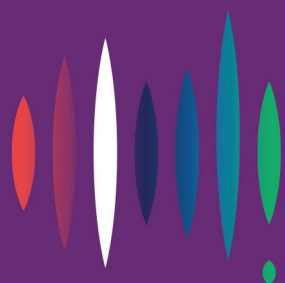
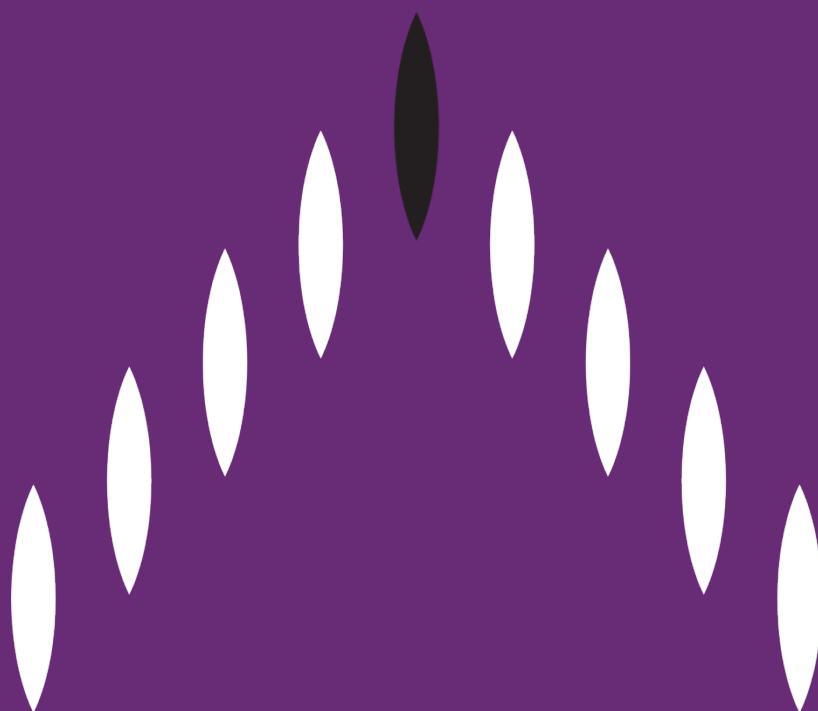


Understanding the energy divide

Explainer

December 2023



**ENERGY
CONSUMERS
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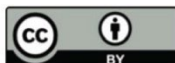
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What is the energy divide?

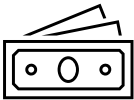
The energy divide is the rapidly growing gap between consumers who can easily access efficient, reliable, and affordable energy, and those who cannot.

Until now, policy makers, industry and advocates have largely understood the energy divide to be driven by household income. While household income continues to play a major role in the likelihood that a consumer will fall into the energy divide, other emergent drivers are having an increasing role in creating and enhancing exclusion from the energy market. To close the energy divide, the energy system needs to be designed to mitigate against a diverse range of barriers to participation.

The drivers of the energy divide

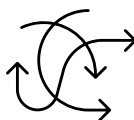
We have identified three broad drivers of the energy divide.

1. Affordability



This is difficulty or inability to pay energy bills and includes ‘hidden energy vulnerability’ where consumers forego energy use or the purchase of other essential items to pay their energy bills. Energy affordability disproportionately affects low-income households (see Figure 1). However, the rapidly increasing cost of living is having an impact on energy affordability for households across income brackets. For ‘low’ income households, the impacts of affordability are becoming more pronounced and devastating.

2. Complexity



Australia’s energy system is complex, making it difficult for consumers to benefit from available supports and other innovations. Some might even refer to it as a ‘confusopoly’—a market in which competitors confuse customers instead of competing on price. We have traditionally understood the system’s complexity to be related to understanding consumer bills and energy offers in the market, engaging with retailers, and making complaints. However, as the energy system evolves, this increasingly includes navigating a whole host of new products, services, contracts, and trades such as electricians, plumbers and product installers.

3. Being left behind in the energy transition



The energy transition encompasses the whole range of activities required to ensure Australians can live in a way that is energy efficient and climate resilient. For consumers, participating in the energy transition means making homes and small businesses more energy efficient, requiring significant time and financial investment. It includes getting off gas, electrification, the uptake of Consumer Energy Resources (CER) and smart devices and shifting the times at which they use energy. For those who are unable to participate in the transition, it is likely that exclusion from the energy market will continue to grow as the cost of energy and complexity increases.

As the energy market and broader environment change, energy exclusion will be both exacerbated and created. For those already experiencing the energy divide, it’s likely that the exclusion they experience will deepen if they are not able to equitably participate in the energy transition. Simultaneously, there are many who are at risk of falling into the energy divide, and who will begin to feel its impacts both in the short and longer term.

Who is impacted by the energy divide?

We tend to assume that only a marginal number of Australians are vulnerable to the energy divide. However, our Energy Consumer Sentiment Survey (ECSS) tells us that at least 82% of Australian households are likely to face one or more barriers to accessing efficient, reliable, and affordable energy services.ⁱ

Our ECSS also tells us that some demographics are more likely to be affected by the energy divide than others. This includes renters, those who do not live in a standalone dwelling (i.e. apartment dwellers), those who live in rural and remote areas, and culturally and linguistically diverse consumers.ⁱⁱ It also includes those who are not financially comfortable—which is a self-identified group that in recent years has grown across all income brackets.ⁱⁱⁱ These groups of consumers are not homogenous and all experience the energy divide in different ways.

These are not the only demographics experiencing or likely to experience the energy divide. Access to the internet, digital literacy, age, gender, employment status, ability to work, household debt and mortgage stress are all also contributors to the energy divide.

The drivers we have identified, how they impact consumers and where we go from here are detailed below.

Affordability

There is a well-known and widely accepted correlation between income and the energy divide. Our ECSS shows that low-income households are consistently paying a greater portion of their income on energy than their higher earning counterparts. Results from December 2023 indicate that for the lowest income households (below \$20,000/year), energy costs represent 13.6% of their total income, an increase of 1.2% compared to December 2022. This is over five times more than the proportion of income spent on energy by the highest earning group.



Figure 1: % of household income spend on energy bills

Simultaneously, our ECSS tells us that for consumers who identify as ‘managing to pay household bills but struggling to afford anything extra’ there has been a 10% increase in concern about ability to pay electricity bills compared to the previous year. Concerns about affordability stayed consistent amongst those under financial

pressure (82%) and those who are financially comfortable (22%). Meanwhile, homeowners reported a 6% increase in concern from the previous year, while renters reported an 8% increase. This suggests that there is a growing number of consumers who are increasingly at risk of falling into the energy divide, and that this is not limited to low-income consumers. Affordability will continue to be a contributing driver in the energy divide, especially as the cost-of-living climbs.

Complexity

The energy market and system are complex and are becoming increasingly so. Our ECSS tells us that while 63% of consumers have confidence in their ability to make choices about energy products and services, only 56% think there is enough easily understood information available. This confidence varies based on perceived financial security (see Figure 2).

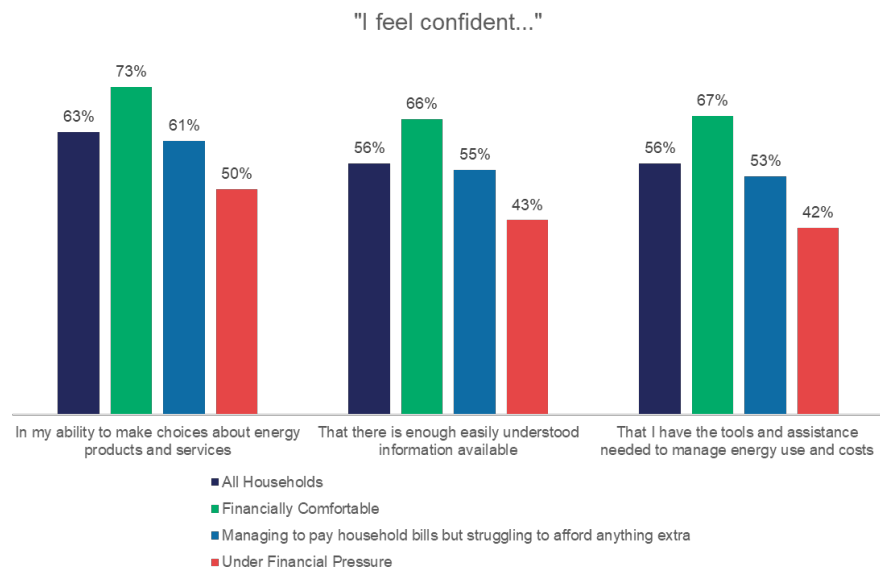


Figure 2: Consumer confidence in the energy market

For some demographics, complexity is exacerbated by other barriers, such as language. Our recent Energy Communications Research conducted in September 2023^{iv} showed that culturally and linguistically diverse (CALD) households are less confident about what they know about energy efficiency and find it much harder to find the right information compared to non-CALD households. Other factors, such as age, literacy and digital literacy, geographical location and disability can increase the difficulty of overcoming the barriers created by such a complex system.

As the market evolves, and as the energy transition intensifies, complexity is likely to grow. Consumers will no longer only have to understand their bills, engage with their retailers, and navigate the market for affordable prices, they will also be expected to engage with CER in their homes, liaise with different trades and installers, understand and manage a number of contracts and generally interact with energy in a more active and continual way than ever before.

Our ECSS points to a trend in declining confidence in the transition, which could be exacerbated by increased complexity. Only 38% of households feel confident that technological advances will help them to manage their energy supply and costs, down 6% from the previous year. Complexity ultimately limits autonomy and makes it

difficult for consumers to find the products and services they need to access affordable, reliable, and efficient energy.

Being left behind in the energy transition

While some households have the agency, resources, and capabilities to benefit from the energy transition and access cheaper and cleaner energy, a growing number of households face significant barriers. While the energy transition is a promising antidote to the energy divide, there is a risk that if it's not designed by and for consumers, and those barriers persist, it will exacerbate it.

Renters, for example, are less likely live in homes with energy efficient technology such as solar panels (see Figure 3), smart meters, efficient heating and cooling systems, ceiling and wall insulation, and shutters or other external shading devices in their homes. Homeowners are also more likely to consider buying an electric vehicle and converting to a fully electric home. As lower income households are more likely to be in the private rental market,^v this means those already at a disadvantage are the ones with the least capability to absorb rises in energy prices and health implications of inefficient homes.

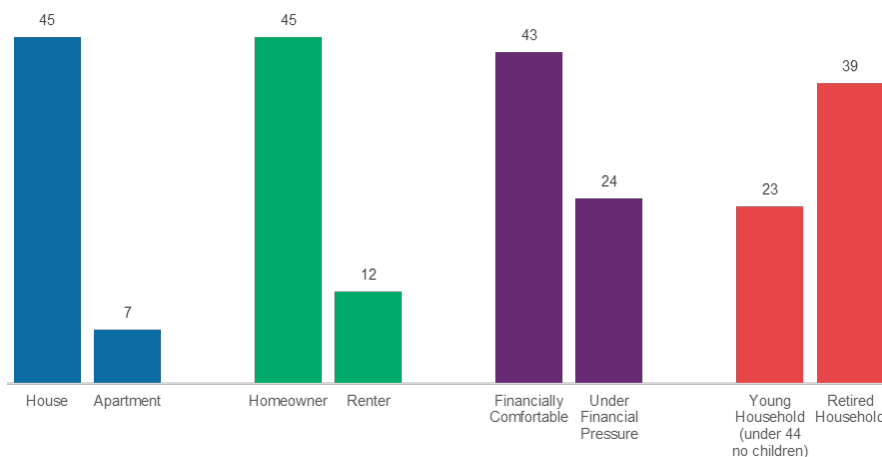


Figure 3: % of households with solar by demographic

Moreover, the 2021 census reported that 30.6% of Australians were living in rentals.^{vi} Our Energy Consumer Behaviour Survey (ECBS) tells us that around 50% of rental households have a gas connection (over 75% in Victoria). This exposes a large group of renters to the energy divide if their landlords do not adequately manage the risks of the energy transition on their behalf, regardless of household income.

Other factors that can exclude consumers from participating include dwelling type, geographical location, access to rebates and subsidies and level of household debt. These factors are all exacerbated by affordability—which goes to the capacity of a household to invest in energy efficient upgrades, as opposed to what their income is^{vii}—and complexity. We need to start to unpack these factors if we are to truly assess the risk of the energy divide widening in the wake of the transition.

Our ECBS reveals that in some states (Queensland, South Australia and Western Australia), there have been large declines in consumers thinking about upgrading their homes with energy efficient technologies, and a 3-5% decrease in consumer interest in the installation of rooftop solar, batteries and the purchase of electric vehicles across the country.

This could be due to a combination of factors including cost of living, complexity, policy settings and a lack of confidence, and could slow down the transition—leaving more consumers exposed to the energy divide and unable to access the benefits of the transition if the downward trend continues.

Where to from here?

“Household budgets can be tight. People might have all the will in the world but if its unaffordable...who would want to? There needs to be some assistance, so that at least the cost of transition is not onerous and is feasible for all households and businesses.” – General consumer, Male, NSW

Reimagining the energy divide

We started exploring the energy divide by understanding how household income creates barriers to accessing affordable energy. The added complexity of the ‘competitive’ marketplace has created yet more barriers to consumers being able to benefit from the energy system.

While household income does and will continue to be a driving force in the energy divide, we want to develop a contemporary understanding of what is driving the divide, especially as the energy transition intensifies. It is incumbent on us to understand:

- How the energy divide is likely to be exacerbated for those already experiencing it.
- Who else is likely to fall into the energy divide due to the rapidly changing environment and new and evolving drivers of exclusion.
- If current rebates, subsidies, supports, and associated policy settings are adequate to not only stop the energy divide from growing, but to close it completely.
- How new products and services are being developed and whether they risk excluding some consumers further.

The impact of the energy transition is currently the biggest risk to the energy divide growing—but it also represents the best opportunity to close it. The promise of cheap, clean, and reliable renewable energy, coupled with a vision for a not-too-distant future where all households can generate and store their own energy, puts closing the energy divide squarely in our sights.

But to make this vision a reality, we need to better understand the evolution of the drivers of the energy divide and develop more accurate indicators of risk factors for consumers who are or are likely to experience the energy divide. This knowledge will help us to shape policy recommendations and advocate to decision makers to ensure the system is designed by and for consumers, so that all consumers can access the benefits of the transition equitably.

Endnotes

ⁱ Energy Consumers Australia, 2022. *Removing barriers in the energy market for all Australians*. Grant Priority Issues 2023.

ⁱⁱ For more information on the demographic features of households likely to experience energy exclusion, see below:

- According to the latest [ABS 2021 Census](#), 30.6% of Australian households rent their home, and cannot add solar PV or batteries, or improve the energy performance of their house, even if they want to. Another 35% of households own their homes with a mortgage, which is likely to be contributing to financial pressure due to interest rate rises.
- 29% of households do not live in a standalone property, and face constraints to installing solar PV or batteries (ABS 2021, [Housing: Census](#)).
- Around 7 million people – or 28% of the Australian population – live in rural and remote areas (ABS 2021-22, [Regional population](#)), where the network can constrain consumer energy resources, and have trouble accessing trades and materials.
- 27.6% of the Australian population were born overseas (ABS 2021, [Cultural diversity: Census](#)). 15% of the 5.8 million people who use another language at home speak English not well or not at all, facing significant barriers to participate in society. Obviously, the cultural and language barrier also impacts their ability to engage with the energy sector.

ⁱⁱⁱ 64% of ECSS survey respondents report they are not financially comfortable, meaning that they can struggle to pay energy bills, and are less likely to be able to afford to invest in energy performance upgrades. This represents an increase of 6% compared to June 2022. Interestingly, across most income brackets, including those earning over \$150,000/year, and those earning between \$40,000/year and \$120,000/year, there has been a significant decline in those who self-identify as 'financially comfortable.'

^{iv} The Insight Centre, 2023. *Household & SME Energy Consumers - Energy Communications Research*. Final report prepared for Energy Consumers Australia, November 2023.

^v As reported by the Reserve Bank of Australia's March 2023 Bulletin on '[Renters, Rent Inflation and Renter Stress](#)' and the SGS Economics and Planning (with National Shelter, Beyond Bank and Brotherhood of St Laurence) November 2023 report on '[Rental Affordability Index](#)'.

^{vi} Australian Bureau of Statistics. 2021. [Housing: Census](#).

^{vii} Our most recent ECSS data tells us that at least 50% of consumers in all income brackets identify themselves as either 'managing to pay bills but struggling to afford anything extra' or 'financially pressured'. In terms of the energy transition, this suggests that for a significant number of households, investing in energy efficient upgrades might not be within reach.

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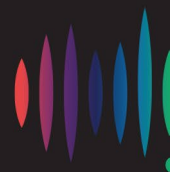
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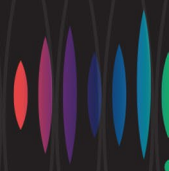
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