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Mr Kim Wood
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Dear Mr Wood

Inquiry into Electricity Pricing in Queensland

National Seniors welcomes the opportunity to provide comment on the Queensland Productivity Commission's (QPC) Inquiry into Electricity Pricing in Queensland. National Seniors is concerned that electricity prices are impacting negatively on older Queenslanders. National Seniors is particularly concerned that recent proposals to change electricity pricing will have negative impacts on vulnerable consumers. The submission is based on a submission provided to Energex's recent tariff pricing consultation and includes reference to issues related to the Solar Bonus Scheme, which is part of a separate QPC inquiry.

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 believes that electricity is an essential service. We would argue that a continuous supply of electricity to vulnerable consumers should not be compromised by the introduction of cost-reflective pricing or indeed any on-going adjustments to way we pay for electricity. National Seniors holds concerns about the impacts of cost-reflective pricing on seniors and questions their capacity to adapt to peak demand tariffs. The proposal to introduce a peak demand tariff, poses a number of potential issues for vulnerable consumers, such as pensioners, who survive on low fixed incomes.

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. It is disappointing to note also that three of the four household types shown to be likely to experience higher prices as a result of the peak demand tariff (Cohorts 2, 3 and 8) 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.

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 by 2020 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. A voluntary 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 a voluntary 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. Because Energex must always generate the exact amount of income approved by the Australian Energy Regulator (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 less vulnerable 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.

National Seniors is also disappointed that Energex has not listened to consumers with regard to the demand signal triggering peak demand payments. An option of using the average of four peaks within a month was accepted at workshops held by Energex but unfortunately this has not been reflected in the final draft. 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. 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 also recommends that consumers be able to see how their current use will impact on their electricity bill. Most electricity consumers would currently have absolutely no understanding of their current use, nor would they likely 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.

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. This is because 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.

There is also a need to offer safeguards that protect vulnerable consumers against bill shock. A bill protection scheme was discussed at Energex workshops as a way of softening impact on consumers while they adjust to the new peak demand approach. This would involve the use of a cap to ensure that the impact on a consumer’s bill was not unacceptably high. Unfortunately, the 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. One option would be to exempt people in this situation from paying the peak demand tariff.

With reference to the Solar Bonus Scheme, National Seniors believes that it is necessary to review the funding of the scheme. Given that the scheme makes up eight per cent of electricity costs, this undoubtedly impacts on electricity prices in Queensland. In this regard, National Seniors believes that the scheme should be funded separately by government. This will ensure that electricity prices are not directly impacted by the scheme and will shield vulnerable consumers from any impacts on electricity bills.

National Seniors acknowledges the need to move to a new way to pay for our electricity consumption and supports QPC's inquiries into electricity pricing and the Solar Bonus Scheme. Any proposed changes to electricity pricing and the solar scheme must include adequate safeguards for vulnerable consumers, especially those on low fixed incomes who may find it difficult to adapt their behaviour.

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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