

Electricity Price Review

Submission from Sustainability Trust

October 2018



About Sustainability Trust

Sustainability Trust is a charitable trust and community enterprise with a focus on ensuring all Wellington region residents live in warm dry homes. We are a team of around 40 staff and provide a range of home energy efficiency services including installing insulation, heating and ventilation. Our assessors also provide information and in-home advice through a range of local and central government supported programmes to households with high-health needs and suffering energy hardship.

The Trust also runs a curtain bank, provides education services for schools and communities and showcases best practice in sustainability through our EcoCentre in central Wellington.

Sustainability Trust is a founder member of Community Energy Network (CEN), the peak body for charitable trusts working in energy efficiency and works in areas of policy development, advocacy and supporting our local members deliver value to their vulnerable populations. Our Chief Executive is chair of CEN and our team has many years' experience in healthy housing with deep networks across the region and nationally.

We are also a founder and governance member of the Wellington Regional Healthy Housing Response Group. The Group is a collaboration of local and central government agencies, as well as health, social, community and research organisations with a stake in healthy housing in the Wellington region.

Our Response to the Electricity Pricing Review

Our response will be brief and to the point and based on our experience of the influence that electricity pricing and supply has on health and comfort outcomes of a vulnerable population. We will offer our insights and some potential solutions based on our own knowledge of what works and also international examples. We will base our discussion and suggestion of solutions using the framing of fuel poverty (sometimes known as energy affordability or energy hardship).

The main points we will address are:

1. Costs of electricity – these are a key driver as to whether a household can afford to purchase sufficient electricity to heat the home to a healthy temperature during the colder months.
2. Access to cheapest or most appropriate tariffs – there are ongoing challenges for vulnerable households to be able to take advantage of best tariffs available, both through knowledge of options and access to early payment discounts.
3. Electricity efficiency – heating appliances. Inability for households to be able to purchase higher quality energy-efficient heaters than cheap inefficient units



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4. Electricity efficiency – housing. Poorly insulated and draughty, damp housing leading to low-use of heating or high electricity costs and associated health issues.
5. Energy hardship metrics – definition of energy hardship or fuel poverty to enable effective responses for households unable to afford to heat their homes to a healthy temperature.

Cost of Electricity

It is beyond our knowledge base to comment on whether excess profits are being made by supply chain actors and thus impacting the net costs to domestic consumers. However, our experience with thousands of households is that the high costs of electricity mean that many households choose to heat intermittently, or only heat single rooms, or to not heat at all). Impacts of cold and damp homes are well documented and we have first-hand experience of working with families with health conditions that are caused or exacerbated by these issues.

Affordability of electricity is thus a key factor in fuel poverty (in homes heated by electrical heat sources). However, the electricity industry's involvement in the alleviation of fuel poverty has been patchy at best. Solutions require a broad strategic approach right across the industry. Stripping a couple of cents off the price of a kilowatt hour are meaningless to a household in energy hardship and we strongly advocate that spending time on tweaking the system is a waste of time and disservice to low-income households. What is needed is a significant investment in the causes of fuel poverty targeted at those in need.

Tariffs and a Proposing a Low-income Retailer

Low-income households and those under financial stress rarely have the time or inclination to seek out cheaper or more appropriate tariffs. While consumer websites such as Powerswitch are reasonably effective for empowered consumers, vulnerable households will usually require assistance to negotiate the complexities of various offers. There are a host of issues for vulnerable households as to why they do not switch (including servicing a debt or a smooth-payment plan and a “trusted” relationship built up over many years). There is also no guarantee that once switched to a cheaper tariff that a new, cheaper or more appropriate tariff is not made available to the market. The consumer-retailer relationship is very sticky and expecting that market players will manage the interests of lower-income clients as a top priority is unrealistic.

We welcome the opportunity to discuss the creation of a focussed low-income retailer who will be solely responsible for negotiating the best tariff options and pricing for vulnerable households. Not-for-profit retailers in the UK and Europe have set a benchmark for the energy industry in working with fuel-poor households. Creation of a single-issue retailer (or mandating an incumbent to build a standalone business) would enable a range of solutions for low-income households to be delivered. Targeting of energy advice services, subsidies, technology solutions etc. could be delivered to a priority group of electricity users through the unique relationship between retailer and consumer.

We note that there are a significant number of households already on pre-pay plans (such as Mercury's Globug) and smooth-pay that are already indicating they have challenges in budgeting for energy bills. Creating a stand-alone retailer that offers carefully crafted offers for low-income households with a clear outcome of affordability and access would ensure that vulnerable households were being treated as valued clients.

Electricity Efficiency – Housing and Appliances

One of the key drivers of fuel poverty is poor quality of housing – specifically housing that is poorly insulated, damp and draughty. This coupled with inefficient heating appliances leads to high energy costs to heat the home to a healthy temperature. *[We note that the number of fuel-poor households discussed in the EPR was rather meaningless as it used the actual spend on electricity rather than the required spend to maintain the house at a healthy temperature].*

Delivering well insulated, warm, dry homes is the foundation for alleviating fuel poverty. Coupled with efficient heating – energy affordability comes into reach for many households. Upgrading existing homes to a healthy standard, providing efficient heating coupled with advice and information on energy efficient behaviours is the solution. The electricity industry’s role in this is critical. We advocate for mirroring of the UK scheme where energy providers are mandated to make significant investments into household energy efficiency measures, especially for low-income households. The Energy Companies Obligation (ECO) is one of the major funding sources for reducing fuel poverty in the UK and has been responsible for hundreds of thousands of insulation and efficient heating interventions.

We recommend that an industry—wide programme be instituted that actually supports low-income households rather than penalises (such as rewarding users of PV and EV technologies). Again, as mentioned above, if the EPR just ends up shaving a cent or two off the price of a unit of electricity low-income households will not be benefitted (as they are lowest users of electricity already). Equally an ECO that acts as a regressive tax on electricity users is not the best outcome. However the considerable profits being made in the industry could be put to much better use by investing in practical measures to assist the most vulnerable in New Zealand. We welcome being involved in such a discussion.

Energy Hardship – Fuel Poverty – Measuring the Size of Issue

At the foundation of the challenge of fuel poverty is definition. What is fuel poverty, how is it measured, and how many and who are suffering? We support development of and discussion of a robust and NZ-centric definition that can be used to drive policy and measure our progress towards elimination.

Organisations such as Sustainability Trust and its Community Energy Network partners are key players in fuel poverty mitigation. We will be developing our work in this area over the coming 12 months and would value engagement and discussion to enable a baseline understanding of fuel poverty to be created.

For more information

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