29 April 2016

Australian Energy Regulator

Sent by email: tastss2016@aer.gov.au

To the Australian Energy Regulator

The Tasmanian Council of Social Service (TasCOSS) welcomes the opportunity to comment on the AER's *Issues paper: Tariff Structure Statement proposals: TasNetworks* (March 2016).

Due to time limitations, our submission will not directly address the questions posed in the *Issues paper* but will provide comments and detail our concerns about aspects of TasNetworks' tariff proposals. TasCOSS has been involved with TasNetworks as a member of its Tariff Reform Working Group and has provided feedback to TasNetworks on its TSS proposal development over the past 12 months or so. The comments we make here have been made to TasNetworks on a number of occasions throughout the TSS development process.

We have several concerns about the tariff proposal.

Consumer impact information

The absence of detailed consumer impact modelling of all tariff proposals, and in particular the absence of modelling on the impact to consumers in receipt of electricity concessions. We have been unable to support TasNetworks proposals due to the absence of this information.

For instance, in relation to re-balancing existing tariffs, TasNetworks tells us:

> *… we anticipate approximately 80 per cent of our residential customers on network tariffs Residential Low Voltage General (TAS31) and Uncontrolled Low Voltage Heating (TAS41) should experience lower network charges*.
> (*TasNetworks Distribution Tariff Structure Statement Overview (Customer Overview) 1 July 2017 to 30 June 2019*, p 20).

We do not know which customers make up the 20 per cent who will not see lower charges. In our view none of the tariff proposals demonstrate adequate detailed information on consumer impact.

It is difficult for TasCOSS to support TasNetworks' various proposals without more detailed information about consumer impact.

TasCOSS, in partnership with the Tasmanian Renewable Energy Association made a proposal during the TSS development process to both TasNetworks and Aurora Energy for them to carry out modelling on usage patterns of a sample of concession and solar customers using de-identified Aurora Energy data. This we thought would provide information from which to base modelling of proposed tariffs. We were disappointed that our proposal was not taken up.

We see this as a very important issue as one of the key principles of the tariff reform process is the 'consumer impact principle'.

Increase in fixed (or 'service charge') component of network tariffs
TasCOSS does not support TasNetworks' proposal to increase the fixed charge component of its network tariffs. In this case we *have* seen modelling from TasNetworks that demonstrates that for low usage residential customers, more than half of their network charge will be comprise a 'service' (or fixed) charge.

It is our understanding that research carried out by the Tasmanian Economic Regulator several years ago found that the large majority of households in receipt of an electricity concession use about 20% less electricity than average households. Low-income households are therefore – generally – also low usage households.

As we have argued in various forums, high fixed charges not only blunt price signals sent by other tariff components, but also do not allow significant savings to be made by reducing overall usage. A high fixed charge component therefore works directly against household efforts to increase the affordability of electricity by reducing usage.

The increase in fixed charges also works against the efficacy of energy efficiency messages that have been supported by governments and the community for many years, both in the interests of costs savings and the reduction in greenhouse gas emissions.

Re-balancing of existing residential tariffs
While we understand the logic behind TasNetworks' proposal to re-balance Residential Low Voltage General (TAS31) and Uncontrolled Low Voltage Heating (TAS41) by gradually increasing the latter and reducing the former, we have several concerns.

Firstly, it is unstated and unclear how the rebalancing of Tariffs 31 and 41 will proceed beyond 2018-19. Certainly we agree that a gradual rebalancing of the tariffs will minimise potential bill shock, but it will not eliminate customer impact over time. That is, customers will still be impacted by a change in the pricing of the two tariffs. It is clear that some customers will benefit, some will not, and among those who will not benefit may be a cohort of customers who are unable to change their space and water heating appliances in order to save money. These will include low-income and vulnerable customers.

Secondly, we understand that TasNetworks intends to "… transition our existing tariffs towards full cost reflectivity over a period of up to 15 years." (TasNetworks, *Tariff Structure Statement Regulatory period 2017-2019*, p43). In our view this is very imprecise and could mean anything from four years or 14 years.

Finally, TasNetworks has stated that, in relation to tariff re-balancing, "Where customers are forecast to experience an increase in network charges, it is generally small." Again, as a result of the absence of detailed modelling, we do not know which consumer segments will experience an increase, nor do we know the definition of 'small' in relation to increases.

Demand-based tariffs
We welcome the proposal to offer demand-based time-of-use tariffs on an opt-in basis from July 2017. TasCOSS believes that if such an option is provided in the form of a retail tariff, consumers will have an

opportunity to learn more about the tariff and to consider how it might suit their household needs. Certainly demand-based tariffs are more complex than the consumption-based tariffs that we are accustomed to, and they could be said to represent a different tariff paradigm. It will be a challenge for retailers in particular to provide information about the tariffs that will enable consumers to understand both the concept and practical application of this type of tariff. We believe it is vital that all Tasmanian households have access to full information and the likely impacts of any new tariff on various types of residential customers, including concession customers (and, in the case of a time-of-use demand tariff, customers who are likely to have difficulty shifting their usage to off-peak periods).

Consumers should also be informed about the pre-requisite for demand-based tariffs, that is, an advanced meter, and information about how an appropriate meter can be obtained (that is, any program and/or discounts that TasNetworks or the retailer might be offering to those choosing to opt in).

We therefore believe an opt-in demand tariff is a good proposal in the early years of the move toward cost reflective tariffs.

However, again we are concerned with the absence of modelling of the proposed demand-based time-of-use tariff. While we are pleased to see a formal trial of demand-based tariffs being planned by TasNetworks, we understand that the outcomes of the trial remain several years off.

We welcome the proposal to introduce two daily periods – peak and off-peak – rather than three. This should contribute to making the demand-based time-of-use tariff slightly less complicated.

We are concerned that TasNetworks expects demand-based tariffs to be billed on the current quarterly billing cycle (TasNetworks *TSS*, p40). Throughout the development process of TasNetworks' *TSS*, we understood that it was intended that the demand-based tariff, comprising a peak demand charge and an off-peak demand charge, would be billed monthly. This more frequent billing cycle would allow consumers to relate their demand to their bills much more easily than in a quarterly billing cycle. While we understand the metering constraints involved, we believe that monthly billing is optimum for this type of tariff and should be an outcome that is actively pursued by TasNetworks.

We hope our comments are helpful in your consideration of TasNetworks' Tariff Structure Statement. Please feel free to contact TasCOSS if you have any questions or require any further information about our submission.

Yours sincerely

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