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Australian Energy Regulator
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Lodged (by online/email): VicTSS2015@aer.gov.au

Issues paper Tariff structure statement proposals - Victorian electricity distributors

The Competitive Energy Association of Australia (CEA) welcomes the opportunity to make a submission to the Australian Energy Regulator's (AER) to the Issues paper Tariff structure statement proposals from the Victorian electricity distributors

The CEA represents the policy positions of the Chief Executives of 22 electricity and downstream natural gas businesses operating in competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The value of tariff reform

Greater cost-reflectivity of tariffs can assist with improving the efficiency of the electricity supply system and reduce the level of cross-subsidisation inherent in current flat tariff structures. It will also increase the value of energy storage devices, given batteries can assist with reducing a household's peak demand. In the issues paper the AER states that:

These tariffs reduce prices at off-peak times but charge more at peak times. This gives customers an opportunity to consider switching off appliances, drawing on battery devices or switching their business operating shifts during these times to manage bills.ⁱ

Similarly, it will make it easier to efficiently integrate electric vehicles into the system.

More cost-reflective tariffs for electricity consumption would reveal the value of solar PV to customers far more effectively than government-mandated feed-in-tariffs. For example, if tariffs reflected the value of supplying electricity at peak demand periods, then customers who installed and used solar PV to reduce their peak demand would receive the benefit through lower tariffs.

Issues raised by the AER

The CEA notes the AER's concerns that "*the proposed tariff statements contain insufficient information to definitively examine how closely the proposed charging windows correlate to periods of highest demand for each network.*"ⁱⁱ The CEA agrees that it is important that the AER is satisfied that the proposed tariff structures genuinely improve cost-reflectivity.

A key factor for the successful implementation of cost-reflective tariffs is the ability of small consumers to understand and react to them. We note that the DNSPs' proposed approaches have been informed by consultation with consumers, retailers, the Victorian

government and other stakeholders. The CEA supports stakeholder views made throughout the DNSP's pre-TSS consultations that some deviation from full cost reflectivity is necessary to minimise consumer impact. More generally, to the extent that the proposed structures take account of stakeholders' legitimate concerns and the practicalities entailed in changing structures, we consider that these are valid factors to weigh against the question of whether other structures better satisfy the cost-reflectivity condition.

For example, we are concerned that a tariff heavily weighted to place an efficient price on summer demand would increase confusion for consumers. As a hypothetical example, if a network's peak demand consistently occurs in the hottest summer months, one approach to cost-reflectivity might be based on weighting network charges very heavily to peak demand in January and February (or even on a few key hours in those months) and largely disregarding peak demand in other months. The drawbacks of such an approach include:

- Extreme volatility in customer charges between January/February and other months. This may contribute to bill shock and budgeting challenges for vulnerable customers, as well as cash flow management for networks and retailers.
- High volatility in customer charges between different years depending on the weather and other stochastic factors. This may have similar impacts and may materially impact network revenue recovery which may lead to volatile tariffs as adjustments are made in future years for under/over recovery.

If customers developed a strong response to these price signals, then logically the peak could shift to a different period and tariff structures would need to be redesigned. This pattern could then repeat, an outcome unlikely to be in anyone's interest. Accordingly, the proposal presented by the DNSP's to place a price on winter demand, despite the slight cross subsidy resulting from it, is a welcome one.

Additionally, we note the following:

It is unlikely to advance the cause of tariff reform to impose highly granular locational differences in charges at this time. This would introduce an additional layer of complexity and cost for retailers as well as being challenging for them to explain to customers (and risky for them to avoid the need for this by smoothing charges across their customer base).

We welcome the decision of DNSPs to choose tariff structures that largely align common charging windows. This makes it easier for retailers, who operate across the five DNSP areas, to communicate the impact of the changes, and to adapt their systems to the new charging structures.

It is worth noting that the timing of seasonal charges mean that customers on a quarterly bill will face three different network tariffs in a single billing period, including: off-peak charge for November, peak charge effective 1 December and a revised AER peak demand charge effective 1 January which will be very confusing for the majority of residential customers.

The power of choice


The CEA notes that the impact of the AER's decision on the TSSs will be muted by the Victorian government's decision to override the national rules and dictate that the new tariff structures be opt-in. In this light, the AER's proposal of a "menu" of tariff structures looks likely to be realised, even if it is a menu of two. Adding further options could enhance

customer choice and retailers' ability to structure service offerings to customers' needs even more effectively, and we consider there is value in developing this idea further. We note that there will be practical limits to the number of different structures that the DNSPs will be able to design and offer and not all retailers may wish to engage with the complexity entailed in the full range of tariff structures on a menu.

The opt-in decision also appears to ease transitional issues (subject to further details from the Victorian government as to how it will work). Had the tariff reassignment been mandatory it would have been critical that retailers were afforded enough time to develop their own tariff structures and other service offerings in response, to upgrade their systems as necessary and to market and explain the new offers to their customers. The opt-in decision will make it easier for each retailer to take the time they need to carry out these activities, given that by default their customers will remain on the existing flat tariff structures.

Any questions about our submission should be addressed to Panos Priftakis, by email to panos.priftakis@esaa.com.au or by telephone on (03) 9205 3115.

Yours sincerely



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ⁱ AER, 2016, "Issues paper - Tariff Structure Statement proposals - Victorian electricity distribution network service providers", December 2015, p16

ⁱⁱ AER, 2016, "Issues paper - Tariff Structure Statement proposals - Victorian electricity distribution network service providers", December 2015, p17