Clean Energy Council submission to the Australian Energy Regulator

Preliminary positions paper on the Framework and approach for SA Power Networks, Regulatory control period commencing 1 July 2015

Executive Summary

The Clean Energy Council (CEC) welcomes the opportunity to provide feedback on the Australian Energy Regulator (AER) Preliminary positions paper on the Framework and approach for SA Power Networks.

The CEC does not support the AER's proposal to remove the side constraint on fixed supply charges, as outlined on pages 67-69 of the Preliminary positions paper.

The CEC supports fair and efficient pricing for electricity. We agree that electricity pricing is crucial to influencing demand on the network. We are not opposed to the introduction of a more cost-reflective approach to electricity pricing. However, we would oppose the proposal to allow SA Power Networks to recover a greater proportion of its costs through an increase in fixed charges beyond the rate set by the existing side-constraint. Fixed charges are a sub-optimal form of tariffs. Fixed charges are potentially the most regressive because they do not allow for cost minimisation through behaviour change. Consumers are unable to respond to the price signal of a fixed charge, other than to disconnect from the grid. It would be undesirable to send price signals that encourage disconnection.

Alignment with Pricing Principles proposed by AEMC

The Preliminary positions paper notes that pricing is being considered more broadly by the Australian Energy Market Commission (AEMC) through changes to the network pricing arrangements arising from the Power of Choice Review.

The AEMC Consultation Paper on Distribution Network Pricing Arrangements (AEMC, 2013) notes that there are certain principles to be considered when setting distribution tariffs, which include:

- the stand alone and avoidable cost boundaries of providing the distribution service;
- the long run marginal cost of providing the distribution service;
- transaction costs for consumers and distribution businesses; and
- whether consumers are able to respond to price signals.

It is important to ensure that consumers are able to respond to price signals. Fixed charges are potentially the most regressive because they do not allow for cost minimisation through behaviour change. Consumers are unable to respond to an increase in fixed charges, other than to disconnect from the grid. It would be undesirable to send price signals that encourage disconnection. We therefore strongly emphasise the undesirability of any moves toward a greater fixed charge component for electricity tariffs.

We note that the rule change request received by the AEMC from the Standing Council on Energy and Resources (SCER) does not call for an increase in fixed charges for customers. The rule change request proposes "requiring distribution network service providers (DNSPs) to set cost reflective network tariffs in accordance with Long Run Marginal Cost (LRMC) to reflect efficient network costs". This is expected to greater use of demand or capacity charges, rather than fixed charges. Demand or capacity charges are preferable to fixed charges. A demand or capacity charge may go some way to addressing cross subsidies between customers with and without air conditioning.

Side constraint provisions should apply across all types of meter

The Preliminary positions paper has noted the importance of alignment with the review of pricing that is being considered more broadly by the AEMC. The AEMC Consultation Paper on Distribution Network Pricing Arrangements (AEMC, 2013) includes a proposal "to clarify that regardless of whether consumers have interval meters or traditional accumulation meters, the side constraint provisions apply to their tariff".

CEC strongly endorses the principle that customers should be treated consistently, irrespective of the meter technology they use. This is a matter of significant concern for the solar PV industry. From the customer perspective, a change in network tariff structure can be triggered by installation of solar PV systems if that is associated with a change in metering or switchboard configuration. This is unfair and is a disincentive to the adoption of advanced metering and distributed generation and storage. It represents a significant barrier to the adoption of solar PV systems, especially by some adversely affected businesses (eg. in South Australia). A recent information sheet issued by SA Power Networks (SA Power Networks, 2013) describes a business whose electricity bill increased from about $19,000 per annum to about $30,000 per annum following the installation of a solar PV array. This is a clear and extreme financial disincentive to the installation of solar PV and represents a significant barrier to the adoption of solar PV systems by some South Australian businesses.

Customers with interval meters should be subject to side constraints to the same extent as customers without an interval meter (and assuming a similar load profile). It would be unfair to discriminate against consumers with interval meters, particularly since governments have actively encouraged consumers to adopt interval meters.

For example, there have been reported a number of cases of customers who install solar PV and are subsequently shifted from a tariff dominated by volumetric charges to one dominated by demand charges. This would appear to contravene the spirit, if not the letter of clause 6.18.4(a)(3) of the National Electricity Rules, which require that:

> "customers with micro-generation facilities should be treated no less favourably than customers without such facilities but with a similar load profile"

The situation would benefit from greater transparency and clarification of the rules regarding tariff changes that are, in effect, triggered by the installation of solar PV. The limited control of the AER within the current arrangements would appear to be inconsistent with the firmly held desire to encourage consumer participation in the market. The ability of SA Power Networks to switch customers to a demand tariff following installation of solar PV demonstrates this.

References

AEMC 2013, Distribution Network Pricing Arrangements, Consultation Paper, 14 November 2013, Sydney

SA Power Networks 2013, SA Power Networks Industry News: PV Process Update #2, 15 October 2013, Adelaide