Australian Energy Regulator Issues Paper – March 2018

Evoenergy Distribution Determination 2019 to 2024

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Introduction

The ACT Energy Policy Consortium thanks you for your invitation to make a Submission to the Australian Energy Regulator Issues Paper March 2018 - Evoenergy Distribution Determination 2019 to 2024 and welcome the opportunity to provide this submission.

The Consortium is comprised of representatives of the ACT Council of Social Service (ACTCOSS), Care Financial Counselling Service, the Conservation Council ACT Region, SEE-Change and the Small Business Taskforce of the Canberra Business Chamber. The Consortium considers the importance of social, environmental and economic factors in the formation and implementation of energy policy along with the need for enhancement of equity and inclusion to improve outcomes for energy users in the ACT. We also provide some comments from members of the Energy Consumer Representative panel which is a panel of everyday people that the ACT Energy Consumer Advocate has engaged and supported to be spokespeople on energy issues from a consumer perspective.

Summary

Outlined below are some responses to the Evoenergy regulatory proposal and data relevant to low income household customers.

The Consortium requests that the AER reviews the 2019-2024 regulatory proposal from Evoenergy from the perspective of people experiencing poverty and disadvantage, and from small business and community organization customers with small margins and inelastic demand, and provide advice on any changes that are needed in the proposal to enable these customers to sustain access to the essential service of electricity.

Price setting and tariffs

The Consortium considers it to be imperative that Evoenergy's price determination considers all consumers especially those who are vulnerable and disadvantaged, and ensures that there is no negative impact on these consumers from price rises or tariff changes implemented in the 2019-2024 regulatory period. The Consortium supports reductions in the opex and the deferral of capex on zone substations.

Evoenergy's proposal would allow it to recover $951.8 million from it's customers over the five years from 1 July 2019 to 30 June 2024. Evoenergy's regulatory proposal states that they seek to recover no more than the efficient cost incurred in providing distribution and transmission services. Evoenergy estimates that this would flow through to customers as an average annual increase of $33 per year for residential customers and a total impact over the 2019-24 regulatory control period of $163.[1] For small business customers an average annual increase of $113, and a total impact over the five year period of $565.[2]

The Consortium notes this is a modest increase that is potentially manageable for the majority of ACT households and business customers, but not for the customer in the bottom 40% income groups or in small businesses and community organizations with tight margins and limited capacity to benefit from time of use tariffs.

Evoenergy's price path proposes to recover the increase in revenue over the five years by AER's determination. This would translate to an estimated real increase of 0.8% per year to electricity bills for both residential and small business customers. This approach to the price path, as suggested by AER, appears consistent with the theme of price, stability, predictability and certainty emerging from Evoenergy's engagement with consumers.[3]

[1] EvoEnergy-Consumer overview-January 2018_ p.19 – Issues Paper | Evoenergy Distribution determination 2019-24, p.9

[2] EvoEnergy-Consumer overview-January 2018_ p.19 – Issues Paper | Evoenergy Distribution determination 2019-24, p.9

[3] Evoenergy-Attachment 2 Consumer enegegament-January 2018_Public, pp.2-11,2-12 Issues Paper | Evoenergy Distribution determination 2019-24, p.16

Network charges (excluding feed-in tariffs) make up a significant component around 33 percent of the electricity bills paid by customers in the ACT.[4] The cost of electricity went up above the CPI every year over the past 5 years, leading households to turn off their heating, and cut back spending on essential items such as food and medicine. In this context consumers living in low income households are unable to afford even a small increase to their energy costs. We believe any increase will send more consumers to hardship programs and disconnection.

Snapshot of energy hardship in the ACT

Energy affordability is critical, as research shows the cost of housing largely determines how much is left in household budgets to pay energy bills. With the continuing housing affordability crisis many people are going without energy or in some cases having their utilities disconnected. The Australian Energy Regulator (ACR) reports that between 2016-2017 there were 427 residential electricity and gas customers in the ACT disconnected for non-payment. The ACR records at December 2017 showed that 817 households were accessing hardship programs to keep the electricity on.

The most recent Cost of Living report published by ACTCOSS[5] stated that:

"There were significant rises in utilities prices over the year. The most significant rise in utilities costs was **gas and other household fuels which rose by 17.8 percent** in the past year (with the whole of the rise occurring in the September quarter), which was markedly above the national rise (+7.8%). This was the largest single increase in one quarter since CPI records started being kept for this item in December 1989... **Electricity prices increased by 10.6 percent**, which was below the rise seen across the country (+12.4%)."

This smaller increase in electricity prices follows the cost of electricity rising in 2017 by by 6.3% compared to 4.7% nationally[6].

The Cost of Living report considered a Selected Living Costs Index as well as the CPI. The SLCI measures the cost of various baskets of goods which are specific to a number of different household types – including 'age pension' and 'other government transfer recipient' (e.g. Newstart or Youth Allowance recipients), 'employee', and 'self-funded retiree' households.[7] It found that:

"over the 12 months to December 2017 the Canberra CPI (2.2%) rose at a higher rate than the national CPI (1.9%). Over the same period, the SLCI for other government transfer recipients (2.4%) and Age Pensioner (2.1%) households rose at a higher rate than the

[4] EvoEnergy-Consumer overview-January 2018_ p.9 – Issues Paper | Evoenergy Distribution determination 2019-24, p.9
[5] ACTCOSS, *ACT Cost of Living Report*, ACTCOSS, Canberra, 2017, p6
[6] ACTCOSS, *ACT Cost of Living Report*, ACTCOSS, Canberra, 2017, p.6
7 ABS, *Selected Living Cost Indexes, Australia, December 2017*, cat. no. 6467.0, Explanatory Notes, Australian Bureau of Statistics, Canberra, 2018.

national CPI (see Figure 1). The SLCI rose at a lower rate for self-funded retiree (1.6%) and employee (2.0%) households, though the employee household figure was also above the national CPI figure.[8]"

This report also quantified the extent of poverty in the ACT[9]:

Disadvantage in the ACT tends to be hidden behind high averages across indicators such as income, education, and employment. Closer analysis reveals that a sizeable number of people in the ACT do experience poverty and disadvantage, with many experiencing multiple disadvantage.[10] The most recent estimate found that there were 34,543 people living in poverty in the ACT in 2015-16 (representing 9.2% of the total ACT population).[11] Of these, 8,897 were children (representing 12.7% of the 0-14 age group).[12]

The number of people who struggle with energy stress is likely to be much higher than the poverty figures.[13]

Low income households are limited in the choices they can make, they rarely have discretionary income in their budgets, have income levels and costs of living that mean they are unable to save and are living in housing that has poor energy efficiency and are either unable (as renters) or incapable (as low income home owners) to make capital investments in their housing to reduce energy usage. and are forced to live pay to pay.

With the energy market evolving there are risks of a growing divide in the community between those who can take control of their energy use and those that cannot.

We would like to understand whether and how tariff settings, or other mechanisms in the control of the distributor, can be used to address the incapacity of low income, small business and community organisation customers to absorb the increase in retail bills caused by inflation and the price of wholesale electricity because these costs are passed through to customers.

8 ABS, *Selected Living Cost Indexes, Australia, Dec 2017*, cat. no. 6467.0, December key figures, ABS, Canberra, 2018.

9 ACTCOSS, *ACT Cost of Living Report*, ACTCOSS, Canberra, 2017, p10

10 R Tanton, R Miranti & Y Vidyattama, *Hidden disadvantage in the ACT: report for ACT Anti-Poverty Week*, NATSEM, Institute for Governance and Policy Analysis (IGPA), University of Canberra, Canberra, October 2017, accessed 13 April 2018, <http://www.actcoss.org.au/publications/advocacy-publications/hidden-disadvantage-act-report-anti-poverty-week-2017>.

11 Calculated by The National Centre for Social and Economic Modelling (NATSEM), The Institute for Governance and Policy Analysis, University of Canberra, using ABS Household Expenditure Survey 2015-16 data. Note: After housing cost poverty rates calculated as the proportion of people living in households in the ACT with an equivalised disposable household income after housing costs of less than half the national median equivalised disposable household income after housing costs.

12 ibid.

13 ACOSS, Brotherhood of St Laurence, The Climate Institute 2017 – *Empowering disadvantaged households to access affordable, clean energy*

In addition to this, we would like to see support of customers as they transition to more cost reflective pricing under the proposed refinements to Evoenergy tariff structure statement.[14]

One approach that could be trialed in the 2019-2024 period is enabling customers to register their usage data for oversight by EvoEnergy so they can be provided with an automated offer of a transfer to the most cost effective tariff as their usage patterns become clearer.

It will also be important to monitor energy prices and the equity of tariff settings for customers who have inelastic demand – eg a household customer who has high energy use associated with ill-health or disability, or a business customer who has high use at high cost time due to operational requirements. If these households are found to be unable to benefit from time of use tariffs, then there should be provision for a "lifeline" tariff that protects them from escalating prices and unaffordable bills.

Reliability

Evoenergy's regulatory proposal states that they are aware of the level of energy prices currently impacting consumers. However it is also aware that maintaining reliability of supply is extremely important.

Reliability is valued by customers, including low income households, small businesses and community organisations. It would be useful for the AER to consider whether Eveoenergy proposal maximizes use of load management strategies such as the use of micro-blackouts, or other innovative methods, that could be used to reduce costs of supply in ways the minimize inconvenience to customers and the impacts of disruption to operation of a business or community organisation.

Another method of reducing costs of supply and minimising risks to reliability is to reduce civil works costs and accidents. It would be useful for the AER to interrogate Evoenergy on what provision has been made to maximise co-ordination and shared planning of both maintenance work and development work with other entities who conduct civil works (eg footpath replacement, tree removal, laying underground cables, building roads,

[14] EvoEnergy – Our Plan 2019 – 24 Plan, p.12

construction) to minimise costs and reduce the risk of collateral damage to Evoenergy managed infrastructure.

Industry transformation

As the energy supply market evolves, the Consortium is keen to see Evoenergy maximize cost benefits to customers via the adoption of technologies, demand reduction strategies and development of distributed networks.

It will be important to provide specific briefings and engagement with low income, small business and community organisations so they can be gain benefit from any investments during 2019-2024 in:

- assessing the implications of high penetration of rooftop PV systems
- trials of battery storage systems
- trials for electric vehicle charging stations

Return on Capital

In the context of inflation of less than 2 per cent and the risk of significant growth in hardship associated with inability to pay rising energy bills, the Consortium would encourage the AER to approve a low rate of return on capital and expected cost of lending.

Consumer engagement

Evoenergy state that they have been guided by consumer engagement for their key themes of their 2019-24 regulatory proposal. In a presentation to the AER Public Forum 13 April 2018 EvoEnergy listed the following consumer engagement programs: Publications such as Issues and Discussion papers, Customer Forums run by the Energy Consumer Reference Counsil, Community Council meetings, Customer and Community Workshops (some facilitated by ACTCOSS), promotion and access to information and consumer surveys conducted by the PowerPanel and an ACTCOSS assisted survey. Through this consumer engagement Evoenergy state the following, as to what consumers want:

- Meaningful involvement with the regulatory process;
- Transition to cost reflective tariffs is supported and supporting consumers during the transition is important;

- The current approach to balancing cost and reliability outcomes is supported;
- Predictability and certainty is important, particularly with respect to price changes;
- Most consumers have a willingness to modify electricity consumption in response to price signals;
- Maintaining security of supply is important particularly during adoption of new technology;
- Technology should play an important role in the future of Evoenergy;
- Consumer information and education should support price signals.

ACTCOSS has valued Evoenergy providing a small grant for improved customer understanding of energy distribution price-setting and costing issues, and improved engagement of low income, small business and community organization customers. This funding is not ongoing, and so the level of engagement and continuity of effort is patchy.

The Consortium would value ongoing access to resources from Evoenergy to enable us to purchase independent expert advice that can inform consumer scrutiny of proposals, discussion papers and consultation materials. These resources would complement the resources the Consortium accesses via Energy Consumers Australia and the ACT Government to support consumer engagement in energy sector and energy policy decision-making processes.

We would also welcome funding to support engagement by customers in the networks maintained by Consortium members, similar to what was offered to support the targeted survey with low income household customers that informed preparation of the 2019-2024 regulatory proposal.