

QCOSS submission to the Australian Energy Regulator's Draft Decisions and Queensland electricity distributors' Revised Tariff Structure Statements 2020-2025

Introduction

Thank you for the opportunity to make a submission to the Australian Energy Regulator's (AER) Draft Decisions on Energex and Ergon Energy's Tariff Structure Statements (TSS) and the distributors' Revised TSS for 2020-2025. Our feedback to the AER is summarised in this submission. We also engaged the services of David Prins at Etrog Consulting to provide advice in making this submission. This advice¹, which constitutes our comprehensive feedback to the AER on its Draft Decision and EQL's Revised TSS, is attached.

QCOSS' vision is for equality, opportunity and wellbeing for every person in every community in Queensland. Everyone needs access to, and deserves to be able to afford, the basics in life without spiralling into debt. Unfortunately, our 2019 *Living affordability in Queensland*² report found that many people do not have enough money to get by, especially in regional areas where the cost of living can be higher. People on low incomes spend a higher proportion of their income on essentials, such as housing, food, electricity, transport, phone and internet services. As the costs of essentials continue to increase, those on the lowest incomes are at risk of being left behind. With these financial pressures increasing, the impact on household's bills of tariff reform remains a key issue for every community across Queensland and must be front of mind for the AER and Energy Queensland Limited (EQL).

QCOSS has engaged with the Queensland distributors' regulatory consultation processes including the TSS since April 2018 – including attending several deep dives hosted by EQL and making three submissions to EQL³ and one submission to the AER⁴. We take this opportunity to thank the AER and its staff for its helpful and comprehensive engagement and consultation. We also note the significant time and resources which EQL put into consultation, and we acknowledge their efforts.

While QCOSS acknowledges that EQL's Revised TSS has addressed some of the concerns we expressed on the original TSS submitted to the AER, we remain concerned that EQL has not provided sufficient confidence to stakeholders that some households will not be significantly worse off due to tariff reform. This is compounded by the fact that EQL has not comprehensively set out a clear rationale for the network tariffs they are proposing, or indeed for tariff reform more broadly. It is of particular concern that there is no clear long-term vision beyond 2025, and limited justification for future network tariff structures.

¹ The Companion Report was prepared by Etrog Consulting as advice to QCOSS on EQ's Proposals to date (as at 15 January 2020).

² <https://www.qcoss.org.au/publication/affordability-in-queensland-report/>

³ QCOSS made three submissions to Energy Queensland's three rounds of consultations, all of which can be found on the *Talking Energy* Webpage - <https://www.talkingenergy.com.au/future-network-tariffs>

⁴ QCOSS made one submission and two presentations at the AER Public Forum in Brisbane. This submission and the presentations can be found on the AER Website by clicking [here](#).

Given these concerns, it is important that EQL, retailers and the Queensland Government put in place oversight mechanisms to collect informed feedback and evidence on the network tariff impacts, so that policymakers have an evidence base to develop and introduce policy measures to inform and protect the people who may be negatively affected by these changes.

Key issues related to AER's Draft Decisions and Energy Queensland's revised TSS

QCOSS acknowledges that EQL's Revised TSS has addressed some of the concerns which QCOSS raised in our earlier submissions. For example we welcome the inclusion of more customer analysis, the introduction of a grace period for existing digital meter households, and some further progress on tariff design. We particularly welcome the provision of the 'transitional' tariff concept (noting that there still needs to be further clarification on what transition is to), the incorporation of a solar concept and the retention of controlled load tariffs. Regarding load control tariffs we however note that EQL has stated, but not provided detail, that it will further develop its load controlled tariffs in 2020. EQL has also included some articulation of the rationale of tariff reform in its revised TSS.

Areas requiring further attention in the AER's Final Decision:

We acknowledge that EQL had a very short timeframe to respond to the AER's Draft Decisions, and was only able to undertake one main deep dive to consult with stakeholders on its revised TSS. However, it remains a key concern that EQL has not provided sufficient confidence to stakeholders (via its customer impact modelling) that some households will not be significantly worse off due to tariff reform – notably households who are currently vulnerable or could be made vulnerable as a result of tariff reform. Significant uncertainty also remains around the clarity and longevity of EQL's current vision and associated rationale for tariffs being proposed.

We therefore still do not consider that EQL's revised TSS meets the requirements of the National Electricity Rules (NER) being assessed by the AER, in particular the customer impact principle and the principle that tariffs be capable of being understood and actionable by consumers.

Consequently, we recommend that the AER include the following positions in its Final Decision:

- The digital meter default network tariff is too complex for consumers to understand and respond to. We believe EQL should consider a tariff based on **Time of Use (TOU) Energy** rather than Transitional Demand. TOU tariffs are easier for customers to understand and respond to than demand tariffs and could be set as a transitional tariff. EQL has not provided sufficient evidence that capacity-based tariffs are the best approach, so demand tariffs are not necessarily a better transition than TOUE. Even if the capacity-based tariffs are the best approach, we would recommend that a staged transition to demand / capacity tariffs happens later.
- The grace period being proposed should ensure that all customers can stay on flat tariffs until they have at least 12 months' **grace period** worth of interval data to be used to advise which tariff might be better for them. This 12-month grace period should be adapted and extended if necessary, to take account of changes of occupancy at a property during the next five years. To make the grace period workable, EQL would need

to have appropriate monitoring and an assessment framework in place. We propose an approach for achieving this below.

- Explicit recognition and protection must be introduced for households in the properties on the **Energy Savvy Families** and **Sunny Savers** programs. These households are not only potentially some of the most vulnerable in Queensland, but they participated in these programs without any knowledge that their decision may result in them being required to go on more complex network tariffs. QCOSS asks that the AER recommend special arrangements for these households. For example, EQL should undertake an assessment of which tariff these households would be better off on and provide them with the option to remain on flat tariffs beyond a 12 months grace period if necessary.
- Explicit recognition and protection is also required for about 4,000 households **on card operated meters** in remote Aboriginal and Torres Strait Islander Communities. EQL had installed digital meters in these communities including a successful energy literacy community engagement. At the AER Public Forum in Brisbane on 24th October, QCOSS asked for information on the tariff assignment policy for these households and EQL has not responded. QCOSS also asks that the AER recommend special arrangements with these households as indicated above.
- We urge the AER to encourage EQL, in conjunction with the Queensland Government, retailers and consumer/community stakeholders, to establish a **Transition working group** (with an independent chair) to provide oversight and advice to EQL during the next five years and in preparation for the 2025-2030 regulatory period.

QCOSS would have more confidence in EQL's proposed approach if appropriate arrangements were put in place to ensure that there is greater understanding and transparency of impacts, and adequate mechanisms to address any adverse impacts. A fundamental aspect of building this trust is to develop a deeper knowledge and understanding of the challenges and solutions for EQL in the upcoming regulatory period (and further into the future) in order to continue to meet the National Electricity Objective (NEO) and achieve a just transition to a net zero carbon economy as per Australia's obligations under the Paris Agreement. This includes considering the role of tariff reform in addressing these challenges, and what other options might be available.

A transition working group⁵ would enable EQL to consider these matters in partnership with key stakeholders. To achieve these outcomes EQL in conjunction with this working group must:

- Put in place **monitoring arrangements** to: (1) better understand the likely impacts of different tariffs each year (taking account of seasonal impacts) including for customer on flat tariffs, including establishing a **framework** to methodically assess and address

⁵ The establishment of this group must have regard to existing and future consumer engagement processes such as the New Reg initiative between AER, ECA and ENA) or the Customer Service Incentive Scheme (presently under development by the AER) that EQL may seek to pursue.

these impacts against a set of relevant criteria⁶; (2) monitoring year-on-year rebalancing between different tariffs and the components within tariffs, including providing customer impact analysis with each year's rebalancing; and (3) informing capacity and other tariff trials as well as being utilised by the AER to support Annual Pricing Proposal reviews and other relevant matters.

- **Undertake better customer impact analysis including trials:** EQL's lack of detailed customer impact analysis, modelling or trials means that consumers' concerns, especially about bill shock, are still not allayed. Trials must be conducted with a diverse spread of consumers, including consumers experiencing vulnerability such as those on Card Operated Meters, households participating in retailer hardship programs and other consumer cohorts, taking into account income, disability or health needs, load profile, solar and non-solar, regional locations, building type, household condition and housing tenure. This will help identify how to support customers who are worse off due to tariff reform. This must also include the wider impacts on health and comfort levels too and not just affordability. The AER should direct EQL to undertake trials and modelling to identify customer impacts, especially for customers experiencing vulnerability, to establish who will be better off or worse off under the various new tariff options.
- **Develop clearer customer-centric rationale for tariff reform for this and future regulatory periods:** To ensure a just transition, EQL must take great responsibility in ensuring distribution network-level innovations that favour those with capital or those who are active participants in the system also create benefits for **all customers** with an emphasis on inclusion of customers experiencing vulnerability in the transition.

As consumers continue to adopt Solar PV, Batteries, Electric Vehicles and participate through home energy management systems and other demand-side response opportunities, EQL must respond proactively to what consumers want by **enabling** customer participation in the energy system as part of an exciting transition to an improved energy future. Customers must be seen as part of the solution and not the problem. The Transition working group can provide support in providing representative input into EQL's vision for this and the next regulatory period, potentially including lived experience case studies, to develop stronger justifications of what the network tariff structures should be.

- **Contextualise tariff reform within the overall transformation of the electricity grid and a just transition to a decarbonised energy system.**

The rationale for tariff reform must sit more clearly within the context of the overall transformation of the electricity grid and the wider energy environment. For EQL this should include the re-imagining of the distribution network as a bidirectional network where a suite of **tariff and non-tariff solutions** is harnessed to allow traditional and new participants to successfully participate in, and shape a future network that improves equity, reduces vulnerabilities, increases energy affordability, and increases resiliency to climate risks.

⁶ Examples of these criteria might be: reassignment to a more appropriate network tariff; customer communication and/or education.

It would have been preferable that this would have been done in the revised TSS. However, it is vital that EQL undertakes this because the 2020-25 revised TSS incorporates “transitional” tariff structures, and transitional tariff structures require customers to know what they are transitioning to. This must be a key priority for EQL and the transition working group, so that this is done well in advance of the next regulatory TSS processes start.

- **Progress with its Tariff Education Dynamic Incentives and Information (TEDI) strategy.** In its April 2018 Issues Paper⁷, EQL stated that its “*tariff strategy should be developed within the ecosystem of TEDI*”. This strategy was proposed to roll out prior to 1 July 2020, as a way of developing the tools needed to support customers and introducing network tariff trials,⁸ which was an approach that was supported by consumer groups including QCOSS in consultation. However, no further work was done by EQL to progress this, and EQL appears to have framed the TEDI strategy as a way to help transition customers to the new tariffs after they have been agreed with the AER. It would now be more appropriate that the development of TEDI be also included in the remit of the transition working group given its strong links to the monitoring and customer analysis/trials work.
- **Demonstrate engagement with retailers** to ensure public facing retail tariffs maintain beneficial consumer outcomes of network tariffs, especially for consumers experiencing vulnerability.

Other issues to be addressed

In addition to the specific issues we consider must be addressed in the AER’s Final Decision, we would also like to highlight other issues that are critical to the success of tariff reform in Queensland.

Firstly, there is also a specific role for the AER to monitor customer outcomes, and we recommend that the AER undertake:

- Ongoing monitoring by the AER retail branch of what options customers are being offered by retailers, what support there is for customers being on the “best” tariff, and to what extent retail tariff structures match network tariff structures.
- Ongoing monitoring by AER network branch through Regulatory Information Notices (RIN) submissions of how many customers are on each network, whether customers are on the best tariff etc.

Secondly, QCOSS is keen to work with our elected representatives in Queensland to develop and implement policy reforms that protect and inform affected consumers. The policy measures that we have identified as being essential to supporting the success of tariff reform in Queensland include:

- **Concessions reform** – including a shift to percentage-based concessions to better protect consumers from bill shock that may arise as a result of tariff reform.

⁷ Energy Queensland (April 2018), Network Tariffs 2020-25 Tariff Structure Statement Customer Consultation Issues Paper, P21. See [Talking Energy Webpage](#).

⁸ Energy Queensland (2019), Overview of its Regulatory Proposals, P11. EQL states “A critical part of TEDI is the tools that need to be developed support customers” and “another key aspect of TEDI is the introduction of network tariff trials”.

- **Energy efficiency outcomes for renters** – including the introduction of minimum energy efficiency standards for rental properties, energy efficiency appliance schemes targeted to people on low incomes and improvement of energy efficiency standards in public housing, to protect private and social housing renters from higher bills because of energy use which is outside their control.
- **Consumer education and support program** – sustainable and ongoing investment into face-to-face support delivered by community services located across the state to assist people who may be struggling to pay their energy bills.
- **Protections for customers of embedded networks** – identifying where and how many embedded network customers there are in Queensland (noting that Queensland has the most embedded networks of any jurisdiction) to ensure their needs are reflected in tariff reform, and that they can access the customer protections they are entitled to, such as retailer hardship programs, concessions and dispute resolution.

It is critical that during this period the Queensland Government take a leadership role and work with EQL, retailers and consumer groups to put in place a more holistic approach encompassing network tariffs, retail offerings, education, communication, consumer protections and information as part of the network tariff reform journey.

Going forward, QCOSS continues to support the intent of tariff reform as a way to improve equity and reduce electricity costs for consumers, especially low-income and vulnerable consumers. We will continue to work with EQL and the Queensland Government with this objective front of mind to ensure no one is put at risk of struggling to pay their energy bills as a result of tariff reform. Everyone in Queensland needs to have access to electricity and therefore it must be affordable to all.

About QCOSS

We are QCOSS (Queensland Council of Social Service), Queensland's peak body for the social service sector. Our vision is to achieve equality, opportunity and wellbeing for every person, in every community.

We believe that every person in Queensland – regardless of where they come from, who they pray to, their gender, who they love, how or where they live – deserves to live a life of equality, opportunity and wellbeing.

We are a conduit for change. We bring people together to help solve the big social issues faced by people in Queensland, building strength in numbers to amplify our voice.

We're committed to self-determination and opportunity for Aboriginal and Torres Strait Islander people.

This project was funded by Energy Consumers Australia (www.energyconsumersaustralia.com.au) as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas. The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia.