



Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001
By email to Victss2015@aer.gov.au

Re: Submission to the Australian Energy Regulator – Preliminary Views on Victorian 2017–20 Tariff Structure Statements

Dear Sir/Madam,

Thank you for the opportunity to provide comment on the Victorian Electricity Distribution Networks proposed cost reflective tariffs.

The Consumer Utilities Advocacy Centre (CUAC) is a specialist consumer organisation established in 2002 to represent Victorian energy and water consumers in policy and regulatory processes. As Australia's only consumer organisation focused specifically on the energy and water sectors, CUAC has developed an in-depth knowledge of the interests, experiences and needs of energy and water consumers.

The Alternative Technology Association (ATA) is a not-for-profit organisation with 6,000 members across Australia that enables, represents and inspires people to live sustainably in their homes and communities. The ATA advocates in government and industry arenas for easy access to sustainable solutions as well as continual improvement of the technology, information and products needed to change the way we live.

We maintain that the original proposition of a mandatory managed transition over the next regulatory period – with a community education campaign prior to the beginning, scaling up of the cost-reflective component over time, and an opt-out provision for vulnerable customers who face material detriment – would have been the best way to shift to cost-reflective network tariffs; especially with the concurrent reductions in other components of distribution costs. However, the “opt-in” model does provide opportunity to trial cost reflective pricing, develop an industry-wide communications strategy to educate residential consumers about the

new tariff structure, and address any unforeseen issues that emerge. This is especially important because it is difficult to draw conclusions about the impact of the new network tariffs on customers without knowing what types of retail tariffs will be offered.

Communication and education

Communicating the change in the way tariffs will be calculated and educating consumers so they understand them will be critical if energy users are to be able to respond to demand signals and retain some control of their energy costs. However, it is not clear where responsibility for this lays.

- *Retailers*, with the primary customer relationship, clearly have a key role. But retail tariffs will vary with regard to how much they clearly communicate the effect of the demand charge on the overall bill.
- As the deliverer of the underlying tariff, *network businesses* clearly have a fundamental role in educating customers about the way their energy usage will affect their underlying costs irrespective of the design of their retail tariff.
- The *state government* is in a strong position to give independent, trusted information, and to collaborate with industry participants to make communication and terminology consistent. The Victorian Government is also responsible for the price comparison tools *Victorian Energy Compare* – though it must be modified to work with retail offers with an underlying cost-reflective price tariff.

A coordinated joint approach from network businesses, retailers, and government will optimise consumer understanding of cost-reflective pricing. The AER should ask for more detail from the Victorian networks about the approach they will take to communicating with and educating customers and how they will work with other key stakeholders in doing so.

The *Advanced Metering Infrastructure (AMI Tariffs) Amendment Order 2016* ensures that residential consumers cannot be assigned to a new cost-reflective tariff unless they make an active, informed choice to do so. This should encourage networks and retailers to develop effective communication around the benefits to consumers of cost-reflective network pricing in coming years.

We consider there may be some small businesses consumers – based on their turnover and number of staff – with a usage above 40MWH who will be mandatorily assigned to a demand tariff on 1 Jan 2017. While we support the approach taken with business customers – a mandatory assignment with a staged transition to the fully cost reflective component – there is potential for confusion and bill shock among small business consumers. We would like to see more clarity about how the

networks will engage with small businesses to inform and explain how the new tariff structures are likely to affect their bills, and measures small businesses can take to respond. For example, we support Jemena's proposal to assign those business customers that exceed 40MWh consumption **and** have a demand of more than 60kW to a demand tariff.

For customers who are considering opting-in to cost-reflective tariffs or who are in the early transition period, an indication of what their bills would be like if they were on fully-cost-reflective tariffs will help them understand how the tariffs will work and give them a chance to try changing their usage patterns to see how much they can respond to the demand signal. We strongly urge the AER to require the networks to work with retailers to offer mechanisms such as **ghost pricing** on customer bills before mandatory assignment, to best help customers adapt to the new tariffs. We would be happy to provide assistance in developing this mechanism.

Without clarity around who will communicate with and educate customers, how they will communicate this information, and the mechanism for explicit informed consent, we have concerns about the impact of automatically assigning consumers to a demand tariff.

Default assignment

Our concerns around the need for good customer education and communication of the new tariff structure are particularly pertinent to United Energy's proposal to assign some customers to an opt-out demand tariff. As evidence-based organisations, both CUAC and ATA are open to the idea of United Energy essentially trialling cost-reflective tariffs among a group of residential customers. However, there is a clear requirement for customers to be well informed about the network use of system (NUOS) tariff that they are assigned to. As stipulated in the National Electricity Rules:

"A Distribution Network Service Provider must consider the impact on retail customers of changes in tariffs from the previous regulatory year and may vary tariffs from those that comply with paragraphs (e) to (g) to the extent the Distribution Network Service Provider considers reasonably necessary having regard to:

*...the extent to which retail customers are able to **mitigate the impact of changes in tariffs through their usage decisions**".¹*

And further:

*The structure of each tariff must be reasonably capable of being **understood** by retail customers that are assigned to that tariff, having regard to:*

1) the type and nature of those retail customers; and

¹ 6.18.5(h)

2) the information provided to, and the consultation undertaken with, those retail customers.²

As previously stated in the “Consumer Outcomes and Principles for Cost Reflective Network Pricing” submission to which CUAC and ATA were signatories:

“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”.³

Part of this issue depends on the retail tariff offerings put forward by retailers operating in United Energy’s network, and across the state with regard to small businesses. However, retailers may or may not provide a peak demand price signal to consumers. If retailers are prepared to take on risk through a retail tariff that masks the peak demand price signal, we see the obligation to educate consumers fall to distributors. It may be the case that there is a role for distribution businesses to identify consumers with a high NUOS and provide information assistance directly to the household to reduce their peak demand.

Recommendations

- Consumers who are automatically assigned to a demand tariff – including both residential consumers and small business consumers – must be provided with clear and understandable information explaining how they will be charged for their electricity, effective tools to transparently compare demand-based retail offers with other tariff types, and that they are able to opt-out.
- Residential consumers who might be considered vulnerable or at risk of financial difficulty should be identified where possible and assisted with adaptation or excluded from automatic assignment if a tariff impact assessment shows that they will be materially disadvantaged. (This will require collaboration between the network and retail businesses.) Those consumers seeking hardship assistance from a retailer should be quickly transferred back to a flat underlying NUOS tariff (and appropriate retail tariff) if the demand tariff is a significant factor in their financial difficulty.

² 6.18.5(i)

³ Joint submission to the Australian Energy Regulator & Department of Economic Development, Jobs, Transport, and Resources, *Consumer Outcomes & Principles for Cost Reflective Network Pricing*, 22 December 2015. Available online: <http://www.cuac.org.au/advocacy/submissions/429-consumer-outcomes-principles-for-cost-reflective-network-pricing/file>

Minimum demand charge

Both CUAC and the ATA view United Energy's proposal to replace the standing charge (as distinct from the metering charge and other pass-throughs) with a minimum demand charge as a preferable alternative to stacking them, as the other networks propose. It makes the tariff simpler, helping customers to better understand it. It's more transparent, communicating that the standing charge is essentially a contribution to the cost of maintaining the ability of the network to meet demand. And it avoids giving customers the impression that they are being charged twice for the same thing.

Critical peak rebates

Likewise, we support UE's proposal to introduce Critical Peak Rebates in locations where the network is constrained at particular times. Critical Peak Rebates do not adversely affect consumers who fail to respond, but rather offer those able and willing to change their behaviour a financial incentive to help address network congestion. Given the efforts of the networks to align the charging window during the week, we see this proposal as an appropriate way to avoid sending mixed signals to consumers and avoiding bill shock to vulnerable consumers, while encouraging consumers to reduce problematic peak demand.

Measuring customer impact

As consumer advocates have repeatedly pointed out, there remains a paucity of evidence about the impacts of cost-reflective pricing on different types of households and socio-economic groups. One of the key rationales for network tariff reform was to minimise inequitable cross subsidies between different households – but we are yet to see analysis that clearly demonstrates the magnitude of these cross subsidies and the way the proposed tariffs undo them. We are also yet to see detailed modelling on how the new tariffs impact different types of households, and vulnerable households in particular. The networks' material discussing customer impact has remained high level and generic. This lack of detail about the impact on vulnerable customers has been a key reason why many consumer advocates have been unable to support mandatory reassignment of households to demand tariffs, and was possibly a material factor in the Victorian Government's decision to require that customers opt-in. We direct the AER's attention to the comprehensive Customer Impact Study the Victorian Government commissioned prior to the introduction of flexible tariffs in Victoria.⁴ A similar study on the impact of demand tariffs on different types of households would give a clearer picture of the potential

⁴ Available at <http://www.smartmeters.vic.gov.au/about-smart-meters/reports-and-consultations>

for severe detriment and enable a more nuanced approach to introducing cost-reflective network pricing while mitigating the impact on vulnerable households.

Recommendations

- The networks should demonstrate via examples how their proposed tariffs wind back inequitable cross subsidies.
- The AER should work with distributors and retailers to conduct a customer impact study to inform future work on helping vulnerable customers transition to demand tariffs

If you have any queries about this submission, please do not hesitate to contact Dean Lombard at the ATA (dean@ata.org.au) or Ben Martin Hobbs at CUAC (ben.martinhobbs@cuac.org.au).

Yours Sincerely



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