Tasmanian Council of Social Service Inc.

2016 Standing Offer Pricing Investigation Tasmanian Economic Regulator's *Consultation Paper* on Draft Aurora Energy Standing Offer Price Strategy April 2016

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About TasCOSS

TasCOSS is the peak body for the Tasmanian community services sector. Its membership comprises individuals and organisations active in the provision of community services to low-income, vulnerable and disadvantaged Tasmanians. TasCOSS represents the interests of its members and their clients to government, regulators, the media and the public. Through our advocacy and policy analysis and development, we draw attention to the causes of poverty and disadvantage and promote the adoption of effective solutions to address these issues.

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The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia.

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The Tasmanian Council of Social Service (TasCOSS) welcomes the opportunity to respond to the Tasmanian Economic Regulator's (TER) Consultation Paper on the Aurora Energy Standing Offer Price Strategy. This submission will address the issues on which the Regulator is seeking feedback.

Approach to price changes

While TasCOSS welcomes the proposal by Aurora Energy to limit 'rebalancing' increases for tariff components to 1.5% per year per component, we are concerned at the extent of rebalancing in this determination period.

Consumers will see rebalancing – with mixed effects – in the following standing offer tariffs and tariff components:

- Rebalancing between the business tariff (Tariff 22) and residential tariffs, resulting in increases to residential tariffs;
- Rebalancing of residential Tariffs 31 and 41, which will have mixed results depending on individual households' tariff usage but may push up some households' costs, and
- Rebalancing of the 'daily supply charge' and variable components of both residential and business tariffs, which as the TER's *Consultation Paper* points out may 'dilute incentives to reduce power usage' (p11), and, we would add, save money.

Even with an increase limit of 1.5% per tariff component, this rebalancing could result in ongoing and unmanageable price increases over the determination period for residential consumers, without particular benefit to the consumers affected. In addition, there may be additional price rises due to increases in the underlying costs passed through in retail charges.

Regarding the TER's options presented in the *Consultation Paper* (pp7-8) to better manage the impacts of further price increases, we base our comments on the assumption that this includes increases to costs passed through, as well as increases to retailer's cost to serve and margin. TasCOSS does not favour the limitation of price increases to 10% per year. We see this as effectively a 'cap' on prices that may ultimately result in higher price spikes when the 'cap' is eventually lifted (as occurred most recently in Queensland). It may also become a target rather than a cap, that is, if a 10% increase in prices is allowed, that may be what we get.

TasCOSS would prefer the second option in which the Regulator introduces an assessment process – in addition to the 1.5% rebalancing limit – that assesses price increases against specified criteria to be applied as part of the annual price approval process. However, we would like to see the three criteria be equally weighted so that, for instance, a price increase proposed by the retailer for an increase in, say, 'customer acquisition and retention costs' is not granted simply because it meets the criterion of promoting competition; it must also be 'in the interests of consumers'.

Tariff 34: Nursing homes light and power

TasCOSS does not have a comment on Aurora Energy's proposal to make Tariff 34 obsolete; however, we do think that Aurora's Draft Standing Offer Pricing Strategy should state clearly that customers currently on Tariff 34 will remain on this Tariff until they elect to move to an alternate tariff.

Time-of use tariffs

In principle, TasCOSS supports the introduction of an opt-in time-of-use (ToU) tariff as a standing offer retail tariff; however, we favour a tariff design that includes two time periods only: peak and off-peak, that align with the time periods proposed by TasNetworks for its time-of-use residential tariff.[1] To do otherwise would cause unnecessary confusion. It is also far simpler for consumers to understand two tariff periods rather than three (that is, with a shoulder-priced time period included).

Time-of-use tariffs can be confusing, and confusion can cause detriment, particularly to consumers who live on low incomes and are therefore especially vulnerable to financial hardship. It is imperative that time-of-use tariffs are kept simple – two time periods will provide this simplicity, as would the adoption in the retail ToU tariff of the off-peak all weekend period proposed by TasNetworks. It is also imperative that information on ToU tariffs is clear, comprehensive and easy to understand – this might mean that information is made available in a variety of formats, including in a predominantly visual format for those without high level literacy and/or language skills. Information must also be comprehensive to ensure that consumers know, for instance, that a metering charge is involved in switching to a ToU tariff and consumers must be informed of the exact cost of meter replacement or re-adjustment.

All terms and conditions must be made clear so that consumers are equipped to provide explicit informed consent to taking up a standing offer ToU tariff. While 'explicit informed consent' is required under the *National Energy Retail Law* for market contracts, it isn't for standing offer contracts – but we believe this should be required in this case due to the high risk of consumer detriment.

TasCOSS shares the Regulator's concern (p11) with two conflicting proposals in Aurora's Draft Standing Offer Price Strategy – that is, the introduction of ToU tariffs as 'a key driver … to afford all Tasmanian consumers the opportunity to reduce their electricity bills' (Aurora p21) at the same time as increasing the 'daily supply charge' in relation to variable charges in all standing offer tariffs. Increasing the 'daily supply charge' (formerly known as 'fixed charge') works against consumers being able to benefit from responding to other price signals such as time-of-use pricing. The two tariff strategies are incompatible and are likely to cause confusion to consumers who attempt to reduce their bills but are limited in their ability to do so by mixed tariff signals. TasCOSS urges both Aurora Energy and TasNetworks to re-consider their proposed tariff structures in light of this incongruity.

TasCOSS believes that Aurora's Draft Standing Offer Price Strategy should be amended to clarify that the proposed ToU tariffs – and all new tariffs – will also be subject to a 1.5% limit on increases to tariff components.

[1] TasNetworks (2016) *Improving the way we price our services: Tariff Structure Statement Regulatory Control Period 1 July 2017 to 30 June 2019*, p46.

Demand-based tariffs

TasCOSS support for the proposal to introduce a demand-based time-of-use retail tariff is conditional on a number of factors, including:

- That robust consumer impact modelling be undertaken and made public;
- That the retail demand-based tariff mirrors TasNetworks' proposed demand-based ToU network tariff in relation to its time-of-use periods (including off-peak weekends), for consistency and simplicity;
- That such a tariff remains a product of choice, that is, the tariff is available on an opt-in basis;
- That the billing cycle for the demand-based retail tariff is monthly, to enhance the ability of consumers to link their demand to their costs in a realistic timeframe; and
- That clear, comprehensive and easy to understand information about the demand-based time-of-use tariff is provided to consumers to enable them to consider whether the tariff will suit their circumstances and to ensure that they are equipped to provide explicit and informed consent.

We are unsure whether this type of tariff should be approved by the Regulator as a standing offer tariff or should be offered as a market contract. However, if the TER decides to approve a demand-based tariff as a standing offer product, TasCOSS recommends that the TER develop a separate assessment method for consideration of approval and not rely on the AER's approval of the underlying network tariff. We recommend this because the network and retail tariffs may differ from one another and there may be different criteria for approval of a retail tariff (including a requirement that adequate information is provided to consumers).

Future tariffs

TasCOSS is uncertain about whether or not future retail tariffs should be approved as standing offer tariffs or be offered as market contracts, but agrees that if the Regulator decides to consider additional standing offer tariffs in the future, the criteria proposed and detailed on p15 should be applied.

We hope that our comments are useful in your consideration of Aurora Energy's Draft Standing Offer Price Strategy. Please contact us if you have any questions or require any further information about the views expressed in this submission.