

NCOSS Submission

Electricity Tariff reform in NSW



October 2015

About NCOSS

The NSW Council of Social Service (NCOSS) works with and for people experiencing poverty and disadvantage to see positive change in our communities.

When rates of poverty and inequality are low, everyone in NSW benefits. With 80 years of knowledge and experience informing our vision, NCOSS is uniquely placed to bring together civil society to work with government and business to ensure communities in NSW are strong for everyone.

As the peak body for health and community services in NSW we support the sector to deliver innovative services that grow and evolve as needs and circumstances evolve.

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NCOSS Submission to the NSW Distribution Business Discussion paper: *Electricity Tariff Reform in NSW*

Introduction

NCOSS welcomes the opportunity to comment on the NSW distribution network businesses proposals for their Tariff Structure Statement due to be presented to the AER in November. Developments in the electricity sector are of great interest to NCOSS because the supply of electricity is an essential service that is vitally important for the health and wellbeing of families and individuals. NCOSS believes it is important to provide a voice for low-income and disadvantaged households in the tariff reform process.

NCOSS is particularly concerned about the impact that high electricity prices has on low-income customers. Nearly 33, 000 households were disconnected for failure to pay an electricity bill in 2014,¹ a figure that has risen a staggering 100% over the 5 years of the previous regulatory period² and which is no doubt related to prices rising on average 70% during that time. Network tariffs in NSW make up a significant proportion of the retail price paid by consumers, and tariff structures can have a large impact on the prices that households pay, depending on their usage profile. They have been adversely affected by the increasing network costs and have faced barriers to avoiding these costs through the take-up of new technologies such as solar photovoltaic systems.

¹ Australian Energy Regulator, *Annual report on the performance of the retail energy Market, 2013-14*, November 2014, p36.

² *ibid.*

Context

NCOSS understands that under the new pricing rules outlined by the Australian Energy Market Commission (AEMC), the three NSW distribution businesses are currently preparing Tariff Structure Statements (TSS) for submission to the Australian Energy Regulator (AER).

Each TSS must outline the business' proposed tariffs and must comply with the pricing principles outlined in the rules to commence from 2017.³ Three of the important requirements that are relevant to this submission are to:

1. Meet the pricing objective that network charges reflect the efficient costs of providing those services;
2. Base each tariff on the distributors' Long Run Marginal Cost (LRMC); and
3. Consider the consumer impact of changes from the previous regulatory year.⁴

In this response to the businesses discussion paper, NCOSS will focus largely on the extent to which it believes the businesses have adequately considered, presented, and responded to the customer impact of the tariffs that will be proposed in their TSS, and limits its comments to the issues concerning residential customers.

Proposed Declining Block Tariff Structure

Ausgrid, Essential, and Endeavour Energy are jointly presenting a proposal to introduce declining block tariffs for residential customers from 2017. NCOSS does not believe this proposal meets the customer impact principle of the new pricing rules, and does not support the use of this tariff structure by the distribution businesses. NCOSS is of the view that this tariff structure is likely to disadvantage low-income households who in general consume lower amounts of electricity than other households. These households will be disadvantaged by this tariff structure because it charges customers both a high fixed charge as well as higher volumetric charges for the first block of energy consumed. Low consumption consumers will not benefit from the declining cost of energy in the subsequent consumption blocks, and high prices will be maintained for non-discretionary energy consumption required to support a basic standard of living.

³ AEMC (2014), AEMC *National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014*, Section 6.18.5

⁴ AEMC (2014), AEMC *National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014*, Section 3.3.4 sets out the Principle on Consumer Impact.

While the discussion paper suggests that all households will be better off under the declining block structure (the tables detailing the relative impact of the proposed tariff on different household consumption levels show a decrease in prices for each consumption category) the reduction in household bills assumed is largely as a result of the recent distribution determination by the AER which has lowered the revenues allowed by the businesses, and not inherently because of the tariff structure. The tariff structure simply determines the extent to which that reduced revenue allowance will flow through to customers based on how they are affected by the introduction of that tariff. It is clear from the tables that low consumption households will gain the least price relief in the future under this tariff structure, and will be most negatively affected into the future.

While the proposed price decreases are welcomed, NCOSS believes that low-income low consumption households require the greatest relief from the high prices of the past ten years, not the least. Moreover, there is no certainty that lower prices will in fact eventuate. NCOSS is aware that the pricing determination by the AER is currently being appealed by the NSW businesses, and that should higher revenues be allowed as a result of this appeal, the price relief could very quickly turn into further price rises for consumers. Alongside this, consumers are at risk of price instability due to falling demand under the revenue cap arrangement.

The paper *Electricity Tariff Reform in NSW* notes that this tariff structure has been progressively introduced by the businesses in 2013 and is now the main tariff structure for residential customers. One of the arguments presented by the businesses is that consumers are therefore used to this tariff structure already and that they will therefore be able to understand it more easily. NCOSS does not believe this is the case. We are not aware of any retailers that have actually reflected this declining block structure in retail tariffs at this stage, and therefore it remains an unfamiliar tariff to consumers. While declining block tariffs are arguably less complex for consumers to understand than alternatives such as time of use or demand tariffs, they are certainly more complex to understand than the fixed and variable components of flat rate tariffs that they currently see on retail electricity bills (and many consumers do not well understand these). In addition consumers are familiar with messages to conserve and reduce energy consumption in order to have lower prices, and in recent times have become more aware of the impact of consumption at peak times on electricity prices.

To completely reverse this and provide a tariff structure that sends a price signal to consume more and at any time, not only is extremely confusing for consumers but risks the re-emergence of a peak demand problem and the related need for expensive network augmentation.

NCOSS is aware that not all low income households are low consumption, and that there are a number of low income households that consume higher amounts of energy due to larger household size, inefficient housing and household appliances, and sometimes lack of understanding about energy consumption. There is no perfect tariff structure that will suit low-income households, so the important thing is to identify those vulnerable households who might be adversely affected and to ensure these households are provided with assistance through concessions and other social policy programs.

NCOSS believes it is therefore essential that the analysis of the customer impacts undertaken by the businesses go beyond the simplistic categorisation of consumers into different consumption levels. Customer impact studies need to be based on more detailed customer segmentation in order to see if there are clearer patterns for specific demographics, such as people with low incomes, carers, large families and people with medical heating or cooling needs. Without a better understanding of the specific characteristics of households it will be difficult to understand why particular households win or lose on the proposed network tariffs, and to make targeted efforts to mitigate impacts for these households.

The discussion paper raises the possibility that social tariffs may be an option to support vulnerable consumers. NCOSS supports further exploration of social tariffs as a means of addressing affordability problems for low income households. Appropriate targeting of such tariffs, and the development of additional supplementary measures, will be assisted by detailed customer impact studies as noted above. The discussion paper also seeks opinions on the introduction of demand tariffs that are being proposed by distribution businesses in other jurisdictions, and also the introduction of tariffs for households exporting energy to the grid from solar PV. NCOSS does not wish to offer any specific comments on either of these tariffs at this time due to the significant and complex issues involved.

Finally, NCOSS would like to comment on the extent to which the NSW distribution businesses have engaged consumers and sought their views in the current proposes. The discussion paper suggests that the businesses are in a second phase of consultation having commenced consultation in 2013.

We are not aware of any public consultation or engagement process during this time, and our conversations with colleagues who are more directly engaged in energy policy issues suggest that any consultation at an early phase was very limited in nature. This is in contrast to engagement processes in other states, for example Queensland, where open forums and multiple discussion papers and opportunity for comment have been provided in the previous 18 months. The paper also indicates that during September/October the businesses were planning to hold a vulnerable consumer roundtable to inform the businesses' TSS. We do not know if this occurred but are not aware of any invitations being issued for such an event, and we wonder if the consultation process has in fact been as full as the businesses are claiming. NCOSS would request that it be invited to attend discussions of this nature in the future (though due to resource constraints we may not always be able to attend), and believe that a fully effective engagement process would allow adequate time and opportunities to shape the nature of the discussions held and the questions that are being addressed, as well as provide an opportunity for feedback to be taken on board and to inform the directions of the businesses prior to final positions being established.

Thank you for the opportunity to comment on the *Electricity Tariff Reform in NSW* discussion paper. We hope to see the businesses' TSS to the AER reflect the comments and issues we and other consumer advocates have provided.