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Thank you for the opportunity to comment on the *Issues paper – Tariff structure statement proposals – NSW electricity distribution network service providers – March 2016*.

The Energy & Water Ombudsman NSW investigates and resolves complaints from customers of electricity and gas providers in NSW, and some water providers.

The concepts raised in this issues paper and the Tariff Structure Statements (TSS) provided by the NSW networks are vitally important to energy consumers. In NSW, network charges currently make up around 40% of residential energy bills. The structure of the network tariff is almost always reflected in the retail pricing offer. Therefore it is important that careful consideration of customer impacts of the design of network tariffs is undertaken.

Social tariff

In 2014/15 EWON finalised 30,494 complaints from NSW customers, 76% were electricity issues. Billing and Credit issues represented 65% of all casework, with customers complaining about affordability related issues such as:

- high disputed bills;
- payment difficulty (current bill and arrears);
- impending or completed disconnection of electricity or gas supply;
- declined payment arrangements;
- debt collection; and
- credit default listing.

Despite the stabilisation of electricity prices over the last two years energy affordability issues remain high on the EWON agenda. There were 32,940 residential disconnections of electricity supply for non-payment in 2013-14, a rise of 8,052 when compared to the previous year. For the year 2014-15 the number of disconnections was 31,979, slightly down on the previous year.

The number of customers in NSW on payment plans for electricity accounts increased from 60,960 in June 2014 to 72,206 in December 2015.¹ The average level of electricity debt has risen from \$529 in June 2014 to \$614 in December 2015. At the same time the number of electricity customers in retailer hardship programs increased from 18,293 in June 2014 to 22,291 in December 2015. Only 0.7% of customers are on a hardship plan whereas 14% of Australians live below the poverty line. Therefore there are many more NSW consumers affected by electricity tariffs than the hardship plan statistics suggest.

The solutions for customers in financial hardship are complex and require all participants in the energy industry to contribute to ensuring that customers remain connected. Networks have an important role in contributing to affordability solutions.

The National Electricity Objective, as stated in the National Electricity Law, is:

“to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to – price, quality, safety, reliability, and security of supply of electricity; and the reliability, safety and security of the national electricity system”²

Where the price of electricity leaves some customers unable to ensure the security of their supply in the short or long term, it could be argued that the objective is not being fully met.

The concept of a network based social tariff is worth exploring. The success or otherwise of a social tariff is in part dependent upon the tariff structure. Hardship and vulnerability are complex, and a suitable tariff for a large single parent family may be very different to that for a single person with very low consumption. Housing quality also contributes significantly to energy consumption. A “one size fits all” approach to a social tariff would therefore not deliver the desired outcome for all relevant consumers. Consideration needs to be given to a flexible social tariff framework applicable to the spectrum of consumption use which vulnerable customers experience.

Further, to be effective a network based social tariff would need to involve all retailers as they would need to design and offer compatible retail tariffs to relevant customers.

A good starting point for social tariff eligibility would be to offer them to customers who are participating in retailer hardship programs and customers who are eligible for rebates. And finally, the existence of a social network tariff would need to be fully accessible to all consumers requiring access. Therefore there would need to be a comprehensive communication plan implemented.

In summary, the concept of a network social tariff should be explored with particular focus on four aspects:

¹ <http://www.aer.gov.au/retail-markets/retail-statistics>

² <http://www.aemc.gov.au/Australias-Energy-Market/Markets-Overview/National-electricity-market>

- design flexibility to suit variable consumption needs;
- retailer tariff supported;
- have broad eligibility criteria; and
- accessibility.

The current three networks TSS's do not explore the options of a social tariff. EWON believes that discussion around this concept is important and that the AER and the networks should engage in discussion with stakeholders about a Social Tariff in preparation for the next round of tariff design as part of a multifaceted approach to developing affordability solutions.

Declining block tariff

All three networks in NSW have moved from an inclining block tariff structure to a declining block structure. This approach appears to be unique to NSW and EWON believes that they are a step backwards from cost reflective pricing and from unwinding cross subsidies. In fact, declining block tariffs further subsidise high users at the expense of low consumption customers, many of whom are vulnerable and in hardship. The structure of the proposed declining block tariffs has the potential to draw customers away from the more cost reflective time of use tariffs also proposed in the TSS.

EWON notes that the Essential Energy proposal is significantly flatter than the other two networks' proposals and that the Ausgrid proposal has a much steeper decline when compared to Endeavour Energy proposal.

For many customers in hardship, one part of the solution to the difficulties they face is to reduce consumption. A declining block tariff by its very nature decreases the price signal that a customer receives when high consumption is reduced. There is even less of a price signal when the customer has low consumption to begin with. All of the current proposals see an increase in the fixed charges and in the case of Ausgrid a 7% increase in the cost of electricity consumed in the first block. This will see an adverse price impact on low consumption customers.

The consequential bill impacts of the Ausgrid declining block tariff is that the more energy a residential customer consumes then the greater the reduction in the price paid per usage block. The TSS does not indicate if it is the networks intention to sharpen the rate of 'decline' in this new tariff structure after 2019. If this occurs this would have negative consequences for consumers with a low level of consumption.

EWON strongly suggests that each network's TSS explicitly provides the proposed pathway for the declining block tariff. The TSS should also provide information on the of the declining block tariff impact on customers especially those with low levels of consumption. The detail of such impacts is absent in the current proposals.

Time of Use Tariff

Both Ausgrid and Endeavour Energy have higher fixed charges for their proposed Time of Use (ToU) tariffs. All three networks have off peak prices much higher than controlled load tariffs. Ausgrid's peak time price is more than double the usage charge for its declining block tariff, although the difference in the other two networks peak ToU price is not as significant.

These tariff structures discourage customers from considering a move to a more cost reflective tariff because, as proposed, the declining block tariff combined with a controlled load product is significantly more attractive. A key requirement of the Tariff Structure Statements is that they are intended to better signal the cost drivers of distribution networks. EWON does not believe that the currently proposed declining block tariffs, in conjunction with unattractive ToU tariffs achieves this outcome.

A further concern is the significant variation in the charging windows, i.e. the times peak, shoulder and off peak prices apply, in each of the network's proposals. These differences have the potential to confuse customers and to increase retailers' costs in developing relevant tariffs.

EWON strongly suggests consideration be given to the Victorian model where the charging windows for ToU tariffs are common across all networks. Common charging windows would result in greater equity, less complexity, and take into account customers' financial literacy.

Other issues

EWON recognises the limitation the networks faced in developing alternative tariff proposals. In particular, the relatively small number of interval meters in the NSW market means that most customers cannot access innovative tariffs. In NSW a retailer led rollout of advanced metering begins in 2017. As such, EWON believes that more consideration of tariff options should have been provided in the proposals, so that consumers have choice and incentives when considering taking up advanced metering options. The lack of such options have the potential for the next round of tariff design to have a greater price shock factor as the move to cost reflective pricing is not adequately foreshadowed in the current proposals.

Consultation

It could be argued that the revenue determination overlapped with the network requirement to also develop their TSS has led to a shortened period for the networks to consult around their strategy combined, with a shortened period for the proposed TSS coverage. However, EWON believes that even though the current proposals are clearly transitional and the outcomes in proposed prices are still in doubt due to the ongoing legal argument over the revenue determination, the consultation for any TSS should still be robust and thorough.

While EWON participated in the consultation process, we share some of the concerns that have been raised about the quality of that process. We look forward to engaging with the three NSW networks in the next TSS development. We would expect early discussions about tariff design

and full information about alternative models focused around potential customer impact, and in particular potential impacts on vulnerable customers.

Demand tariff

Demand tariffs for residential customers were not included in any proposed TSS. Demand tariffs are complex and can be difficult to understand. Changing consumption patterns and changes in occupancy can significantly affect maximum demand. There is significant potential for confusion and disputes if such a tariff was introduced for residential customers. Accordingly a concise and plain English communications plan would need to be developed before a tariff of this nature were to be implemented.

Regional pricing

Regional pricing was not proposed in any network's TSS, and EWON would not be supportive of regional pricing differences within a network without very detailed proposals and customer impact analysis. The potential for customer dissatisfaction is significant and unintended consequences on employment and housing opportunities could occur if there was specific geographic pricing within a network area.

Network tariffs for customers who generate electricity

If such a tariff were to be explored, it is EWON's view that it should be cost reflective, based upon the export of electricity, and the costs to the network associated with that energy export. We would be concerned if such a tariff was based upon reduced usage of energy from the grid. This could be seen as a penalty for energy efficiency.

If you would like to discuss this matter further, please contact me or Rory Campbell, Manager, Policy and Research, on (02) 8218 5266.

Yours sincerely



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