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Dear Mr Pattas

Tariff Structure Statement proposals - Queensland electricity distribution network service providers

National Seniors welcomes the opportunity to provide comment on the Tariff Structure Statement issues paper. This submission responds primarily to the tariff changes proposed within Energex's Tariff Structure Statement.

National Seniors is a not-for-profit organisation that gives voice to issues that affect Australians aged 50 years and over. It is the largest membership organisation of its type in Australia.

National Seniors acknowledge that tariffs need to better reflect the cost of using electricity at different times, as a means of reducing the cost of supplying electricity to consumers. However, we are concerned that the current proposals will have negative impacts on vulnerable consumers. It is vital that the impacts on vulnerable consumers be considered before any changes are approved.

National Seniors believes that electricity is an essential service. A continuous supply of electricity to vulnerable consumers should not be compromised by the introduction of cost-reflective pricing or from any on-going adjustments to electricity pricing.

National Seniors questions whether seniors, particularly those who survive on low fixed incomes, will have the capacity to adapt to peak demand tariffs. Pensioners are extremely price sensitive. They tend to limit their energy consumption as a means of reducing their living costs and have little discretionary income with which to absorb increased costs.

Yet, as the CSIRO modelling carried out for Energex confirms it is low-use / low-income consumers who will be most at risk of experiencing the largest increases in their power bills as a result of cost-reflective pricing (this has been highlighted within the issues paper). It is disappointing to note also that household types likely to experience higher prices as a result of the peak demand tariff are those whose characteristics match relatively closely with pensioner households.

Given that Energex has stated that the purpose of introducing cost-reflective pricing is to lower the cost of delivering electricity to consumers, it would be worrying if this resulted in higher costs for vulnerable consumers. Yet as the CSIRO noted in its

report, “[c]ost-reflective tariffs may apply price pressure to those least able to respond”.

National Seniors is concerned that not been enough work has been done to ascertain the impact of a demand tariff on vulnerable consumers. The CSIRO reported, for example, that there was no available load data for high fixed-load customers, e.g. users of medical equipment, carers and pensioners. As such, National Seniors feels that the CSIRO report is only of limited use in assessing the impacts of the changes proposed by Energex. We would argue that more modelling needs to be done to ascertain the impact on vulnerable consumers before any new tariff products are introduced.

In this regard, National Seniors supports the move to make the introduction of a demand tariff voluntary. It is not necessary for all consumers to shift to demand pricing to realise network wide benefits. Mandating that all consumers move to a demand tariff would require that all consumers have the following:

- the financial resources to purchase smart meters;
- an understanding of their electricity use and the implications of this use on electricity bills; and
- the capacity to change behaviour.

Clearly, many vulnerable consumers will not be able to meet these three criteria without significant support. An opt-in system ensures that only those consumers with the resources, knowledge and capacity to change will adopt the new demand tariff.

The benefit of having a voluntary system is that it places the onus on the electricity sector to ensure that consumers are capable and willing participants. To this end, much work must be done to ensure that consumers fully understand the implications of shifting to a demand tariff.

Energex should engage with the Queensland government to implement both widespread and targeted education programs so that all consumers, no matter their background, can be confident they can make appropriate decisions. This will require a range of delivery methods that respond to the needs of different consumers with more intensive education programs for certain types of consumers, such as older Queenslanders. If consumers do not have the knowledge to inform their behaviour the result will be higher electricity prices.

While the move to a voluntary system is applauded, it does come with risks. National Seniors is cognisant that an opt-in system might impact negatively on households that delay or do not sign up for the peak demand tariff. Logically, people will only choose to move to a peak demand tariff if it is cheaper or if it provides the potential to be cheaper than existing tariffs. Otherwise, why would anyone choose to move to a tariff whose only discernible feature is that it will cost extra if consumers do not adapt their behaviour?

In this regard, National Seniors is concerned that Energex’s revenue recovery model will result in higher prices for those who do not adopt the demand tariff. As the AER issues paper acknowledges, changing tariff approaches does not allow distributors to earn more revenue overall because “any over or under recovery of revenue compared to their annual allowance is balanced in subsequent years”. Because Energex must always generate the exact amount of income approved by the AER, any reduction in revenue from customers adopting the peak demand tariff will have to be recovered from customers using other tariffs.

National Seniors argues that late adopters and non-adopters should not cross-subsidise consumers able to use the new tariff to reduce their electricity bills. This would clearly contravene the principles of “equity” and “no cross subsidisation” set out by Energex as part of the program to reform tariffs.

National Seniors is also concerned about the requirement to make consumers pay for the installation of smart meters and reprogramming of those already installed. This could pose a significant impost for seniors on low, fixed incomes. This would be especially problematic if the price of smart meters and associated technologies impacts on a consumer’s capacity to reduce their electricity use during times of peak demand. Low-income households should not be disadvantaged because they cannot afford to purchase more advanced smart meters (and other appliances) that help them manage their use. The cost of smart meters and associated technologies should reflect the capacity of low-income households to pay.

This might mean that subsidies for the installation and reprogramming of smart meters and other technologies are made available for low-income households, such as pensioners, who are willing to move to the new peak demand tariff. Another option is to spread the cost of installing a smart meter over time to reduce upfront costs for consumers on low, fixed incomes. We note that customers in some other states have benefitted from the installation of smart meters free of charge enabling holistic introduction of peak usage regimes.

National Seniors is also disappointed that Energex has not listened to stakeholders with regard to the design of the signal triggering peak demand payments. An option of using the average of four peaks within a month was accepted at workshops held by Energex, and is used by Ergon Energy, has not adopted in the Tariff Structure Statement.

National Seniors does not accept the view put by retailers that this is not operationally viable as we believe that this could be readily accommodated by software changes. Nor do we accept the rationale this would reduce prices overall for all consumers. The sharp signal of a single peak would punish consumers unfairly and likely discourage consumers from adopting a peak demand tariff.

In this regard, National Seniors recommends that consumers be able to see how their current use will impact on their electricity bill. Most electricity consumers would currently have little understanding of their current use and be able to understand the implications of this on their bills. The onus should be on the electricity retailer to demonstrate to individual consumers how the tariff will impact them and how they could adapt. If the purpose of demand tariffs is to change behaviour and reduce demand at peak times then consumers will need assistance to ensure that this is what occurs in practice.

This might mean that customers are provided with access to smart meters before they are signed up to the peak demand tariff. It might also mean that retailers provide information in billing, which compares the cost of the peak demand tariff with the cost of other tariffs.

Consumers should also have the option to withdraw from using a peak demand tariff without penalty if they find that they are unable to adjust their behaviour. There are likely to be some households that simply cannot adapt their behaviour despite their best intentions to avoid using electricity in peak periods. Is it reasonable, for example, to expect a frail older person who would otherwise have low electricity use

to avoid using an air conditioner during peak times on particularly hot days or heating during peak times on particularly cold days? Given that it is proposed that peak demand will be calculated on only one peak per month this would unfairly impact on those with limited economic means, who are otherwise low users.

There is also a need to offer safeguards that protect vulnerable consumers against bill shock. National Seniors supports the introduction of a financial risk reduction mechanism to soften the impact on consumers while they adjust to the new peak demand approach.

Unfortunately, the current proposal of a 5kW cap is too high and the proposal to offer this protection for a period of only 12 months is too short. National Seniors recommends that the cap be set lower and the length of time longer for vulnerable households on low fixed incomes so that they are not unfairly punished while they adjust to the peak demand tariff.

There also appears to be no protection for those with special needs for medical equipment required to sustain life. This must be included to ensure a continuity of supply of electricity to people in this situation.

Vulnerable consumers need to be considered to ensure they have a safe, reliable and affordable supply of electricity into the future.

Should you require further information, please contact Brendon Radford, Senior Policy Advisor, on 07 3233 9125 or b.radford@nationalseniors.com.au.

Yours sincerely

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