

# QCROSS submission to the Australian Energy Regulator's Issues Paper: Queensland electricity distributors' tariff structure statements

## Introduction

Everyone deserves to be able to afford to cool their home, give their children a warm bath, or cook a meal when they need to. Affordable electricity is fundamental to people's health and safety, and essential for the wellbeing of our communities and the prosperity of our state's economy.

Unfortunately, many people in Queensland are already struggling to pay their electricity bills, and the situation is getting worse. Almost 28,000 Queensland households were disconnected for non-payment of electricity bills in 2017/18<sup>1</sup>, an increase of more than 22 per cent over two years.

It is therefore concerning that Energy Queensland (EQ) is proposing to introduce complex network price structures from 1 July 2020 that risk making some people significantly worse off. QCROSS is concerned that EQ has done limited analysis to identify who will be adversely impacted under these price structures. This lack of analysis not only makes it difficult for consumer groups to provide informed feedback on the tariff proposals, but also means that policymakers do not have an evidence base to develop and introduce policy measures to inform and protect the people who will be negatively affected by these changes.

Following an extended consultation process by EQ, QCROSS made three formal submissions<sup>2</sup> to EQ. We now welcome this opportunity to make a submission to the Australian Energy Regulator (AER) Issues Paper on the Queensland Distribution Determinations on tariff reform.

We do not consider that EQ's proposals meet the requirements of the National Electricity Rules (NER) being assessed by the AER, in particular the customer impact principle and the principle that tariffs be capable of being understood and actionable by consumers.

Our main concerns are summarised in this submission. The attached Companion Report<sup>3</sup> contains more detail.

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<sup>1</sup> Australian Energy Regulator (2018), Annual Report on Compliance and Performance of the Retail Energy Market 2017-18. Please find report by clicking [here](#).

<sup>2</sup> QCROSS made three submissions to the EQ three rounds of consultations. QCROSS submissions made be found on the QCROSS Website by clicking [here](#).

<sup>3</sup> The Companion Report was prepared by Etrog Consulting as advice to QCROSS on EQ's Proposals to date (as at 24 May 2019). This report should be read in conjunction with the QCROSS submission.

## Key issues related to Energy Queensland's proposals

Our concerns with EQ's tariff proposals are:

- **The Tariff Structure Statements are incomplete.** While we acknowledge that EQ is continuing to update its thinking on the tariff structures, this is unacceptable given the tariffs being proposed are expected to apply from 1 July 2020.
- **EQ's proposal does not reflect critical issues raised in consultation.** EQ staff invested significant time and resources into consultation with many opportunities for feedback, and we acknowledge their efforts. However, the proposals as they currently stand do not adequately reflect the key issues that were raised in the consultation process. For example:
  - *Decisions were made throughout the consultation period without clear explanation or rationale.* From an early stage, EQ narrowed its focus to the 'Lifestyle tariff', even though this tariff was not identified using any of the principles of tariff design other than cost reflectivity. After January 2019, EQ moved away from the 'Lifestyle Tariff' and presented new tariffs without clearly explaining the rationale, or why the new tariff proposals were more likely to meet EQ's objectives than other tariff options.
  - *EQ did not establish assessment criteria for comparing different tariff options.* Consumers were not involved in the process to identify the tariff design principles to assess tariffs and identify the preferred tariffs to be implemented. EQ appears to have prioritised cost reflectivity over all other design principles and has not adequately considered customer impacts or the capability of consumers to understand and respond.
  - *EQ has not undertaken trials or more in-depth analysis / modelling of customer impacts.* It is very difficult for consumer groups to provide feedback on EQ's tariff proposals without understanding the customer impacts. EQ's lack of customer impact analysis, modelling or trials means that consumers' concerns, especially about bill shock, have not been allayed. Trials must be conducted with a diverse spread of consumers, including consumers experiencing vulnerability such as those on hardship programs and taking into account income, load profile, solar and non-solar, regional locations, household condition and housing tenure. This will help identify how to support customers who are worse off due to tariff reform.
- **EQ has not progressed with its Tariff Education Dynamic Incentives and Information (TEDI) strategy.** In its April 2018 Issues Paper<sup>4</sup>, EQ stated that its "*tariff strategy should be developed within the ecosystem of TEDI*". This strategy was proposed to roll out prior to 1 July 2020 as a way of developing the tools needed to support customers and introducing network tariff trials,<sup>5</sup> which was an approach that was supported by consumer groups in consultation. However, no further work was done by

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<sup>4</sup> Energy Queensland (April 2018), Network Tariffs 2020-25 Tariff Structure Statement Customer Consultation Issues Paper, P21. See Talking Energy [Webpage](#).

<sup>5</sup> Energy Queensland (2019), Overview of its Regulatory Proposals, P11. EQ states "*A critical part of TEDI is the tools that need to be developed support customers*" and "*another key aspect of TEDI is the introduction of network tariff trials*".

- EQ to progress this, and EQ appears to have framed the TEDI strategy as a way to help transition customers to the new tariffs after they have been agreed with the AER.
- **The proposed tariffs do not meet the principles of equity, simplicity and bill stability.** In our first submission in May 2018<sup>6</sup>, QCOSS raised that tariff design should consider the principles of equity, simplicity and bill stability. QCOSS' concept of equity and fairness involves more than removing cross-subsidies that may be present in the current pricing system. Affordability and access to electricity services are essential components of equity in tariff design. The Residential Basic Tariff does not achieve affordability for large users (including vulnerable people with medical devices or large families) and for people living in premises with embedded networks (including low-income and social housing); the Residential Demand and Capacity Tariffs are complex tariffs that consumers will struggle to understand and respond to, and risk bill shock. It is not known how any of the tariffs will impact on bill stability, as limited analysis was undertaken. EQ has not taken these principles into account.
- **Limited research to date on how well consumers can respond to complex tariffs.** What research is there suggests that customers (or at least certain groups) cannot respond given family and household commitments. Research has found that complex tariffs can risk customers' wellbeing by causing discomfort and anxiety<sup>7</sup>. QCOSS acknowledges the need for more research to build up understanding and knowledge on customer behaviour and household dynamics and their ability or not to respond to more complex tariffs. This should include research on what assistance is required to help them and how to remove barriers.
- **EQ has not adequately identified customer impacts.** The Rules clearly require EQ to identify and consider impacts on customers. However, EQ has made only limited efforts to understand the outcomes for customers and has not conducted any trials or modelling. EQ has produced scatter diagrams, but:
  - those diagrams compare against the Flat tariff, which does not show what prices would have been in 2020-25 if not for tariff reform, so it is not a fair comparison;
  - the scatter diagrams only take the first year (2020-21) into account, and that is when there is over 10 per cent decrease in revenue to be recovered. This revenue effect has not been isolated from the tariff structure change, so it is not possible to project if customers are better or worse off due to tariff reform, and what the impact might look like after year one of the regulatory period;
  - the scatter diagrams do not identify where customers experiencing vulnerability and disadvantage sit. QCOSS is concerned that customers with high electricity needs and customers of embedded networks will be adversely affected. However, we are concerned there has been no work to identify the impact on these customers. This is despite the fact that many consumers in embedded networks are on low incomes and living in accommodations such as retirement

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<sup>6</sup> QCOSS (May 2018), Submission to the Network Tariffs Issues Paper. This can be found on the QCOSS Website by click [here](#).

<sup>7</sup> BankWest Curtin Economics Centre (2018), Power Plans for Electricity, The impact of tariff structure changes on vulnerable customers. Also refer to The Conversation (2016), Feral O'Clock, Why Families Struggle to Shift their energy use. RMIT. Also refer to Wein, Paen, Ya Ang Gim: Victorian Aboriginal Experiences of Energy and Water, CUAC, December 2011.

villages, social housing, caravan parks and boarding houses. Additionally, many people who are struggling to pay their bills use a lot of electricity in their home for reasons outside of their control. For example, because they have a large family, because someone in their home has a medical need which is managed with electrical equipment, or because they rent a poorly insulated home with an old, inefficient hot water system. These points of vulnerability have not been explored by EQ with a view to identifying and mitigating negative customer impacts.

- The analysis to date has only included annual impacts and not taken into account bill variability due to seasonality which is significant in some parts of Queensland.
- **The proposals do not meet the principle of consumer understanding and capability to respond.** The NER requires that the tariffs can be understood and actionable by consumers. However, EQ has not provided a clear plan for how they will communicate with and educate customers about the new tariffs. The tariffs are complex, and it is likely that many customers will find them difficult to understand and accept, especially with such a short time to the implementation date of 1 July 2020 and no transition approach identified. It is not clear how the Residential Demand Tariff, in particular, meets this principle given that most customers who will be assigned to this tariff will not have a choice in the matter<sup>8</sup> as digital meters are being rolled out in Queensland since 1 December 2017.
- **The rationale for the proposed tariffs is unclear.** EQ's own rationale for tariff reform has changed, with peak demand no longer cited as a problem. The tariff structures have also changed dramatically throughout the consultation process without a clear explanation of the rationale. EQ has not clearly articulated the new challenge(s), how tariff reform is the best way to address it, and what other options might be available. EQ appears to have rushed to a solution of quite complex tariffs without:
  - considering an appropriate transition period,
  - considering why these tariffs are in the best interests of customers;
  - providing a clear rationale to explain the urgency, or
  - explaining how customers will understand and respond to the new tariffs.
- **There are no appropriate options for consumers who are worse off on the new tariffs.** In the case where consumers are worse off on the Residential Demand Tariff, they have the option to revert to a Flat Tariff. However, this Flat tariff is not fit for purpose. It is based on 2015-2020 revenue requirements, so cannot be cost reflective in 2020-2025. Furthermore, customers who are reverted to the Flat Tariff will not receive the benefit of the 10 per cent reduction in revenue in 2020-21. Our understanding is that this is not compliant with the NER<sup>9</sup>.

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<sup>8</sup> We note that the AER approved Ergon Energy's network tariff structure for 2017-2020 against this principle on the basis that these network tariffs were "opt in". The AER stated "*This is because these tariffs will be opt-in, enabling an informed customer choice about whether this tariff is suitable or not for their circumstances*". AER (2017), Final Decision, Queensland Distribution Businesses TSS 2017-20.

<sup>9</sup> NER 6.18.5(a): The *network pricing objective* is that the tariffs that a *Distribution Network Service Provider* charges in respect of its provision of *direct control services* to a *retail customer* should reflect the *Distribution Network Service Provider's* efficient costs of providing those services to the *retail*

- **EQ has not given sufficient consideration to non-tariff solutions for the challenges identified.** QCOSS welcomes EQ's retention of load controllable tariffs and their ability to play their part in tariff reform by soaking up solar input during the day. However, EQ must also implement non-tariff solutions to support consumers who can shift load to do so. EQ must respond to what consumers want by enabling and/or considering how it will facilitate the uptake of DER, energy management systems, and peer on peer trading, with an emphasis on including customers experiencing vulnerability in the transition.

## Recommendations

QCOSS does not support the proposed implementation of network tariff reform in Queensland. We recommend that the AER reject EQ's proposed tariffs on the basis that they are not compliant with the NER.

EQ must undertake the following actions to make its tariff proposals compliant and acceptable to consumers:

- Complete its Tariff Structure Statements.
- Establish clear assessment criteria for comparing tariff options which act in the interests of customers and undertake comparative analysis across a suite of tariffs including time of use and energy time of use tariffs.
- Undertake trials and modelling to identify customer impacts, especially for customers experiencing vulnerability, to establish who will be better off or worse off under the various new tariff options.
- Provide a clear plan for how and when it will communicate and educate customers about new tariffs, including appropriate measures for customers experiencing vulnerability.
- Clearly articulate the challenges that EQ will face in the upcoming regulatory period and further into the future in order to meet the interests of customers, how tariff reform is the best way to address these challenges, and what other options might be available.
- Provide compliant tariff options (or other non-tariff options) for consumers who would otherwise be made worse off by the new tariffs.
- Demonstrate engagement with retailers to ensure public facing retail tariffs maintain beneficial consumer outcomes of network tariffs, especially for consumers experiencing vulnerability.
- Undertake and support more research on consumer and household behaviour with respect to more complex tariffs.

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*customer.* NER 6.18.5(g): The revenue expected to be recovered from each tariff must: (1) reflect the *Distribution Network Service Provider's* total efficient costs of serving the *retail customers* that are assigned to that tariff.

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Given the above issues remain unresolved, we do not consider there is enough time available for EQ to complete the above actions by 1 July 2020. We therefore recommend the AER consider an extension of 12 months to implement network tariff reform in Queensland. For the period 1 July 2020 to 30 June 2021, the AER should approve flat network tariffs for residential customers based on the 2020-2025 regulatory revenue requirement.

An extension will not only provide EQ with enough time to address deficiencies in its tariff proposals, it will also enable our elected representatives in Queensland to develop and implement policy reforms which protect and inform affected consumers. The policy measures that we have identified as being essential to supporting the success of tariff reform in Queensland include:

- **Concessions reform** – including a shift to percentage-based concessions to better protect consumers from bill shock that may arise as a result of tariff reform.
- **Energy efficiency outcomes for renters** – including the introduction of minimum energy efficiency standards for rental properties, and improvement of energy efficiency standards in public housing, to protect private and social housing renters from higher bills because of energy use which is outside their control.
- **Consumer education and support program** – sustainable and ongoing investment into face-to-face support delivered by community services located across the state to assist people who may be struggling to pay their energy bills.
- **Protections for customers of embedded networks** – identifying where and how many embedded network customers there are in Queensland (noting that Queensland has the most embedded networks of any jurisdiction) to ensure their needs are reflected in tariff reform, and that they can access the customer protections they are entitled to, such as retailer hardship programs, concessions and dispute resolution.

It is critical that during this period the Queensland Government take a leadership role and work with EQ, retailers and consumer groups to put in place a more holistic approach encompassing network tariffs, retail offerings, education, communication, consumer protections and information as part of the network tariff reform journey.

Going forward QCOSS continues to support the intent of tariff reform as a way to improve equity and reduce electricity costs for consumers. We will continue to work with EQ and the Queensland Government with this objective front of mind to ensure no one is put at risk of struggling to pay their energy bills as a result of tariff reform.

## About QCOSS

We are QCOSS (Queensland Council of Social Service), Queensland's peak body for the social service sector. Our vision is to achieve equality, opportunity and wellbeing for every person, in every community.

We believe that every person in Queensland – regardless of where they come from, who they pray to, their gender, who they love, how or where they live – deserves to live a life of equality, opportunity and wellbeing.

We are a conduit for change. We bring people together to help solve the big social issues faced by people in Queensland, building strength in numbers to amplify our voice.

We're committed to self-determination and opportunity for Aboriginal and Torres Strait Islander people.

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