



St Vincent de Paul Society  
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Ethnic Communities'  
Council of NSW Inc.



## Consumer Outcomes & Principles for Cost Reflective Network Pricing

Consumer organisations<sup>i</sup> have joined together to develop a series of consumer outcomes and principles that we consider necessary for the successful implementation of cost reflective network pricing (CRNP).

Importantly, this paper is intended to engage with the AER's upcoming assessment and decisions regarding CRNP, and inform the Victorian Government's response. In particular, it:

- articulates our understanding of the policy rationale for the move towards CRNP;
- sets out the key outcomes that are desirable from the perspective of small energy consumers in the transition towards CRNP; and
- establishes a set of principles from the perspective of small consumers that would assist in delivering on the AER's mandate to balance the implementation of CRNP with the impact on small consumers, and deliver good consumer outcomes.

### The Objective of CRNP

We understand the primary objective of CRNP to be:

- Equity in the allocation of the costs, benefits and risks to supply electricity network services to small consumers.

In principle, we believe that this means that the costs, benefits and risks are efficiently and equitably allocated:

- among consumer groups;
- between consumers and energy businesses; and
- where payments to consumers are involved (such as for embedded generation and demand response), between participants and other consumers.

We understand that the implementation of this objective will necessarily mean that those small consumers whose electricity usage imposes a higher cost on the provision of network services will ultimately pay more for those services – and vice versa. We also understand that in the transition towards CRNP, consumer impacts must be given primary consideration – particularly in the context of tariff design, tariff levels and the speed of transition. The impacts on different consumers, particularly vulnerable and disadvantaged, and those in rural and regional areas, must be properly understood and their needs accommodated.

We understand a secondary objective for CRNP to be:

- To provide an incentive for small consumers to respond to CRNP, through either behavioural or technological responses, to mitigate demand at peak times and lower the overall cost to supply network services for all consumers over the longer term.

We stress that we believe this objective to be broader in scope than this particular review, particularly as predicting and influencing small consumer response is inherently difficult and uncertain. Studies in behavioural economics clearly demonstrate that consumers frequently do not respond to markets in economically rational ways. We consider that there is a role for all tiers of industry and government in achieving this; and recognise that pricing is only one of several ways in achieving this objective.

### **Consumer Outcomes from CRNP**

We believe the following outcomes to be of significant importance to small consumers in the transition towards CRNP. These should (and will, by the consumer sector) be utilised to test the proposals put forward by network businesses:

1. Consumers who do not have significant maximum demand (as defined on a kilowatt basis) in peak demand season/s relative to their average energy use, should not be worse off in the transition to CRNP.
2. Consumers who have relatively high maximum demand (as defined on a kilowatt basis) at peak times should be assisted through the transition to CRNP by information, education, incentives and other support to either help alleviate the cost impacts of CRNP; or help them to reduce their overall demand and in turn their energy bills. This includes small consumers with specialist energy needs (e.g. medical).
3. The introduction of cost reflective prices should not expose consumers to higher fixed charges that restrict their ability to manage energy costs by shifting or reducing energy use.
4. Price signals should be formulated to minimise price shocks or volatility for consumers.
5. Consumers must be able to make the link between their behaviour – when and how they use electricity – and the prices they pay so that they can make well informed choices.
6. Energy retailers in Victoria must be provided sufficient regulatory guidance and flexibility to deliver cost reflectivity in ways that meet their customers' diverse needs via their suites of retail products, and to design retail bills in ways that communicate clearly to the customer how the bill is calculated.

## Principles for CRNP Tariff Design

In order to balance the somewhat competing objectives of greater cost reflectivity with consumer impact, we believe the following principles to be of the utmost importance:

### Principle 1:

DNSPs must prioritise the Consumer Impact principle in the development of their TSS.

### Principle 2:

Where DNSPs mitigate cost reflectivity to meet the Consumer Impact Principle or any other principle, they must transparently explain how and why they have done so. Where meeting any other principle leads to adverse consumer impact, they must explain how the impact will be addressed.

### Principle 3:

Consumers who currently are effectively cross-subsidising other consumers due to the non-cost-reflectivity of existing network tariffs, should pay less in line with the removal of the cross-subsidy under CRNP; and those who are currently being cross-subsidised should pay more.

For example, modelling suggests that typical high-demand residential customers are being cross-subsidised around \$350 per year, with typical moderate-demand customers paying \$112-\$150 extra to finance that cross-subsidy.<sup>1</sup>

### Principle 4:

CRNP should be recognised as a significant change for consumers. CRNP will need a transition period that recognises it brings greater complexity for consumers – in an already complex market.

### Principle 5:

Some consumers have high energy literacy and are actively seeking greater engagement with their dynamic energy usage, using technology and behavioural incentives to change their usage in return for lower annual energy bills. These consumers should be catered for in the transition to CRNP from day one, by providing strongly CRNP on an opt-in basis.

### Principle 6:

In implementing CRNP tariffs effectively across the NEM, there will be some variation in response to regional and network differences. To simplify consumer understanding of new types of tariffs, consistency within jurisdictions must be maintained as much as possible, particularly with regard to consumer outcomes 1 – 6 outlined above.

### Principle 7:

That Industry, governments and energy market institutions commit to a coordinated, long term approach to educating consumers about cost reflective pricing. This approach must respond to the diverse needs of small energy consumers and include on-going evaluation to assess its effectiveness.

### Principle 8:

The demand measurement period for CRNP must be of a duration that allows small consumers to shift some loads to avoid higher energy costs. It should be reflective of the actual period of highest demand in the network. We suggest the weekday peak period should be of a **maximum** 4 hours duration per day (e.g. 3pm to 7pm), and ideally less, thus allowing small consumers to avoid high demand during higher price periods. There is a trade-off between the length of the peak and the

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<sup>1</sup> Productivity Commission 2013, *Electricity Network Regulatory Frameworks*, Report No. 62, Canberra.

ability for that period to apply cost reflectively to all areas – shorter peak windows may require some locational pricing.

**Principle 9:**

Seasonal variations should be allowed as long as the seasonal differences are not so great or confusing that it places consumers at unacceptable risk. To mitigate summer price shock without distorting the LRMC price signal, it is appropriate to mirror summer peak demand charges on the non-summer period by recovering fixed residual costs through non-summer peak demand charges.

**Principle 10:**

Mandatory CRNP should be kept to a maximum of one or two common tariff structures within a given network area. While individual households' demand profiles can vary considerably (due to factors such as usage household patterns and fuel mix), network demand profiles generally reflect the predominant aggregated household demand profile for the area (reflecting climate, fuel availability, demographics, and so on). Because cost reflective tariffs reflect the costs imposed on the network as a whole, individual variations from the norm (such as a household that peaks in the morning within an afternoon-peaking area) are not material. It's thus appropriate for the primary structure for CRNP tariffs to reflect the aggregated household demand profile of the majority of network, while a second, alternative tariff structure may reflect a radically different profile in significant minority of the network (if there is one).

**Principle 11:**

DNSPs must present detailed analysis showing different households' network bills with and without CRNP in the current regulatory period, in order to demonstrate the greater alignment between network cost and cost reflectivity in network tariff design.

**Principle 12:**

Some vulnerable households with low or moderate consumption and high demand will face significant price rises under CRNP. Governments, energy businesses, and regulators need to develop targeted programs and policies to help these households lower their demand, or otherwise mitigate their risk of financial hardship by increasing their ability to respond and capacity to adapt.

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Alternative Technology Association  
Community Information and Support Victoria  
Consumer Action Law Centre  
Consumer Utilities Advocacy Centre  
Ethnic Community Council NSW  
Northern Alliance for Greenhouse Action  
St Vincent de Paul  
Uniting Care Australia  
Victorian Council of Social Service