

29 January 2015

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By email: lgallagher@ena.asn.au

Dear Lynne

**Submission to the ENA on a National Approach to Electricity Network Tariff Reform**

Consumer Action Law Centre (**Consumer Action**) and the Consumer Utilities Advocacy Centre (**CUAC**) welcome the opportunity to provide input to the ENA's position paper, *Towards a National Approach to Electricity Network Tariff Reform*.

Consumer Action is an independent, not-for-profit, consumer organisation based in Melbourne. We work to advance fairness in consumer markets, particularly for vulnerable and disadvantaged consumers, through financial counselling, legal advice and representation, and policy work and campaigns. Delivering assistance services to Victorian consumers, we have a national reach through our deep expertise in consumer law and policy and direct knowledge of the consumer experience of modern markets.

CUAC is a specialist consumer organisation that represents Victorian energy and water consumers in policy and regulatory processes. As Australia's only consumer organisation focused specifically on the energy and water sectors, CUAC has developed an in-depth knowledge of the interests, experiences and needs of energy and water consumers. In informing these debates, CUAC monitors grass roots consumer utilities issues with particular regard to low income, disadvantaged, and rural consumers.

Our organisations support network tariff reform to introduce flexible and cost-reflective tariffs that improve the efficiency of asset usage and lead to more efficient network spending. We also agree with the ENA that '[e]ngagement with customers on tariff design will be critical to making the transition to more cost-reflective network tariffs, and ensuring the benefits are realised'.<sup>1</sup> The success of flexible network pricing at delivering market benefits will be dependent on consumer understanding, engagement and participation, and we therefore encourage distribution network service providers (**DNSPs**) to consider the implications of

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<sup>1</sup> Energy Networks Association (2014). *Towards a National Approach to Electricity Network Tariff Reform*. Pg 2

complexity in products and information on consumers' ability to engage, and to work closely with consumer groups during the development of flexible network pricing structures.

With this in mind, we support the ENA's proposal for an Industry Standard for Network Tariff Reform and the collaborative development of tariffs and consumer protections which could accompany it. We encourage you to consider the inclusion of consumer groups and specialists in consumer behaviour and decision making in this group to maximise the chances of success of network tariff reform, which fundamentally relies on consumer response.

The ENA paper acknowledges that the issue of peak price signalling to consumers is complicated by the structure of network price signals being delivered through retail offers and billing. In our view this barrier may be insurmountable for network tariff reform if we maintain the same approach to regulated network prices and deregulated retail prices. A prime example is AGL's recent 'Free Saturdays' market offer, which removes any consideration of current network pricing for the consumer, but also demonstrates how retail market offers may distort future network pricing signals in the absence of effective and binding collaboration between retailers and DNSPs. This is not adequately addressed in the paper. More consideration is needed to resolve this issue than a loose co-operation between network and retail businesses if the industry is serious about this issue.

Our organisations are therefore concerned that critical aspects of consumers' ability to engage with complicated flexible network tariffs are currently overlooked in the ENA's proposed approach.

The risk to the industry (and to consumers) is that a proliferation of additional complex pricing structures will introduce a new barrier to consumer engagement and trust, which is already extremely low. Consumers may fail to engage (ie. not change their usage patterns in response to new tariff structures) or may experience bill shock as a result of new tariffs, or both. There is potential for backlash against new tariffs such as that seen in Victoria in response to the mandatory smart meter roll out, and this could further undermine trust and/or participation, thereby undermining the efficacy of further reforms.

We therefore believe the ENA needs to adopt the following principles in the development of their approach to network tariff reform to maximise the benefits of network tariff reforms.

### **1. Limited standardisation to encourage participation**

The AEMC's recent rule change on distribution network pricing arrangements has paved the way to more flexible tariffs and, importantly, introduced the Consumer Impact Principle, recognising that '[c]onsumers are more likely to be able to respond to price signals if those signals are consistent and apply for a reasonable period of time' and that '[c]onsumers will not be able to respond to price signals if they cannot relate price structures to their usage decisions'.<sup>2</sup> The new principles 'require network prices to be reasonably capable of being understood by consumers'.<sup>3</sup> We encourage the ENA and DNSPs to consider how a large

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<sup>2</sup> AEMC (2014). *National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014 - Draft Determination*.

<sup>3</sup> Ibid.

number of different tariffs and tariff structures, both between and within DNSPs, will meet this principle.

Each DNSP having different tariff structures, which themselves are likely to be very complex for the 'average' energy consumer, will create confusion amongst consumers and erode the potential for consumer participation and engagement. We encourage the ENA to use the proposed Industry Standard to agree to some standardisation in tariff structures across the industry, at least in the first phases of implementation, to assist consumer understanding and communication with consumers about the reforms and how they will be affected. This standardisation could be similar to the approach to time of use tariffs currently on offer in Victoria.

Selection of a limited number of tariff structures to apply across all DNSPs in the early implementation phase should be based on detailed social impact studies undertaken by the industry (or as part of the Industry Standard group), to ensure that those selected do not have unforeseen impacts on consumers, particularly on vulnerable demographics.

## **2. Minimising distortion of price signals**

While we recognise that increasing fixed charges through the network tariff reform process may be an efficient approach for DNSPs to recover network costs, we have very strong reservations about increasing fixed charges without appropriately analysing the impacts of this on consumer understanding and engagement. Given that the purpose of the reforms is to prompt consumers to make efficient choices based on marginal costs, DNSPs should recover their residual costs in a way that least distorts consumer choices. We are concerned that simply increasing fixed charges to recover residual costs will blunt the price signal and therefore the behavioural impact—if consumers can't avoid the costs, why should they change their actions?

In addition, the inability to avoid (possibly high) network costs despite making decisions to reduce their load on the network by installing solar systems, may result in consumers abandoning the network, leaving an increasingly large proportion of network costs to be borne by those consumers that have no ability to leave the grid (ie. renters and those who lack the capital to invest in generation and storage systems).

It is critical that the real cost of the network, including these important issues of consumer behaviour, are taken into account in the design of network tariff reform before any commitments are made to the fixed and flexible structure of new network tariffs.

## **3. Phased approach to implementation**

We agree with the ENA that high levels of participation will be required to reap the market benefits of flexible network tariffs, and provide more efficient costs to consumers. However we do not support mandatory participation for small consumers (residential) from the outset. Substantial market efficiency could be gained from mandatory participation for high users (commercial and industrial) from the commencement of flexible tariffs, and perhaps an opt-out approach to medium users (SMEs and light industrial, perhaps including very high use residential customers). This would allow time for a proper cost-benefit analysis of impacts of flexible tariffs on vulnerable small user demographics before they are required to participate.

We do not oppose voluntary, or opt-in, adoption of flexible tariffs by small users in the early stages. However we believe that take up will be low in the absence some tariff standardisation across the industry and the delivery of a clear and simple information campaign which explains the benefits of participation to consumers. We encourage the networks industry to undertake these proposals, and deliver clear benefit to consumers, if a faster adoption of flexible tariffs is desired.

#### **4. Understanding the impacts on consumers**

Moving to flexible network tariffs will have opportunities and disadvantages to different consumer demographics, depending on their energy usage patterns. We do not believe it will be effective to simply review of the adequacy of retailer hardship arrangements across the NEM to adequately address the potential for consumer detriment.

Rather, our organisations support a full social impact assessment of proposed network tariff structures to understand the full implications on key demographics, with a focus on vulnerable and disadvantaged consumers. This should be undertaken by the industry together with government, to ensure that the implications for keeping all people connected to affordable supply have been considered. This should specifically include the likely effect of increasing numbers of people exiting the network as a valid response to cost-reflective tariffs and decreasing cost of generation and storage technologies.

On this, we encourage the ENA to consider the true value of solar power systems to the network, including avoided network investment, abatement of greenhouse gases and the merit order effect, before designing tariffs that may reduce incentives for solar participation.

We hope that these comments are helpful to you in the development of your approach to network tariff reform. Please contact Claire Maries, Consumer Action Senior Energy Policy Officer, directly at [claire@consumeraction.org.au](mailto:claire@consumeraction.org.au) or on 03 8554 6907 if you would like any further information.

Yours sincerely

**CONSUMER ACTION LAW CENTRE**

**CONSUMER UTILITIES ADVOCACY CENTRE**



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