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Victorian Electricity Networks

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## Household Network Pricing – Amended position

Submission to consultation paper

Renew (formerly known as the *Alternative Technology Association*) is a prominent advocate for all Australian residential energy consumers. As a member of the *National Energy Consumer Roundtable*, Renew works closely with other consumer advocacy organisations, providing expertise and experience in energy policy and markets. We also conduct independent research into sustainable technologies and practices.

As well as advocating on behalf of all residential consumers, we are the direct representative of our 11,000 members – mostly residential energy consumers with an interest in sustainable energy and resource use – many of whom, like a growing number of Australian households, have installed or plan to install solar PV or battery systems, and are increasingly interested in electric vehicles. Households like these are one of the drivers of tariff reform, due to their under-contribution to network revenue via volume-based network tariffs. They are also likely to be materially impacted by changes to different types of tariffs, and a target group both for early tariff reallocation, and for tariffs or programs aimed at behaviour change such as time-shifting solar exports and EV charging. As such, tariff reform has particular significance for them.

### Introduction

Renew commends the Victorian Distribution Businesses for collaborating with each other on tariff reform, and for comprehensive and proactive engagement with consumers and consumer reps. The approach taken has facilitated considerable input from a range of consumer representatives, as well as consumers directly, and the willingness of the Victorian Distributors to reconsider their proposals in response is emblematic of the authenticity of this consultation.

However their remains an overarching question that, while having been discussed during the consultation process, seems to have limited bearing on the final position: **who are network tariffs for?** As Renew noted in its previous submission:

*In Renew's view, it is the role of retailers to give customers tariffs that they can understand and respond to. (The fact that retailers are not necessarily very good at this is beside the point.) A retailer's role includes managing their portfolio and hedging against several variables, including wholesale price fluctuations and both predictable and unpredictable changes in demand. Network costs already vary according to customers' usage. If new network tariffs vary according to other characteristics of customers' loads – such as peak demand – retailers just need to hedge against this as well. That may require giving certain types of retail tariffs to certain types of customers, and the retailers are in the best position to know who those customers are and what those tariffs should be.*

*Because customer energy costs have some relationship to the network charges they face, it is certainly appropriate for DNSPs to consider the customer impact of network charges when developing new tariffs. But the design of those tariffs should be done with retailer responses in mind, not end-users.*

Renew understands that complexity in the way end-users interact with network tariffs makes tariff design and customer impact assessment difficult. Nevertheless, tariff design based on a simplified

assumption that customers will see, understand (or not), and respond (or not) to network tariffs risks falling short of the objectives of the tariff reform process.

## The updated position

### Encouraging households onto the new pricing structure

Renew has long supported an approach of mandatory reassignment to well-designed tariffs with complementary policies to manage transitional impacts and price shocks for vulnerable customers and an opt-out entitlement if required. Victorian residential consumers have never been encouraged onto specific network tariffs: they've either been assigned onto them, or their retailers have encouraged them onto various retail tariffs, some of which entail a change of network tariff.

If networks wish to encourage customers onto specific tariffs, they should inform the customer of the impact on their network charge (using the customer's own data) or at least the likely impact of the new tariff (compared to their existing one) due to their usage patterns. This should be done even if the 'fairness to others' of the new tariffs is appealing to the customer, as households still need to know what their magnanimity will cost them.

Renew agrees that the price reductions being delivered by all Victorian distributors in the next regulatory period will mitigate any cost increases caused by the new tariffs, and that this will help the transition.

### The proposed new tariff structure

Renew considers that the proposed tariff structure is a step toward greater cost-reflectivity, and that this is an improvement on the existing default tariff structures. However, we do not support it as such, for a number of reasons:

- We are unable to reach a view on the appropriateness of the peak time window without any indication of the price differential between the peak and off-peak rates. This also inhibits any assessment of consumer impact.
- We do not support the peak period also applying to weekends and public holidays. Data presented to the most recent consultation workshop demonstrated that typical demand is much lower on these days, and only peaks on unseasonably hot days – these types of peaks are better dealt with through critical peak pricing or rebates, or demand response programs (such as most of the Victorian networks have been trialling for the last few years) rather than everyday tariffs.
- We understand ToU tariffs are much less able than demand-based tariffs to generate revenue from customers with solar PV that is proportionate to their demand on the network.
- We support the decision to not arbitrarily reflect the 'flexible tariffs' pricing periods, but not the underlying rationale of simplicity. A three-rate ToU tariff can be communicated simply, with care (overnight low, most of the day moderate with an expensive peak period on weekday afternoon/evenings); but more significantly, households need to understand their retail tariffs not their network tariffs. It's up to retailers to manage network tariffs and give their customers offers they can understand.

### The tariff assignment approach

Renew supported the initial approach to tariff assignment, but not the revised approach. This is partly because of our conviction that tariff reform is only effective if it is done at scale; and partly because of problems with the conceptualisation of 'vulnerable consumers'.

The initial approach identified life support and medical cooling concessions as especially vulnerable customers. These customers face immediate risks to their health and life if their access to essential electricity is limited, and protecting them from even a remote possibility of price shocks while giving them an opportunity to verify whether the new tariffs would work for them was a nuanced and pragmatic approach.

The initial approach also allowed vulnerable customers (however defined) to opt out of the new tariffs if they wished. This was a useful back-up plan for dealing with adverse impacts that were beyond the capacity of retailers to manage.

The new approach has several deficiencies:

- **Tariff impacts on vulnerable customers**

Firstly, it implicitly assumes that the new tariff will adversely impact vulnerable customers. This is contrary to what was reported to stakeholders at the last consultation forum, and is also contrary to tariff impact assessments undertaken by Renew, which found that vulnerable consumers are more likely to benefit from ToU tariffs – though it depends on the structure and rates, and there are always some who are materially worse off.

Stakeholders have been shown some high-level results of the customer impact study, but not the detail. This has made it difficult for customer advocates to develop an informed position on the applicability of the tariffs for vulnerable customers. The lack of detail about the relativity of tariff rates for the peak and off-peak periods also mitigates against our ability to make our own assessments.

It must also be remembered that vulnerable customers have all sorts of different load profiles. No single tariff can be good or bad for all vulnerable customers.

- **Who are non-vulnerable customers?**

Some of the customer groups identified as less likely to include vulnerable customers are likely to include material numbers of vulnerable customers:

- **New connections** – includes people purchasing houses in new developments in urban fringe growth areas. Many of these households are in financial stress with large mortgages, high transport costs, and relatively low incomes – especially young families with one wage-earner temporarily less engaged with the workforce.<sup>1</sup>
- **Customers who install solar** – increasingly, lower income and vulnerable customers are installing solar. Already, Age Pensioners are one of the groups with a high adoption rate due to their ability to leverage the value of their homes to finance a solar installation, and the value of solar in reducing their energy costs due to their low incomes. We expect larger numbers of low-income homeowners to install solar due to the generous subsidies now available from the Victorian Government.

While solar customers are currently somewhat protected from price shocks due to their lower grid usage, this will diminish the more effectively cost-reflective tariffs offset cross-subsidies that favour solar customers. Vulnerable households in the new connections group will be at risk if the new tariffs increase their bills significantly.

### **Tariff reform and vulnerable customers**

All vulnerable customers are at risk if their bills increase significantly, whether due to new network tariffs or some other reason. Many vulnerable customers are in financial difficulty even without particularly high bills, or price rises. It is widely recognised that non-cost-reflective tariffs lead to many vulnerable customers cross-subsidising non-vulnerable customers. Tariff reform for only a small percentage of customers undermines the benefits of reform. Renew would support tariff reform based on mandatory reassignment but phased in over one or two price periods, informed by detailed and public customer impact studies, and accompanied by policies and practices that identify and support vulnerable customers who are adversely impacted.

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<sup>1</sup> For example, refer to Hulse, K., Pawson, H., Reynolds, M. and Herath, S. (2014) *Disadvantaged places in urban Australia: Analysing socio-economic diversity and housing market performance*, AHURI Final Report No.225. Melbourne: Australian Housing and Urban Research Institute. Available from: <http://www.ahuri.edu.au/publications/projects/myrp704>; and Shane Green (2015) *Fraying on the fringe: Dealing with disadvantage in Mernda*, The Age, 28/8/15 (<https://www.theage.com.au/national/victoria/fraying-on-the-fringe-dealing-with-disadvantage-in-mernda-20150825-qj6zrf.html>)

## Assessment against principles

Renew's view on the alignment of the updated position with the key principles is as follows:

- **Simplicity:** the proposed tariff structure is indeed simple – but its simplicity risks undermining its cost-reflectivity while at the same time penalising customers by charging peak rates when there is no peak demand problem on most weekends and public holidays.
- **Economic efficiency:** the proposed tariff structure moves somewhat toward cost-reflectivity, but still enshrines some inequitable cross-subsidies.
- **Equity:** the proposed tariff structure moves somewhat toward increasing equity, but still leads to higher costs for households with consistent moderate usage over the long peak period compared to those with low usage but high peak demand during part of the peak period.
- **Affordability:** it is difficult to assess against affordability without tariff rates (which interact with tariff time periods). The highly targeted reassignment approach means most customers will stay on existing tariffs, limiting the affordability benefits of tariff reform.
- **Adaptability:** ToU tariffs do make a good basis for future tariff reform.

## Alternative suggestions

Given the general tariff structure proposed, Renew would prefer mandatory reassignment (excluding life support and medical cooling customers and with opt-out provisions for vulnerable customers) to a variation of the proposed structure without peak pricing on weekends and public holidays. Ideally, we would like to see (or undertake) some detailed customer impact analysis comparing ToU and demand-based tariffs, informing a tariff structure that is then transitioned to for all customers over a number of years, with complementary work by distributors, retailers, government and customer advocates to manage adverse impacts of the transition on vulnerable customers.

Thanks for the opportunity to respond. If you have any questions or additional matters you'd like our view on, please contact me at [dean@renew.org.au](mailto:dean@renew.org.au) or (03) 9631 5418

Sincerely yours,



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