ATA's response to Question on Notice from Senator Thistlethwaite

19th October , 2012

Question:

You argue that there should be a social tariff in order to protect vulnerable and low-income consumers.
How should a social tariff be set and who should set it?

Response

ATA thanks Senator Thistlethwaite for this question.

In our view, more cost reflective pricing[1] needs to be implemented with the following three objectives:

Objective 1: To allow consumers who do not contribute to the increased energy costs brought about by 'peakier' load profiles to opt out of cross-subsidising other consumers.

Objective 2: To provide an incentive for customers to modify their behaviour by avoiding or shifting load from peak times.

Objective 3: To protect vulnerable customers who do not have the flexibility to change their electricity consumption patterns and cannot afford the net cost increase of moving to a cost reflective pricing.

The introduction of cost reflective pricing will mean that a material number of customers will shift load to cheaper times, while others may not. Irrespective of whether those customers that choose a cost reflective price actually shift load, those customers whose load profiles have less peak-time consumption and/or more off-peak consumption will simply benefit through being charged less for the majority of their consumption.

While this is a good outcome, it will place upwards pressure on the flat tariffs that remain in place for all other customers – including many vulnerable customers[2].

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[1] Cost reflective pricing can include time of use (ToU) tariffs, peak time rebates, critical peak pricing and a host of other tariff structures that more closely resemble the cost of electricity generated and supplied through the energy market.

[2] It should also be noted that while
- many vulnerable consumers are still likely to benefit from a shift to cost reflective pricing as many of them consume a larger proportion of their electricity outside of peak times, and
- many more vulnerable consumers might not be impacted in terms of their long term energy cost,

cost reflective pricing can introduce bill-to-bill price volatility that may cause price shock in the above groups, which may need to be addressed through other measures such as payment plans and bill smoothing.

By way of example, all other things remaining equal (and ignoring the effect of behaviour change on the load profile of ToU customers), if;

- a quarter of consumers move to ToU and their bills reduce by 20%, bills for the remaining three quarters on flat tariffs will rise 6.6%
- if half of all consumers move to ToU and their bills reduce by 20%, bills for those on flat tariffs will rise by 20%.
- if three quarters of consumers move to ToU and their bills reduce by 20%, that means the bills for those on flat tariffs will go up 60%.

While the value of the potential cost savings to all consumers from the introduction of cost reflective pricing and the avoidance of peak demand significantly outweighs the potential net cost increases to vulnerable customers, Objective 3 remains critical in the context of energy and social policy in Australia. ATA contends that all objectives are eminently achievable.

In this context, ATA advocates for a 'social tariff' that can be accessed by low-income and other vulnerable consumers. This approach requires a mixture of market-based tariff policy and traditional regulated tariff policy.

At its most basic, a social tariff could be a flat tariff, based on a system load profile specific to the class/es of consumer that are eligible for the tariff. Such a tariff could be set through the current tariff setting arrangement in all jurisdictions (although changes would need to be made in Victoria). As NECF is adopted across Australia, approval by the AER would be assumed.

ATA includes in this document an extract from our recent submission to the draft report of the AEMC's Power of Choice review, which suggests a design for such a tariff based on the energy customer banding approach proposed by the AEMC. A key element of this design is that the flat tariff available to low energy users and vulnerable consumers is based on the load profile of those consumers, thus reducing cross-subsidy between customer classes.

Further to the above method, in order to provide further protection for these customers a social tariff could specifically avoid vulnerable consumers having to contribute towards certain costs, for example 'green schemes' or other charges. These costs can instead be smeared over the non-vulnerable consumer base. Approval of tariffs set under such arrangements like this would presumably need to come from relevant energy ministers.

In the context of cost reflective pricing, social tariffs ensure that from a societal perspective, most consumers benefit in some way reduced costs through the energy supply chain, whilst those that can make the switch and stand to benefit the most effectively contribute a portion of their gain to prevent disproportionately affected vulnerable customers from being impacted.

The following pages are from our recent submission to the draft report of the AEMC's Power of Choice review.

For enquiries contact Craig Memery on 0412 223 203 or craig@ata.org.au

Q18. Do stakeholders agree with our approach for phasing in cost-reflective pricing? If not, how can the policy be improved to transition to cost-reflective pricing?

ATA strongly supports the AEMC's overall proposed approach to the implementation of Time of Use pricing.

ATA support the idea of the use of bands as put forward by the AEMC, but propose a variation to the AEMC's banding approach which, we feel;

- Reflects the nature of the causes of the problems that cost reflective pricing is trying to solve, and better targets consumers who can acts to address these problems
- Lessens the
    - complexity, and
    - risk to consumers and retailers,

  of having differential treatment of three bands of consumers.

- Removes the risk to networks of medium consumers switching from ToU to flat network tariffs under the AEMC proposal
- Removes cross subsidy between bands, at both a market level and a network tariff level
- More effectively protects vulnerable consumers, by giving them a choice of tariff structures regardless of their consumption. While minor complexity is added by our proposed inclusion of vulnerable consumers in band two, in our view this is offset by benefits of the removal of the third band.

To achieve the above, ATA proposes simplifying the AEMC's proposed model to two bands:

- Band One (medium and large consumers) with mandatory ToU network tariff and a choice of flat or time of use retail tariffs.
- Band Two (small and vulnerable consumers) with a choice of flat or ToU tariffs.

Detail regarding the thresholds and further rationale for our proposal is described in our response to question 20.

Q20. How should consumption thresholds be determined?

In ATA's view, the two overarching concerns that must inform the design of the customer bands and the setting of thresholds are;

- The net impact (for example, in terms of increased or decreased cost or risk) on each class, and some sub classes, of consumer
- The net impact (for example, in terms the introduction or removal of cross subsidy between consumer classes and sub classes) on all other consumers

For reasons outlined in our response to Question 18, our proposal is for the two bands instead of the three proposed by the AEMC

- Band One (medium and large consumers) with mandatory ToU network tariff and a choice of flat or time of use retail tariffs.
- Band Two (small and vulnerable consumers) with a choice of flat or ToU tariffs.

Our proposed thresholds, the key aspects of the proposed design, and reasoning for the same are summarised in the following table.

Table 1 - ATA's proposed approach to the banding of energy consumers for cost reflective pricing

	Band One	Band Two	Rationale
Annual (and daily) consumption threshold (non off-peak/ controlled loads only)	>3.5 MWh/year (more than 10kWh/day)	<3.5 MWh/year (less than 10kWh/day)	**Consumers using < 10 kWh/day** **-** do not contribute significantly to peak demand growth: they are not part of the problem. - Have less opportunity to reduce energy consumption - Have less opportunity to respond to time of use based price signals - Lack significant peak loads such as pool pumps that can be efficiently engaged for demand response. - For the above reasons, will not experience a net benefit from smart metering given the annual cost of at least $100 per customer for AMI metering **Consumers using >10 kWh/day:** - Have energy costs exceeding $1000/year, therefore are more likely to be in a position to benefit from the use of AMI meters using above-noted measures **Exclusion of separately metered off peak loads:** - Off- peak circuits provide a net benefit to all consumers through improved load factor, and do not contribute to peak demand, so should be excluded from consumption threshold calculations
Estimated* portion of customers per band	ATA estimate* this to be in the order of the highest three quartiles, by consumption, of all non-vulnerable consumers.	ATA estimate* this to be in the order of the lowest quartile, by consumption of all non-vulnerable consumers.	*These are rough estimates for indicative purposes only: ATA do not have actual data to hand regarding the specific distribution of the energy use (excluding separately metered off peak as noted above) of non-vulnerable customers
Vulnerable consumers	Can opt in to Band One	Default to Band Two (regardless	Vulnerable consumers need to be protected from the potential impact of

	(although this is unlikely to benefit them)	of their consumption)	ToU pricing, while being able to access it if they choose.
Network tariff type	Time varying	Flat, with option to move to time-varying	
Network tariff calculation (for both tariff shapes)	Based on load profile of Band One customers	Based on load profile of Band Two customers	There should be no cross subsidy between bands in relation to network tariffs. Hence, the network impact of the load profile for each band should be separately considered
Retail tariff type	Time varying or flat	Flat, with option to move to time varying	
Flat retail tariff market settlement	Retailer's choice of - Market price, or - Net System Load Profile, of Band One customers	Net System Load Profile of Band Two customers	There should be no cross subsidy between bands in relation to market settlement. Hence, a separate System Load Profile should be developed for each band
Time variant retail tariff market settlement	Market price	Market price	