

Communicating the Impact of Carbon Pricing on Electricity Bills

Regulatory Impact Statement

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1 The problem

- 1.1 Between 2009-10 and 2010-11 the average Australian retail electricity price increased by over 20 per cent. Significant price increases in electricity prices are projected to continue in future years, mainly as a result of planned expenditure on transmission and distribution infrastructure.
- 1.2 The rising cost of electricity has generated community concern. This community concern has arisen at the same time as the Australian Government is seeking to implement a carbon pricing mechanism, which will increase the cost of generating carbon pollution intensive electricity.
- 1.3 A wide range of factors influence the price that households pay for electricity. These drivers of electricity prices are not well understood by the Australian community. If the impact of a future carbon price on electricity prices is not well understood, the community may incorrectly attribute all future increases in electricity prices to the introduction of the carbon pricing mechanism.
- 1.4 The Government is currently communicating to households through the Clean Energy Future website that ‘the carbon price is expected to increase electricity prices by \$3.30 a week for the average household’¹ and in associated publications that ‘Across Australia, the carbon price is expected to increase electricity prices by 10 per cent on average in 2012-13 or around \$3.30 per week on average across households’² and ‘Average weekly household expenditure will go up around \$9.90, including \$3.30 per week on the average electricity bill...’³ However, as there will be a 15 month or more time lag between when households received the Clean Energy Future mail-out and the time that carbon pricing will be reflected in electricity prices over a full billing period, restating the impact of carbon pricing on electricity prices could be worthwhile.
- 1.5 It is standard practice for electricity retailers to communicate the factors underlying electricity cost increases, as it is for state regulators to explain approved increases in electricity prices. However, as there is not a consistent approach to the way in which cost increases are explained, a retailer and regulator directed approach to communications may generate further confusion amongst Australian households about the contribution of carbon pricing to residential electricity bills.

¹ <http://www.cleanenergyfuture.gov.au/question-and-answer/will-my-electricity-prices-go-up/>

² DCCEE. 2011. Securing a clean energy future: The Australian Government’s Climate Change Plan. p.47

³ Clean Energy Future. 2011. What a carbon price means for you. The pathway to a clean energy future. p.8

- 1.6 Improved household understanding of the composition of electricity prices would have little impact on household resource allocations, and subsequent levels of allocative efficiency within the industry and the economy. However, the public interest may be served by ensuring that households have access to factual information about some of the drivers of electricity prices and the implications of public policy. This is of particular relevance where the implications of public policy are actively contested by various groups in society.
- 1.7 The impact of carbon pricing on electricity prices will be the single largest cost impact of the carbon price for Australian households. Confusion about the impact of carbon pricing on electricity costs will likely have broader implications for community acceptance for the Clean Energy Future policy package.
- 1.8 To forestall possible confusion amongst residential electricity customers, the Government may wish to consider promoting a consistent and rational approach to the communication of the impact of carbon pricing on residential electricity costs.

2 Objectives of Government Action

Options considered within this Regulatory Impact Statement (RIS) would seek to explain to households the impact of carbon pricing on residential electricity prices.

3 Options that may achieve the objectives

A range of options exist to increase household awareness of the contribution of a future carbon price to future electricity prices at the time that the proposed carbon pricing mechanism begins to operate. These options could be timed to coincide with the close of the first full billing period to which carbon pricing applies. The options presented below relate to the mode of delivery of information to households, the information that could be provided to households, and the means by which the cooperation of electricity retailers may be secured.

3.1 Printing information on electricity bills

Under this option, information on the cost impacts of carbon pricing would be printed on electricity bills sent to households through the post or the internet. The information on the bills could be personalised (based on the quantity of electricity used by the household and the level of carbon cost passed through by the retailer serving the household) or could consist of only generic information. This generic could be based on national or jurisdictional average emissions intensities (as opposed to retailer specific emissions intensities in the case of a more personalised approach).

A hybrid approach could also be taken whereby personalised quantity data was coupled with a national or jurisdictional average emissions intensity of electricity to arrive at a total cost figure that appeared to be personalised for individual households. This option would require a collaborative approach with electricity retailers that could be secured through government legislation or an agreement between the Government and electricity retailers.

3.2 Inserting separate price information in bill package

Under this option the information would not be printed on the bill itself but would be provided on a separate piece of paper that would be inserted in the billing envelope or attached to an online bill where households received billing information online. The information presented by the insert could be personalised (based on the quantity of electricity used by the household and the level of carbon cost passed through by the retailer serving the household) or could be generic. This generic information could be based on national or jurisdictional average emissions intensities (as opposed to retailer specific emissions intensities in the case of a more personalised approach).

A hybrid approach could also be taken whereby personalised quantity data was coupled with a national or jurisdictional average emissions intensity of electricity to arrive at a total cost figure that appears to be personalised for individual households. This option would require a collaborative approach with electricity retailers that could be secured through government legislation or an agreement between the Government and electricity retailers.

The Victorian and Queensland Governments have used retailers recently to communicate with households. The State Governments produced the leaflets and delivered these to retailers' mailing houses for inclusion in the electricity bill.

3.3 Government letter

Under this option similar information to that provided in an insert would be sent directly to households by the Government, not via electricity retailers. This option would only require cooperation with electricity retailers (secured through either regulation or agreement) if Government letters were personalised for each household. Were the Government to provide generic information to households, the cooperation of electricity retailers would not be required, implying no regulatory impacts for the sector. The Government could communicate carbon cost impacts on electricity prices by using Australia wide or region wide emissions intensities of electricity, potentially in tandem with Australia wide or jurisdiction wide average household electricity use.

3.4 General provision of government information

Under this option, information would not be sent out to individual households but would be provided for household access. This could be achieved through publication on a government website (such as www.cleanenergyfuture.gov.au up until 30 June 2012) or through publication in national newspapers. The pursuit of this option would imply the use of only generic information. As above, this would not require the involvement of electricity retailers and would not impose compliance costs on the sector.

The Government information could communicate carbon cost impacts on electricity prices by using Australia wide or region wide emissions intensities of electricity, potentially in tandem with Australia wide or region wide average household electricity use. This could be undertaken in the context of a broader communications strategy at the introduction of the proposed carbon pricing mechanism.

3.5 Do nothing

Government would not seek to provide information to householders about the electricity cost impacts of carbon pricing other than that being currently provided through the Clean Energy Future website and associated publications. This approach would be largely based on the judgement that electricity retailers and regulators will provide (or make available) a similar level of information on the carbon price impact, and/or that existing government communications are sufficient to meet the desired objectives of the exercise.

4 Impacts analysis- costs, benefits, and risks

The Department of Climate Change and Energy Efficiency (DCCEE) and the Department of Resources, Energy and Tourism (DRET) has undertaken a qualitative assessment of the likely costs and benefits of the options along with quantification of the compliance costs as outlined in the Government's Best Practice Regulation Handbook June 2010. While each option carries its own costs, benefits, and attendant risks, it is worth considering from the outset what the social benefit of an effective policy response will be.

A lack of household understanding of the composition of electricity prices may be of less relevance to household resource allocations, and subsequent levels of allocative efficiency, than the end price of electricity itself. Nevertheless, the public interest may be served by ensuring that households have access to factual information about the implications of public policy. The impact on electricity prices will be the single largest cost impact for Australian households as a result of the introduction of the carbon price. Confusion about the impact of carbon pricing on electricity costs will likely have broader implications for community acceptance of the Clean Energy Future policy package. This may be of particular relevance where the implications of public policy are actively contested by various groups in society.

As the nature of this benefit cannot be meaningfully quantified, the analysis below concentrates on the extent to which the options are likely to provide factual information about the impact of carbon prices on electricity costs, the costs implied by each of these options, and the risks that may accompany these options.

4.1 Printing information on electricity bills

The primary benefit of providing cost impact estimates on bills is that it would mean that householders would receive relevant cost information concurrently with their electricity bills. Research in 2009 (Connection research, p 55) showed 90 per cent of respondents were aware of their electricity costs in various seasons; 44 per cent closely study their electricity bill and consumption pattern, with 40 per cent taking a quick glance. Older people and lower income earners are most likely to study their bills closely.

This benefit would have to be balanced against the costs that may come with an ‘on-bill’ approach. In terms of the effectiveness of the approach, the primary challenge would be the limited space that would be available for the information. An on-bill communication would compete for both space and attention on a bill that already holds a substantial amount of information. A challenge is also presented by the fact that not all households receive electricity bills, and those that do, can receive bills that cover different periods of time.

There are also significant challenges in calculating an accurate personalised figure for each household. This is particularly the case given the multiplicity of retail and green energy products and the potential that jurisdictional regulators will provide for different levels of pass-through to retailers.

The financial costs of this option principally relate to system changes required to the billing systems of electricity retailers to provide information personalised to each bill. Electricity retailers have provided indicative estimates of what these costs may be. Origin Energy has advised that system change costs could be up to \$1 million. Simply Energy advised that system change costs could run into the ‘hundreds of thousands.’ As it is proposed that this information would only be provided on a single, once-off basis, such system changes would be hard to justify.

Changes to retailer billing systems would also require a longer lead time than would be required for other options that avoided the need for changes to billing systems. System change costs could be higher with the level of personalisation of data required to be calculated, and would come in addition to any marginal printing costs and any increase in retailer call centre activity likely to flow from households subsequently seeking further information on the impact of carbon pricing. On this basis alone, it appears that this option would be more appropriate were the reporting of carbon price impacts on electricity bills to be undertaken on an ongoing, rather than once-off basis.

Some of the costs associated with this option, like printing and call centre requirements, will be variable and therefore will not have a disproportionate impact on different electricity retailers. Other costs however, such as billing system changes, are likely to be similar across all retailers and would have a disproportionate impact on smaller retailers as these cost impacts would be spread across a smaller customer base.

The risks to Government would be largely determined by the degree of personalisation of the data used on household bills. The use of generic information that expressed carbon cost impacts in terms of an aggregate dollar figure, rather than on a per unit (per kilowatt hour basis) may prove unnecessarily alarming for households that have lower than average electricity bills, and similarly misleading to households that have higher than average electricity bills.

The use of generic data to generate personalised household by household estimates of the electricity cost impacts of carbon pricing would also present risks for retailers. As the Australian Competition and Consumer Commission (ACCC) is empowered under the Australian Consumer Law to prosecute commercial entities that make misleading claims in regard to the cost impacts of carbon pricing, the use of generic information to generate personalised estimates, particularly on the bill itself, may present legal risks for retailers.

This risk could be managed by ensuring that any proposed approach to communication is deemed appropriate by the ACCC, and its methodology clearly explained, before retailers proceed with including the information on bills.

4.2 Inserting separate price information in bill package

The primary benefits of using a separate insert into the existing billing package is that it would provide more space to provide additional information than could be allowed by using the existing bill. In addition, if provided by government using generic data, this approach would avoid the need to change existing retailer billing systems.

Against these benefits, Government would have to balance several other costs. In terms of policy effectiveness, householders may be less likely to read information that comes separate to the bill itself. This may be particularly the case for householders that only receive billing information online.

Electricity retailers consulted by DCCEE and DRET questioned the effectiveness of inserts. Retailers claimed that households that received online bill statements tended to be even less likely to read a separate piece of information online, as it involved opening a separate attachment.

In the case of physical mail, this approach is also likely to increase printing and mailing costs, potentially financed by government. Additional weight in the envelope may attract an increase in postal costs. This could be managed by timing the inclusion of the insert in the bill to fit in with the existing retailer schedule of bill inserts and coordinating with retailers to ensure appropriate paper stock is used and no additional postage costs are incurred. DCCEE estimates place the cost of paper, printing, and delivering the inserts to retailer mailing centres at between \$0.3 and \$0.4 million.

However, if this approach communicated generic, not personalised data, then this option would avoid any costs associated with billing system changes. Electricity retailers may also face higher call centre traffic as a result of the bill insert. This likelihood could be managed by including government call centre details on the insert.

In the case that these costs were borne by individual retailers, this option would not have any disproportionate impacts on small retailers. The costs implied by this option, namely printing and call centre requirements, will be variable and will therefore vary in proportion to the customer base of the retailer. Per-customer costs are expected to be largely consistent across retailers.

The risks to Government would principally flow from the use of generic information that made reference to total, not per kWh costs. As above, the use of generic information may prove unnecessarily alarming for households that have lower than average electricity bills, and simultaneously misleading to households that have higher than average electricity bills.

The Victorian and Queensland Governments have used retailers recently to communicate with households. The State Governments produced the leaflets and delivered these to retailers' mailing houses for inclusion in the electricity bill. These inserts have generally related to the promotion of essential services, and not messaging on policy positions. The reaction to Government branded inserts on a broader policy package is unclear, and would require careful wording to ensure it was clearly relevant to the bill information.

If this information was branded as information provided by the electricity retailer then this option may also present legal risks to retailers. As the ACCC is empowered under the Australian Consumer Law to prosecute commercial entities that make claims that may prove misleading in regard to the cost impact of carbon pricing, the use of generic information may present legal risks for electricity retailers. This could be managed by having the information branded as government, not retailer information, or by ensuring that any proposed communication was deemed appropriate by the ACCC before retailers proceeding with circulation of the insert.

4.3 Government letter

There are several advantages to government bypassing electricity retailers altogether and simply directly mailing the information to all Australian households. This might allow for greater penetration of information to households as not all households receive bills from electricity retailers. In addition, a standalone letter from Government may attract more attention than a message that accompanies a number of other pieces of information.

As this option would not impose any obligation on electricity retailers, this option would not generate regulatory impacts on the electricity retailers. This option would attract higher mailing costs for government but would leave paper and printing costs largely unchanged. DCCEE estimates place the cost of this approach at \$1.7- \$1.8 million.

The primary risk to government would be associated with the provision of generic information that referred to total cost, not per kWh cost impacts. As above, the use of generic information may prove unnecessarily alarming for households that have lower than average electricity bills, and simultaneously misleading to households that have higher than average electricity bills. This risk may be low to the extent that households are not inclined to attempt direct comparisons between generic information provided to all Australian households by government and their individual household bills.

4.4 General provision of government information

A government website, such as www.cleanenergyfuture.gov.au, could be used to deliver additional generic information to households. Depending on the extent of the changes required to information already on the website this could be for little cost. However, this approach may come at the cost of a lower rate of information transmission as it would require household awareness of the website and would require that households accessed the website to find the relevant information. Increasing household awareness of the presence of the information would require some form of additional government advertising, likely decreasing the cost effectiveness of this option.

The same problem would be presented by the use of full page advertisements in newspapers. Some groups are more likely than others to read newspapers and those that do may still not read the full page advertisement. DCCEE estimates place the cost of taking out full page advertisements in all Australian newspapers (National, metropolitan, regional, and local) at around \$1 million per weekend.

As general communication may imply the use of generic information to communicate total cost impacts on households, the primary risk associated with the provision of generic information is that it may prove unnecessarily alarming for households that have lower than average electricity bills, and simultaneously misleading to households that have higher than average electricity bills. This would be compounded if this general information relied on Australia wide averages that obscured differences between States and Territories throughout Australia.

4.5 Do nothing

The primary benefit of leaving electricity retailers to communicate the electricity cost implications of carbon pricing in their own ways is that it would avoid the government imposition of costs on retailers, avoid the need for government expenditure, and eliminate government and industry exposure to the attendant risks of the options outlined above.

These benefits would have to be balanced against the potential for electricity retailer communications to be less effective. This risk can be managed by the Government's ongoing communication through the 'Clean Energy Future' website that 'The carbon price is expected to increase electricity prices by \$3.30 a week for the average household'⁴ (noting that this website is currently scheduled to cease operating on June 30 2012) and in associated publications that note that 'Across Australia, the carbon price is expected to increase electricity prices by 10 per cent on average in 2012-13 or around \$3.30 per week on average across households'⁵ and 'Average weekly household expenditure will go up around \$9.90, including \$3.30 per week on the average electricity bill...'⁶

5 Consultation

The two Departments have initiated a consultation process with Australian electricity retailers. This consultation exercise has been largely undertaken with the assistance of the Energy Retailers Association of Australia (ERAA) but has also included some non-ERAA members. The consultation process has included the circulation of a DCCEE consultation paper, a subsequent submissions period, an associated teleconference, and bilateral discussions.

The Departments received submissions from nine electricity retailers. These included AGL, Aurora Energy, Australian Power and Gas, Ergon Energy, Origin Energy, Simply Energy, Synergy, TRUenergy and Power and Water. These nine retailers appeared to be largely representative of Australian retailers more generally with all jurisdictions represented, and the size of retailers ranging from small through to large.

The contents of submissions received as well as the views of other retailers expressed through a teleconference between the Departments and retailers have provided the Departments with a broader understanding of the implementation issues that retailers may face as a result of the implementation of the various options detailed in this Regulatory Impact Statement.

While some electricity retailers questioned the need for the exercise, one argued that retailers routinely explain cost increases to customers and that it may be beneficial for government and retailers to work together to find a consistent approach to communicating the electricity cost implications of the introduction of carbon pricing.

⁴ <http://www.cleanenergyfuture.gov.au/question-and-answer/will-my-electricity-prices-go-up/>

⁵ DCCEE. 2011. Securing a clean energy future: The Australian Government's Climate Change Plan. p.47

⁶ Clean Energy Future. 2011. What a carbon price means for you. The pathway to a clean energy future. p.8

However, electricity retailers were unanimous in their opposition to the inclusion of this information on electricity bills. Electricity retailers were largely evenly split between support for a separate insert approach and a standalone government letter to households. With regard to the level of data to be used, electricity retailers were unanimous in their support for the distribution of generic, not personalised information. Electricity retailers were also unanimous in their support for securing a way forward through a negotiated agreement with government rather than through government regulation.

6 Conclusion

Summary comparison of options

	Option 1 - Printing information on electricity bills	Option 2 - Government printing an insert, to accompany electricity bills, distributed by retailers	Option 3 - Government letter	Option 4 - General provision of information by Government	Option 5 - Do nothing
Costs – Government	-	\$0.3 million	\$1.7 – \$1.8 million	minimal	\$0
Costs – industry	-	minimal	\$0*	\$0*	\$0*
Costs – shared/TBC	Estimated \$11 – 12 million. Proportion of costs borne by each party to be negotiated.	-	-	-	\$0
Benefits	Access to factual information about the electricity cost implications of carbon pricing	Access to factual information about the electricity cost implications of carbon pricing	Access to factual information about the electricity cost implications of carbon pricing	Access to factual information about the electricity cost implications of carbon pricing	-

	Option 1 - Printing information on electricity bills	Option 2 - Government printing an insert, to accompany electricity bills, distributed by retailers	Option 3 - Government letter	Option 4 - General provision of information by Government	Option 5 - Do nothing
Issues – Effectiveness (likelihood of reading)	medium – cost information would have to compete with other information presented on the bill.	medium – retailers report that households may not read a separate insert	medium – households may disregard letters	low – transfer of information would be reliant on households seeking out the information	low – transfer of information would be reliant on households seeking out the information
Issues – Effectiveness (potential to alarm low electricity users)	Low (contingent on use of meaningful cost metric)	Low (contingent on use of meaningful cost metric)	Low (contingent on use of meaningful cost metric)	Low (contingent on use of meaningful cost metric)	High- a retailer and regulator directed approach to communication would likely generate confusion about impacts
Issues – industry support	Yes	Yes	N/A	N/A	N/A
Issues – legislation required	This option would need to be legislated- retailers strongly reject this option	This option could be legislated but retailers have expressed preference for agreement	No	No	No
Issues – negotiation required	This option unlikely to be successfully implemented by agreement	This option could be implemented by agreement	No	No	No

* Industry may incur costs as a result of their own decision to communicate carbon price impact but this policy proposal would not require industry to make such a communication and would therefore not impose costs on electricity retailers.

Context

The Australian household sector is currently serviced by nineteen electricity retailers operating under twenty four trading names. The majority of Australian households however are serviced by only three electricity retailers; AGL Energy, Origin Energy, and TRUenergy. The remaining sixteen electricity retailers range in size from idiosyncratically small and geographically specific (eg. Rottnest Island Authority) to rapidly growing start ups that rely upon the internet to grow their customer base (eg. Click Energy, Dodo Power and Gas, Lumo Energy etc) through to state owned enterprises that are solely responsible for the supply of electricity throughout their jurisdiction (eg. Power and Water Corporation (Northern Territory), Aurora Energy (Tasmania)).

Recommended option

While this RIS has sought to provide a qualitative estimate of the impacts of different policy options on electricity retailers generally, it has also sought to identify those cost implications that may disproportionately impact the smaller retailers specifically.

On the basis of this exercise, should the government wish to proceed with informing households of the carbon price impact on electricity bills on a once-off basis, balancing compliance costs against policy benefits, it appears that a feasible approach to communicating the impact of carbon pricing on electricity costs is the Government producing a generic bill insert and providing it to retailers to distribute to households, accompanying their electricity bills. In line with the electricity retailers' expressed preference of the options presented to them, this could be done cooperatively in the first instance, through a negotiated agreement with electricity retailers rather than through regulation.

However, there are advantages in implementing other options considered within this RIS. A letter to households may be more effective in terms of reach and usefulness, but would come at a substantially higher cost relative to a separate insert included in electricity bills. Conversely, while the general provision of government information may be less effective in terms of reach, it would come at minimal cost and its effectiveness could be enhanced by including it as part of a more general communications strategy, if one is undertaken around the launch of the carbon price.

7 Implementation and review

Should the Government agree to the provision of a generic bill insert to retailers, the Departments will seek to secure agreement with electricity retailers throughout Australia to provide the carbon price impact on electricity costs information to Australian households. The Government could also leave open the option to amend the Clean Energy Bill in the future, in the event that negotiations with electricity retailers were to prove unsuccessful.

The Government would provide the insert to electricity retailers, with the costs associated with the printing and distribution of the material to electricity retailers borne by the Government. The material will consist of a single page insert that will be included in electricity retailers billing envelopes. As not all households receive physical electricity bills through the mail, provisions will be made for the delivery of an Adobe Portable Document Format (PDF) file with online billing accounts.

The information will be provided to electricity retailers in time to be included in electricity bills received by households in the fourth quarter of calendar year 2012. This timing will ensure that the information is received after households have experienced a full billing period in which carbon pricing has applied to the price of electricity.

The communications team within DCCEE could undertake focus group research after the event, to review the effectiveness of the bill insert in communicating to households what proportion of electricity costs are attributable to carbon pricing.