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20 October 2014

Mr Paul Smith  
Chief Executive  
Australian Energy Market Commission  
aemc@aemc.gov.au  
*lodged electronically*

Dear Mr Smith,

### **Distribution Network Pricing Arrangements (ERC0161) – Draft Determination**

Thank you for the opportunity to provide comments on the AEMC's draft rule determination, *National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014*.

COTA Queensland is a state based organisation committed to advancing the rights, needs and interests of people as they age in Queensland. We aim to help create a more just, equitable and caring community in which older people are actively involved and have access to appropriate support, services and care. COTA Queensland believes that everyone, regardless of age, health status, wealth or social status has a fundamental right to sustainable, ongoing, secure and affordable access to energy.

We welcome the AEMC's efforts to reform network tariffs with the objective of delivering fairer, more understandable, and more cost-reflective prices for all consumers. Together with other changes currently under consideration by the AEMC, COTA Queensland believes that these reforms will offer opportunities for well-informed consumers to exert a greater level of control over the energy costs they incur.

In particular, we support the requirement for improved transparency around the setting of network tariffs, and the incorporation of a new consumer impact principle as a fundamental component of the tariff development process. We believe that the proposed changes including introduction of the tariff structure statement as part of the five-year regulatory process, mandatory consultation with consumers in developing price structures and earlier notification of final network prices offer further clarity and stability benefits for end consumers in the energy marketplace.

The proposed changes will, however, present significant changes for consumers. It is imperative that consumers are informed and educated about these changes in order to equip them to understand the new tariff arrangements and empower them to confidently make any desirable behavioural or energy consumption changes. This is a critical issue for the implementation of the tariff arrangements.

COTA Queensland also wishes to raise a number of concerns in relation to the draft determination. These concerns are outlined below.

### **1) Reliance on Effective Consumer Engagement**

The new rules place a very high reliance on network businesses being able to demonstrate effective consumer engagement. Since the introduction of the AER's Consumer Engagement Guideline in 2013, network businesses have been attempting to meaningfully engage with consumers to develop their five-year regulatory proposals, with varying degrees of success. Generally network businesses have been 'informing' consumers, rather than 'consulting' or 'involving' them in decisions. Due to the immaturity of consumer engagement by network businesses in Australia at this time, it is unlikely that a robust and balanced consumer engagement process can be exercised before the first tariff structure statements are due to be submitted (potentially 30 June 2015).

COTA Queensland considers that in this environment, additional protections are required for consumers. Specifically, we request that the following protections be considered:

- (a) Within the new pricing objective, balancing the requirement for cost-efficiency with a requirement for 'fair and reasonable' outcomes for consumers;
- (b) Introducing limits on any increases in the fixed charge component of tariffs for residential consumers to avoid the temptation for network businesses to simply allocate the major portion of residual costs to fixed charges, particularly in jurisdictions where there is a low penetration of advanced meters. Increased fixed charges are not acceptable for low usage consumers, and provide no incentives for energy efficiency or behavioural change, other than disconnection from the grid.

### **2) Impact for Vulnerable Consumers**

As with any change in tariff structures, there will inevitably be 'winners' and 'losers'. COTA Queensland is concerned that in some cases, the 'losers' may be vulnerable consumers who are already struggling with energy affordability. We understand that the consumer impact principle will require network businesses to minimise the impact of annual price changes for consumers, but there is little that a network business can do to ameliorate any seriously detrimental effects on vulnerable consumers. The AEMC has recommended that governments review their energy concession schemes in the light of these changes. COTA Queensland suggests that the AEMC is best-placed to carry out such a review on a national basis with a full understanding of the impending changes in the energy market. A national review conducted by the AEMC could then inform jurisdictional decisions in relation to appropriate concession structures and targeting within a national framework.

### **3) Implementation Issues**

Whilst generally supportive of the proposed rule changes, COTA Queensland has concerns regarding various aspects of their implementation. We suggest that early consideration of these

issues is essential to ensure a smooth transition to the new arrangements, and ultimately to the realisation of consumer benefits.

(a) Obligations for retailers

Although network businesses will be required to adhere to the proposed new principles and rules, and engage with consumers in the development of new network tariffs, there is no obligation on retailers to pass these network tariffs and price signals on to consumers. Indeed, retailers have the option to completely redesign tariff structures and therefore to distort or compromise any price signals designed by distributors and endorsed by consumers. This potential outcome would undermine the achievement of any benefits sought through these new arrangements. It would also be very damaging to the confidence and ongoing commitment of those consumers who engage with network businesses in the development of new tariffs, only to discover that the agreements reached can be overturned by retailers. COTA Queensland urges the AEMC to consider introducing mechanisms that will require retailers to faithfully reflect the distributors' network price signals.

(b) AER Resourcing

Network businesses will be required to submit Tariff Structure Statements and to demonstrate how they have consulted with consumers about their tariff structures, including whether these are able to be easily understood. While we welcome these changes, it is clear that this will result in a large additional workload for the AER. The success of the proposed approach relies upon stringent assessment of each network business's proposal by the AER. The proposed implementation timeframe implies a significant workload peak between June 2015 and February 2016. It is not apparent how this additional workload will be resourced. COTA Queensland recommends that the AEMC ensures that any proposed implementation timetable can be properly supported by appropriate AER resources.

(c) Consumer Education

As mentioned previously, consumer information and education is a critical element of the distribution network pricing reform program. For both networks and consumers to reap the benefits of these reforms, consumers must be well-informed about the changes that impact them, and motivated to adopt behavioural changes where appropriate. Without a comprehensive and well-designed consumer education campaign, consumers are likely to become more confused by their power bills and less inclined to actively engage with the energy market. COTA Queensland recommends that the AEMC provide guidance to both network businesses and retailers in relation to the necessity for such a campaign, responsibilities for its implementation and the essential features to be incorporated.

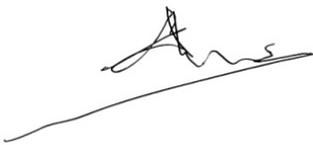
(d) Scheduled Review

The new rules for distribution network prices introduce major changes for networks, consumers and the AER. There are still many areas of uncertainty. To understand whether these changes have achieved their desired effect, COTA Queensland recommends that the overall implementation program includes a formal review of the new arrangements once network tariffs based on the new pricing rules take effect. The review should examine whether:

- consumer engagement has had an influence on network tariff design
- consumers consider the new network tariffs to be fair and reasonable
- long run marginal cost is an appropriate methodology for allocating network costs
- appropriate price signals are being provided in each jurisdiction.

If you require additional information about COTA Queensland or its energy policy position, please contact me on telephone (07) 3316 2999 or by email to [mte@cotaql.org.au](mailto:mte@cotaql.org.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Tucker-Evans', written over a horizontal line.

Mark Tucker-Evans  
**Chief Executive**