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 pricing¹ 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 customers².

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.

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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
 - o 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	>3.5 MWh/year	<3.5 MWh/year	Consumers using < 10 kWh/day
daily)	(more than	(less than	- do not contribute significantly to peak
consumption	10kWh/day)	10kWh/day)	demand growth: they are not part of the
threshold	, ,,	, ,,	problem.
(non off-peak/			- Have less opportunity to reduce energy
controlled			consumption
loads only)			- 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*	ATA estimate*	ATA estimate*	*These are rough estimates for indicative
portion of	this to be in the	this to be in the	purposes only: ATA do not have actual
customers per	order of the	order of the	data to hand regarding the specific
band	highest three	lowest quartile,	distribution of the energy use (excluding
	quartiles, by	by consumption	separately metered off peak as noted
	consumption, of	of all non-	above) of non-vulnerable customers
	all non-vulnerable	vulnerable	
	consumers.	consumers.	
Vulnerable	Can opt in to	Default to Band	Vulnerable consumers need to be
consumers	Band One	Two (regardless	protected from the potential impact of

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