

15 January 2020

Mr Warwick Anderson  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Dear Mr Anderson

## **AER Draft Decision on the EQ Regulatory Proposal**

National Seniors Australia welcomes the opportunity to provide a submission pertaining to the AER Draft Decision on the EQ Regulatory Proposal.

National Seniors Australia's represents the interests of older people across Australia. We engage in policy debates affecting older Australians, conduct research on issues facing older people, educate and inform older Australians and provide older Australians with access valued goods and services.

This submission has been developed by National Seniors' Queensland Policy Advisory Group (Qld PAG). Members of Qld PAG have worked closely with other consumer advocates during the consultation process and generally support the submissions provided by other consumer groups, especially Queensland Council of Social Service (QCOSS).

Details of our submission can be found in the attachment below.

Should you require further information please contact our office directly.

Yours sincerely

**David Warner**

**Qld Policy Advisory Group Chair (Acting)**

## Attachment 1: Submission on the EQ Response to the AER Draft Decision on the EQ Regulatory Proposal related to Qld electricity distribution determinations, Energex and Ergon Energy, 2020 to 2025

### Introduction

A representative from National Seniors' Queensland Policy Advisory Group (Qld PAG) was a participant in the stakeholder working group formed by Energy Queensland (EQ) to provide input and feedback on the development of the Ergon Energy and Energex Regulatory Proposal and Tariff Structure Statements to provide a voice for vulnerable older residential customers, including those on low and fixed incomes.

### Guiding principles

In preparing for participation in this working group, a set of guiding principles were formulated by Qld PAG to test the outcomes of the EQ RP-TSS process. We believe there is general agreement among other consumer advocates within the EQ working group on these guiding principles.

#### *Guiding principles:*

- **Improved affordability** must be the priority. If new tariff options do not improve affordability for all clients they should be discarded.
- **Leave no one behind** – benefits of new tariffs must be available to ALL consumers.
- The issue of **making digital meters widely available** must be addressed in association with the development of new tariff options. It will be of no use having more affordable tariffs if the consumers are unable to access them because they do not have the required metering.
- Ensure **new tariffs are fair and equitable for ALL clients** and **do not maintain or introduce new cross subsidies**, especially around the costs associated with renewable energy.
- New tariffs **must aim to deliver equitable cost savings for all clients**.
- New tariffs **must, at worse, offer a cost neutral outcome** – increases for vulnerable clients, especially those on low and fixed incomes, must be avoided.
- New tariffs **must be flexible, transparent and simple to understand**.
- New tariffs **must offer a cost neutral “set and forget” option** for vulnerable and older clients who are unable to respond to time, volume and price levers. This option could be linked to a network residential load control tariff to ensure “accidental” peak usage is avoided.
- New tariffs **must be extensively modelled and trialled before being introduced** to ensure expected outcomes are achieved.
- New tariffs should be introduced in ways that **allow clients to trial the option they prefer** (test the financial outcome) before being asked to commit to a new tariff option.
- New tariffs must be designed in ways that **ensure customers can easily move between tariffs**. Changing a tariff should be as easy as changing an electricity retailer.

The following advice is provided to the AER based on our representatives' participation in the EQ RP-TSS working group process by reflecting on the guiding principles listed above.

## Impact of EQ Response on Consumers

### *Revenue and Affordability*

EQ have estimated that residential distribution network charges will reduce in 2020/21 by between 15.4% and 19.8% depending on whether the consumer is with Ergon or Energex and whether they have a legacy or digital meter. We note that these estimated reductions are at variance to some snapshot data supplied by EQ to the RP-TSS Working Group Forum on 17 December 2019<sup>1</sup>.

We would make the following points about these estimated reductions:

- **The majority of the reduction has resulted from items beyond the control of EQ** being the RAB, the reduction in the WACC and Corporate Income Tax, not from savings made by the distribution network. The WACC has reduced by 14.47% since the Regulatory Proposal was submitted and 4.11% since the AER Draft Decision.
- **Items of expenditure under the control of EQ have either flatlined or gone up** since the Regulatory Proposal and/or Draft Decision which is disappointing.
- We believe the EQ Response reveals a **“business as usual”** approach which has not been subject to “best practice” benchmarking and testing. Such an approach does not guarantee that maximum efficiency and productivity savings are achieved and we are not convinced that the principle of not “spending a dollar more or spending it a day early” has been fully applied by EQ in their Response.
- We believe there are **significant risks that the estimated reductions will not be received in full by consumers** including:
  - There is no guarantee that the estimated savings will be passed on in full by the retailers.
  - The estimated reductions could be negated in part or in full should the Qld Govt decide to return the cost of the Solar Feed-In Tariffs to consumers when the current arrangements expire in early 2020. Whilst not under the control of the AER, this issue is of major concern to consumer advocates and needs to be given high visibility.

### *Safety, Sustainability and Security*

EQ have advised that they have recently become aware of a deterioration in the safety of the Ergon network which has necessitated an increase in both Opex and Repex in the 2020-25 regulatory period. We find this advice very disappointing given the amount expended on the network during the current and previous regulatory periods.

To add to our concerns is the fact that there is no guarantee all of the defects in the network have been identified and the number and associated costs could continue to escalate in the future. It **would appear that network defects have been “kicked down the road” in the current regulatory period** and this is now going to cost consumers a considerable sum to rectify.

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<sup>1</sup> EQ Tariff Structure Statements 2020-2025: TSS Overview - 17 December 2019

National Seniors would request the AER to **disallow any and all incentives that have been applied for by EQ** that may have been earned by not addressing the both known and unknown issues that are now becoming apparent and may become apparent in the future.

We would also request that AER **make whatever other adjustments are available, e.g. adjusting 2020/25 Incentive Schemes, to ensure that the underspending on Opex, Repex and Capex in the current regulatory period is not paid for by consumers in the 2020/25 regulatory period.**

### ***Tariff structure***

National Seniors notes that there are requirements placed upon distributors under rules governing distribution network pricing. These rules aim to:

- provide better price signals to retailers—underlying network tariffs that reflect what it costs to use electricity at different times
- transitioning to greater cost reflectivity—requiring distributors to explicitly consider the impacts of tariff changes on customers, and engaging with customers, customer representatives and retailers in developing network tariff proposals over time
- managing future expectations—providing guidance for retailers, customers and suppliers of services such as local generation, batteries and demand management by setting out the distributor's tariff approaches for the entire duration of the regulatory control period.

### ***EQ Tariff Response comparison to NSA Guidelines***

National Seniors believes that the implementation of amended and new tariffs by the distributor must enhance both affordability and equity by encompassing the following elements:

- **Affordability** cost neutral outcomes at worst with reductions the highest priority, all measured against a “do nothing” option.
- **Elimination of cross-subsidies** where those that can least afford to are subsidising the costs of those who least need to be subsidised.
- **Fairness and equity** across all residential customers.
- **Leave no one behind** ensure all customers are provided with the opportunity to take advantage of new technologies and other market developments.
- **Flexible, transparent and simple to understand tariff structure** provide processes for customers to model their circumstances to ensure they are properly informed before committing to a new tariff
- **A competitive “set and forget” tariff** for those unable to manage their usage for medical, financial or other reasons.

The AER Draft Decision and the EQ Response, and the work undertaken by EQ and others that underpins this Response, has improved the position that previously existed and which resulted in National Seniors not supporting the previously advised tariff options.

The guidelines we have used to assess affordability and equity, as set out above, have mostly been addressed to some degree although **we remain concerned that the cross subsidies that are embedded in the existing tariffs will remain** under the proposed arrangements for 2020/25.

As an example, we note from EQ data supplied that the estimated residential customer bill (calculated on a consumption of 4600 kWh pa) on the Residential Flat tariff will be down by 10% in 20/21 versus 19/20 whereas the estimated Residential Transitional Demand and Residential ToU Energy tariffs will offer reductions of 13% and 16% respectively<sup>2</sup>.

Cross subsidies are inherently discriminatory against low income and vulnerable consumers and should not force these consumers, who can least afford it, to provide cost subsidies to those who least need them. Another example of a cross-subsidy is the way that distribution costs associated with importing energy from the grid are charged to consumers but distribution costs associated with export, e.g. solar export, are not. Feed-in tariff costs themselves are another example. **National Seniors are disappointed that there has been no strategy development by EQ to address cross subsidies in the next regulatory period.**

Information supplied by EQ indicates that the Residential Flat, Residential Transitional and Residential ToU tariff types will be lower in 2020/21 when compared to the 2019/20 Residential Flat tariff. **We are concerned that the estimated Residential Demand 2020/21 tariff reveals that there is unlikely to be any saving against the 2019/20 Flat tariff and may actually be higher.** This obviously requires more research to identify why this tariff appears to be producing a different result to the others compared<sup>3</sup>.

We understood from Stakeholder Meetings that EQ were committed to developing a tariff structure that would provide consumers with basic meter pricing options every bit as good as those with digital meters. Whilst we note that the legacy network (Flat) tariff (IBT for Ergon consumers) will be the default tariff for consumers with basic meters, and the modelling completed by EQ indicates that there will be a saving of around 10% in 2020/21 for consumers with basic meters, this will obviously result in these consumers not receiving the price reductions contemplated for consumers with digital meters<sup>4</sup>.

We are also concerned that those consumers who are unable to afford to upgrade their basic meter to a digital meter will be excluded from achieving the additional potential savings, including through load control, that may be available from Demand and ToU tariffs in the 2020/25 regulatory period.

We are pleased to see that the EQ Response confirms capacity tariff option trials will be completed over the 2020/25 period but remain concerned that the Transitional, Demand and ToU tariff **comparative and financial impact modelling completed to date has been restricted to a quite narrow demographic spread and relatively low numbers.**

In our Issues Paper feedback provided on 31 May 2019 we set out the following demographics we believed should be considered when impact modelling was undertaken:

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<sup>2</sup> EQ Tariff Structure Statements 2020-2025: TSS Overview - 17 December 2019

<sup>3</sup> EQ Tariff Structure Statements 2020-2025: TSS Overview - 17 December 2019

<sup>4</sup> EQ Tariff Structure Statements 2020-2025: TSS Overview - 17 December 2019

- Age
- Income
- Employment status
- Energy consumption
- Family size
- Impact of high consumption appliances – e.g. air-conditioning, pools, car charger, battery etc
- Load control vs no load control
- Non-solar vs solar
- Postcode
- Tenure
- Vulnerability/disadvantage e.g. pensioner, disability, Aboriginal or Torres Strait Islander etc

We believe that this modelling should cover the full regulatory period 2020 to 2025 and not simply the first year when the benefits of cost reductions will be applied.

In the absence of such comprehensive modelling being available, we believe there will be unintended, adverse consequences and we would **recommend that any changes approved be subject to a “no disadvantage test” before they are implemented.** Such a test will identify those who will be adversely impacted and who are vulnerable or in hardship so they may be provided with suitable assistance and protection.

Unfortunately, consumers on low and fixed incomes, renters and other vulnerable people are currently faced with electricity bills that exceed their ability to pay. Many are not able to make complicated behavioural changes to reduce these expenses other than to switch off appliances, which can create negative impacts on their health and wellbeing. It is this knowledge that drives our desire to completely understand the financial impact of the proposed tariff changes.

Other issues that are of concern to National Seniors are:

- The lack of research into and comparisons with other options that must exist in relation to the development of consumer centric tariffs.
- The apparent lack of impact analysis on the changes to the network that are and will continue to be made by consumers investing in solar, storage etc...
- The lack of ongoing commitment to TEDI in the EQ TSS Response.
- The lack of acknowledgment of the impact of retailers on the actual price reductions that will be passed on to consumers and what is required to ensure that 100% of savings are passed on.
- The importance of establishing ongoing monitoring to ensure that the desired consumer and other outcomes are achieved.

As a general comment, National Seniors do not believe the EQ Response has consumer benefit at the centre of the changes contemplated and we are concerned that the treatment of vulnerable consumers is not really



considered at all. There are “motherhood statements” made within the EQ Response which are just not backed up with associated analysis and action.

As a general overview, it appears to us that EQ have run out of ideas or the courage to test new ideas, especially in relation to its new tariff structure, and have decided to take the “easy way out” and prepare a response that they believe the AER are prepared to accept.

### **Important Issues requiring the support of AER:**

In addition to the matters raised above, National Seniors would also draw AER’s attention to two other very important issues:

- 100 per cent of cost reductions must be passed on to customers by retailers.
- Support programs must be implemented for hardship and vulnerable residential customers.

We appreciate that these two issues are beyond the remit of the AER and the direct control of EQ but, as a business owned by the Qld Govt, EQ are well placed to recommend these consumer protection measures and should be encouraged to do so by the AER.

### **Conclusion**

National Seniors appreciates the opportunity to have representatives from the Qld PAG participate in the EQ RP-TSS process.

Whilst we believe that the EQ Response is generally heading in the right direction, we are very concerned about **the recently identified increase in costs**, especially related to the Ergon network, which appear to result from a lack of investment within the current regulatory period and the impact this will have in the 2020/25 regulatory period.

We are also very concerned the **lack of comprehensive financial impact modelling** (related to the proposed tariff changes) will result in unintended, adverse consequences for those that can least afford them.

We have addressed both these concerns in this submission and would again recommend the AER take appropriate action on **Incentives** and by implementing a “**no-disadvantage test**” related to new tariff application.

Finally, we would reiterate the importance of ensuring that **100% of price reductions be passed on to consumers** and **appropriate support programs** be implemented to ensure the vulnerable and those in hardship are educated and protected from adverse consequences related to the changes approved by the AER.