

## Submission to Energy Policy WA on the State Electricity Objective

10 March 2023

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The Western Australian Council of Social Service Inc. (WACOSS) welcomes the opportunity to make a submission to Energy Policy WA on the proposed drafting for a new State Electricity Objective (SEO), planned for inclusion in the *Electricity Industry Act 2004*.

WACOSS is the peak body for the community services sector in Western Australia and works to create an inclusive, just and equitable society. We advocate for social and economic change to improve the wellbeing of Western Australians, and to strengthen the community services sector that supports them. WACOSS is part of a network consisting of National, State and Territory Councils of Social Service, who advance the interests of people on low incomes and those made vulnerable by the systems that have been put in place.

WACOSS supports the introduction of a SEO to provide an overarching objective across Western Australia's regulatory frameworks for electricity. In particular, we are pleased that the proposal includes a limb in the objective relating to the environment, including the reduction in greenhouse gas emissions.

Climate change entrenches disadvantage. Those who have contributed the least to causing it are the ones who will be and already are being hit by it hardest. Poverty significantly increases peoples' susceptibility to poor health and wellbeing outcomes resulting from climate hazards such as heatwaves, droughts, floods, cyclones, and wildfires. The physical and mental health impacts in turn make it harder for people to find or engage in work or study, further entrenching hardship and poverty.<sup>1</sup>

WACOSS is concerned, however, that the proposed SEO steps away from having clear affordability and demand side objectives as set out in the Wholesale Electricity Market (WEM) Objectives, which this new objective will replace. We note that the current WEM Objectives included objectives for the WEM to:

- Minimise the long-term cost of electricity supplied to customers from the SWIS.
- Encourage the taking of measures to manage the amount of electricity used and when it is used.

By removing these elements from consideration, WACOSS is concerned that, aside from the environmental objective, the framing of the SEO may leave it subject to the same narrow economic interpretation and limitations of the National Electricity Objective (NEO) as to what constitutes the

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<sup>1</sup> S. Nazrul Islam & John Winkel, [Climate change and social inequality](#) (United Nations, Department of Economic and Social Affairs DESA Working Paper No 152, 2017).

long-term interests of consumers. Rather than enabling a more expansive interpretation by considering the long-term interests of consumers of electricity in relation to ‘price’ rather than ‘affordability’, for instance, it may result in an interpretation that is more restrictive.

The Australian Competition Tribunal in *Applications by Public Interest Advocacy Service Ltd and Ausgrid* stated in relation to the long-term interests of consumer under the NEO that

The provisions proceed on the legislative premise that their long term interests are served through the promotion of efficient investments in, and efficient operation and use of, electricity and natural gas services. This promotion is to be done “for” the long term interests of consumers. It does not involve a balance as between efficient investment, operation and use on the one hand and the long term interest of consumers on the other. Rather, the necessary legislative premise is that the long term interest will be served by regulation that advances economic efficiency.<sup>2</sup>

Further, the Tribunal stated in *ElectraNet Pty Limited (No 3)* that this requires ‘prices to reflect the long run cost of supply and to support efficient investment, providing investors with a return which covers the opportunity cost of capital required to deliver the services.’<sup>3</sup> These statements were also quoted as part of the reasoning in the Federal Court case of *Australian Energy Regulator v Australian Competition Tribunal (No 2)*.<sup>4</sup>

To ensure that the SEO is not interpreted so narrowly, WACOSS considers that it is essential for the consideration of the social or distributional impacts of energy policy or regulatory decisions, especially for low-income and marginalised households, be embedded into the objective through an explicit social equity limb.

A person’s economic position and life circumstances should not exclude them from affordable access to an essential service like electricity. Despite this, it is clear that the cost of energy disproportionately impacts households on the lowest incomes, as they spend a significantly higher percentage of their disposable income on energy bills and have little, if any, capacity to absorb additional costs. People on the lowest incomes spend on average 6.4 per cent of their income on energy, compared to households in the highest income quintile, who pay on average only 1.5 per cent. Further, 25 per cent of the lowest income quintile are spending over 8.8 per cent of their income on energy.<sup>5</sup>

Though a clear focus on affordability in the SEO would be welcome, it should be noted that the objective could support social equity beyond just price alone, by directing consideration of the distribution of costs and benefits to allow for equitable outcomes regardless of people’s ability to engage with the energy system; and the protections needed to support people to access affordable electricity.

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<sup>2</sup> *Applications by Public Interest Advocacy Service Ltd and Ausgrid* [2016] ACompT 1.

<sup>3</sup> *Application by ElectraNet Pty Limited (No 3)* [2008] ACompT 3.

<sup>4</sup> *Australian Energy Regulator v Australian Competition Tribunal (No 2)* [2017] FCAFC 79.

<sup>5</sup> ACOSS and the Brotherhood of St Laurence, [Energy Stressed in Australia](#) (Research Report, 2018).

As an example, a focus on ‘price’ in relation to the efficient operation and use of electricity services could be interpreted as a justification to shift all consumers onto cost-reflective or time-of-use tariffs. Evidence demonstrates, however, that households with families, those living in the lowest socio-economic areas or who are experiencing vulnerabilities with greater energy needs and greater social and financial pressures, can see a disproportionate increase to their energy bills from time-of-use tariffs.<sup>6</sup> An explicit social equity objective could ensure that decision-making around new tariffs would require an understanding as to whether their introduction would lead to unintended and unacceptable consequences, such as increasing costs for low-income households or pushing households to restrict their energy consumption to the detriment of their health and wellbeing.

Alongside embedding social equity considerations into the objective, incorporating a demand-side limb to the objective, as is contained in the WEM Objectives, could encourage improvements in energy performance and efficiency to assist in reducing total energy bills and ensuring energy is affordable for Western Australians. Including both social equity and demand side limbs in the SEO could drive further action to increase support for those household who cannot afford adequate electricity services.

A fair and just electricity system needs to have social equity built into its objectives, rather than as a later consideration that attempts to ameliorate the negative impacts that the system creates. By embedding social equity into an overarching objective across Western Australia’s regulatory frameworks for electricity, we can better ensure that it operates in the interests of everyone.

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Yours sincerely,



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## Contact Details

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<sup>6</sup> Larissa Nicholls and Yolande Strengers, ‘Peak demand and the ‘family peak’ period in Australia: Understanding practice (inflexibility) in households with children’ (2015) 9 *Energy Research & Social Science* 16; Lee White and Nicole Sintov, ‘Health and financial impacts of demand-side response measures differ across sociodemographic groups’ (2020) 5 *Nature Energy* 50; Kelly Burns and Bruce Mountain, *Do households respond to time-of-use tariffs? Evidence from Australia* (Working Paper, Victoria Energy Policy Centre, 2020).