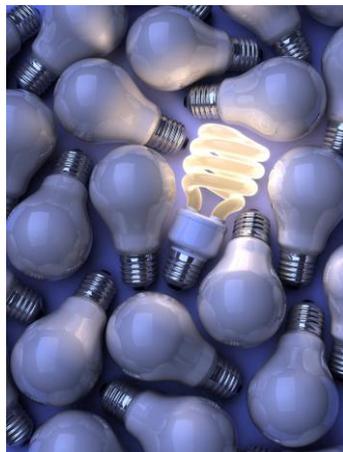


# QCOSS

Queensland Council  
of Social Service

## *Submission to Round Two Consultation*

*Energy Queensland Tariff  
Structure Statement 2020-25*



*August 2018*

## About QCOSS

The Queensland Council of Social Service (QCOSS) is the state-wide peak body representing the interests of individuals experiencing or at risk of experiencing poverty and disadvantage, and organisations working in the social and community service sector.

For almost 60 years, QCOSS has been a leading force for social change to build social and economic wellbeing for all. With members across the state, QCOSS supports a strong community service sector.

QCOSS, together with our members continues to play a crucial lobbying and advocacy role in a broad number of areas including:

- place-based activities
- citizen-led policy development
- cost-of-living advocacy
- sector capacity and capability building.

QCOSS is part of the national network of Councils of Social Service lending support and gaining essential insight to national and other state issues.

QCOSS is supported by the vice-regal patronage of His Excellency the Honourable Paul de Jersey AC, Governor of Queensland.

Lend your voice and your organisation's voice to this vision by joining QCOSS. To join visit [the QCOSS website](http://www.QCOSS.org.au) (www.QCOSS.org.au).

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## Introduction

The supply of electricity is an essential service that is vitally important for the health and wellbeing of families and individuals. Consequently, QCOSS believes it is important to provide a voice for residential customers, and particularly low-income and disadvantaged households, in the tariff reform process currently underway for the Queensland networks. This submission has been informed by our engagement with the development of the rules by the Australian Energy Markets Commission (AEMC) on distribution pricing in 2014 as well as the first tariff structure statements (TSS) by Energy Queensland (EQ) and Ergon Distribution for the period 1 July 2017 until 30 June 2020.

QCOSS welcomes the opportunity to engage with EQ in the development of its TSS for residential customers for the regulatory period 2020- 2025. This is a three-round process, each with an Issues Paper, and a call for submissions. QCOSS is pleased to make this submission to EQ in relation to its *Round 2 Issues Paper, Network Tariffs 2020-2025, Customer Consultation Residential Customers*. The Issues Paper builds on the first-round consultation in April and May 2018 and outlines the tariff options being considered for residential small customers. EQ is interested in customers' views on:

- the current network tariffs that are available to residential customers
- the barriers to adoption of more cost-reflective tariffs
- views on its preferred cost-reflective tariff - Lifestyle Package - as well as how it may be implemented.

In our submission<sup>1</sup> to the first round QCOSS set out our support for cost-reflective tariffs to the extent that it will lead to better outcomes for customers and what we see are the key principles for tariff reform, namely equity, simplicity, bill stability and the need for a transition period.

## Summary

In this submission, QCOSS sets out the potential impacts of tariff reform on low income and vulnerable customers, and requests EQ to consider these impacts in its draft TSS. Although an improvement on the Ergon Energy and Energex previous cost reflective tariffs, in its current form QCOSS view is that the proposed network tariff - Lifestyle Package - is likely to lead to bill shock. QCOSS has put forward recommendations that can support low-income and vulnerable customers through the transition to more cost-reflective tariffs:

- A gradual approach to the introduction of cost-reflective tariffs that include customer research (especially for low-income and vulnerable customers) and a data sampling period following installation of a digital meter.
- Adjustments to the Lifestyle Package to reduce bill shock.
- Additional supports to assist customers to understand the Lifestyle Package.

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<sup>1</sup> QCOSS (2108), [Submission](#) to Energy Queensland Consultation on Network Tariffs Round One.  
Page 4 / August 2018 Submission on Energy Queensland Tariff Structure Statement

QCOSS believes that effective and targeted supports and consumer protections must be in place to manage any significant impacts from tariff reform. Consequently, QCOSS also recommends a number of “enabling factors” - including a technology fund, better education and awareness including an education campaign and improved concessions - to ensure successful network tariff reform for all customers and especially low-income and vulnerable customers.

For low-income and vulnerable customers remaining on legacy tariffs or who are unable to engage with more cost-reflective tariffs, QCOSS is also calling for research on “safeguard” tariff arrangements that would act as a protection against bill shock. Development and analysis of such a tariff offering must be part of tariff reform so that no one gets left behind.

## Potential impacts of tariff reform

Since the AEMC’s Distribution Pricing Rules in 2014, QCOSS has supported the intent of moving towards more cost-reflective network pricing to the extent that it will lead to better outcomes for customers.

QCOSS understands that the rules for distribution pricing require EQ to put forward a network tariff in its TSS that better reflects the long run marginal cost (LRMC)<sup>2</sup> of supplying electricity. The theory behind this objective is that cost-reflective pricing provides the correct signals to customers on the efficient use of appliances, such as air-conditioners, as well as encouraging the uptake of distributed energy resources (DER). This will in turn signal to networks to make more efficient investment decisions which over time may result in peak demand and a reduction in the regulatory asset base (RAB), prices and bills. QCOSS accepts that in the longer term these outcomes will be beneficial for customers. However, there are other factors that may put upward pressure on network prices such as increased investment to respond to new cyber security standards and the possible need to augment the grid to cope with growing DER.

There are many factors along the electricity supply chain that influence prices which end customers face and it may well be the case that such factors are negated by reductions in the RABs from cost-reflective pricing and/or from reduced wholesale prices due to DER. It is likely that any major reduction in network prices are long-term and it is not clear how long it will take for customers to realise benefits<sup>3</sup>.

What is clearer, and a more short-term outcome, is that any movement from current tariffs<sup>4</sup> towards a more cost-reflective network tariff will lead to winners and losers. Many of the winners will benefit from the removal of cross subsidies between people that use most of their electricity at peak times to those that do not. With behavioural change those that can move their electricity load away from the peak period are likely to benefit.

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<sup>2</sup> The LRMC of supply is required to be recovered through a network tariff component. The balance of the network’s costs (the residual costs) are recovered through other tariff components.

<sup>3</sup> It is noted however that the ACCC in its recent report (p179) “*Restoring electricity affordability and Australia’s competitive advantage*” points out that the introduction of network tariff reform in Victoria could lead to a 10 per cent decrease in the regulated asset base by 2026 (relative to 2016 levels).

<sup>4</sup> These are referred to as volume (based on how much usage or volume used) or flat tariffs as the rate is the same 24/7.

However, there will also be some households who cannot move their load from the peak period and will be worse off. The Queensland Competition Authority (QCA) in its draft determination<sup>5</sup> for regional prices for 2018/19 presented analysis where the majority of households would be better off, however there was still a number who would be worse off and these tended to be low usage customers who could be up to 47 per cent worse off from adopting the cost reflective tariff (Tariff 15) compared to staying on current Tariff 11. The best savings that customers might achieve from T15 would be a 14 per cent reduction in bills.

Analysis by Commonwealth Scientific and Industrial Research Organisation (CSIRO) for the Australian Competition and Customer Commission (ACCC)<sup>6</sup> has similar findings in the case of Victorian network tariffs. They found that on average there is little difference for a typical bill however this concealed potentially much larger impacts for individual customers. Moving from flat tariffs to demand tariffs sees impacts on individual households range between a 40 per cent bill increase to a 15 per cent bill decrease.

It is likely that there are people who will not be able to shift load and these households may be worse off. For example, some early research by Royal Melbourne Institute of Technology (RMIT)<sup>7</sup> suggests that families with young children will not be able to shift load. This would be especially problematic for single parents (who have the greatest risk of energy poverty<sup>8</sup>) who do not have the flexibility to change behaviour due to work, children's school hours and other commitments. These situations are compounded by the growing financial and digital inclusion gap between people who can access energy management devices and more efficient appliances to reduce their bills, and those who cannot. Many of the latter are renters and cannot access energy efficient fixed appliances (air-conditioners, hot water systems and so on) and DER such as solar and/or batteries<sup>9</sup>.

QCOSS is also concerned for the customers who remain on legacy tariffs that may (as EQ Issues Paper<sup>10</sup> points out) become less financially attractive during the transition period. For the next regulatory period 2020-2025, EQ will continue to retain the existing flat Energex network and Ergon's inclining block tariffs. However, EQ in its Issues Paper (p10) points out that:

*"While being retained, these basic volume tariffs structures are not considered sustainable options in terms of NER compliance or the AER's tariff reform expectations in the medium term. These tariffs will clearly be on a pathway of progressive withdrawal. The option of choosing these tariffs will be progressively circumscribed and the financial attractiveness of these tariffs will also be expected to diminish over time".*

QCOSS is concerned that legacy network tariff charges will increase and that this will be passed on to customer tariffs by retailers. In particular many low-income and vulnerable people are likely to remain on retail tariff offerings that are based on the legacy tariffs. New

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<sup>5</sup> QCA (2018), Retail Regulated Electricity Prices 2018/19, draft Determination, (Table 3). Please note that the QCA used the Energex Network Tariff Structure to compare T11 and T15.

<sup>6</sup> ACCC (2018), ) "Restoring electricity affordability and Australia's competitive advantage" P178.

<sup>7</sup> RMIT (Centre for Urban Research), Feral O' Clock, why families struggle to shift their energy use? More details can be found [here](#).

<sup>8</sup> Department of Energy and Water Supply Energy (2016), Energy Poverty, Unpublished paper using data from the Energy Household Survey (2016).

<sup>9</sup> ACCC (2018) "Restoring electricity affordability and Australia's competitive advantage" estimate that DER could save a household about \$500 per annum off the typical bill.

<sup>10</sup> EQ (2018), Energex and Ergon Energy Network Tariffs 2020-25 Customer Consultation Residential Customers [Issues Paper](#), (P10).

cost-reflective tariffs are more complex and will require devices such as apps, energy management systems and smart meters, as well as increased energy literacy to understand how they work and to realise the potential benefits.

We know that in the current retail market a large proportion of customers are not aware of which tariffs they are currently on. This was confirmed recently by the Queensland Household Energy Survey<sup>11</sup> which EQ conducts annually. This 2018 survey found that 49 per cent of households in SEQ did not know which tariff they are on, while the corresponding figure in regional Queensland was 35 per cent. This suggests that the more tariff offerings that are available (such as in the more complex retail market in SEQ) the greater the lack of understanding among customers about their tariffs.

Early adopters may choose cost-reflective tariffs as they understand them and know that they will be better off. This will leave an increased "bucket" of network costs to be recovered by the legacy tariffs and this will put upward pressure on bills for these customers.

It is acknowledged that these impacts will depend on how the retailers package the new tariffs and what types of tariff offerings there will be. The ACCC<sup>12</sup> recommends that there is mandatory assignment of network cost-reflective tariffs for retailers to accelerate the take up of cost-reflective network pricing. This means that retailers would have to manage the network price risk, to the extent that these prices are not passed through to customers in their retail tariffs. The ACCC point out that this risk is manageable for retailers as smart metering is required to enable cost-reflective tariffs and there is currently a very low take up of smart meters.

Nonetheless, QCOSS is concerned about the mandatory assignment of cost-reflective tariffs to retailers especially for Ergon Retail. In SEQ retailers may be better able to manage the price risk as they can provide a range of offers. In regional Queensland, where there is no retail competition, mandatory assignment may see Ergon Retail pass through the cost-reflective tariff in full to end customers where there are smart meters installed.

Tariff reform is a major game changer for the energy sector and has the potential to improve the efficiency and sustainability of the network system. However, it is complex and there are many variables and uncertainties as to how and when households' bills are likely to be impacted especially during the transition where there is the potential for bill shock. Low-income and vulnerable people cannot afford to be worse off at any stage due to tariff reform and its transition.<sup>13</sup> EQ in its draft TSS must be able to demonstrate how they can mitigate the risks and ensure that the most vulnerable are not disproportionately impact.

## **Tariff Structure Statement 2017-2020**

Both Energex and Ergon Energy developed cost-reflective network tariffs for the regulatory period 2017-2020 and these were approved by the AER. However, these tariffs require

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<sup>11</sup> Energy Queensland (2018), Queensland Household Energy [Survey](#). P110.

<sup>12</sup> ACCC (2018) "*Restoring electricity affordability and Australia's competitive advantage*" Recommendation 14, P187.

<sup>13</sup> This is because increasing electricity bills disproportionately impact on low income people as they pay a higher proportion of their income in energy costs. For example, ACROSS in its [ESB Submission](#) (p10) demonstrates that some people in the lowest income quintile are paying up to 30 per cent in after housing income on energy while those on the highest income quintile are paying only 5 per cent.

smart meters and meter reforms only commenced from 1 December 2017, with the tariffs not promoted by retailers. As such, they have not been taken up by customers.

At the time, despite supporting the case for cost-reflective tariffs, QCOSS did not support either the Ergon Energy Seasonal Time of Use Demand (STOUD) Tariff or the Energex Maximum Demand Tariff.

- The STOUD was too complex, was seasonal and unlikely to be understood by customers. This meant that customers would respond to price signals and were at risk of bill shock. QCOSS made a detailed submission<sup>14</sup> to Ergon Energy during this regulatory period which set out our major concerns.
- Energex's Maximum Demand Tariff was easier to understand than the STOUD and did not have a seasonal component. It did however have a very sharp price signal (maximum peak) and was likely to lead to repeated bill shock for those who could not shift load. Energex attempted to mitigate bill shock by introducing an income protection feature – a cap on demand up to 5 KW in any one half-hour period - and a smart control load tariff. This tariff was a solar sponge and available during the middle of the day and coincided with peak export to the grid from rooftop PV. It was only available to customers who took up the maximum demand tariff. QCOSS made a detailed submission<sup>15</sup> to Energex during this regulatory period which set out our main concerns.

Both network tariffs were demand based and as the concept of energy demand<sup>16</sup> is new to customers the general view by customer stakeholders was that while they met the principle of cost reflectivity they did not meet the principles of simplicity and bill stability. Hence most customers would struggle to understand the tariffs and tariff reform would not be effective. Energex had attempted to address equity issues by introducing an income protection mechanism while Ergon Energy did not take equity into account.

## Tariff Structure Statement 2020-2025

In its Issues Paper for Round two, EQ acknowledges that the case for tariff reform is increasing and that the “*National Energy Rules (NER) have firmly put the electricity market on a pathway where each distributor needs to be developing network tariffs that reflect LPMC of augmentation of the network infrastructure and that signal optimal and efficient usage of the network*”. This is strongly endorsed by the ACCC in its recent Report<sup>17</sup> where it sets out in detail the case for mandatory assignment of cost-reflective tariffs for retailers.

In addition, the second tariff reform regulatory period will coincide with increased numbers of smart meters in Queensland. Given the introduction of metering reform on 1 December 2017 the number of smart meters will have increased significantly in regional Queensland and SEQ by the end of the period in 2025. This means that it will be easier to mandatorily assign cost reflective tariffs to end users.

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<sup>14</sup> QCOSS (September 2015), [Submission](#) to Ergon Energy on its future network tariffs.

<sup>15</sup> QCOSS (October 2015), [Submission](#) to Energex on its future network tariffs.

<sup>16</sup> Energy demand is calculated by measuring half hour periods of demand (kilowatts). This is a measurement of energy demand at a point in time as opposed to energy usage which is measured over time and expressed in kilowatt hours.

<sup>17</sup> ACCC (2018) “*Restoring electricity affordability and Australia’s competitive advantage*” P170.

QCOSS advises that it is still very early days for tariff reform and it is important not to introduce cost-reflective tariffs with sharp price signals too quickly as they have the potential to cause adverse impacts for customers that are already struggling with high energy bills. In its final rule change determination, the AEMC acknowledges that managing the customer impacts may require a period of transition to more cost-reflective pricing. QCOSS strongly supports this and believes that to effectively transition to more cost-reflective tariffs Ergon and Energex need to give greater weight to the concepts of simplicity and bill stability during this period.

Furthermore, the ability to understand the tariff is very important for the success of cost-reflective pricing. This was recognised by the AEMC when developing the Distribution Pricing rules which require the TSS to comply with the Customer Impact Principle. This is described by the AEMC as consisting of two parts:

*"The first part requires distribution businesses to consider the impact on customers of changes in network prices.... the second part of this principle requires network prices to be reasonably capable of being understood by customers. Customers will not be able to respond to price signals if they cannot relate price structures to their usage decisions."*

The key lessons from the first regulatory period (2017-2020) of tariff reform is the need for EQ to consider networks tariffs that meet the principles of simplicity, bill stability and equity.

### ***The Lifestyle Package***

EQ states in its Round Two Issues Paper that they recognize the challenges to understanding demand tariffs and how both retailers and distributors are challenged with communicating demand based tariffs.

*"We are currently seeing an impasse between achieving the benefits of network tariffs that better represent to customers the cost of network use, particularly during the peak usage periods and achieving retailer and market adoption. Customers have expressed a need for a "circuit breaker" in the form of network tariff structures that are compliant with the NER, easily presentable by retailers to customers and which they can work with, understand and realise value from".*

In response EQ has set out its preferred option for a network tariff – the Lifestyle Package – that provides for a flatter demand profile while resembling a more understandable flat tariff measured by kWhs.

The main features of the Lifestyle Package are:

- Fixed monthly network charge \$X/mth "Network Access Allowance"
- Top up charge \$X/kWh/mth
- Anytime charge cents/kWh
- Must have a smart meter
- Same in Ergon and Energex areas

The network access allowance is a fixed charge based on the maximum usage (measured by kWhs) between 4pm - 9pm on any day. Essentially the customer would select from five bands (zero, 5, 10, 15, or 20 kWhs). During each of the five summer months if the customer breaches the cap during the month they have to pay a top-up charge. Top-up charges would not apply during the winter months. Bills would be issued monthly in arrears so customers would not know they breached the cap until they received their bill unless they have devices/apps to help them manage their usage.

## Our recommendations – Lifestyle Package

### Modifications to the design of the Lifestyle Package

Although an improvement on the STOUT and the Maximum Demand Tariff, in its current form the Lifestyle Package is still quite complex and is likely to lead to bill shock and QCOSS recommends suggests a number of changes to its design and implementation to safeguard low-income and vulnerable customers.

For example, under the Lifestyle Package, households are expected to know what their usage is during 4pm to 9pm on any day during the Summer (5 months) in order to select a band (zero, 5, 10, 15, or 20 kWhs). Once on a band, households are then expected to know how much they are using so that they can adjust their energy use accordingly. The consequence of going over the network access allowance (band) is additional charges, which will result in bill shock. There is a need for more flexibility and visibility in the current package design to assist customers to avoid breaching the band and paying top-up charges.

### Recommendation 1:

QCOSS recommends the following modifications to the tariff design:

*Reduce the window from 4pm to 8pm:* the current window of 4pm to 9pm does not allow enough time to shift load and likely as it is impractical to move load to later than 9pm). In other states the peak period is 4-8pm.

*Maintain the current three months Summer peak window:* this is an extension of two months over the previous summer peak window for the STOUT between December to February. We need a clear rationale for this. The Endgame analysis conducted for EQ suggests that “the majority of aggregated peak falls in January and February, though outcomes vary greatly by year”. November and March are school months and it would be more difficult to move load for households with children given school hours and activities.

*Exemptions for top-up charges:* the Summer Peak Period covers the important Christmas and New Year's period. This is the top holiday period in Queensland when families often get together and is also a time when Queensland's most vulnerable and low-income families struggle financially following the Christmas period. QCOSS suggests There should be an exemption from top-up charges from Christmas Eve up to and including New Year's Day.

In addition, as the Endgame analysis<sup>18</sup> demonstrates there is a weak case for including weekends in the Ergon area as there are not as many peak periods during weekends there in comparison with the Energex area. Alignment of the two areas is not a strong case to include weekends peak periods for top up charges especially as it will not be sending effective price signals.

*Customers should be able to change bands:* in the proposed structure customers cannot change bands for 12 months. This is very restrictive and is unfair as people's circumstances

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<sup>18</sup> Endgame (2017), *Analytics to inform Design and selection of tariffs* Presentation to the Queensland Business Networks

change and energy use should be aligned with this. The extent to which customers will game this system is not clear and most likely marginal at best. QCOSS believes the need to change bands will be due to legitimate reasons. Customers should be able to change bands down to take into account of changes in household size, new appliances, changing behaviour or changes circumstances such as employment.

*Set the top-up rates low to avoid bill shock:* to avoid bill shock, at least for the first regulatory period, there is a need to set top-up rates relatively low.

*Timing of the bill:* the bill should be received very soon after the end of the month to help customers with visibility of their usage and if they do breach the band enable them to at least change behaviour for the next month.

### Smart control tariff

EQ is proposing that residential customers moving to the new cost-reflective tariffs may have limited options with respect to accessing all load control tariffs. We would accept this if there is also a smart control load tariff (solar sponge) as part of the adoption of the Lifestyle Package which would allow them to spread load away from the peak period. Such a tariff would also support affordability for customers.

Solar sponges are a variation on controlled load tariffs. Instead of electric hot water systems and pool pumps operating overnight when total system demand is low, they are set to turn on and off in the middle of the day on sunny days where there are large or even excess solar exports on local feeders. It is understood that SAPN in South Australia is considering such a tariff for its 2020-25 TSS. Furthermore, for its 2017-2020 TSS, Energex proposed a smart control tariff which was available for customers on their Maximum Demand Tariff. Modelling by CSIRO for Energex showed that this was a very effective means of reducing bills.

### Recommendation 2:

QCOSS recommends that there should be an accompanying smart control tariff as part of the lifestyle package.

### Other ways to reduce household energy costs

QCOSS strongly supports both community energy and household use of DER. As part of its network tariff reform EQ should also be looking at alternative tariffs that can signal efficient uptake of DER for communities and households. As an innovative example sending an efficient signal to support DER in a community energy context, Powercor in Victoria are trialing an opt in residential network tariff<sup>19</sup> of \$360 fixed charge and \$2/kW (in the unconstrained area of Newstead only and until 2020). EQ could look at similar tariffs to improve the viability of DER for both customers and the network throughout Queensland.

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<sup>19</sup> Powercor [2018 Pricing Proposal](#), (p15). Note, this is part of a project – Renewable Newstead – aiming to implement a locally generated renewable energy model within a community scale electricity network.

### Recommendation 3:

QCOSS Recommends that EQ investigates tariffs that encourage the uptake of community energy and household DER to complement the Lifestyle Package.

#### **Additional supports to help customers understand the Lifestyle Package**

For cost reflective pricing to be effective customers will need to understand it and be able to respond to price signals. This was recognised by the AEMC when developing its Distribution Pricing rules which require the TSS to comply with the Consumer Impact Principle. This is described by the AEMC as consisting of two parts:

*The first part requires distribution businesses to consider the impact on consumers of changes in network prices.... the second part of this principle requires network prices to be reasonably capable of being understood by consumers. Consumers will not be able to respond to price signals if they cannot relate price structures to their usage decisions.*

The second part of the Customer Impact Principle is an important criterion to assess tariffs as people that cannot understand the tariffs will not be able to react to them and this is likely to result in bill shock.

As already acknowledged, the Lifestyle Package is a simpler tariff to understand than the STOUd as it is similar in format to mobile telephone plans. However, like telephone plans it will require SMS alerts or notifications to let people know if they are close to or breaching the band. It is understood that smart meters can transmit signals to the householder every minute if necessary<sup>20</sup>. Apps will have to be developed and provided to all households. A crucial issue for customers will be access and affordability of data and it will be imperative that these are not barriers for households to manage their energy use. It is incumbent on EQ to investigate what other products are available to help customers understand their energy use and respond to tariffs such as the Lifestyle Tariff.

### Recommendation 4:

QCOSS recommends that EQ demonstrate in its Tariff Structure Statement how it will meet the Customer Impact Principle and examples of the additional supports that customers will need to understand and respond to the Lifestyle Tariff.

#### **More research to understand impacts**

It is QCOSS's view that distributors must lead the way in managing the transition and engage with retailers to ensure that low-income and vulnerable customers are not worse off. The regulatory period 2020-2025 is a critical period to gain acceptance for the tariff and prepare households for a future in which such tariffs may become mandatory. Customers are not all the same and have different incomes, load profiles and access to DER. From

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<sup>20</sup> Smart meters record the amount of electricity every thirty minutes. This information gets stored on the smart meter and is transmitted to the metering coordinator. How often the data is transmitted can change and depends on what arrangements are in place. The Smart meter however can send a signal every minute to the householder if necessary to alert them if they are near the band.

QCOSS's view significantly more research and identification of the impacts on low-income and vulnerable customers.

It is understood that in regional Queensland the Lifestyle Tariff is now a notified price (Tariff 15) for trial purposes during 2018/19. QCOSS welcomes this trial and calls on EQ to ensure that it includes low-income and vulnerable customers. There is limited information available on the impacts on low-income and vulnerable customers of tariff reform. Noting the CSIRO research for the ACCC that further work is required to identify household characteristics that increase the risk of adverse price outcomes and increase the risk of bill shock for particular individuals. QCOSS especially points to vulnerable customers such as those with medical cooling or heating needs, Aboriginal and Torres Strait Islander customers, refugees and CALD households who may be adversely impacted. QCOSS also highlights the requirement that renters (both social and private) are included in any trials. This tenure group is increasing and now accounts for up to 30 per cent of households in Queensland.

QCOSS provided comments in our submission<sup>21</sup> to QCA draft Determination on the Tariff 15 Trial. At a minimum, supporting technology and alerts will be necessary to support customers on Tariff 15 trial. The trial should be constructed so that participants should not be worse off and should be compensated for any detriment. This includes compensation for any new meter costs that may have to be paid upfront due to a tariff change. We also stated that to avoid bias, trials must include a broad cross-section of the community, rather than just early adopters.

### **Recommendation 5:**

QCOSS recommends that EQ consider the impacts of the Lifestyle Tariff on customers based on income, load profile and solar and non solar when conducting the tariff 15 trial.

EQ to consult with QCOSS and other community organisations to ensure that a broad-based cross-section of the community is included in thus research and trials including for tariff 15.

### **Data sampling period**

During the sampling period the household should remain on its existing flat tariff and then be provided with an assessment as to whether they would be better or worse off on a more cost reflective tariff. They could also be provided with information that would help them to respond to more cost-reflective tariffs and understand what the implications would be for their bills. Such an approach would lead to more informed decisions and be more likely to get customers' acceptance. This would also be fairer than immediately assigning a customer to a cost-reflective tariff as soon as they get a smart meter. At that stage they will not know if they are better or worse off as they just received the smart meter.

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<sup>21</sup> QCOSS (2018), *Regulated Retail Electricity Prices 2018-19* [Submission](#) to Queensland Competition Authority Draft Determination.

### Recommendation 6:

QCOSS recommends that there is a data sampling period (ideally for 12 months) after a household acquires a smart meter and that there is a comparison with the following 12 months usage data after the lifestyle tariff has been taken up, to provide transparency on the impact on the customer.

#### **A phased approach** *to the introduction of the Lifestyle Tariff*

A phased approach to the introduction of cost-reflective tariffs is important to help customers manage their bill impact. Without this, there is a risk of customers being confused and put off by their experience of sudden and unexpectedly high bills and disengaging from the new tariff. Possible approaches that EQ could consider include:

- Introduction of a time of use tariff to acquaint people with the peak period and moving load out of this period. Although not as cost-reflective as a Lifestyle Package, it has the advantage of simplicity and being easier to understand and respond to. The first year on the Lifestyle Package could be time of use only to help to change behaviour and move load out of the critical Peak Window period and achieve a lower band when moving to the Lifestyle Package.
- Introduce the Lifestyle Package with the option to opt out and move to time of use tariffs rather than flat rate tariffs. This is the approach currently used in the ACT by Evoenergy<sup>22</sup>.

Whatever the approach it will be important to start with a weaker cost-reflective signal and then increase it over time once people are familiar with the tariff structure and are aware of how to change behaviour to avoid bill shock. QCOSS suggests that the proportion of the LRMC recovered is varied and increased over time. This is what other states are proposing. This would be a built-in mechanism to ensure limited bill shock at least until people become more familiar with their usage and how it relates to the bands. This is similar in concept to the income protection mechanism proposed by Energex for its TSS 2017-2020.

### Recommendation 7:

QCOSS recommends that EQ introduce their cost-reflective tariff based on a phased approach and provide a weaker price signal to promote bill stability and avoid bill shock.

#### **Assignment of cost-reflective tariffs to retailer**

It is crucial for all concerned that there is a much better understanding of how retailers will respond to the Lifestyle Package and what sorts of offers they provide and what sorts of innovative offers and demand response approaches are put forward. Without such understanding and in particular how retailers will manage the price risk of a network cost reflective tariff, QCOSS is unlikely to support mandatory assignment of cost-reflective tariffs to a retailer for this regulatory period. In SEQ retailers may be better able to manage the price risk that they can spread across different offers. In regional Queensland, where there is no retail competition, mandatory assignment may see Ergon Retail pass through the cost-reflective tariff to end customers in full where there are smart meters. EQ as part of its Tariff

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<sup>22</sup> More information can be found at the following webpage by clicking [here](#).

Structure Statement must be able to demonstrate consultation with the retailers and provide examples of innovative retail offers possibly incorporating demand response that could potentially be offered to customers.

EQ is proposing in its Issues Paper (p10) Round two that the Lifestyle Package would be the default tariff for new premises and for premise adds and alterations. It is likely that this would not be mandatory, rather the householder would be able to 'opt out' if they did not want to adopt the Lifestyle Package. This is unfair on households who will not be familiar with their usage as these are new or modified premises and therefore will not be able to select which band is appropriate. The introduction of the data sampling period as described above would allow them the opportunity to make informed decisions on the most appropriate tariff.

### **Recommendation 8:**

QCOSS recommends that EQ as part of its Tariff Structure Statement demonstrate consultation with the retailers and provide examples of innovative retail offers possibly incorporating demand response that could potentially be offered to customers.

## **Enabling factors to complement tariff reform**

In its submission to the Round One Issues Paper EQ acknowledged that “a successful tariff strategy is much broader than just tariff structures” and that it is a “customer environment” where the Queensland Government and the retailers also have a role.

Further QCOSS believes it is too risky to allow cost reflective tariffs without wider reform. Without effective and targeted concessions and other consumer protections in place, any significant impacts from tariff reform including for those left on the legacy tariffs are likely to result in public backlash. It is therefore in the distributors’ own interest to advocate with governments for the wider reform needed.

QCOSS identified a number of enabling conditions which will be necessary for the introduction of cost reflective tariffs in Queensland to be effective in meeting its objectives.

### **Recommendation 9:**

QCOSS recommends that the Queensland Government develop and implement these enabling conditions in conjunction with Energy Queensland, retailers and community organisations.

That the Queensland Government reconvene the Tariff Reform Working Group in order to progress these enabling conditions.

### **Energy Literacy and awareness**

The success of tariff reform will be heavily dependent on consumer understanding, engagement and participation. We suggest that the education program has to be lot more than a marketing campaign and that “one size” will not fit all and that the needs of particular

groups must be considered such as households from culturally and linguistically diverse communities, Indigenous households, and households with low literacy and numeracy skills. We also suggest that some consumers, particularly those who are struggling financially and at risk of bill shock, would benefit from face to face and independent information including home visits from community organisations or from specially designed energy literacy and energy conservation programs.

To improve visibility of the new tariffs when customers are first placed on them they should be offered an education/energy literacy session. This could be linked to the ACCC recommendation 38 on Energy Literacy and the role of the community organisations. This recommendation is modelled on the QCOSS Switched on Communities Program which it ran in SEQ in 2017. Ideally this should be about a year after (following the data sampling period) the household's smart meter is installed so they can see their use and load profile. This will help them to decide if the lifestyle tariff is appropriate for them and if so what would be the correct band. It will also help households to understand what behaviour change is required so they can response to more cost reflective tariffs.

There is a need for a Government-led communications campaign in conjunction with retailers and networks to explain the rationale for the new tariffs, their benefits and to let customers know how to manage the impacts of the change in tariff.

### **Recommendation 10:**

QCOSS recommends that customers with smart meters are offered an education/energy literacy session to coincide with the data sampling period.

QCOSS recommends that the Queensland Government has a communications campaign to explain the rationale for the cost reflective tariffs.

### **Establishing a fair access to technology initiative**

As already discussed QCOSS is aware that for cost reflective tariffs to be effective this may require customers to have supporting technologies, such as automated appliances and in-home devices, and that this will represent additional costs for consumers. There are some good and effective products available, for example, the Manymak Energy Efficiency Project in the Northern Territory BEEbox<sup>23</sup> energy display devices, installed at no charge to the householder, shows a daily budget target readout. This technology was developed by the Centre for Appropriate Technology through CAT Projects and provides real time feedback to residents about their electricity consumption. Such technologies help households to change energy behaviour and avoid the top-up charges.

In addition, access to more energy efficient appliances and DER such as solar and batteries will also help people to control and move load and hence contribute to the effectiveness of tariff reform.

We are concerned that low income and vulnerable customers' will not be able to access such technologies and therefore cannot benefit from the new tariffs in comparison to other

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<sup>23</sup> For more information check out the following webpage by clicking [here](#) .

households. Further, many low-income people are tenants and may have to rely on landlord's permission to access such technologies.

In order to ensure effectiveness and equality of opportunity for all users of essential services to benefit from the future new tariffs in its Submission to Round One QCOSS proposed a 'fair access to technology' fund be established to assist low-income households, including tenants, to have equal opportunities:

- to adopt new tariffs and supporting technologies; and
- to allowing access to clean energy systems.

This initiative could fund technology which would allow households to respond to more cost reflective tariffs as well as aching bill stability and avoiding bill shock.

Such an initiative would include investment to reduce the financial and other barriers that households face in adopting such technologies. Such a fund is complementary to the network tariffs, as this fund ensures effectiveness and equality of opportunity for all users of essential services to benefit from the future new tariffs.

### **Recommendation 11:**

QCOSS recommends that a fair access to technology fund be established in order to achieve equality of opportunity for all users of essential services to benefit from the future new tariffs.

### **Wider reform on concessions and/or consumer protections**

As discussed above QCOSS is concerned that legacy network tariff charges will increase and that this will be passed on to customers. In particular, many low-income and vulnerable people are likely to remain on retail tariff offerings that are based on the legacy tariffs as many will not engage with the tariff reform process. There is a need for better targeting to concession schemes to those most in need by introducing a hybrid approach<sup>24</sup> to applying energy concessions that is consistent across the NEM, including a fixed dollar amount to offset daily supply charges and a percentage discount to offset variable usage charges.

### **Recommendation 12:**

That the Queensland Government adopt the ACCC recommendation 37 and introduce a hybrid approach to energy concessions.

### **Safeguard tariff**

Going forward, consideration must be given to absolute safeguards against bill shock for those customers who remain on legacy tariffs and/or unable to engage with new cost reflective tariffs. QCOSS's view is that consideration must be given to a possible safeguard tariff that will ensure this outcome. The social policy instruments and reform that might provide protections on the income side are unlikely to manifest. For example, key social security concessions such as the unemployment concession Newstart has not increased in

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<sup>24</sup> ACCC (2018), Retail Electricity Pricing Inquiry – Final Report. Recommendation 37, Chapter 12.

25 years in real terms and there has been very modest growth in other concession allowances. Despite having a highly targeted social security system Australia's relative income poverty rate has increased and above the OECD average. As already mentioned earlier in this submission, we know that many households in the lowest income quintile are paying up to 30 per cent<sup>25</sup> of their after-housing income towards energy costs while for the highest income quintile this is about 5 per cent.

The outcomes of such a tariff are likely to be similar to those being sought by the Basic Service Offer<sup>26</sup> in Victoria in that it aim at providing simplicity and affordability. This is different to the flat rate default tariff which the ACCC has recommended<sup>27</sup> in its recent report that if implemented would be set by the AER in each jurisdiction<sup>28</sup> and is likely to resemble the current regulated tariff for regional Queensland which under the Uniform Tariff Policy is currently based on standing offer prices in Southeast Queensland.

As a first step QCOSS would welcome more research and analysis on what a safeguard tariff would look like for Queensland. Some key fundamental issues to be considered include:

- What would be the eligibility criteria? Consideration for households on concessions and/or hardship programs.
- How to structure the safeguard tariff and what costs should be recovered? For example, which costs to take out and the basis for this?
- Could consideration be given to a network safeguard tariff that would be passed through to eligible households?

Consideration could also be given to funding from State's consolidated revenue and not prices which are borne by other customers. This is a more equitable approach as the State's consolidated revenue is part funded by GST revenues and low-income people pay a higher proportion of their incomes in GST. Overall this approach is likely to be regarded as fairer and would make such a tariff more acceptable by other customers.

### **Recommendation 13:**

That the Queensland Government and EQ undertake research and analysis on a safeguard tariff as part of tariff reform process. As part of this research consultation is undertaken with QCOSS and community organisations.

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<sup>25</sup> ACOSS (February 2108), Customer Energy Foresighting [Forum](#). Presentation by Cassandra Goldie, CEO ACOSS.

<sup>26</sup> It is proposed that the Victorian Basic Service Offer does not include Customer Acquisition and Retention Costs (CARC) or an allowance for headroom.

<sup>27</sup> ACCC (2018), Retail Electricity Pricing Inquiry – Final Report. Recommendation 30, Chapter 12.

<sup>28</sup> It is noted that the ACCC point out that the default tariff in SEQ could be the notified price for regional Qld. P187