QLD electricity distribution networks' Tariff Structure Statements

Submission to the Australian Energy Regulator

Energy Consumers Australia

Summary

Energy Consumers Australia (ECA) welcomes the opportunity to make a submission in response to the Issues Paper on the Tariff Structure Statement (TSS) proposals put forward by Ergon and Energex.

ECA is broadly comfortable with the tariffs Energex and Ergon has proposed and the consultation processes these networks have followed to develop them. For the roll-out of these new tariffs to be successful, networks and retailers must now work with consumers to explain the changes and furnish them with the metering technology and tools they need to manage their energy use and bills.

Background

In December 2014, the Australian Energy Market Commission (AEMC) made amendments to the National Electricity Rules (NER) governing how distribution network service providers (DNSPs) develop their tariffs. The central intent of the amendments was to make tariffs better reflect the costs of providing network services. In particular, by sending consumers a price signal about the future cost of their consumption, consumers could modify their behavior in ways that reduce the total cost of the network over time and ultimately, the amount passed through in their bills. The NER seeks to achieve this by requiring tariffs to be based on the long-run marginal cost (LRMC) of delivering a particular energy service to a particular class of customers.

DNSPs across the National Electricity Market (NEM) are currently developing their first tariff proposals under the amended NER. The new tariffs will take effect from 1 July 2017. However, in introducing the new rules, the AEMC stated that any transition need not be immediate and could take place over multiple regulatory periods, to give consumers time to adjust to the change. Electricity retailers have a critical role in enabling consumers to make this transition.

The long term interest of consumers

The National Electricity Objective (NEO) of the National Electricity Law (NEL) is ‘to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers with respect to price, quality reliability, safety and security of supply.’

Promoting the long term interest of consumers (LTIC) is the principle objective of the Australian Energy Markets Agreement (AEMA) and is the objective specified for ECA.[1]

In assessing the LTIC, ECA is conscious of the position outlined in the explanatory statement accompanying changes to the Limited Merits Review arrangements for network revenue and price determinations. That stated that the LTIC is given best effect when ‘consumers do not pay more than necessary for the quality, safety, reliability and security of supply of electricity’.[2]

ECA believes that over the long term (defined by economists as the period over which all inputs of production are variable) cost-reflective network prices should help ensure consumers do not pay more than is necessary for network services. Such tariffs are, therefore, in principle in the LTIC. ECA takes this position for two reasons.

Firstly, more cost reflective prices allow consumers to receive price signals about the cost of their usage and the potential rewards of changing behavior or making investments such as more efficient appliances, distributed generation and storage assets, smart meters or energy management services.

Secondly, current pricing arrangements create cross subsidies between customers with certain characteristics. For example, customers with high peak demand or a high ratio of peak demand to total use (load factor) receive a cross subsidy from other consumers. These cross-subsidies are significant; modelling conducted for the AEMC suggests that customers without air conditioners pay an extra $683 per year in network charges to cover the cost of the network required to serve customers with air conditioners.

Providing price signals and unwinding these cross subsidies will necessarily mean that some consumers pay more and some less than under current arrangements. It is therefore critical that the new tariffs are developed in a way that is consistent with the intent of the amended NER and are sensitive to the impact of sudden price movements on consumers who have, among other things, made appliance choices based on the old regime and who have established daily routines that have a bearing on their energy use and are not easily adjusted.

Foremost here is that the tariffs are actually reflective of long-term costs, that they have been developed in conjunction with consumers and that consumers are provided with the requisite tools to be able to manage their energy expenditure.

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[1] See ECA Constitution, Section 4.1(a) “To promote the long term interests of Consumers of Energy with respect to the price, quality, safety, reliability and security of supply of Energy services by providing and enabling strong, coordinated, collegiate evidence based consumer advocacy on National Energy Market matters of strategic importance or material consequence for Energy Consumers, in particular for Residential Customers and Small Business Customers.”

[2] The Hon JA Rau, *Second reading speech explanation to the Statutes Amendment (National Electricity and Gas Laws – Limited Merits Review) Bill*, South Australian House of Assembly, 26 September 2013.

Accordingly, in assessing TSS submissions ECA does not seek to re-litigate the new rules and the intent behind them. However, there are a number of aspects to the transition to cost-reflective network tariffs that must come together for the best results for consumers to be achieved. These factors are discussed further below.

The Energex and Ergon proposals

ECA has had positive feedback from a number of Queensland advocates about the way Ergon and Energex have developed their TSS proposals. We understand that adjustments have been made to the tariffs in response to stakeholder input during the development process. We encourage the networks to build on this record of constructive engagement as the new tariffs are rolled-out and refined in subsequent TSSs.

At the same time, it was evident at the AER forum in Brisbane on 13 April, 2016, that the overlapping TSS and state-level processes are presenting difficulties for some stakeholders. The networks, the AER and the relevant Queensland agencies and regulatory bodies should consider how they might work together to facilitate dialogue on energy regulation and pricing to help stakeholders engage in a policy and regulatory space that from their perspective, appears fragmented and unduly complex.

The tariffs Ergon and Energex are proposing appear to be a good first step on the journey to cost-reflective pricing and arrangements that are consistent with the LTIC. Both are proposing optional 'demand' tariffs with familiar features, although whereas Energex has opted for a three-part tariff, comprising of usage, fixed and demand charges, Ergon is based around a usage and demand charge only. In the case of the Ergon's proposal the demand charge is structured in a way that may effectively operate as a fixed charge outside of summer where a 3kW demand floor kicks-in. ECA is open-minded about these tariff designs and their relative merits – the reality is that we will need to see how these different designs perform in the field before definitive judgements can be made.

What is critical is that the networks track the effectiveness of these tariffs in signaling the cost drivers of networks, are sensitive to the lived experience of consumers under them, and make the necessary adjustments in a timely and responsive way. As part of this we expect that over time, networks and retailers will respond to the specific groups of consumers with differing load profiles with more bespoke tariffs.

The transitional measures the networks are proposing will help create an environment in which an ongoing process of testing and refinement can take place. Both networks are offering the new tariffs on an opt-in basis, while Energex is also proposing a 12-month price cap, which would appear to reduce the risk of detriment and help build consumer confidence in cost reflective pricing.

Role of retailers and enabling technologies

The transition to cost reflective pricing poses challenges for energy businesses in communicating to consumers the new tariffs and the opportunities and challenges they provide.

As the primary point of contact for consumers, energy retailers have a crucial role to play. How retailers revise their tariffs as a consequence of the changes to their input costs will determine how effective the tariffs are in rewarding consumers whose consumption pattern increases network efficiency. This depends on both the structure of the tariffs, the way they are communicated to consumers and the tools available to consumers to monitor and manage their use. As both the network and the retailer in regional QLD Ergon has a particular responsibility in this regard.

We believe retailers need to do much more to engage with their customers on the transition to the new tariff structures. ECA strongly encourages retailers across the NEM to work with consumers to develop products and materials that allow consumers to make informed decisions about whether the early adoption of cost-reflective pricing is right for them.

It is important to note that cost-reflective tariffs will only be available to consumers who have enabling smart meters. Networks and retailers should therefore be working to support the roll out of smart meters to consumers seeking to obtain them, including through third-party metering service providers.

Conclusion

The tariffs Ergon and Energex have have proposed appear to be consistent with the principles of cost-reflective pricing under the amended NER. The transitional approaches outlined by each network are also positive. We now encourage the networks, as well as retailers and third party metering providers to work to ensure the transition to these new arrangements is as smooth as possible and the benefits begin to be realized for consumers.

Thank you for the opportunity to make this submission. Please do not hesitate to contact Chris Alexander, Director Advocacy and Communications, on 02 9220 5506 or by email at chris.alexander@energyconsumersaustralia.com.au if you would like to discuss this submission further.

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