Proposal to shift network charges

I would strongly urge the AEMC to abandon its proposal to shift network charges away from being tied to power demand to instead become largely fixed.

This should be abandoned for the following reasons:

– It will hurt lower income households who on average tend to consume less energy than high income householders.

– It will undermine efforts to cost-effectively decarbonise our energy system (which is contrary to one aspect of the energy market objective which the AEMC is obliged to address) by substantially reducing the financial incentive for consumers to adopt energy efficiency measures as well as solar and batteries.

– It creates the risk of requiring substantial extra, unnecessary, costly investment in new supply capacity in both generation and networks. Decarbonisation of the energy system will require increased reliance on renewable energy and electrification of household heating loads and transport.

The increased reliance on renewable energy (particularly solar) when it intersects with increased reliance on electricity for heat poses challenges for ensuring reliable winter supply of electricity at reasonable cost. This makes it very important that electrification involves using highly energy efficient options and sensible timing of their use. Your proposal will send completely the wrong signal to householders about undertaking electrification in an energy efficient manner. In addition, electric vehicle charging represents a very large new electricity load. Households need to see a clear and long-lived incentive to undertake charging outside the evening peak otherwise it will lead to a blow out in network costs.

– It will do nothing to address renters lack of access to the financial benefits of electrification, energy efficiency and solar and batteries which is a product of the split- incentive problem afflicting the Tennant-Landlord relationship. Your implied suggestion that electricity retailers will roll-out these technologies to renters via subscription models illustrates a laughable lack of understanding of the credit risks involved in rolling out long-lived fixed equipment to renters who are non-permanent residents of a residential premise.

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– Lastly your suggestion that we introduce highly variable dynamic network tariffs only once a network area is close to its capacity limits fails to appreciate the nature of household energy usage behaviours and a naïve understanding of how electricity networks respond to financial incentives within the regulatory framework.

Networks will likely only introduce these tariffs at a minute to midnight before the network needs upgrading because they don't actually want to avoid upgrades and would prefer to grow their asset base so as to milk what are excessively generous weighted average cost of capital allowances that the AER seems happy to repeatedly grant them.

These dynamic tariffs will almost undoubtedly come too late for households to effectively change their energy-using equipment and learn new behaviours. Household energy usage is a product of often long-lived energy using equipment and embedded behaviours that can take quite some time and sustained incentives to change.

In addition, a sudden and highly geographically isolated introduction of dynamic tariffs will likely lead many households to be taken by surprise such that they end up with a rude shock when they get their electricity bills. This could be especially bad for the vulnerable households you profess to care about.