



## Key Messages:

- Energy prices have risen significantly in last decade and low-income households are hardest hit.
- The lowest-income households spend on average 6.4% of their income on energy, while the highest-income households spend on average 1.5%.
- One in four (roughly 455,604 households) are now paying over 8.8% of their income on energy.
- The situation for many low-income households has gone from bad to worse in last 10 years.
- People on Newstart and Youth Allowance, sole parents, lone pensioners and renters are most vulnerable.
- Not only are low-income households hardest hit by high energy prices, they may miss out on the opportunity to take up cleaner, more affordable energy sources such as solar power.
- Policies need to focus not only on reducing energy prices, but also on reducing the size of household bills and improving people's capacity to pay.
- Key policy recommendations:
  - Establish an energy poverty benchmark which no person should fall below to access energy.
  - Implement measures to reduce prices across the supply chain.
  - Increase Newstart allowance by at least \$75 a week.
  - Mandate energy efficiency standards for rental homes.
  - Prioritise solar for low-income households and ensure non-solar houses are not paying for solar growth.

## Energy prices have risen significantly in recent years

In Australia the price of electricity has increased by 117%, or 76% in real terms, over the last decade. Gas increased by 89%, or 53% in real terms. These high prices are being felt across the economy, by industry, by farmers, by business, and by households.

Households living with low incomes or experiencing disadvantage, who are paying disproportionately more of their income on energy than the national average, are more likely to experience energy stress. Combined with the current housing affordability crisis, low wage inflation, long-term unemployment and only one job for every eight people looking for paid work, higher energy costs have had serious consequences for some households. Some have been tipped over the edge and are going without heating and cooling, meals, and other basic essentials in order to afford their energy bills.

To inform the development of appropriate policy solutions, policymakers need to better understand who is most impacted by high electricity prices.

ACOSS and the Brotherhood of St Laurence (BSL) commissioned Associate Professor Ben Phillips, from the ANU Centre for Social Research and Methods, to analyse the cost of energy (electricity and gas) for a range of household types in Australia. The modelling is based on the Household Expenditure Survey (HES) undertaken by the ABS, and includes trends between 2008 and 2018. It considers actual expenditure as a share of income and takes into account household energy use and any potential rebates households may receive, such as state government concessions or solar energy rebates.

## High prices are hitting certain population groups hard

The report finds that despite very strong energy price increases over the past decade there has been relatively little change in energy costs compared to incomes. The average share of energy costs to disposable income increased from 2.3 per cent to 2.4 per cent over the last decade.

However, some groups have fared far worse, paying disproportionately more of their income on energy bills, and this has risen since 2008, contributing to an increase in inequality and poverty. These groups include people on low incomes, people on Newstart and Youth Allowance, sole parents, lone pensioners and renters.

## Low-income households are hit hardest

On average, low-income households spend 6.4% of their income on energy, while high-income households (highest 20% of the income spread) spend far less relative to their incomes – an average of 1.5%.

One in four (roughly 455,604 households) are now paying over 8.8% of their income on energy (electricity or gas). This is up from 7.6% in 2008.

This is despite the fact that low-income households appear to use less energy, spending less in dollar terms per year.

## Energy expenditure is reaching unprecedented levels in certain population groups

Those households dependent on income support payments such as Newstart and similar allowances are hit hardest by high prices, with one in four of these households spending more than 9.7% of their incomes on energy. The plight of some Newstart recipients has deteriorated dramatically since 2008, when a quarter were spending over 7.7% of their incomes on energy.

Those households whose main source of income is either pensions (such as Age Pension, Disability Support Pension and Parenting Payment) or other government benefits (such as Carers Allowance and Family Tax Benefit B) are also spending more of their income on energy. With one in four households on pensions spending more than 6%, and one in four on 'other government benefits' spending more than 8%.

## Single parent households also have high energy expenditure

Single parent and lone person households (many of whom are reliant on Government pensions) spend more of their income on electricity and gas than many other household types. One in four single parent households are paying more than 5.3% and lone person households paying more than 5.7%. Women make up the vast majority of single parents (82%)<sup>1</sup> and recipients of Parenting Payment Single (95%)<sup>2</sup>.

## Low-income renters are particularly vulnerable

When we add housing costs to the analysis, it suggests some households are under immense financial stress.

For example, Newstart households spend an alarming amount of their income on these basic costs of living, with one in four households spending more than 59% of their income on electricity, gas and housing. Those who are renters (65%) face a double whammy of high costs and the inability to introduce energy efficiency measures to reduce at least their energy costs.

Of great concern is the marked change from 2008 for households whose main income is a government allowance. In 2008 half of these households spent a minimum of 8% and up to 52% of their income on electricity, gas and housing combined; in 2018 half of these households were spending a much higher minimum of 32.4% and up to 59.4%. A closer look at the data reveals that among households whose main source of income is government allowances, the proportion of renters and single parents has risen since 2008.

## Solar power lowers bills, but those with low wealth are locked out

Not only are low-income households hardest hit by high energy prices, but they may miss out on the opportunity to take advantage of cleaner, more affordable energy sources such as solar power.

Around 17% of Australian households now have solar panels, reducing their energy bills by an average of \$400 per annum. As the growth in rooftop solar continues, there is a risk that those who cannot afford or access solar will continue to pay more for their energy, contributing to energy inequality.

While ownership of solar panels is fairly consistent across income levels, it varies more greatly between wealth quintiles. This is in part because many older people have relatively low incomes but own their own homes. Renters are likely to be largely excluded from access.

Again, targeted policies will be needed to ensure that those who cannot afford or access rooftop solar are not left behind.

## ACOSS and Brotherhood of St Laurence Recommendations

While the analysis finds spending on energy has increased slightly for most households, some households are paying significantly more of their income on energy, and the gap has increased since 2008, contributing to growth

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<sup>1</sup> Australian Bureau of Statistics (ABS): Census 2016.

<sup>2</sup> Department of Social Security (2018): Administration data, March 2018.

in inequality and poverty. Policies need to focus not only on reducing energy prices, but also on reducing the size of household bills and improving people's capacity to pay. ACOSS and BSL make the following recommendations:

### Reducing energy prices for all

ACOSS and BSL support, in principle, a range of measures to reduce prices across the supply chain, including but not limited to:

- An emission reduction mechanism to reduce wholesale prices;
- Further consideration of a fairer regulated retail price;
- Restricting conditional discounts, such as pay-on-time discounts, which do not reflect true costs;
- Remedying past overinvestment in networks, through write-down of regulated asset base in Queensland and Tasmania; and rebates on network charges in New South Wales;
- Providing a mechanism to offer demand response to the market;
- Shifting solar schemes away from electricity bills to government budget; and
- Giving greater powers to the Australian Energy Regulator to address poor retail practices.

### Reducing energy stress for vulnerable households

Measures that can make an immediate and significant difference, include:

- Increasing Newstart and related allowances by at least \$75 per week.
- Investing in energy efficiency measures, including mandatory energy efficiency standards for rental properties supported by tax incentives for landlords.
- Shifting to percentage-based energy concessions.
- Retaining the Energy Supplement for new recipients of income support.
- Introducing a grant scheme for consumer and community organisations to provide targeted support to vulnerable consumers.

### Clean energy for all

Urgent attention needs to be given to ensuring that the growth of distributive energy (rooftop solar and batteries) is equitable and inclusive, providing affordable clean energy for all.

Measures should be aimed at supporting the access of vulnerable and low-income households to solar and batteries, and could include:

- Federal and state government investment in solar equity programs for public and community housing.
- Federal and State government investment in clean energy for remote Aboriginal and Torres Strait Islander communities.
- Federal, state, local councils and energy retailers working cooperatively to co-fund ongoing programs to provide access to solar photovoltaic technology for low-income and disadvantaged households.
- Programs for renters that benefit both landlord and tenants.

Pricing reform is also needed to ensure non-solar households are not paying more for network costs. We note there may be benefits from moving to cost-reflective, but there could be negative impacts for some households. Transitional government assistance would be critical.

### Affordability benchmark

The COAG Energy Council should establish benchmarks by which energy affordability can be measured over time, including a clear definition of energy poverty as the level under which no person should fall in terms of being able to access energy supply. COAG should report on progress over time, including the number of people lifted out of energy poverty and the extent to which energy policy and market reforms deliver on a guarantee to energy affordability.

**The full report can be found at: <https://www.acoss.org.au/wp-content/uploads/2018/10/Energy-Stressed-in-Australia.pdf>**

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