NCOSS Submission

AER Issues paper on the NSW Tariff Structure Statements

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ncoss
NSW Council of Social Service

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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Summary

NCOSS opposes the NSW Distribution Businesses (DBs) Tariff Structure Statements (TSSs) and the proposed transition to declining block tariffs for residential consumers in NSW. We do not believe the proposed structure meets the requirements of the new pricing rules to signal to consumers the long run marginal cost of supplying energy, nor do the TSSs demonstrate an understanding and effort to manage the consumer impact. As such the proposed residential tariffs do not serve the policy objectives of enabling consumer choice and control, encouraging efficient investment in networks, and reducing electricity prices over the long term. NCOSS is particularly concerned that the proposed tariffs will have the most significant cost impact on low income and vulnerable households and that these households will be worse off in both the short and the long term, regardless of the actual impact of their consumption on past and future network costs.

Introduction

NCOSS welcomes the opportunity to provide comment to the AER on the NSW distribution network businesses Tariff Structure Statements presented in November last year. 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 2013-14 and a further 32, 000 in 2014-15.[1]. These numbers represent a staggering 100% increase over the 5 years of the previous regulatory period[2] and are undoubtedly 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. Low income households have not only been adversely affected by increasing network costs, but have less opportunity to avoid 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. and *Annual report on the performance of the retail energy Market, 2014-15*, November 2015, p35
[2] ibid.

Background

Under the new pricing rules outlined by the Australian Energy Market Commission (AEMC), the three NSW distribution businesses have submitted Tariff Structure Statements (TSS) to the Australian Energy Regulator (AER).

Our understanding is that the AER will consider whether the tariff structures presented comply with the pricing principles outlined in the rules, and if so will approve the tariffs which will commence from 2017.[3] Importantly the tariffs must:

- Meet the pricing objective that network charges reflect the efficient Long Run Marginal Cost (LRMC) costs of providing those services; and
- Consider the consumer impact of changes from the previous regulatory year.[4]

NCOSS approach

NCOSS believes the policy objectives of the new pricing rules should be central in the AER's consideration of the businesses compliance with these principles. As the AER points out "achieving improved cost reflectivity of tariffs is not an end in itself".[5] The new rules were the result of a lengthy review by the AEMC into the barriers and mechanisms to enable consumers to exercise greater choice and control over their electricity usage and costs.[6] The rules are intended to bring greater equity to the allocation of costs across and within customer classes, and to remove cross subsidies between customers. Further, the application of new tariffs should provide price signals that enable consumers to respond either by altering their consumption behavior or investing in particular appliances or new technologies. In the long term, this should drive more efficient investment by the networks and result in lower prices for consumers, including those less able to respond.

[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.

[5] AER, *Issues Paper. Tariff Structure Statement Proposals. NSW Electricity Distribution Network Service Providers*, March 2016, p10.

[6] AEMC, *Power of Choice Review. Giving consumers options in the way they use electricity*. November 30 2012.

NCOSS supports greater cost reflectivity in electricity network pricing to the extent that it achieves the policy objective of reducing prices for consumers over the long term, and so long as the customer impacts are appropriately managed. In the transition to cost reflective tariffs the consumer impacts of those tariffs must be given primary consideration. Tariffs that are too complex for consumers to understand or which are structured in a way that consumers cannot respond are unlikely to lead to the desired results. In particular, where the customers impacted are low income or vulnerable, measures will be needed to assist those customers which may include information and education, subsidies or rebates. Managing customer impact may mean some compromise on cost reflectivity in the design of the tariffs adopted and/or the nature and speed of the transition. The balance is a difficult one to strike, and will also be dependent on coordination from all parts of the energy supply chain in particular retailers, and government policy makers.

In response to the AER's discussion paper on the Victorian Tariff Structure Statements consumer groups provided a joint submission on the outcomes that should be sought for consumers and the principles that should be applied in the TSS process. [7] NCOSS largely supports the outcomes and principles outlined in the joint submission many of which are relevant in the NSW context, in particular that:

- Customers who don't have significant maximum demand should not be worse off
- Those who do should be assisted through the transition
- Cost reflective prices should not expose consumers to higher fixed charges that restrict their ability to manage energy costs,
- Consumers must be able to make the link between their behavior and prices

To satisfy the consumer impact requirements of the rules the businesses should provide information and analysis of the impact of particular tariffs on particular consumers, taking into account their consumption profile, their capacity to pay, and their capacity to understand and respond to price signals. It may also require customer trials prior to implementation and/or during the transition to cost reflective pricing. The involvement of consumer representatives in the design and development of customer impact studies is critical, as is consumer involvement in the development of tariff approaches generally. We believe greater efforts are

[7] Joint Consumer Group, *Consumer Outcomes and Principles for Cost Reflective Tariffs, January 2016*.

required in future TSS processes and we discuss this requirement further in this submission when commenting on the customer impact analysis undertaken by the NSW DBs.

In this response to the AERs Issues Paper NCOSS confines its comments to tariffs and matters relating to the residential customer class. This submission provides general comments and observations relevant to the issues of cost reflectivity and customer impact that the AER must consider, and then provides specific comment on selected questions raised by the AER in its issues paper. In the process of drafting this response, NCOSS has sought to consult with a range of other consumer advocacy and stakeholder groups in NSW, in an attempt to ensure that our position most accurately reflects the concerns and interests of consumers, particularly those who are disadvantaged or financially vulnerable.

NSW businesses Tariff Structure Statements (TSSs)

Ausgrid, Essential, and Endeavour Energy have each proposed to continue use of a declining block tariff for residential customers with accumulation meters from 2017. In addition the businesses are proposing to rebalance the cost components of the tariff over time, assigning higher costs to the fixed charge component and to the first consumption block. The DBS also continue to offer controlled load tariffs and Time of Use tariffs, and Ausgrid propose to reassign customers with interval meters to the Time of Use tariff as the default tariff.

Cost Reflectivity of the Declining Block Tariff Structure

NCOSS does not see how the declining block tariff addresses the issue of cost reflectivity in pricing. The businesses argue their costs are largely fixed, there is excess capacity in the network, that peak demand is no longer a significant issue, and that their options are limited given the predominance of accumulation meters in the NSW network. However as the AER has observed in the Issues Paper, the claim that peak demand is no longer a driver of costs does not accord with their recent revenue proposals, which claimed the need for augmentation capital into the future in order to address peak demand constraints on the network.[8]

There are other contradictions in the tariff positions outlined within and between each TSS. For example, Endeavour Energy has an inclining block tariff for small business users. We agree with the AER that the logic to support the use of an inclining block tariff here - that they encourage high consumption customers to move to demand tariffs if that is more economical for them – could easily apply within the other networks and to

[8] AER, op.cit. p 28

residential customers if appropriate alternative demand tariffs were on offer.

We support the AER in its efforts to clarify these contradictions. Consumers are not experts on the networks costs and do not hold the relevant information and therefore rely on the information provided by the businesses when seeking to form a view on their proposals. Consumer choice is dependent upon confidence in the accuracy of the information they receive, which is undermined by such contradictions and selective information use.

Some consumer stakeholders have argued that the businesses' approach to establishing the Long Run Marginal Costs (LRMC) is not appropriate. For example the Public Interest Advocacy Centre in their response to the networks discussion paper suggests the 3-year forward view is too short to appropriately capture and signal to consumers the price impacts of their consumption behavior.[9] We note that the approach to establishing LRMC by the NSW networks differs from the approach in Victoria where a 10 year forecast was used targeting peak demand as the key cost driver. [10] In their response to the Victorian Issues Paper Energy Consumers Australia also argues that

> *The fact that LRMC is a "forward looking" concept does not mean that it can only be applied to actual future costs; it can be applied to the entire hypothetical cost base of the organisation on the assumption the network was being built today.*

They suggest that the failure to apply this approach is a problem in the NSW context.[11] NCOSS does not have a specific view on the appropriate approach to calculating the LRMC, but strongly encourage the AER to ensure that the methodology used by the businesses is consistent with the outcomes sought from cost reflective pricing.

Price signals

Declining block tariffs, as acknowledged by the distributers do not distinguish between usage at particular times of the day or in different locations, and as such are not reflective of either the specific or the aggregate household impact of usage behavior on the network. Declining block tariffs are likely to send a message to consumers to consume - at any time– because there will be only limited overall impact on the final bill from a few additional kilowatt hours of usage. The strength of this message will depend on the prices assigned to fixed costs and to each block. As the businesses intend to transition to a higher fixed charge and a higher first block, there will effectively be represent a price signal, and increased incentive not to conserve energy.

[9] PIAC, *Comments on Proposed Tariff Structure Statements*, 5 November 2015.
[10] AER, *Draft decision AusNet Tariff Structure Statement*, 22 February 2016.
[11] Energy Consumers Australia. Submission - AER Issues Paper Tariff Structure Statement Proposals, 20 January 2016, p3.

There are also two possible perverse outcomes from this. Firstly, ongoing or increased consumption of energy at peak times could give rise to the reemergence or continuation of the peak demand problem, leading to the necessity for further costly augmentation of the network. The other likely consequence is that consumers who are able, will seek to reduce their reliance on the network by investing in solar and batteries, while those who are not able will bear the price impact of reduced overall demand. This scenario is already familiar, and is not consistent with the outcomes being sought by the new pricing rules.

NCOSS believes that the price signal from declining block tariffs conflicts with past consumer education messages to conserve energy or buy energy efficient appliances as a way to reduce costs. Consumers are familiar with energy efficiency as a concept and have an understanding of action they can take to conserve energy, and are likely to become cynical about the potential benefits of modifying their consumption behaviors under a declining block structure. There is also an increasing awareness of the concept of peak demand and "off peak" tariffs, and many consumers know that it is not simply how much but what time of day consumption is occurring that contributes to energy costs. At this point it is an illogical step to contradict this message, particularly if the networks intend to offer and promote demand or TOU tariffs at a later date. The tariff reform process should provide a consistent long-term response to the drivers of network pricing and it is important that there is consistent messaging to consumers throughout this process.

Tariff Choice and Time of Use (TOU) tariffs

The TSSs provided by the NSW businesses offer very little by way of choice for consumers through alternative tariff structures. The alternatives which do exist, and which might be more cost reflective, such as controlled load or time of use are not being genuinely promoted or encouraged. The AER has rightly questioned whether the relative pricing of the these tariffs and the breadth of the peak period adopted by the businesses for the TOU tariff will offer any incentive for customers to adopt the more cost reflective TOU tariff. NCOSS agree that there would be little customer incentive to do so given that the prices allocated to the fixed charge and off-peak components of the TOU tariff are relatively high. Customers would in any case find it difficult to shift load from peak time given the high number of hours allocated to the peak time, particularly in the Endeavour network area where the peak runs from 1pm to 8pm on business days. NCOSS view this structuring as a significant barrier to customers who are able to shift load and benefit from TOU pricing, actually doing so.

NCOSS also notes that there are significant differences between the DBs in how their time of use tariffs are structured. Each business defines the peak, shoulder and off peak times differently, and Ausgrid has different charges for summer and winter peak periods and the remaining months, while other retailers do not. There are also differences in whether peak charges apply on weekends or not. We believe that greater clarity and consistency in the structure of tariffs proposed by the businesses, would better serve the policy objectives, and maximize the genuine opportunity for customers to understand and respond to the price signals. In addition to the problem of the peak period being set too wide, we are concerned about the likelihood of price shock for customers on a TOU tariff in Ausgrid's network given the inconsistency in the charging components across seasons. This would be particularly problematic if Ausgrid's intention is that TOU tariffs will no longer be opt in tariffs for customers with interval meters installed in the future. We support the AER's intention to clarify this with Ausgrid, and recommend ensuring that TOU tariffs are opt in, particularly as the transitional measures proposed for reassigned customers are not designed to assist customers to understand or adapt to new tariffs.

While there can be risks with TOU and demand tariffs from a low income and vulnerable customer perspective, including complexity and bill volatility, there is also some evidence that some low income households could benefit due to flatter load profile, and that these households may be better placed to shift the time of their use rather than reduce consumption.[12] NCOSS does not accept that the prevailing market conditions in NSW are necessarily as significant as represented by DBS, and notes that the low uptake of TOU tariffs to date and the prevalence of accumulation meters has not been a barrier to the development of optional demand based tariffs elsewhere, for example in Queensland.[13]

Customer Impacts of Declining Block tariff

NCOSS believes that the customer impacts of the proposed declining block tariff are unacceptable for low income and vulnerable households, regardless of any transitional measures proposed, and that the further investigation of the impacts of this and other potential tariff structures by the businesses is required.

[12] Paul Simshauser and David Downer, June 2014. AGL Applied Economic and Policy Research Working Paper No.41. *On the inequity of flat-rate electricity tariffs.* Ergon Energy and Energex, 2014. Reward Based Tariffs Trial, Summary Report, March 2014.

[13] Energex, November 2015, Tariff Structure Statement, and Ergon Energy, November 2015, Tariff Structure Statement.

In the TSS Ausgrid states "we accept that declining block tariffs may disadvantage some customer groups who generally use lower amounts of energy".[14] NCOSS's concern is that a declining block tariff that features a high fixed charge will have more cost impact on households with low incomes and, who consume less electricity, since these households will not receive the benefit of a 'declined block' for higher consumption. The proposal to shift more of the networks costs into the fixed charge of the tariff is even more concerning. In Queensland "tariff rebalancing" to increase the fixed component of bills relative to the volume charges over the previous 3 years led to price increases as high as 52% for a typical low consumption single person household in contrast with 29% for a household with median consumption.[15]

Evidence that low income households are generally low consumers of energy is demonstrated in NSW by an IPART survey of households in 2010. For the Sydney households in the IPART survey, 39% of the lowest income group were also in the very lowest consumption group. This low income-low consumption group were consuming less than 4MWh per annum when the average household was consuming 7.2 MWh. [16]

Low income households already spend a higher proportion of household income on residential electricity.[17] A 2012 estimate for Australia is that lower income households spend over 4% of household income on household energy compared to 2% for all households combined. Households in the first and second income quintiles spend 7% and 5.3% on energy respectively.[18] Any increase in this proportion, that is likely under the proposed tariff structure, would represent a significant and disproportionate additional burden for some of the most disadvantage and vulnerable in our community.

The current NSW tariff proposals do not provide any realistic option for these low income households to make changes to their already low consumption, or the type of tariff they have, in order to reduce their annual costs of electricity. This goes directly to the consideration of the impacts on retail customers from tariff changes. In particular:

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[14] Ausgrid, November 22015, Tariff Structure Statement, p151.

[15] QCOSS, *Presentation on Retail Electricity Prices*, June 2015

[16] Independent Pricing and Regulatory Tribunal (IPART) NSW, December 2010. *Residential energy and water use in Sydney, the Blue Mountains and Illawarra - Results from the 2010 household survey*. Note: IPART repeated this survey in 2015 however the results have not yet been published

[17] Australian Bureau of Statistics (ABS), 2011. Household Expenditure Survey, 2009-10. ABS, 2013. Household Energy Consumption Survey, 2012.

[18] ABS 2013, op cit.

- The extent to which retail customers can choose the tariff to which they are assigned; and
- The extent to which retail customers are able to mitigate the impact of changes in tariffs through their usage decisions.[19]

The DBs discussion paper in the lead up to the TSSs offered a contrary view that that low income and vulnerable households could benefit from the proposed tariffs, on the basis of the evidence of higher consumption by customers in hardship programs. NCOSS believes that this position fails to make the important distinction between low income households, and households in hardship. While it is true that electricity retailers are required to identify hardship customers and therefore have good information about their household characteristics, low income households are not identified by electricity companies at all, unless they are concession card holders.

As demonstrated in the DBs discussion paper, there are occasions where hardship customers are conflated with low income households. While there is often overlap between the two groups (some low income households are also in hardship, but not all hardship customers are low income) there is a clear distinction between the household groups, and their respective electricity usage behaviors.

For example, AGL data from Victoria[20] showed that households in hardship had a load profile larger than average and represented only 1-2% of all households. The IPART survey from 2010 found that those households in financial difficulty also used more electricity than average and were not confined to the low income group.[21] On the other hand, while there is a range of electricity consumption levels for the low income group (Figure 7.2 in IPART 2010, and Table 1 in ABS 2013), most low income households are actually well below average consumption. NCOSS is aware of course that there are a number of low income households that do consume higher amounts of energy for a range of reasons including larger household size, inefficient housing and household appliances, medical heating or cooling needs or medical equipment, and lack of understanding about energy consumption and energy efficiency measures. There is no perfect single tariff structure that will suit all low-income households, so the important thing is to undertake comprehensive customer impact studies to identify those vulnerable households who might be adversely affected and to identify appropriate mechanisms to account for and assist them.

[19] NER, cl.6.18.5(h).
[20] Simshauser and Downer, 2014. Op cit.
[21] IPART, 2010. Op cit.

In the current process the DBs consideration of the customer impacts of the default declining block tariff and the increasing fixed component is analysed in terms of household consumption, and mitigation is about how soon customers are made worse off. Therefore, each of the distributors are addressing customer impacts through 'gradual' increases to the fixed charges for both TOU and non-TOU tariffs, and also the first block of the declining block non-TOU tariff for both Ausgrid and Essential Energy. For example Endeavour Energy in its TSS proposes to "adopt a gradualist approach to tariff restructuring by limiting movements in these tariff component prices to the greater of: the average annual price movement plus 2.5%; and the rate of inflation."[22]

NCOSS believes it is essential that the analysis of the customer impacts undertaken by the businesses go beyond the simplistic categorisation of consumers by broad consumption levels. Customer impact studies need to be based on more detailed and nuanced 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.

Although we believe the effort made to understand the customer impacts has been limited to date, we welcome the commitment by Ausgrid, Endeavour Energy and Essential Energy for the next TSS period to "commission the CSIRO to conduct qualitative and quantitative behavioural economic research into customer preferences and behaviours into electricity tariffs". [23]

Social tariffs

The NSW DB's discussion paper raised the possibility that social tariffs may be an option to support vulnerable consumers. NCOSS supports further exploration of social tariffs as one potential option in a range of options for addressing affordability problems for low income households.[24]

[22] Endeavour Energy, November 2015, Tariff Structure Statement, p44.

[23] Ausgrid, November 2015, Tariff Structure Statement. p 150.

[24] Ausgrid's TSS cites our response as "strongly supporting" social tariffs, however it is more correct to say we endorsed further exploration of the options.

None of the businesses actually propose to introduce tariffs that are specifically designed to meet social objectives, and Ausgrid state that most stakeholders believe assisting vulnerable consumers should be left to 'social policy'. However, Ausgrid "*intends to research innovative approaches to recovering residual costs and to share the findings of this research with all stakeholders to develop a robust position on the social tariff in the next few years.*"[25]

We note that the CSIRO work on the likely response by consumers to cost reflective pricing concluded that this pricing will be more successful the less it relies on consumers themselves responding to changing prices.[26] The report suggested that households could benefit by precommitting to automated load control in return for a more favourable tariff.

NCOSS recommends that any research into social tariffs include investigation into the use of automated load control for low income households in return for a much lower tariff. Evidence from tariff trials in Queensland suggests that low income and low annual energy consumption groups were able to reduce their consumption during peak times.[27] This suggests there is scope for both distribution businesses and low income households to benefit from innovative approaches to recovering revenue provided the approaches do not overly rely on consumers themselves responding.

NCOSS sees no reason why social tariffs should not be part of the mix considered in meeting the broader objectives of the pricing rules. For example if the existence of a social tariff for vulnerable consumers mitigates concerns about the impacts of another more cost reflective tariff, then there is no reason this is an inherently worse approach to managing the customer impacts than any other compromise on cost reflectivity, such as a slow transition or simplifying the design of tariffs. In Queensland Energex has proposed a time limited bill protection mechanism in the tariff alongside the introduction of voluntary demand tariffs to achieve exactly this outcome. Calls for the separation of social policy from the current pricing process is a too easy and simplistic response to stakeholders concerns about the impacts of new tariffs on vulnerable consumers. This position could also be used as an excuse for limiting the scope of customer impact studies that might otherwise yield valuable information . Whether the solution for those customers is to be found in innovative tariff structures that are better suited to their consumption characteristics, or in subsidies, rebates or other forms of direct

[25] Ausgrid, November 2015, Op cit.

[26] CSIRO, 2015. Australian Consumers' Likely Response to Cost-Reflective Electricity Pricing.

[27] Ergon Energy and Energex, 2014. Op cit.

assistance, the information and contribution from the DBs on the likely impact of particular tariffs on specific customer segments is critical to informing the discussion.

Current/Future Consumer Engagement on the Tariff Structure Statements

NCOSS notes and appreciates the opportunities for engagement provided by the network businesses in the development of the NSW Tariff Structure Statements, and acknowledge that due to staff changes and resource constraints we have not been able to participate as fully as we would wish to date. However, NCOSS was able to provide a response to the network businesses discussion paper in their second phase of consultation and has knowledge of the stakeholder engagement that occurred through our extensive involvement and angeagement with other NSW consumer advocacy groups. From this we have formed a view that though the engagement improved toward the latter part of the process, the consultation in NSW was not as in depth as in other states, and that consumer groups that did participate felt it was not possible to influence the views adopted by the businesses regarding their preferred tariffs.

We support, and will endeavor to participate in, an earlier and more robust consultation with the businesses in the period leading to the presentation of the next NSW TSSs, and urge the businesses to progress their consultation beyond the "inform" mode, and instead provide an opportunity for genuine conversation and dialogue that can genuinely contribute to the outcomes.[28] In particular, in the next round there is an opportunity for consumer groups to provide input into the design and nature of the customer impact studies, and to participate in full discussion about the implications for tariff design and other measures designed to assist customers to manage those impacts. We welcome the businesses' acknowledgements of the shortfalls of the process to date, and their intention to improve their processes into the future and NCOSS looks forward to participating in this new phase.

[28] AER, December 2012, *Consumer Engagement Guideline for Network Service Providers.*

Response to the AER's Questions

While attempting to address a number of the AERs questions directly or indirectly in the above commentary, the following commentary against the AERs questions is in an attempt to make the linkages explicit.

1. ***Are the NSW distributors' tariff classes based on cost reflective criteria and consistent with the requirements of the rules?***

As noted above, while NCOSS accepts that many of the costs of supply to the network are fixed, however we do not accept that the declining block tariff appropriately signals the Long Run Marginal Cost of supplying energy. The DB's arguments that peak demand will not drive costs in the future contradicts the arguments for augmentation expenditure outlined in earlier revenue proposals.

2. ***What are the advantages and disadvantages of the NSW distributors' proposed declining block tariff structure for residential customers?***

As noted above, we have significant concerns about the negative financial impact of declining block structures and higher fixed charges on low income and vulnerable households. The declining block structure provides no incentive or opportunity for consumers to alter their consumption or behavior in order to manage their energy costs. It imposes additional costs on those households without regard to their actual contribution to network costs. There is evidence that low income households in fact have flatter consumption profiles, which would suggest they contribute less to peak demand on the network. While the tariff is simpler to understand than TOU or demand based tariffs, it is less equitable, provides less of an accurate price signal, and provides less opportunity to respond than alternative tariffs that work with accumulation meters.

3. ***What are the advantages and disadvantages of Endeavour Energy's proposed inclining block tariff structure for small business customers?***

No comment.

4. ***Are the differences between the NSW distributors' indicative prices for their block/controlled load tariffs and time-of-use tariffs cost reflective? Are the differences in fixed charges and off-peak/controlled load charges between the two sets of tariffs cost reflective?***

We support the AER in questioning the logic of the way these charges are set, as they are unlikely to encourage higher consumption households to move to more cost reflective time of use tariffs where the infrastructure and

customer capacity exists. However, NCOSS reiterate our support for controlled load tariffs, which are simple for consumers to understand and manage, and we would not like to see changes to the pricing of the controlled load tariffs that discouraged customer up take.

5. ***Why has there been little take-up of the NSW distributors' time-of-use tariffs to date***

As noted in our response, the charging components of TOU tariffs need to be carefully constructed to provide consumers with real incentives and options to benefit from taking up those tariffs. To date the tariffs have not been actively promoted by retailers and distributors and at this point consumers have relatively little knowledge and experience of them. For Low income households there are additional barriers to adopting products such as TOU tariffs. These includes the upfront cost of the meters, the fact that many low income households are renters, and the lack of clear, substantial and obvious benefit in switching to TOU tariffs that would offset the initial cost and effort of such a change.

6. ***Do the relative structures of the NSW distributors proposed block/controlled tariffs and time-of-use tariffs provide effective incentives for customers to opt-in to the more cost reflective time-of-use tariffs?***

No.

7. ***To what extent are the differences between the NSW distributors' proposed charging parameters cost reflective with respect to:***

   - ***Time of the day***
   - ***Day of the week***
   - ***Season of the year, and***
   - ***With respect to differences in these matters between residential and small business customer tariffs***

No comment.

8. ***To what extent are the differences between the NSW distributor's proposed charging parameters likely to reduce the extent of retailer promotion of, and competition in, more cost reflective time-of-use tariffs?***

No comment.

9. ***Have we accurately described the issues relevant to the management of customer impact in changing tariffs?***

The issues outlined by the AER in relation to the management of customer impact appear to accurately reflect the rules and our expectation. In view of this we would anticipate the AER draft decision to conclude the current TSSs fail to meet these requirements, particularly in relation to:

- The extent to which retail customers can choose the tariff to which they are assigned; and
- The extent to which retail customers are able to mitigate the impact of changes in tariffs through their usage decisions.[29]

10. Are there other key issues concerning tariff impacts not identified in this paper? In particular:

- ***Are there matters that stakeholders raised with distributors that were inadequately addressed in the proposed tariff statements***
- ***Are there any other approaches to managing customer impact that should have been considered?***

As noted above, NCOSS believes the extent of the customer impact assessment is insufficient as it focuses on consumption rather than the characteristics of particular consumption groups. The resulting lack of information is an impediment to all parties working collaboratively to manage customer impacts appropriately.

11. Will retailers be able to offer customers a number of tariff offers, some of which with retail tariff structures that differ from the underlying network tariff structure? What are the advantages and disadvantages of them doing so?

We assume this will be more difficult given the limited tariff options provided in the DBs TSSs and the lack of incentive provided for customer adopting TOU tariffs, however this question is best left for retailers.

12. Why do retailers in NSW not reflect the structure of the prevailing declining block network tariff in their current retail structures for residential and small business customers?

This question is best left for retailers.

13. Is the information presented by the NSW distributors' sufficient to allow stakeholders to examine the customer impacts of the distributors' proposed tariff changes? In answering this question, consider whether the sufficiency of the information differs between the three NSW distributors' proposals.

[29] NER, cl.6.18.5(h).

As outlined above, we do not believe the information provided on customer impact is sufficiently detailed. There has been no effort to understand the characteristics of the different households who will be most affected, nor have the cost impacts over the course of the transition to the 'rebalanced' declining block been outlined to stakeholders.

14. What are the advantages and disadvantages of the NSW distributors' proposed re-balancing of tariffs towards recovery of residual costs through the fixed charge (and first consumption block charge for block tariffs?

The measure provides an advantage for the DBs as it assures their revenue, however it represents a major disadvantage for low consumption consumers, as they are unlikely to benefit from lower prices in the 'declined block'.

15. Is the NSW distributors' proposed limiting approach of re-balancing tariffs by not more than the average movement in prices plus inflation (or inflation, which ever is greater) an effective transition mechanism and way to take into account customer impact?

We support transitioning changes in tariff structures in order to minimise price shock for consumers and to allow sufficient time for customers to understand the tariffs and adapt their behaviour accordingly. However given the impact of this tariff will be felt most strongly by low income households, the lack of cost reflectivity of the tariff and the fact that prices have massively outstripped CPI over the previous 10 years, a transitional measure to maintain price growth at CPI makes the tariff no more acceptable.

16. What are the advantages and disadvantages to having tariffs apply specifically to narrowly defined customer types such as those:

- ***with/without solar PV panels,***
- ***with/without interval meters, and***
- ***with/without a 3 phase connection?***

In answering this question, consider both the cost reflectivity and customer impact aspects on this issue.

There is an advantage to making available cost reflective tariffs for customers who have the appropriate meters, however NCOSS believes these tariffs should be opt in. With the ending of the solar bonus scheme at the end of 2016 there seems to be no particular cost justification for specific tariffs for solar customers, although tariffs

that encourage storage rather than export to the grid can be beneficial in managing cost impacts on the network.

17. Is applying more cost reflective tariffs to new customers, and different tariffs to existing customers who are otherwise equivalent, an appropriate means to manage customer impact in moving towards more cost reflective pricing?

As above, any new tariff structures should be opt in for customers and not linked to their existing metering. The same transitional measures should apply to all customers.

18. Is the end of the NSW Government's Solar Bonus Scheme an impact on customers with solar PV systems that should be taken into account under the customer impact principle? If so, how should this impact be taken into account in the design of network tariffs?

No comment

Defining and linking costs to customers

19. Do the NSW tariff statement proposals sufficiently explain how individual customers will be assigned to tariffs and how this might change if demand, metering or appliances change?

No, there is a lack of clarity regarding Ausgrid's proposal to reassign customers to tariffs based on their meter type. NCOSS would like to ensure that customers who are reassigned to a different tariff structure under Ausgrid's proposal will be able to opt out.

20. To what extent should long run marginal cost (LRMC) play a direct role in guiding the design of tariffs? How should this occur?

No comment

21. What are the advantages and disadvantages of including both augmentation and replacement costs (capex and opex) in LRMC calculations?

No comment