South Australian Power Networks Tariff Structure Statement

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 South Australia Power Network's (SAPN) Tariff Structure Statement (TSS) proposals.

ECA is broadly supportive of the tariffs SAPN's has proposed and the consultative process it has followed to develop them. Networks and retailers must now work with consumers to explain these new arrangements and ensure they have the 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.

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 sensitive to the impact of sudden price movements.

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.

Accordingly, ECA in assessing TSS submissions 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-

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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.

reflective network tariffs that must come together for the best results for consumers to be achieved. These factors are discussed further below.

The South Australian Power Network (SAPN) proposal

ECA is supportive of SAPN’s proposed tariffs for small customers (residential and small business). SAPN has proposed that from 2017-18, new and altered connections be moved onto cost-reflective tariffs that have a demand component and a total usage component. Residential customers who use more than 20 MWh per annum and small business customers who use more than 40 MWh per annum of energy will also be placed on the transitional cost-reflective tariff. On that tariff, the peak demand-based charge (maximum use in a half-hour window between 4pm and 9pm) will initially be set at 40% of the level SAPN has calculated as the LRMC of providing that service, with the remainder being recovered from the usage charge. The demand charge will then increase by 20% per year from 2020/21 until it reaches 100% of the calculated level in 2024-25. For residential consumers there is no fixed charge, although a minimum demand charge functions as a pseudo fixed charge. Customers can also opt-in to cost reflective tariffs, in which case they will immediately be charged 100% of the cost-reflective demand charge. From 2017-18, the existing single rate tariff will be closed to new entrants.

ECA believes that the proposed tariffs are broadly reasonable and efficient and represent a good start in the progress towards charging customers in a way that reflects their usage.

However, ECA notes that the peak demand charge will apply from November to March and a shoulder demand charges will apply from April to October. ECA questions whether a shoulder peak demand charge can be considered cost reflective, given network peaks are unlikely to occur outside the summer months, and encourages the AER to examine whether the inclusion of this component is appropriate. Similarly, ECA questions the application of demand charges to residential (but not small business) consumers on weekends, given network peaks are unlikely to occur when most businesses are closed. At the same time, ECA acknowledges that there is a balance to be struck between truly cost reflective pricing and implementing tariffs that are not unduly complex. It may be that as electricity consumers become more familiar with new tariffs, refinements can be made to increase the level of cost-reflectivity.

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.

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 SAPN has proposed appear to be consistent with the principles of cost-reflective pricing under the amended NER. The transitional approach outlined by SAPN, including the option for consumers to immediately opt-in to fully cost-reflective prices also appears sensible. We now encourage SAPN, 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 Oliver Derum, Associate Director Advocacy and Communications, on 02 9220 5514 or by email at oliver.derum@energyconsumersaustralia.com.au if you would like to discuss this submission further.

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