



Ethnic Communities' Council of NSW Inc.

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Submission to AEMC Draft Rule Determination, National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014

The Ethnic Communities Council of NSW (ECC) welcomes the opportunity to provide input into the **AEMC Draft Rule Determination, National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014**.

Since its formation 40 years ago the ECC has been the peak body for culturally and linguistically diverse (CALD) community members and representative organisations in NSW. The ECC's main activities are advocacy, education and community development. It is a member of the Federation of Ethnic Communities Councils of Australia (FECCA) and the energy advocacy role represents FECCA in the NEM.

The ECC thanks the Australian Energy Market Commission (AEMC) for the opportunity to contribute to the discussion on its draft rule determination **National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014**. The Draft Determination is the AEMC's response to changes to the National Electricity Rules (NER) proposed by the Standing Council on Energy and Resources (SCER) (now COAG Energy Council) and the NSW Independent Pricing and Regulatory Tribunal (IPART). The proposals cover a number of aspects of electricity network tariff setting. The ECC would like to provide comments focusing on the potential impacts for CALD energy consumers on some of these aspects, including observations and recommendations relating to two main areas: the consumer impact principle which includes a customer consultation process and aspects of the principles of cost reflective pricing, including long run marginal costs (LRMCs) and fixed cost provisions.

The Customer Impact Principle and a Customer Consultation and information Process

Under the new rule distribution businesses must utilise a new consumer impact principle when developing their tariff structure. This principle is in two parts:

*The first part requires distribution businesses to minimise the impact on consumers of changes in network prices. Consumers are more likely to be able to respond to price signals if those signals are consistent and apply for a reasonable period of time. Sudden price changes or significant year-to-year price volatility will make it difficult for consumers to make informed consumption decisions.*¹

As in the wider community, CALD communities vary considerably in their utilisation of information about energy prices. Information about such changes should be directed to the

¹ Section 6.18.5(h) in AER Rule change p 15

CALD community in language and made easily available to the diverse CALD communities. CALD communities have differing use of the internet. Some communities use it successfully to gain information, however recent research as part of a survey in the Business Energy Smart Tips (BEST) project undertaken by the ECC NSW has shown that there is currently a very limited use of the internet for information on energy use by CALD small commercial businesses.²

Some CALD communities have a considerable proportion of their members falling in the 'vulnerable or disadvantaged' category, particularly those communities whose members comprise recent arrivals and refugees. Successful application of price signals and information about energy pricing for these members of the CALD community would require careful planning and implementation. Previous projects undertaken by the ECC have indicated that the use of information in language has a much greater efficacy when used in concert with targeted use of bilingual educators who are themselves members of the CALD community.³

*The second part of this principle requires network prices to be reasonably capable of being understood by consumers. Consumers will not be able to respond to price signals if they cannot relate price structures to their usage decisions. Distribution businesses must transparently address these requirements and the cost reflectivity principles described above. They may depart from the cost reflectivity principles to the extent necessary to meet this consumer impact principle.*⁴

Again, CALD communities vary considerably in their ability to understand the material presented to them in a utility bill. The ECC maintains that it is not enough to provide information via the internet or brochure in language. Such information needs to be complemented by the use of community specific bilingual educators, particularly in communities with high proportions of vulnerable or disadvantaged members.

The draft rule specifically excludes retailers from having to structure their prices to match the structure of network pricing⁵. The ability of CALD consumers to understand the pricing structure and process will be complicated considerably once retailers have potentially repackaged DNSP pricing and tariffs into their own tariff packages. This could quite easily have the outcome of severely compromising the objectives of the Rule Change Customer Impact Principle.

In its investigation of different methods of network cost recovery, *Structure of Electricity Distribution Network Tariffs: Recovery of Residual Costs*,⁶ the Brattle Group investigated several overseas networks' application of a 'fairness' principle in their rules governing DNSPs tariff development.. A requirement that DNSPs be required to consult consumers about whether the tariff structure was 'fair, just and reasonable' and the subsequent oversight of this communication as a part of the Consumer Impact Principle would go some way to ensuring that tariffs under the proposed rule change were seen by the community to be 'fair'. Once again, consultation with CALD communities would necessarily have specific requirements and processes to be effective.

² Recent research from *BEST project* NSW ECC August 2014 pages 12-13

³ Saving Water in Asian Restaurants Final Report, ECC 2010, 2013

⁴ AER Rule change op.cit. p15

⁵ Draft Rule Determination page iii

⁶ T Brown and A Faruqi, *Structure of Electricity Distribution Network Tariffs: Recovery of Residual Costs*, Brattle Group August 2014

Recommendations:

1. *The ECC recommends that the AEMC require that CALD communities be consulted in any community consultation process by DNSPs about network tariffs as part of the Consumer Impact Principle and that such consultation should be in language and facilitated by approved bilingual educators for the relevant community.*
2. *The ECC requests that the AEMC include as part of the Consumer Impact Principle, a requirement that DNSPs consult with consumers, including those from CALD communities, about whether the proposed tariff structures are fair, just and reasonable.*
3. *The ECC recommends that the AEMC investigate the likelihood that the Customer Impact Principle will be undermined or distorted by the repackaging of tariff structures by retailers and include their determinations as part of the final Determination of this rule change.*
4. *The ECC supports the recommendation by the Public Interest Advocacy Centre (PIAC) that recommends that the AEMC note the increased responsibilities that the proposed rule change will place on the AER and recommends that the AER be sufficiently resourced to carry out the additional functions involved in investigating and ascertaining compliance with the Customer Impact Principle.*

Cost Reflective Pricing

In the research conducted by NERA⁷ for the AEMC, examples were presented to illustrate the cross-subsidies inherent in current tariff structures. The ECC supports the measures in the proposed rule change to remove these cross-subsidies. Some sections of the CALD community, particularly those communities with high proportions of vulnerable or disadvantaged members, do not have the resources or finances to be able to take advantage of existing anomalies in tariff structure. Removal of cross-subsidies would benefit our constituents from those communities.

A major departure from the current process of tariff setting in the draft rule change is the requirement that DNSPs use LRMC to set tariffs. The use of LRMC to calculate tariffs has the potential to provide valuable information to consumers about the cost of energy and give them price signals about their usage in and around critical peak periods.

As indicated in the Brattle report and elsewhere⁸ the calculation of LMRC can be problematic and open to considerable interpretation. In a declining demand scenario with significant spare capacity (current predictions) the LRMC of producing an additional unit of electricity (or retiring a unit) may be close to zero. Legislated income by DNSPs would then be recovered through residual costs.

⁷ Economic Concepts for Pricing Electricity Network Services, A report for the Australian Energy Market Commission, July 2014

⁸ T Brown and A Faruqui, op cit. see also B Nixey, Ellipson Pty Ltd, in a report commissioned March 2014 www.advocacypanel.com.au/media/docs

True cost reflective pricing would suggest that these (largely fixed) costs be recovered through fixed pricing. High levels of fixed costs would not provide the price signals about energy use that are integral to the thrust of the proposed rule change. They would also impact most heavily on low energy users and vulnerable and disadvantaged users of the network. CALD communities include high proportions of these customers.

Residual cost recovery, if it is not recovered via fixed pricing, may be subject to Ramsey pricing structures which target those customers least able to be flexible in their energy requirements. Vulnerable and disadvantaged customers, as well as low energy users, tend to have the least flexibility in their use of energy at critical times, and so would be disproportionately affected by any application of the Ramsey pricing principles.

Cost reflective pricing will be challenging to implement in those States without significant interval or smart meter penetration of the customer base. Accumulation meters do not allow the any of the range of 'price signal' options that are possible with interval or smart metering.

Recommendations:

1. *The ECC recommends that the AEMC include a maximum allowed fixed charge in the recovery of residual costs, in the order of 10% of the total efficient cost recovery.*
2. *The ECC recommends that the AEMC has a recognised and mandated LMRC calculation process within the new rule that is not open to wide interpretation by different DNSPs.*
3. *The ECC requests that the AEMC utilise its determinations in other rules changes to do with metering competition and metering price determination for NSW DNSPs in its determinations in this rule change.*
4. *The ECC requests that the AEMC undertakes a review of energy concessions to ensure that they are delivering on their intended purpose in an efficient manner and explore the possibility that such concessions are based on a percentage of the energy costs.*

If you require additional information please contact Iain Maitland, Energy Advocate on 02 9319 0288 or email energy2@eccnsw.org.au .

Sincerely yours,



Mark Franklin
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