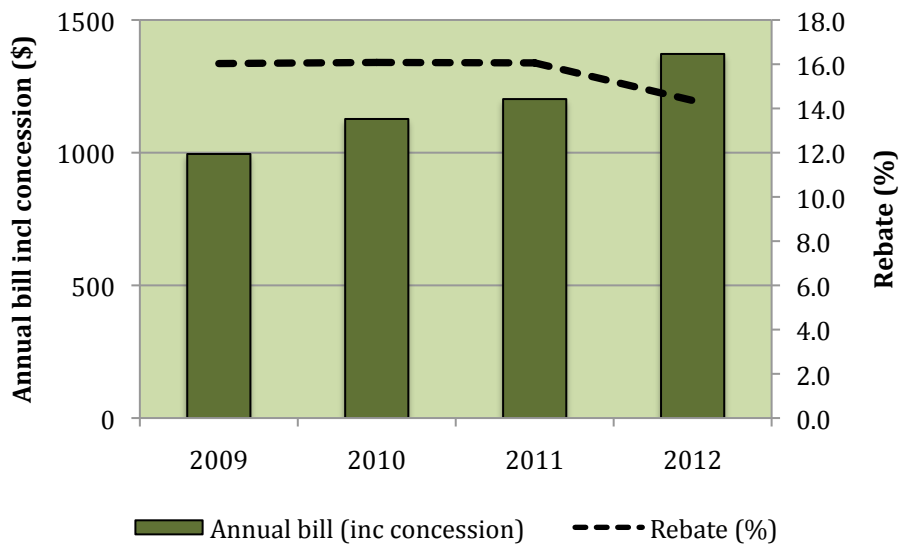
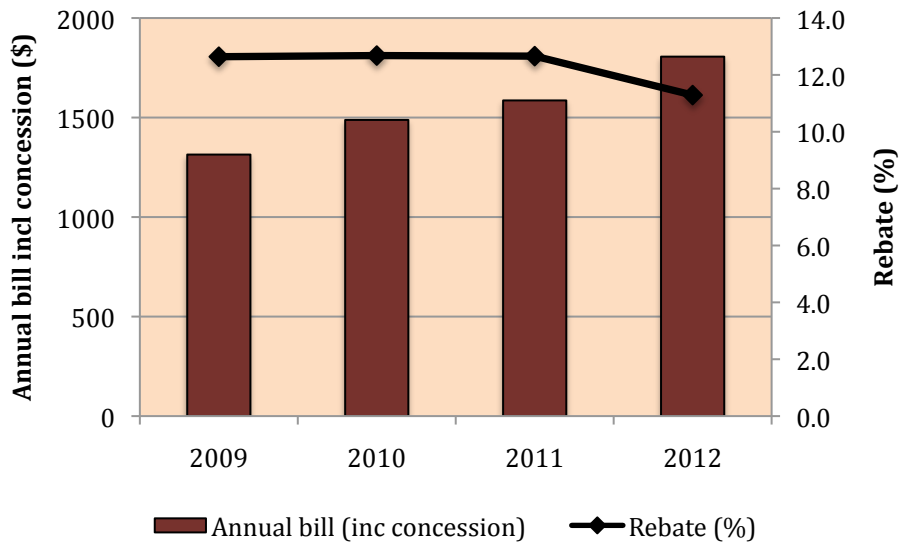


Chart 40 All-electric (tariff 33): Annual bill (\$) and concession (%) for households with medium electricity consumption (8,000kWh, 15% off-peak load), 2009 – 2012



6.2 The Queensland concessions: Issues and recommendations

6.2.1 Ensuring that the concession reflects price increases

The Queensland electricity rebate currently offers the 2nd highest discount on electricity bills (after Victoria) for eligible households. That said the relative value of the rebate dropped in 2012 after matching price increases from 2009 to 2011.⁴² The relative value of the gas rebate, on the other hand, has decreased every year since 2009. So while the capped annual rebate amount is more generous than that on offer in NSW and South Australia, the Queensland Government should consider a percentage-based rebate model to ensure that the concession keeps up with price increases. While there is no review under way to start the process of retail price deregulation in Queensland, the Government should at least prepare for a concession framework review when a competition/price deregulation review is on the cards.

6.2.2 Assisting low-income families and benefit recipients

As is the case in South Australia (and to some extent in NSW), the capped annual rebate amount provides lower relative value for higher consumption households. However, as the Queensland Government does not offer electricity and gas rebates to low-income families, the vertical equity implication of this arrangement is less than in the other states. The single greatest concern we have in relation to the Queensland energy concession arrangement is thus the eligibility criteria. Low-income families and/or benefit recipients below the Aged pension age (or the age to

⁴² Note that the Queensland Government “froze” price increases in July 2011 apart from allowing for a pass through of the carbon tax. The Government did thus not increase the rebate amount either and the drop in the relative values of the concession can arguably be seen as similar to that in Victoria (where the Government introduced a carbon tax compensation threshold on the concession).

qualify for a Queensland Seniors card) do not receive any assistance with their energy costs in Queensland.

While the electricity price increases since 2009 have been lower in Queensland than the other states included in this analysis, electricity bills still typically increased by 35% from July 2009 to July 2012.⁴³ Furthermore, in February 2013 the Queensland Competition Authority (QCA) announced in its Draft Determination on electricity prices taking effect from July 2013 that residential consumers would face a 21% price increase.⁴⁴ The QCA's main reasoning being that:

“For 2012-13, the Queensland Government decided to freeze the Tariff 11 notified prices at their 2011-12 levels (with an addition to the variable charge to account for the impact of the carbon tax). This led to the fixed charge being lower, and the variable charge being higher, than the cost-reflective levels that would otherwise have prevailed. To support this decision, the Government provided a subsidy to Energex which ensured that retailers would not be penalised. The freeze was only for the one year (2012-13).

For 2013-14, the Authority is proposing to implement a three-year transitional path to rebalance the fixed and variable components of Tariff 11 so that each component is cost-reflective by 1 July 2015.”⁴⁵

This is a significant price increase and many low-income Queenslanders will struggle to pay their electricity bills. We strongly recommend that the Queensland Government review their energy rebate eligibility criteria to ensure that low-income families, as well as other benefit recipients under the Age pension age, receive financial assistance to cope with these imminent price increases.

⁴³ St Vincent de Paul Society, *Queensland Energy Prices July 2009 – July 2012, A Report from the Queensland Tariff-Tracking Project* by May Mauseth Johnston, August 2012, p 10

⁴⁴ Based on a customer on Tariff 11 consuming 4,250kWh per annum. See QCA, *Regulated Retail Electricity Prices 2013 -14*, Draft Determination, February 2013 at www.qca.org.au/files/ER-QCA-DraftDeterm-RREP201314-0213.pdf

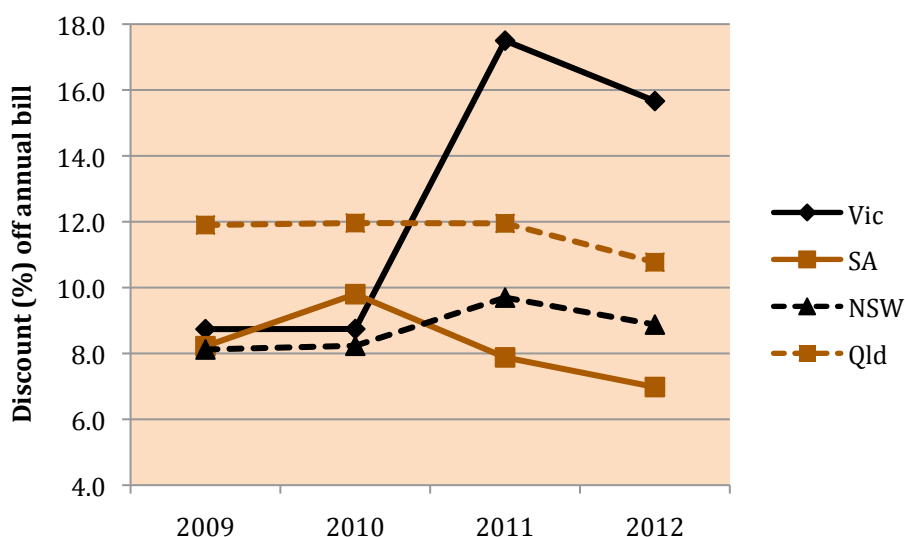
⁴⁵ Ibid p viii

7. Interstate comparison

The above analysis demonstrates that there are numerous differences between energy concession arrangements in the four jurisdictions, in relation to amounts, fuel source coverage and eligibility.

Chart 41 shows the annual discount received by eligible concession card households with a medium consumption level on electricity bills (single rate tariff) from 2009 to 2012. It should be noted that the medium consumption levels are different in the four states and that consumption levels do impact on the size of the discount in the jurisdictions where the concession is a capped annual amount. Nonetheless, this comparison is important in order to understand the value of the concession to recipients in each state. Electricity needs, and thus consumption levels, do vary between jurisdictions due to factors such as climate and fuel sources available. The chart shows that Queenslanders received the greatest discount in 2009-2010, while the other states offered between 8-10% off the annual bill. In 2011 the Victorian concession increased dramatically, the South Australian concession dropped by approximately 2% and the NSW concession increased by nearly 2%. In 2012 the Victorian concession offers the greatest discount (albeit lower than it was in 2011), and the Queensland rebate decreased as a proportion of the bill in 2012 but still provides a greater discount than NSW and South Australia. The South Australian concession clearly offers the lowest discount out of the four states included in this analysis.

Chart 41 Electricity Concessions: Annual discount (%) off bill for households with medium electricity consumption (single rate), 2009 – 2012⁴⁶



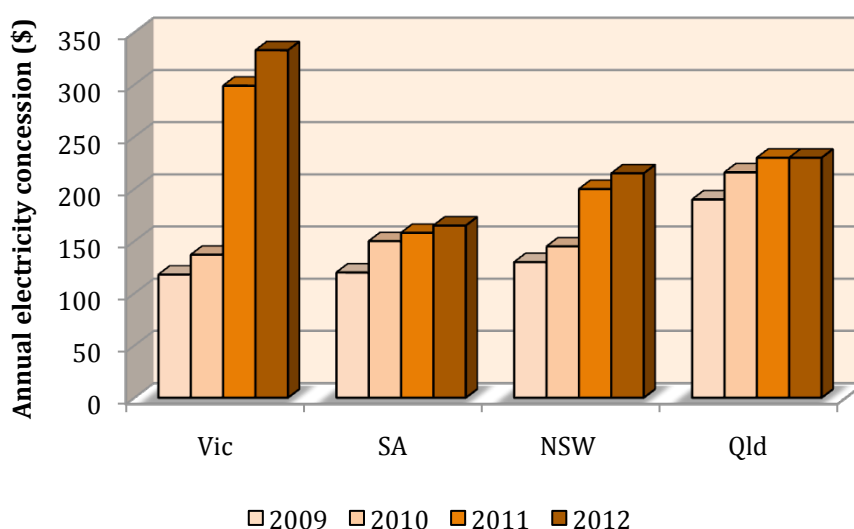
⁴⁶ Annual medium consumption levels (electricity, single rate) for each of the jurisdictions are: 4,800kWh in Victoria, 6,000kWh in South Australia, 7,200kWh in NSW and 8,000kWh in Queensland. Note that for Victoria and NSW an average across all network areas has been applied.

All of the four jurisdictions have experienced significant energy price increases over the last few years and it can be challenging for the states to ensure that concessions are kept in line with price increases. Moreover, significant price increases may require the concessions to increase at a higher rate than the price increase itself in order to ensure affordability and access to an essential service.

It is thus of great concern that all of the four jurisdictions saw a decrease in the relative value of their electricity concession from 2011 to 2012 (see chart 41 above). Cost of living, and energy affordability in particular, has been a key issue for politicians in recent years and it is thus somewhat surprising that the relative value of the assistance available to low-income households has declined.⁴⁷

Chart 42 compares annual concession amounts (\$) for households using 6,400kWh per annum (single rate) across the four states and shows that the amount offered to Victorian households since 2011 are significantly greater than in the other states.⁴⁸

Chart 42 Electricity Concessions: Concession amount (\$) per annum for households using 6,400kWh (single rate), 2009 – 2012



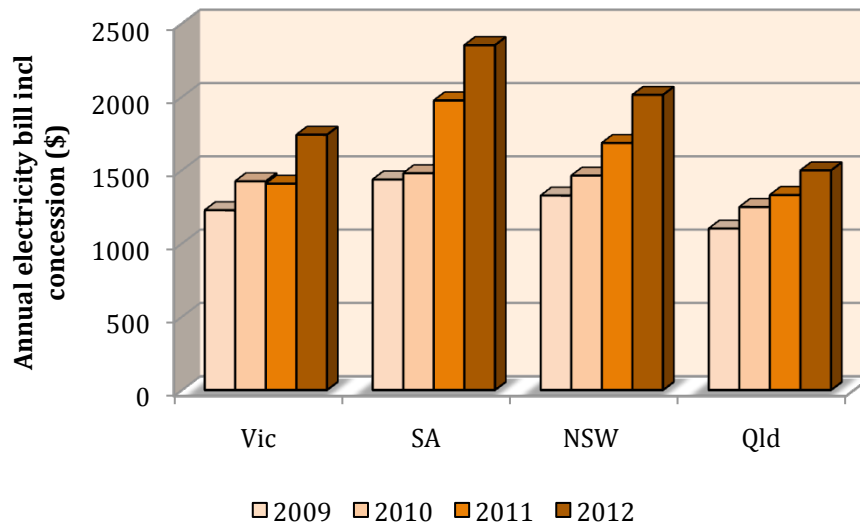
Furthermore, chart 42 above highlights that South Australia is the state that offers the lowest amount while increasing the concession only modestly since 2010. Keeping that in mind, chart 43, which compares annual electricity bills (including concessions) using the same consumption level (6,400kWh, single rate) for all four

⁴⁷ Examples of politicians becoming increasingly involved in energy pricing and affordability include the Queensland’s Government temporary “price freeze”, the South Australian Government’s negotiated price cuts with AGL and Origin, and the Prime Minister’s energy action plan to save households’ \$250 per annum in electricity costs.

⁴⁸ The concession amount calculations for Victoria are based on the average bill across all five networks.

states, shows that South Australian concession recipients have also experienced the greatest price increases since 2010.

Chart 43 Electricity bills including concessions: (\$) per annum for households using 6,400kWh (single rate), 2009 – 2012



Clearly concession card households in South Australia have experienced significantly higher price increases the last two years than concession recipients in the three other states. However, there is an equally important issue that these charts do not illustrate: namely concession eligibility. At least low-income families and non-age pensioners receive a concession in South Australia, whereas in Queensland (where the annual rebate amount is more generous) these households would not receive any energy concession at all.

In sum, the Federal Government’s assistance and the state based energy concession arrangements result in a framework that can best be described as highly inequitable and too fragmented to support low-income Australians in a truly National Energy Market.

The table below summarises the key recommendations for Federal and State governments set out in this report.

Table 3 Key recommendations for Federal Government and the Governments of Victoria, South Australia, NSW and Queensland

	Key recommendations
Victorian Government	<p>1) With the ongoing roll-out of smart meters and the introduction of TOU tariffs from 1 July 2013, many all-electric households will find themselves on a tariff with a time based off-peak rate (rather than controlled off-peak load) and therefore lose the 13% concession that the off-peak load currently attracts. The Government should carefully assess the impact that a move from a controlled off-peak tariff to a TOU tariff will have on the concession, and ensure that the relative value of the concession for all-electric households remains equal to that of dual fuel households.</p>
South Australian Government	<p>1) The capped concession amount has not increased in line with recent price increases. As the Government has decided to deregulate retail prices, which means that they will no longer know the size of increases in advance, we strongly recommend they review the concession framework to ensure that the assistance provided is sufficient to promote the affordability of essential services. Moreover, as a percentage-based framework will allow the Government to deliver assistance in a timely manner should price increases above CPI occur, a move to a percentage-based framework should be considered.</p> <p>2) The relative value of the fixed annual amount concession is lower for dual fuel households than all-electric households. The Government should review this aspect of its energy concession framework to ensure that dual fuel households receive the same assistance as all-electric households.</p>
NSW Government	<p>2) The relative value of the concession is significantly lower in rural NSW than greater Sydney because the concession is based on a single capped annual rebate despite the state being comprised of three network areas with significantly different price levels. The Government needs to immediately review its concession framework and seriously consider a percentage-based concession model to address this problem.</p> <p>2) As retail price deregulation means that governments will not know the details of any price increases in advance, their ability to review concession amounts and introduce relative increases in a timely manner is hence limited in a deregulated environment. Should the Government accept a potential AEMC recommendation for deregulation in NSW, it should simultaneously reform its concession program to ensure that the value of the concession reflects any price increases occurring in a deregulated retail market.</p> <p>3) The relative value of the fixed annual amount concession is lower for dual fuel households than all-electric households. The Government should review this aspect of its energy concession framework to ensure that dual fuel households receive the same assistance as all-electric households.</p>

<p>Queensland Government</p>	<p>1) The eligibility criteria represent the single greatest concern we have in relation to the Queensland energy concession arrangement. Low-income families and/or benefit recipients below the Aged pension age (or the age to qualify for a Queensland Seniors card) do not receive any assistance with their energy costs in Queensland. Prices are expected to rise significantly in July 2013 and the Government needs to review the energy rebate eligibility criteria to ensure that low-income families, as well as other benefit recipients, receive financial assistance in order to cope.</p>
<p>Federal Government</p>	<p>1) The analysis presented in this report shows that there are significant differences in the level of assistance provided to low-income Australians, and while social policy tools such as energy concessions are state responsibilities, NEM policies and regulations have a significant impact on energy prices for residential consumers. The Federal Government should initiate the development of a set of national principles that address the equity implications of current energy concession arrangements.</p>