

QCOSS Submission to Energy Queensland: Tariff Structure Statement (TSS) Consultation # 3

5 October 2018

QCOSS commends Energy Queensland (EQ) on its public consultation and engagement to date on the TSS process. This has been useful in building understanding for customers and consumer advocates and has provided EQ the opportunity to make more informed decisions about tariff reform. QCOSS welcomes the opportunity to continue to engage with EQ in the development of its TSS 2020-2025.

QCOSS has made two previous submissions to EQ in response to the first two consultations. The process identified some enabling factors necessary for the introduction of cost reflective tariffs in Queensland. These include:

- Increased energy literacy and awareness
- Fair access to technology fund
- Wider reform on concessions and customer protections
- Introduction of a Safeguard Tariff

The EQ *Energex and Ergon Network Tariff Structure Summaries* produced on 5 September 2018 did not address key issues raised in our submissions. We look forward to these issues being addressed in the final TSS.

This third submission raises some supplementary issues identified through our own consultation. This included engagement with QCOSS's Essential Services Consultative Group, and a workshop on the 26th September with consumer energy advocates and the Australian Energy Regulator (AER) Tariff Structure Statement Consumer Challenge Panel (TSS CCP).

No one is worse off

QCOSS has consistently stated that it supports Tariff Reform and the introduction of cost reflective tariffs on the condition that no one is worse off. A previous QCOSS submission stated that the implementation of Tariff Reform must include a soft transition and protections, including a safeguard tariff to protect vulnerable customers.

With the proposed regulatory allowance for the 2020-2025 RESET likely to be less than previous periods, EQ has an opportunity to put in place more effective tariff settings that may achieve this objective. QCOSS encourages EQ to undertake more modelling of possible tariff settings to test how this may be achieved. Consideration could include the following strategies:

- Set legacy tariffs on a glide path from 1 July 2020 and not allow any extra costs to be recovered from customers who have taken up cost reflective tariffs. EQ would have to absorb any revenue gap.
- Increase the Long Run Marginal Cost (LRMC) slowly so the potential for bill shock is minimal.

QCOSS suggests that cost reflective tariffs only be used to incentivise shifts in when people use energy for those that can, not to penalise those that can't.

We would encourage EQ to demonstrate how it will ensure that no one is worse off from Tariff Reform. There has been minimal information provided on what safeguards will be put in place for vulnerable customers.

Enabling Factors

EQ acknowledged that “a successful tariff strategy is much broader than just tariff structures” and that it is a “customer environment” where the Queensland Government and the retailers also have a role. EQ has put forward the tariffs, education, dynamic and innovation (TEDI) concept in response to this. While in principle QCOSS supports the TEDI concept, stating in our second submission:

Further QCOSS believes it is too risky to allow cost reflective tariffs without wider reform. Without effective and targeted concessions and other consumer protections in place, any significant impacts from tariff reform including for those left on the legacy tariffs are likely to result in public backlash. It is therefore in the distributors' own interest to advocate with governments for the wider reform needed.

There is a need for more development of the TEDI concept, particularly to negotiate and get agreement on the roles and responsibilities of retailers, distributors and government. QCOSS suggests that EQ lead this work to secure the anticipated outcomes from the TEDI concept.

QCOSS would like to reiterate the need for a Government-led communications campaign in conjunction with retailers and networks. The campaign needs to articulate the rationale for the new tariffs, their benefits, and support customers to manage the impact. There is already a lot of confusion and mistrust amongst the community in relation to energy matters. Many people do not understand their electricity bills or what tariffs they are currently on. Government is best placed to explain the overall rationale as to why cost reflective tariffs will lead to positive outcomes. It is suggested that this campaign could begin at the commencement of the TSS in July 2020.

An integrated approach - cost reflective tariffs and demand management

QCOSS's Essential Services Consultative Group expressed disappointment that EQ did not undertake comparative tariff analysis for TSS 2020-2025, and only proposed the Lifestyle Package. This package is a seasonal time of use

demand tariff which we know is effective in meeting the efficiency principles set by the Australian Energy Market Commission (AEMC) however is very complicated for customers. As a seasonal, 'time of use', demand tariff, the seasonal component is especially problematic as it requires annual communication to consumers to notify them of when the top up charge component is in effect.

QCROSS recommends that EQ compares the performance of the Lifestyle Package against a 'time-of-use' tariff. It is likely that many people will effectively apply the Lifestyle Tariff as if it is a time-of-use tariff. For people to effectively engage with the former they will have to engage with energy management system and the load profiles from their digital meters. Research shows that people do not engage with displays etc., so people will try and spread load within the peak window and/or shift load outside the peak window. There is also a high level of digital exclusion among vulnerable customers, particularly in regional Queensland.

QCROSS supports the active management of peak demand and congestion by demand management measures. These include; assessing the potential of existing take-up of load control tariffs, solar sponge tariffs and capacity peak rebates. Evidence from focus groups by a Victorian network demonstrates that these can be more easily understood by customers and can be effective in reducing peak demand.

QCROSS understands that the AER will consider a suite of cost reflective tariffs in addition to the main cost reflective tariff (default tariff). For example, the AER has recently accepted a solar tariff in addition to the default tariff in the case of the Tasnetworks Draft Determination. Consequently, we ask that EQ look at how best to utilise the mix of tariff and demand management options available in conjunction with the Lifestyle Package.

More research to understand impacts

Without understanding the impact on customers, it is difficult to move forward with Tariff Reform. We understand that tariffs are to be developed in line with the consumer impact principle. This principle requires network businesses to consider the impact on customers of any changes in network prices and develop tariff structures that are easily understood by customers. Recent research from BankWest Curtin Economics Centre¹ on the impact of a similar tariff to the Lifestyle Tariff on vulnerable customers found that participants on the pilot were able to stay within their allowances by changing their energy behavior and moving load. However, vulnerable customers were forced to make difficult choices for example cooling or cooking to remain within allowances. They were concerned that in the long term they would not be able to sustain such behavior.

¹ BankWest Curtin Economics Centre (2018), *Power Plans for Electricity, The impact of tariff structure changes on vulnerable customers*.

In our second submission, QCOSS recommended that EQ consider the impacts of the Lifestyle Tariff on customers based on income, load profile and solar and non-solar when conducting the tariff 15 trial. QCOSS would welcome continued engagement and consultation. We encourage EQ to consult to ensure that a broad-based cross-section of the community is included in this research.

Clarification on assignment policy

QCOSS acknowledges that EQ is not proposing a mandatory assignment of the Lifestyle Tariff to any customer, and that there will be a 12-month data sampling period before a decision is made on what tariff to assign the customer. QCOSS's understanding is that this will be a decision by the retailer, as assignment will be on an 'opt-out' basis. This raises a number of questions for consumers which we would like to see addressed in the final TSS:

- How are retailers likely to react, and what decisions are they likely to make? To date it has been retailers' practice to pass through the network tariff and structure on customers' bills. How will they communicate a potential change in a tariff to the customer? Is the customer then able to move to another retailer and another plan?
- How many digital meters are there in Queensland, and what is the pace of the rollout? Will this make a difference to retailers in relation to their decision making on 'opt out'?
- Will the assignment policy relate to all new digital meters including for simple replacement, solar and/or battery, new build and replacement due to faulty meter?
- What will be the assignment approach with the existing fleet of digital meters prior to 1 July 2020? QCOSS has participated in the Energy Savvy Families Programs and on completion there is likely to be about 10,000 low income households with digital meters in regional Queensland.

The Queensland Government has the potential to influence the extent to which Ergon Retail assigns the Lifestyle Package in regional Queensland. This will depend on what is set out in the delegation to the Queensland Competition Authority (QCA). It is critical that going forward there is consultation by the Queensland Government on the delegation to the QCA in order to ensure that the voice of customers is taken into account.

QCOSS looks forward to reviewing the final TSS and discussing the issues raised throughout this submission; including customer trials and the implementation of the Enabling Factors. QCOSS suggests an additional workshop be convened with EQ and relevant stakeholders prior to the finalisation of the TSS.

QCOSS would like to thank EQ for their consideration of this submission. For additional information or questions, please contact Senior Policy Officer, Rose McGrath at rosem@qcross.org.au.