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Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Submitted by upload to the AEMC website.

### **Reference ERC0161: Distribution Network Pricing Arrangements – Consultation Paper**

Thank you for the opportunity to respond to the Distribution Network Pricing Arrangements Consultation Paper (the Paper).

Simply Energy is a leading energy retailer servicing Victoria, South Australia, New South Wales and Queensland.

We support the Australian Energy Market Commission's (AEMC) strategic priority of strengthening consumers' ability to engage in the energy supply chain, and we see cost-reflective network prices as a key reform to provide efficient price signals and drive more efficient use of the network.

#### **Reforms to distribution pricing principles**

Tariff reform has been identified as a mechanism to give customers choice and provide them with price signals that encourage more efficient use of the electricity system.

Simply Energy supports the SCER's initiative to introduce more cost-reflective network tariffs. Existing tariff structures incorporate cross subsidies, in many cases from low income households with low peak usage to high income households with high peak usage and/or rooftop photovoltaic (PV) generation systems. It appears to us that the reduction in annual energy consumption seen in recent years, and the growth of rooftop PV capacity is leading to networks increasing fixed charges and reducing energy-related charges. This has the potential to increase the unavoidable energy supply costs faced by low income households.

As anticipated by the AEMC, any tariff reform programme needs to include a plan to transition customers over time from the old to new, more cost-reflective, tariff structures. This is needed to manage the risk of bill shock to customers whose tariffs will increase under the reform. The time taken to transition to the new tariffs enables customers to gradually adjust to the new tariffs and adjust their consumption patterns and appliance purchases to address the new tariffs.

Additionally, government has a key role in educating customers about the need for, and consequences of, a major reform to an essential service such as tariff reform.

We agree that more effective regulation of network tariffs than allowed under current AER processes is required, but we do not consider that the measures being considered by the AEMC address the key customer issues. Instead, it may be time to require networks to consider affordability and equity when developing their tariff proposals, and give the AER discretion to review this. Otherwise there is a high risk that network tariff reform will lead to increased hardship for some consumers.

#### *Metering and other reforms*

It is generally asserted that peak usage is the key driver of network cost, and as a result cost reflective network charges are likely to require measurement of peak usage. Accumulation meters cannot measure this

and therefore interval meters are a pre-requisite for cost-reflective network tariffs that can provide price signals to customers, which they can act on.

We note that few customers in New South Wales, Queensland, and South Australia (the states envisaged as the first to be subject to the network tariff reforms) have interval meters. Therefore the risk exists that the reforms will be implemented before the infrastructure required to make them work is in place. Smart meters also provide the opportunity for customers to select sophisticated services such as direct load control (DLC) or in-home displays, which help them manage their use in response to complex tariff structures.

Simply Energy is a supporter of retailer-led smart meter rollouts, which have the potential to cost-effectively provide consumers with metering that can support the new services that they wish to make use of. The sooner the barriers are removed and roll outs begin, the sooner the metering will be in place to provide these benefits and support the reforms envisaged.

We are concerned that some other reforms being progressed by SCER will make it difficult for retailers to assist customers manage their energy bills while transitioning to the new tariffs. For example, SCER's most recent proposal was to prevent retailers from offering some smart meter-facilitated services such as supply capacity control and direct load control even though these products could be of enormous benefit to customers who are seeking help in managing their energy bill.

Regulators and policy makers have opposed retailers offering these types of products, primarily because of concern over how retailers may use these functionalities for credit management purposes. However, at the same time, customers often seek help to manage their energy bill from their retailer and these products are tools that can be offered by a retailer to provide that assistance. If a customer can decide whether they want these products (they must provide their explicit informed consent) and can opt out if they find the product is not for them, then it is unclear why customers may be denied the benefits of these functionalities. They could help customers manage their usage and thus their bills and could result in a reduction in the number of disconnections that occur.

### **Balancing consultation and pricing certainty objectives in the network pricing framework**

Simply Energy supports IPART's rule change proposal as the only effective solution to the issues caused by late availability of final network tariffs.

Consultation is not a substitute for timely availability of network tariffs. It is not possible to bind distribution businesses to a price path for each tariff, and without this the consultation and pricing structures statement (PSS) is of no value.

One of the reforms proposed by SCER is the requirement for distribution network service providers (DNSPs) to consult on and publish a pricing structures statement (PSS), for approval by the Australian Energy Regulator (AER) as part of the five-year price approval process.

We are sceptical on how useful this statement will be. From our point of view, unless the distributors include actual dollar numbers in the statement then the statement will have little or no value for us.

The PSS has the potential to be another regulatory burden that demands time from retailers and other stakeholders (such as consumer groups) but which leads to minimal positive impacts on consumers. The Essential Services Commission of Victoria (ESCV) introduced a similar requirement for Victorian distribution businesses in the early 2000s. It is questionable whether this added any value for the industry and whether consumers saw it as a useful tool. The AEMC may wish to review the experience with the Victorian Tariff Strategy Report.

The PSS is not a substitute for IPART's rule change proposal. The late notification that Simply Energy receives on final network prices causes significant difficulties for us and as a result, directly impacts customers.

Changes in networks prices are often the key driver of changes in retail prices as network costs make up approximately 35-50% of a typical energy bill for small customers. However, the late notification we receive of final network tariffs creates significant pricing uncertainty. It often forces us to base our retail prices on draft network prices which leads to inefficient pricing outcomes, and can also force us to play 'catch up' where the final network prices vary significantly from the draft (as has occurred at times). This can cause significant changes on some final retail prices and leads to customer unease.

Having final network prices available to us at an earlier time would allow us to set out retail prices using a finalised set of network prices and to provide time to properly inform customers of future price changes.

We also note that distributors seem able to re-submit their network prices after the 20 business day cut off set out in the Rules. We believe that this practice should be stopped. We do not believe the practice is in the spirit of what was intended by the Rules. It also causes confusion over which set of network prices we should be using to develop our retail prices. Distributors have adequate opportunity to submit a draft of their proposed network prices to the AER for initial feedback before the 20 business day cut off

### Questions posed in the Paper

We wish to respond to only four of the questions posed in the Paper:

20. Implementation of the proposed PSS framework will not reduce the timing pressures faced by retailers from the annual pricing process. Retailer timing pressures and the other issues from the current annual pricing process will only be addressed by finalising the actual network tariffs sooner each year.
37. Yes. Additionally, the advisory body *Energy Consumers Australia* could make a useful contribution to the requirement for DNSPs to take account of the impact of tariffs on consumers.
38. Customer impact is a broad term and some level of guidance would be required. However, it is not clear to us what the AER could include in a guideline that would provide any great clarity, as determining compliance requires a qualitative judgement, rather than a quantitative assessment. With this in mind, we suggest that instead of developing a guideline to provide guidance on how the principle of taking account of the impact of tariffs on consumers, *Energy Consumers Australia* should advise the AER on whether it considers that DNSPs are compliant with the principle.
39. There is a potential trade off to be made between the efficient tariffs principle and the requirement to take account of the impact of tariffs on consumers. The AEMC will need to give the AER guidance in which has priority so that the AER can make a trade off that is based on well-made principles.

If you have any questions concerning this submission, please contact James Barton, Regulatory Policy Manager on (03) 8807 1171.

Yours sincerely

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