

QCOSS

Queensland Council
of Social Service

Network Tariffs 2020-25

*QCOSS submission in response to
Issues Paper*

May 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 more than 50 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

QCOSS welcomes the opportunity to provide a submission to Energy Queensland (EQ) in relation to its Issues Paper, *Network Tariff 2020-2025, Customer Consultation*. The Issues Paper forms part of the customer engagement process for the 2020-25 Tariff Structure Statement submission. It provides QCOSS with an opportunity to express our views on possible future tariff structures and inform Ergon Energy and Energex's 2020-25 Tariff Structure Statement preparation. EQ is looking for customers views on:

- the overarching principles guiding network tariff development;
- the assessment framework against which the relative strengths and weaknesses of network tariff structure options should be assessed;
- the relative strengths, weaknesses and opportunities of the possible network tariff structural options set out in their paper; and
- whether a holistic approach encompassing network tariffs, education, dynamic incentives and information should be embraced as part of the network tariff reform journey.

Developments in the electricity sector are of great interest to QCOSS because the supply of electricity is an essential service that is vitally important for the health and wellbeing of families and individuals. QCOSS believes it is important to provide a voice for residential consumers, and particularly low-income and disadvantaged households, in the tariff reform process.

QCOSS has participated in the evolution of cost reflective pricing since its emergence as a recommendation in the Australian Energy Markets Commission's (AEMC) major review *Power of Choice* in 2012. This 2012 review identified that consumers needed clear signals about the cost of their energy consumption in order to manage their demand. To give effect to this recommendation, on 27 November 2014, the AEMC made a new rule to require network businesses to set prices that reflect the efficient cost of providing network services to individual consumers. Both Energex and Ergon developed cost reflective tariffs (known as Tariff Structure Statements (TSS)) for the regulatory period 2017-2020 however these tariffs were not promoted by retailers and consequently not taken up by customers.

Key messages

Our key messages are:

- QCOSS supports the intent of moving towards more cost reflective network pricing to the extent that it will lead to better outcomes for customers.
- Cost reflective tariffs must be designed based on an understanding of customer impacts including their actual ability to control and shift their energy use.
- Low income and vulnerable customers need to be provided with support and protections to ensure that they are not worse off because of the transition to cost reflective tariffs.
- A transition phase is required to ensure that low income and vulnerable customers have time to build capacity and capability to engage, and make informed choices about participating in tariff reform.
- Underpinning this transition, the core principles of tariff design and implementation must include equity, bill stability, and simplicity.
- The EQs appraisal matrix should be more closely based on the design principles, prioritised based on what has the most importance for low income and vulnerable customers.
- To achieve this, retailers, government and the community sector must collaborate to ensure that participation by low income and vulnerable customers is enabled through information, education and consumer protections.
- Low income and vulnerable customers must be supported to access and utilise the digital technology required to get the full benefits of cost reflective tariffs.

Evaluating network tariff structure options

Overarching principles for development of network tariffs

QCOSS is generally supportive of the principles on which EQ propose to adopt in designing and developing network tariffs. We believe that an additional principle should be added about supporting vulnerable customers to understand and access the benefits of changes in tariff structures. In addition, QCOSS believes that any decisions made by EQ (and the AER) on future network tariffs must not result in worse outcomes for low-income and vulnerable Queenslanders, many of whom have been under considerable pressure from price increases in the previous 10 years.

This may require prioritising principles such as equity, bill stability and simplicity over cost reflectivity in tariff design, particularly in the initial phases.

Equity

QCOSS' concept of equity and fairness involves more than removing the inherent cross-subsidies in the current pricing system. In our view affordability and access to electricity services are essential components of equity in tariff design. Removing the cross subsidies will invariably result in some consumers being better off (with lower bills) while others will inevitably be worse off and have higher bills. For example, customers who are using the most electricity at peak times may be worse off compared to someone who has more consistent use throughout the day. Those that may be worse off could include low income and vulnerable households with high energy use, including those with small children, medical needs or because of overcrowding.

Low income and vulnerable customers should not be worse off due to the introduction of cost reflective tariffs.

Bill Stability

Bill stability is required to support the capacity for low income households to afford the cost of energy and minimise bill shock. Increased energy costs over the last ten years have created major challenges for low income and vulnerable households. Cost reflective tariffs have the potential to exacerbate bill shock for households due to unexpected changes, such as family events, seasonal changes, or loss of income and can force vulnerable consumers into debt and long term hardship. This can exacerbate other issues such as housing stability, access to other essential services, health and wellbeing, and family relationships. Building bill stability into the tariff design must be a priority to support all consumers to be able to engage with the change and adapt to the new tariff environment.

Simplicity

It is likely that any proposed changes to the tariff structure will require households to have or develop a much greater understanding of their energy use, load profiles and how energy is charged. It is accepted that people will need to be supported to understand the changes over time and adapt their behaviours. However this will require time for people to become familiar with any new tariffs, understand how they will be affected, and access supports. Initially it will be important that there is a simpler structure in the transitional period. This may mean that the tariff performs less well in terms of cost reflectivity, but can be gradually made more cost reflective as people come to understand the conceptual features of the tariff and become better able to engage in the detail. The alternative risks consumers becoming confused and potentially disengaging because of their own or others bad experience of sudden and unexpectedly high bills.

Tariff Structures during Transitional Phase

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 in order 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. This is particularly critical to gaining acceptance for the tariff and preparing households for a future in which such tariffs could become mandatory. Even those who do not adopt cost reflective tariffs initially should be able to understand them and consider its merits easily. Initially this may mean that the tariff performs less well in terms of cost reflectivity, but can be gradually made more cost reflective as people come to understand the conceptual features of the tariff and become better able to engage in the detail. Jumping straight to the alternative risks consumers becoming confused and potentially being put off by their own or others experience of sudden and unexpectedly high bills, and disengaging from the new tariff.

Appraisal of tariff structure options

QCOSS' overall view on the Indicative Tariff Structure Appraisal Matrix as set out in the Issues Paper is that it is too complicated and will be difficult to identify preferred tariff options. There are too many assessment attributes and there is no clear hierarchy or prioritization of these attributes. As indicated above some attributes may be more important than others in the initial stages of tariff reform. The appraisal matrix should be more closely based on the design principles, prioritised based on the importance for low income and vulnerable customers. Our view is that equity, bill stability and simplicity are the most important design principles for low income and vulnerable customers.

QCOSS understands that under the rules for distribution pricing, EQ is required to put forward a tariff in its TSS that better reflects the long run marginal cost (LRMC) of supplying electricity. The theory behind this objective is that cost reflective pricing is to signal to networks and customers the correct incentives to make efficient investment decision and ameliorate the removal of cross-subsidies in the electricity market. Over time this may result in a reduction in the regulatory asset bases and also provide the correct signals to efficient use of distribution energy resources¹ (DER).

The appraisal matrix will have to take this economic efficiency objective into account when comparing the different tariff options. It is noted that the Section 4.3 of the Issues Paper includes this criterion under a number of different attributes such as better network usage signalling – augmentation and robust signalling of LRMC.

In the longer term these outcomes may well be beneficial for consumers if they lead to more efficient signals as to future investment in the supply of energy and that may translate into overall lower prices and bills. QCOSS view is that this is a long term attribute and it is not clear how long it will take for customers to realise benefits.

¹ Distributed energy resources (DER) means small scale units of local generation connected to the grid at distribution level. For example, rooftop solar PV units, battery storage and demand response applications.

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.

It is acknowledged that these impacts will depend on how the retailers will package up the new tariffs and what sorts of tariff offering there will be. It is QCOSS' view however that distributors in designing network tariffs must take greater account of the impacts on low-income and vulnerable customers with respect to bill stability and shock. 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. Even if analysis indicates a majority of low-income or vulnerable households are better off, those who are worse off and cannot change behaviour to avoid paying higher bills must still be identified and acknowledged.

The second part of the Customer Impact Principle is that distributors must ensure that network tariffs structures can be understood by customers. This will be an important criterion in the appraisal matrix as people that cannot understand the tariffs will not be able to react to them and this is likely to result in bill shock.

In our view, both retailers and distributors have a responsibility to ensure that customers understand cost reflective tariffs. In its TSS the distributors must clearly explain the rationale for tariff reform and the longer-term consumer benefit. They must link this rationale to their preferred tariffs and set out what objectives they are seeking to achieve and importantly how will they achieve these. Demonstrating that consumers understand the different tariff options will be a formidable task as households' energy literacy has still some way to go. In the recent Energex and Ergon Energy Household Survey 2017², over 50 per cent of people did not know which tariff they currently on.

A further attribute that is included in the appraisal matrix is under Market Facilitation – consistent with DER investment. QCOSS strongly supports the inclusion of this attribute however, cost reflective tariffs are likely to further exclude low income and vulnerable consumers. Given the transition to a non carbon economy we would also expect EQ to explain the implications of its proposed tariffs on this transition to ensure there are no unintended consequences. This is a future we would expect EQ

² Energex and Ergon Energy (2018), Queensland Energy Household Survey,
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to be embracing and responding to and it would be important to understand the impact of preferred tariffs of this transition.

Tariff structure options

QCOSS knowledge and understanding of different tariff structure options was developed during the 2017-2020 regulatory process. Building on this experience and knowledge, QCOSS encourages EQ to address the following issues in appraising the options.

Fixed Tariffs

QCOSS supports lower fixed charges as low-income households are more likely to be disadvantaged by fixed charges as they tend to have lower usage. We are anticipating with the introduction of cost reflective tariffs, that this will be an opportunity to have some moderation in the fixed charge and can act as an important balancing item to the cost reflective tariffs in preventing bill shock. This is very important when considering cost reflective tariff such as demand tariffs which even for a flat profile energy consumer, will result in a larger proportion of the bill being (in essence) fixed as it will be very difficult for most households to completely move load out of the 4:00-8:00pm period. We know that certain households, those with medical and cooling needs, those with small children, and large families, will find it very difficult to move load from the peak period.

The balance between the suite of tariffs

In introducing cost reflective tariffs it will also be important to consider the balance of the suite of tariffs between cost reflective, fixed and volume tariffs. In working this out it will be important to consider the objectives of tariff reform. For example, it will appear to consumers that continuing a policy to keep the fixed charge constant in real terms as well as introduce a demand charge is a revenue stability exercise. Another example is that introducing a decreasing flat charge will reduce the likelihood of further uptake of DER.

Given the punitive impact of an increasing fixed component of the bill on low income and vulnerable customers, QCOSS encourages Energex and Ergon to put forward reductions in their fixed charges as well as carefully considering what is the right balance between the different components of the suite of tariffs.

Time of Use

QCOSS supported Energex's proposal that the peak period is between 4:00 and 8:00pm as these times correspond more generally with the peak that the network experiences, and to the period when Energex controls load through its load switching program.

We also supported Energex's proposal that the peak period be limited to weekdays and we recommended that they go further and state that the peak period should also exclude public holidays that fall on weekdays.

We did not support Ergon's peak period which was between 3.30pm to 9pm across all days including weekends and public holidays. Creating such a wide peak would have made it close to impossible for customers to respond and it was considered unfair to charge consumers for peak usage outside of the actual peak period.

Analysis by Alternative Technologies Association (ATA) in Victoria indicated that cohorts that would be charged more than they should as a result of weekend/public holiday peak charging include: weekend workers and some shift workers; consumers hosting a party or event on any weekend or public holiday in a given month; pensioner households with weekend/public holiday family visits and/or babysitting once or more per month; culturally and linguistically diverse (CALD) households with culturally-specific weekend/public holiday activities once or more per month; and part-time sole parents with weekend/public holiday visitation.³ Weekend and public holiday peak charges send perverse signals to households, to curtail or move loads away from those times when there is no benefit from doing so. They also restrict the opportunities available for weekday-peaking consumers to shift loads, reducing the effectiveness of any price signals.

Further public holiday peak charges are likely to be very unpopular with the public, and negatively impact acceptance of the introduction of cost reflective pricing.

Seasonality

QCOSS did not support the seasonality component of Ergon's STOUT tariff because we are concerned that customers might experience bill shock in the summer months. Also, QCOSS is concerned that consumers will forget the price signal in the nine off-peak months each year. Although we understood that Ergon's network only experiences a peak in summer, the risk of bill shock due to unmanageable summer bills outweighed the benefits of sending a more cost reflective signal. This is an example of where a slower transition to cost reflective pricing is required.

Existing Load Control Tariffs

The existing controlled load tariffs (T31 and T33) have been very successful in Queensland and consumers have a high level of familiarity and understanding of them. They work well for consumers because they are "set and forget" in nature. Further, there has been significant investment in load control meters and systems that consumers have paid for over the years. To the extent that the tariffs are designed to manage peak demand and spread load more evenly they are also cost reflective tariffs. Consequently, QCOSS believes that with the introduction of the cost reflective tariffs, that the current incentive (difference between the Residential Flat Volume and Super Economy and Economy) to adopt or retain load control options remains.

³ Alternative Technologies Association (ATA) et al, Letter to ENA regarding Weekend Peak Charges, 19 August 2015.

New Economy Tariff (Solar sponges)

As part of its Residential Demand Tariff in 2017 Energex also proposed a “smart control” tariff called the New Economy Tariff. This new economy tariff’s operation was dependent on the control mechanism attached to the appliance and peak demand on the network. For example, for hot water, which is controlled via a relay, Energex would supply electricity for a minimum of eight hours per day. There was a minimum⁴ of two hours during the day and two hours during the night. This new economy tariff was only available with the Residential Demand tariff and a smart meter.

The new economy tariff was priced at a “competitive level” and there were considerable savings from adopting the New Residential Demand tariff in conjunction with the New Economy tariff. The tariff was very appealing to customers and also allowed Energex to utilise excess energy from solar export during the day and to extend its current load control capacity. However, in introducing such a tariff it would be important that the existing barriers for low income and vulnerable customers and renters to take up load control tariffs are removed (this includes having to pay separately for electrician to put the appliances on a different circuit and get permission from the landlord/agent) and that there should be no extra charge for the take up of such tariffs over and above what they will have to pay in metering charges for smart meters.

Enabling Factors

While we support the need for change, QCOSS has some concerns about the potential impact of the proposed cost reflective tariffs on households, and the capacity of households to understand and respond to the tariffs. QCOSS welcomes EQ acknowledgment in its Issues Paper that “a successful tariff strategy is much broader than just tariff structures” and that it is a “customer environment” where the the Queensland Government and the retailers also have a role.

QCOSS has 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.

Trials

It is important that there is better understanding of the impact of the tariffs as more data becomes available, and to trial and experiment with approaches that remove

⁴ Energex advice (via pers coms 11 September 2015) that the reason for not communicating specific timeframes is to allow greater flexibility around controlling load through this tariff. There are two control mechanisms, a relay or demand response enabled device (DRED) depending on the appliance type. In most situations Energex is not intending on communicating specific switching times however would communicate the minimum supply of electricity.

barriers to accessing the tariff and associated technologies. QCOSS is especially advocating that any trials include vulnerable groups such as people with a disability, Aboriginal and Torres Strait Islander households, refugees, seniors and people from a CALD backgrounds.

QCOSS notes that there is a proposed trial of T15 from 1 July 2018. As stated in our submission to the QCA⁵, QCOSS has concerns about this proposed tariff structure. It is a complicated tariff which will be difficult for consumers to understand and they will require significant knowledge of usage and load profile. Further, we question why the trial is taking place before the policy development, consultation and analysis has been carried out on the TSS, including how best to support low income and vulnerable consumers.

We reiterate our comments in our submission to the QCA.⁶ At a minimum, supporting technology and alerts will be necessary to support customers on T15. That may not be sufficient. Therefore, we suggest that 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.

Information

Cost reflective tariffs are enabled by digital meters and this will allow for a significant increase in the information available to customers about their energy and load profiles. It will be important that this information is used in such a way that supports customers to understand the likely impact of the cost reflective tariffs on their bills. It will be difficult for many consumers to initially understand how for example a demand tariff is structured and how it would impact on their bills. The concept of charging for demand rather than energy use will be a significant shift in itself for many consumers as many people do not currently understand how they are charged. They will also need to know the costs of using different appliances and for how long.

QCOSS therefore calls on EQ in conjunction with retailers to develop information tools such as tariff calculators to help households determine the benefit of moving to the preferred cost reflective tariffs. We appreciate the complexity inherent in creating such a tool, but would encourage EQ to continue to develop this product and to ensure it usefully takes account of individual circumstances.

Education

QCOSS is pleased that Ergon Energy and Energex are committed to supporting customers and are interested in what education, information and tools will best assist

⁵ QCOSS (2018), Submission to the QCA on the Retail Regulated Prices for Regional Queensland 2018-19. The submission can be found [here](#).

⁶

customers and who is best placed to provide these: distributors; retailers or third parties or all three together.

The success of tariff reform will depend on consumer understanding, engagement and participation. The education program has to be lot more than a marketing campaign and that “one size” would not fit all. Education needs to consider the needs of particular groups such as households from CALD, Indigenous households, and households with low literacy and numeracy skills. 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 efficiency programs.

There is also an opportunity to support consumer education through the provision of energy monitoring devices in the home. Monitors that allow consumers to set an alarm would also be relevant to helping consumers understand when demand in the household has exceeded specified levels, and therefore help people to understand what behaviour change is necessary and possible to bring this level down. Such devices are critical once consumers are actually on the tariff to assist them to respond and avoid high bills. Other considerations could be a system of SMS messages to warn customers that they had exceeded a specific demand level on a day (which could be set by customers) could be useful in educating customers and avoiding unexpectedly high bills.

These resources and supports should be designed in collaboration with distributors, retailers and community organisations, and with direct input from customers.

Customer Protections

It will be important for EQ to understand the customer impacts of any new tariffs and work with retailers, Governments and the community sector ensure that there are adequate protections and supports. This may include:

- tailored information and community education;
- improved retail services and supports;
- a bill protection feature similar to that which Energex included in its tariff for the TSS 2017-2020; and/or
- social Tariff arrangement; and/or
- more equitable concessions.

Generally there will need to be a strengthening of existing customer protections in order to ensure that the introduction of cost reflective tariffs in Queensland will be effective in meeting its objectives. QCOSS has been advocating for concession reform for a number of years⁷ and acknowledges the significant reform by the Queensland Government in extending the Electricity Rebate scheme to holders of

⁷ QCOSS (2014), [Energising Concession Policy in Australia](#)

the Commonwealth Health Care Cards in 2017. QCOSS calls now for a more equitable structure for the rebate, such as a percentage based rebate to replace the current flat rebate. This means if there are changes in the price impact of different tariff structures for customers then the rebate will change commensurately.

In addition to consideration of more equitable concessions, a bill protection mechanism⁸ should also be considered. A bill protection mechanism could allow EQ to have a more cost reflective signal but protect customers from significant bill shock for a period of time while they are adjusting to the tariff. QCOSS would prefer that such a mechanism apply over the full period of the next TSS, and for a period of time after (and if) cost reflective tariffs become mandatory. In this way those households who might otherwise experience bill shock can have the opportunity of time to better understand the tariff, their energy use patterns, and the possible and appropriate behaviour change they might make to ensure their bills are manageable when the protection is removed.

A bill protection mechanism could also be applied by pre-qualification criterion to some especially vulnerable households for a longer period or even indefinitely. This would go a long way to assist vulnerable households to adjust, and to protect these households while we learn more about the impact of demand tariffs and how particular cohorts/customer groups will be impacted. Such a mechanism would be somewhat similar in effect of a “safety net” tariff and may even be considered social tariffs.

EQ’s TSS should acknowledge the need for such protections - even where these measures are not the primary responsibility of EQ - as it best placed to understand and to describe the relevant impacts of these tariffs on their customers. This information is important so that others such as retailers and government can respond and adjust their policies and activities appropriately.

A fair access to technology initiative

QCOSS proposes a ‘fair access to technology’ fund be established to assist low-income households, and particularly tenants, to have equal opportunities to adopt new tariffs and supporting technologies so they can benefit from new tariffs. This must include access to digital meters as well as access to supporting technologies such as in home devices for energy management. Such an initiative should include investment to reduce the financial and other barriers that low income and vulnerable households face in adopting the necessary technologies which will enable them to better understand and engage with cost reflective tariffs.

⁸ Energex introduced this concept in its 2017-2020 TSS.