



26 October 2016

Mr Chris Pattas  
General Manager – Network Investment and Pricing  
Australian Energy Regulator  
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Dear Mr Pattas

### **Networks NSW Revised Tariff Structure Statements**

Origin Energy (Origin) appreciates the opportunity to provide input into the Australian Energy Regulator's (AER) assessment of the revised Tariff Structure Statements submitted by Networks NSW for the period 2017-19.

Origin recognises that the tariff reform process is intended to establish tariffs which better reflect the costs incurred by distributors from customer decisions to use electricity at specific times or locations. However, it is important that as an industry we do not lose sight of the objective of tariff reform which is to reduce peak demand. To achieve this outcome requires striking a balance between network tariffs that are not only cost-reflective but are also sufficiently simple so that they can be easily communicated to and understood by residential customers thereby integrating behavioural change into the reform process.

Origin's responses to specific issues identified in the AER's draft decision are set out below.

#### *Rate of Reform*

Each of the NSW networks had initially proposed declining block tariffs; a position we supported. In response to the AER's draft decision, each network has now proposed a flat rate structure for residential customers, albeit at different rates of transition. Ausgrid and Endeavour have proposed transitioning to a flat tariff structure over two years whereas Essential has proposed to adopt a default flat rate tariff from 1 July 2017.

On the basis that the proposed tariff structure statements (TSS) apply only for the remaining two years of this regulatory period, we agree with the NSW networks adopting a conservative response to the AER's draft. We believe this approach will enable not only the businesses but also retailers and other stakeholders to undertake the analysis required to better understand customer impacts and responsiveness, develop more targeted education campaigns and identify the most effective methods of reducing peak demand. This in turn will provide industry with a better opportunity to develop a suite of measures more capable of achieving the intended outcomes of the reform process.

#### *Structure of TOU Tariffs*

Each of the NSW networks has proposed a mandatory assignment to a TOU tariff for residential customers subject to the installation of a capable meter. Essential has proposed an introduction from July 2017 whereas Ausgrid and Essential have proposed an introduction from July 2018.



Origin considers that the introduction of volumetric TOU tariffs represents a pragmatic step along the spectrum to cost reflectivity. We believe volumetric TOU tariffs are relatively well understood by customers and therefore are more likely to deliver an informed consumption response.

However, to achieve their intended outcomes they, like any tariff, must avoid unnecessary complexity. For example, Ausgrid has proposed a TOU structure which includes seasonal tariffs. Over the summer months (between November and March) the proposed intervals are:

- Peak between 2pm to 8pm working weekdays;
- Shoulder between 7am to 2pm and 8pm to 10pm on working weekdays and 7am to 10pm on weekends and public holidays; and
- Off-peak all other times.

Over the winter months (June to August) the proposed intervals are:

- Peak between 5pm to 9pm working weekdays;
- Shoulder between 7am to 5pm and 9m to 10pm on working weekdays and 7am to 10pm on weekends and public holidays; and
- Off-peak all other times.

Over all other months, a shoulder rate applies between 7am to 10pm and an off peak rate applies over all other times.

Under this proposal, a customer could face up to five different prices within a 12 month period (i.e. summer peak charge effective 1 November; shoulder period effective 1 April; winter peak effective 1 June; revised winter peak effective 1 July as per annual pricing approval; revised shoulder period 1 September). In addition to the five different prices, a customer will also need to remember that there are 10 different pricing intervals that apply at different times over a twelve month period.

With respect to Endeavour and Essential, both have proposed TOU tariffs with multiple peak and shoulder intervals meaning customers would need to be cognisant of 5 different pricing intervals on any given weekday. Furthermore, Essential has proposed different time intervals between its Residential Time of Use tariff and its Residential TOU Interval tariff which is likely to lead to significant customer confusion when a customer switches between the two tariffs following a meter upgrade.

Origin recognises that the object of different charging intervals is to better signal the costs of using the network at that point in time. In the initial stages of the reform process simple and consistent structures are more likely to be understood by customers and responded to. We do not believe the number of charging intervals proposed by the NSW networks meets the requirement of simplicity and predictability. With multiple seasonal and interval charges we have reservations whether a customer will sufficiently understand and respond to the complicated TOU signals meaning reductions to network peak demand are likely to be only marginal but run the risk of customer confusion and disengagement

In terms of seasonal charges, we agree with Essential that seasonal tariffs will add increased potential for significant seasonal price fluctuations to customer bills and add a layer of complexity that should be avoided if possible.

For these reasons, we believe the proposed TOU tariffs should apply simpler charging parameters and a more consistent structure. As a result, we believe the benefits through greater customer understanding will outweigh the loss of precision of a more complex charging signal.



*Closing*

Consumers have a clear preference for simplicity and predictability with respect to electricity pricing; the more complex the signal the increased likelihood it will not achieve the desired customer response. Therefore, the challenge for network tariff reform is to develop cost-reflective tariffs that provide a simple and clear signal that retailers are willing to pass-through and that customers can readily understand.

We believe the NSW networks have adopted an appropriately conservative approach to transitioning along the spectrum towards more cost-reflective network tariffs. We look forward to working with both the AER and the NSW networks on the development of the next TSS to expand on our joint understanding of the impacts of different tariffs structures so we can introduce optimal approaches to reducing peak demand.

If you have any questions regarding this submission please contact Sean Greenup in the first instance on (07) 3867 0620.

Yours sincerely

A handwritten signature in blue ink, appearing to read "K. Robertson".

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