Submission on the draft report
“The pricing review - Electricity pricing for a consumer-driven future”

Summary

The proposed change to a large fixed daily fee (multiples of the current one) for electricity for consumers, instead of fees for usage, is abhorrent and will be a disaster for Australia.

It would be yet another poll tax, this time to with the money going to private companies.

It will significantly raise the cost of power for small consumers, and consumers who have achieved power savings through efficiency or their own production.

It will drive demand that will lead to more network congestion, and more power production requirements, which will directly lead to further price rises.

The direct result will be the antithesis of what we really need to do in Australia.

This report is a missed opportunity to actual improve the operation of the electricity network for **consumers**, and is instead making the situation even worse, and more expensive, than what it currently is.

It mainly seems to be promoting the interest of energy network operators, directly against the interest of consumers and Australia as a whole.

Given such a change would also have significant political implications (with a large group, possible more than half, of consumers to have significantly higher power bills) I hope this proposal is quickly removed from the option mix.

Details continue in the section below.

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Details -

1 I was flabbergasted to read that the biggest change suggested to in the report was to change the decades long practice of consumers mostly paying for the electricity they use - and instead going to a large flat fee with surge (congestion) pricing.

2 This is an absurd suggestion and will be yet another nail in the coffin of the dysfunctional Australian electricity market.

3 The removal of price signally will have massive impact not only on consumers but on producers and network operators specifically -

3.1 Consumers who have worked to minimise their usage, through change of lifestyle, more efficient appliances, or self generation (ie solar) will now have their work undone by a large fixed fee that will effectively make them **pay for the electricity they aren't using!**

3.2 Consumers will have **little ongoing incentive to reduce electricity consumption**, as why would they spend money to reduce consumption when the electricity bill won't change, or change little?

3.3 Consumers would instead have an incentive to use **more electricity** as they would be have no cost in doing so. This is know economically as the **"zero price effect"** and will lead to skyrocketing demand.

For example, why wouldn't consumers leave their air con on all day if it wasn't going to impact their bill?

3.4 Consumer skyrocketing demand will lead to more network congestion, which will lead to -

3.4.1 Consumers having a high dynamic charge on top of a high fixed charge! In addition, this dynamic charge will be extremely hard for them to manage, as they will not know when it is being applied.

3.4.2 Network infrastructure would need to be build, which will in turn lead to a higher fixed charge to the consumer.

3.4.3 Power production would need to increase, which also may face constraints.

4 The report states that it is more “equitable” for people who use less electricity to pay the same as people who use more.

This is fundamentally incorrect, and is not what equitable means in this context.
“Equitable” is that the more consumers uses something, the more they pay for it.

For example,

4.1 Our income tax is claimed to be equitable as people who earn more money pay more tax. Whereas the proposal in this paper is more akin to charging everyone a flat tax bill (say $27Kpa, the current average) irrespective of income

4.2 We do not charge everyone the same price for any car they buy, or house. If they want a better one (ie more) consumers pay more.
This proposal is akin to saying all cars should be the same price as that would be more “equitable”.

This is clearly absurd.

5 Current consumer bills are already pushing the “equitable” envelope with the high current fixed fees. Significantly increasing these fixed fees is abhorrent.

Why should a single member household pay the same for their electricity bill as a family of 5 who have their air cons running all day? It simply doesn’t make sense.

Yet the report, in multiple locations, keeps repeating the fallacy that a large fixed fee is more equitable - **when it clearly isn’t.**

6 Also miss represented in the report is “Ramsey-Boiteux pricing”, which the report attempts to say is the reason they want to have a large fixed fee instead of volumetric (useage) pricing.

This is incorrect. What Ramsey-Boiteux says is -

6.1 Monopolies should not charge only the marginal cost of providing the goods.

This is indeed sensible, but also equally applies to non monopolies in competitive markets.

eg car manufactures do not (remotely) sell cars at the marginal cost of making them. They sell them for a price that includes a (significant) portion that goes towards all their setup/development/transport/marketing costs.

6.2 This does not imply a large fixed cost, it implies that monopoly needs to charge a price that includes both 1) a portion towards their fixed costs, and 2) a portion for their marginal costs.

Both of these costs could be all factored into -

6.2.1 all as a fixed fee, as the report suggested.

6.2.2 a split between fixed and volumetric (usage) fees, as we currently have.

6.2.3 all as a volumetric (usage) fee, which would be the most equitable, and allow users to directly manage their own costs.

6.3 Ramsey-Boiteux also states, and this report also strongly supports, to charge more to the consumers who can't escape the monopoly (as they have to pay), and less to those who can (ie sensible pricing for those that can decide not to pay).

While this might be a great idea for the monopoly – the electricity suppliers in this case – it is horrible for the consumer.

Large ie commercial users will be able to negotiate lower prices, retail consumers will have higher prices.

Thus regulators often sensibly limit the operation of Ramsey-Boiteux pricing.

6.4 Even given 6.3 above, the report has failed to consider that one of the most powerful consumers is a consumer with solar in a sunny location, such as Queensland.

The **current** fix fee is a significant incentive to go off grid in many Queensland locations, as with ergon limiting the day time uploading of solar it takes significant work to export enough to even pay for this daily fee (currently about 20kw/h per day required).

If the daily fixed fee was to significantly increase, which is the recommendation of this report, the response for many consumers in sunny areas will be to buy a battery and drop of the grid.

This would give the consumer a more reliable electric supply (not subject to grid failure) and means they can directly manage their own expenses.

I note that there is no doubt that if this is occurred the network operators would be clamouring for a fixed fee even if you weren't connected to the network! I suspect they may have some difficulty with that though.

It is extremely disappointing that something that was regarded as a supplied essential service is now a mechanism to extract value from consumers, and that consumers may be better off just doing it themselves

If the fixed daily fee is significantly increased I will certainly consider (and most likely actually do) dropping of the network - as it is quite easy to be power independent in sunny QLD. I suspect many others would do the same.

Given the numbers present in the report (with the median bill size), and not using the average (that would be used in practice) would give a daily fee of at least $5 per day. At that point I, and many others would be off the network.

7 Under a large fixed fee model, it is hard to see there would be much further take up of solar/batteries, as it simply wouldn't be economically reasonable to do if it didn't impact the consumers electricity bill.

8 The report states that much of the current cost of electricity to consumed is the previous network construction cost, and everyone should pay an equal share of this irrelevant to how much power they are using.

I disagree, the network construction cost is something consumers have paid a reasonable percentage of through taxes, and something the private operators have taken on as the capital price for the income stream of selling electricity.

The cost of this should be be part of the volumetric (usage) pricing, as part of the return on equity they are trying to achieve.

If they can't achieve that in this fashion – a price based on usage – they should sell their business to another entity or hand it back to the government.

9 The effect of the large fixed fee is to cross subsidise large use of electricity by making smaller or efficient users to pay more ie the report wants to penalise people who are power efficient to cross subsidise those who are not.

10 The report state that small users need to pay more so that they can fund the network that has been built.
This is completely ignoring the fact that consumers who use less electricity (lifestyle. appliances, solar etc) directly lead to **less money being need to expend the network in the future.** Far from discouraging small users of electricity we should be encouraging them to prevent expensive upgrades to infrastructure!

Consumers using less electricity, through to positively producing it, substantially save network hardware upgrades from the local level all the way up to interstate interconnections. Far from 'not paying their share' they are saving money for the network providers!

11 The comparison web site mentioned in the report will be useless if the market went to large fixed fees instead of usage charges. As the report itself states -

customers whose network charge is materially higher than previously would be exposed to potentially materially higher bills. Even with shopping around, they may not find an offer that compares, price-wise, to the offer they were previously on

Consumers would be stuck with one of two choices, pay substantially higher electricity costs that they can do nothing about (ie no behaviour under their control) or leave the grid. This is most unsatisfactory.

12 The report massively fails it's three key themes, specifically

12.1 *harness competition to improve outcomes for all consumers*

Outcomes will be worse for many many consumers under the reports recommendations, and it is difficult to see how changes in this report will lead to meaningful competition.

12.2 *make it easier for consumers to compare offers that suit them*

While the recommendations include action to help uses compare plans, that will be useless if the plans they compare are not what the consumers want.

12.3 *reward consumers for activities that are valuable in achieving a lowest-cost system, and target a more equitable allocation of shared costs.*

The recommendations do the reverse of this – they are penalising consumers for using less electricity, and making allocation of shared cost less equitable.

13 I concur that a large fixed fee for consumers is good for the network – to a degree – as it gives them fixed cash flow, and the ability to up that fee if they expend capital. This is something any private business would love to have – but it is not in the interest of consumers.

The 'to a degree' is that it will directly lead to network contention - which will lead to significant capital expenditure and political pressure.

14 In summary, a large fixed fee (even larger than the current one) and not charging for usage (unless there was congestion, which users can't manage) would be one of the worst things that could be implemented.
It will directly lead to much higher bills for many consumers, and much higher energy consumption – with all the effects from that flow from that.

So what should the report have considered if it was actually looking at improving prices and outcomes for consumers, instead of for networks?

A. Remove all fixed charges, with each kw/h the price the retail/network operators receive for whatever they have to – which they can optimise themselves, like most other things in the market.

B. Change the solar feed in tariff to either -
   I. a fixed percentage of what consumers pay to receive electricity
   II. a price that the consumer can individual set, if they on a dynamic plan. ie ergon in QLD change how much power that you can upload about every 30 seconds, there is no reason I can't give them a price and they don't take it until they are prepared to pay that price.

C. Upgrade the current ‘smart’ meters – which are actually pretty dumb meters. For example, under a Ergon dynamic feed in plan consumers must provide an internet connection which they can directly control the consumers inverter.

   The fact that the installed meter can’t do this is ridiculous. I know quite a few people who now aren’t putting solar on as they have no way get above the export limit of 1.5kw - as they can’t go on a dynamic plan as they do not have permanently on internet!

   Additional, if the internet goes down any solar export above 1.5kw stops!

   The fact this wasn’t put in the meters years ago is astonishing.. I laugh every time they are called ‘smart’ when they can’t actually manage solar input – which we have been doing for decades.

D. Allow consumers to directly manage the Virtual Power Plants, specifically to be able to set a price that the network operator has to pay for each kw/h removed.

   There has been recent media commentary stating AENC etc what to encourage VPP, to provide power for the network.

   However, from a consumers perspective the biggest cost of the battery is how long it will last, and that is directly related to how often it is cycled.

   At current feed in prices consumers it would be financially irresponsible to sign into a VPP scheme unless the price/kwh was above the depreciation/kwh rate. The way to avoid this is the consumer should be able to set the price.

E. With either direct solar or VPP, the the individual consumer has no ability to negotiate with the network/retail on the price they receive. While this would be a good idea (see the above) it should be possible for consumers to give this right to someone else to manage ie companies – not necessarily in the current electricity market space – could sign people up to manage their output.

   The could then directly negotiate and sell power to the network.

   This would also help with the glut of power in the middle of the day, as currently a lot of is effectively free (ie 1c kw/h, or able to be turned off with dynamic connections).

   If consumers could, in block with remote control of their inverters (as currently the case with dynamic) or with genuine smart meters, **that** would make the whole market more competitive

F. As a lower priority, consumers should be able to decide to only buy electrify if it is under a certain price ie they might sent this to charge their battery at a particular price point, or heat their hot water.

G. My understanding is that it is currently illegal or very difficult for consumers to share power. It seems to me to be ridiculous that not only can't I export to the network more than 1.5kw during the core part of the day, I can't share it with my neighbours either – which I can't do either over the network cables in the street or by running a cable over the fence.

   While this doesn't have a short term solution, we should be looking strategically on how we could cluster consumers together to reduce demand on the overall network – and given the consumer has done the capital expenditure for the generation they should be sharing in the savings.

There is so much room for improvement for consumers in the Australian electricity market, it is unfortunate that this report didn't discuss them let alone put recommendations up to address them.

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