

Vulnerable households and fuel poverty: policy targeting efficiency in Australia's National Electricity Market

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Paul Simshauser

Abstract When Australia established its National Electricity Market (NEM) during the 1990s, reforms were focused on maximising economic efficiency. Little thought was given to distributional outcomes. However, by the 2010s sluggish growth in household incomes, sharp rises in electricity prices and material increases in quantities consumed through surging uptake rates of air-conditioning units led to the possibility of (hot climate) fuel poverty. In the NEM's Queensland region, longstanding customer hardship policy pre-dated the NEM. With the benefit of hindsight, the policy was poorly configured as it focused exclusively on the aged population and was delivered by way of fixed payment. Low income households in the family formation cohort were excluded from the policy despite obvious need. In this article, Queensland's longstanding customer hardship policy is refined using pre-existing (means-tested) welfare mechanisms in order to target low income households including families, and the payment structure is altered from fixed (\$ pa) to variable (% of the bill) while holding the budget constraint constant. Changes to policy targeting produce material improvements in horizontal and vertical efficiency while changes to payment structure further enhance vertical performance, with the incidence and depth of residual fuel poverty reduced.

Keywords Energy Affordability, Fuel Poverty, Policy Targeting, Targeting Efficiency, Customer Hardship Policy

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Contact p.simshauser@griffith.edu.au
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