Submission to the

Australian Energy Market Commission (AEMC)

Consultation on

Distribution Network Pricing Arrangements

Rule Change: ERC0161

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December 2013

UNITINGCARE AUSTRALIA

UnitingCare Australia is the Uniting Church's national body supporting community services and advocacy for children, young people, families, people with disabilities and older people. UnitingCare Australia is one of the nation's largest providers of social services, via a network that employs 35,000 staff, supported by 24,000 volunteers, to more than 2 million people each year in every state and territory at 1,300 sites across remote, regional, rural, and urban areas.

The guiding principles of UnitingCare Australia's work are that all people have:

- intrinsic value;
- physical, spiritual and social needs;
- a just claim to be heard;
- the right to participate in community as fully as they wish and are able; and,
- the right to opportunities that will enhance their life chances and quality of life.

Energy is an essential service and with increased costs has become a financial burden on growing numbers of households and consumers in Australia. The UnitingCare network advocates strongly for appropriate energy regulation. Anecdotal evidence from our work with communities nationally indicates costs of utilities are one of the top three issues facing households.

UnitingCare Australia's energy vision is that by 2030 energy in Australia will be plentiful, renewable and affordable for all citizens.

UnitingCare Australia works with and on behalf of the UnitingCare network to advocate for policies and programs that will improve people's quality of life. UnitingCare Australia is committed to speaking with and on behalf of those who are the most vulnerable and disadvantaged for the common good.

In the following document, when the word "consumers" is used, it refers to household and small business consumers, including family farms and family businesses.

INTRODUCTION

This document is a submission from UnitingCare Australia to the Australian Energy Market Commission (AEMC) on the AEMC's Consultation Paper on changes to the National Electricity Rules pursuant to rule changes proposed by the Independent Pricing and Regulatory Tribunal (IPART) and the Standing Council on Energy and Resources (SCER).

UnitingCare Australia welcomes the AEMC's Consultation Paper and the associated rule proposals from IPART and SCER to address issues associated with tariffs and the setting of tariffs for energy customers. We are particularly interested in aspects of this rule change that address aspects of current tariff setting arrangements that we do not regard to be in the best interests of consumers. The rule change proposals are most welcome.

This submission has been partially funded by the Consumer Advocacy Panel as part of a CAP-funded project "Enhancing Consumer Engagement in Tariff Setting" led by UnitingCare Australia. The main focus of this project is to produce a report for consumer advocates that provides comprehensive information and an evidence base about energy tariffs for (small) consumers and outlines a path for consumer-focused tariff reform.

This submission focuses on specific concerns that we would like to bring to the AEMC's attention for its consideration during this review.

PROPOSED INCREASE IN FIXED CHARGES

Our foremost concern is the aspiration of network service providers to increase fixed charges in the network tariffs applicable to household consumers. Such a change would reduce the revenue risk arising from a reduction in future demand, a continuation of the trends that have recently been observed. However we oppose higher fixed charges for several reasons:

- they are regressive, meaning that households with low consumption (often the most economically disadvantaged households) pay the highest average prices;
- they deprive consumers of the ability to reduce their electricity bills by reducing their consumption;
- they undermine energy efficiency and productivity;
- the stifle efficient investment signals; and
- they are inconsistent with Long Run Marginal Cost (LRMC) -based tariffs.

SCER's objectives

We fully support SCER's desire to ensure that tariff structures reflect LRMC. We support their reasoning that by reflecting the consequences of consumption on future network costs, consumers will have an opportunity to contribute to lowering future network costs and thereby potentially facilitate a reduction in their own network charges.

We also support SCER's desire that the "LRMC principle" should be tightened to a requirement that network tariffs be based on LRMC. This will mean that Distribution Network Service Providers (DNSPs) will no longer have discretion on whether or not LRMC is the principal basis for their network tariffs.

Fixed versus variable charges in household electricity tariffs

UnitingCare agencies have become increasingly concerned over the past decade about the impact of rising energy costs on clients and services.

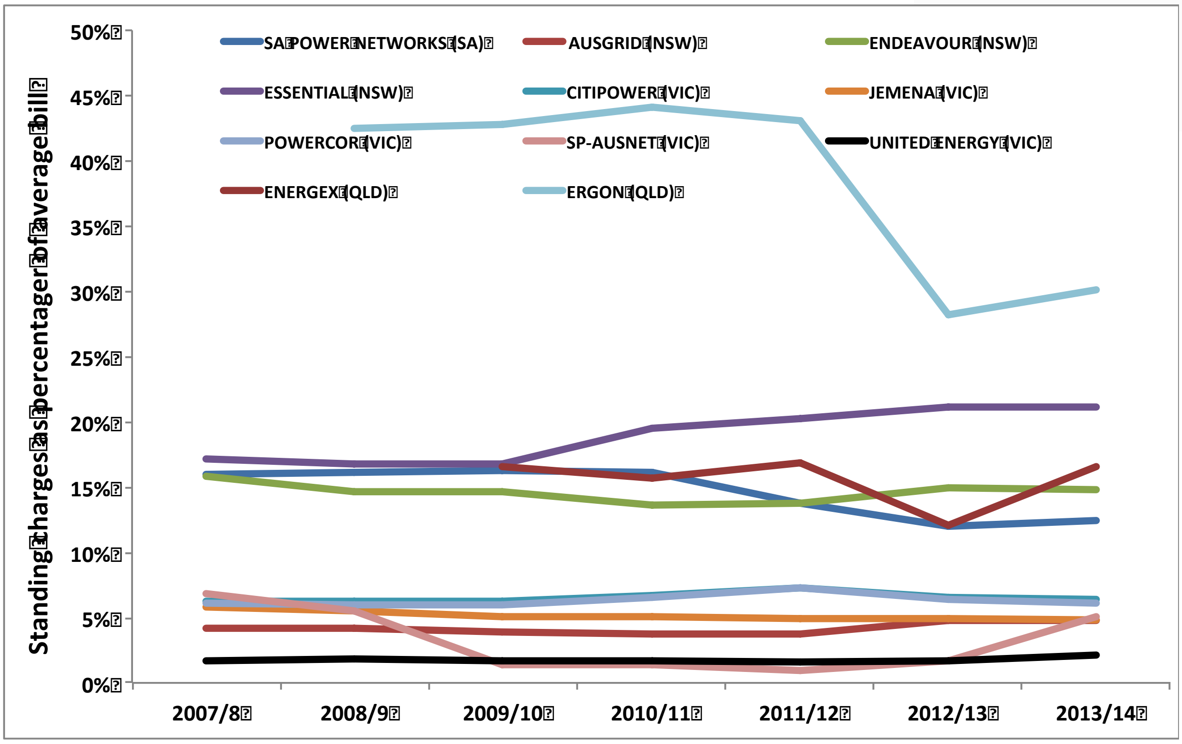
The UnitingCare network is actively involved in the provision of services to directly assist small businesses and low-income and disadvantaged people via financial counselling, emergency assistance programs and programs that support people to improve their energy efficiency. These programs are part of a package of services that support people to make choices that sustain a decent life for themselves and their children.

UnitingCare services regularly report that a frequent question from small business and low-income consumers is: "How is it that I use less electricity and still pay more?" Part of the answer to this question is that network charges can rise faster than reductions in energy use, both reducing incentives for consumers to use energy more efficiently and adding to increasing feelings of powerlessness around energy use and billing.

Figure 1 below shows the proportion of DNSP income from fixed/daily charges as a percentage of income from their charges to households. The calculation assumes the average monthly consumption in each National Electricity Market (NEM) region in which the DNSP is located.

It is clear from the data that in most cases the proportion has been reasonably constant (except for Ergon in Queensland). It is also clear that there are significant differences: in Victoria fixed charges are a much small proportion of the average bill (5-10%) than they are in NSW and QLD (typically 15% or higher).

Figure 1. Income from standing charges in network tariffs for households, as a percentage of total DNSP charges to households



Source: CME analysis, DNSP tariff schedules.

Figure 2 below compares the income from standing charge in network tariffs as a proportion of total network bill to the income from standing charges in retail standing, regulated and reference tariffs as a proportion of the total income on standing tariffs for household consumers.

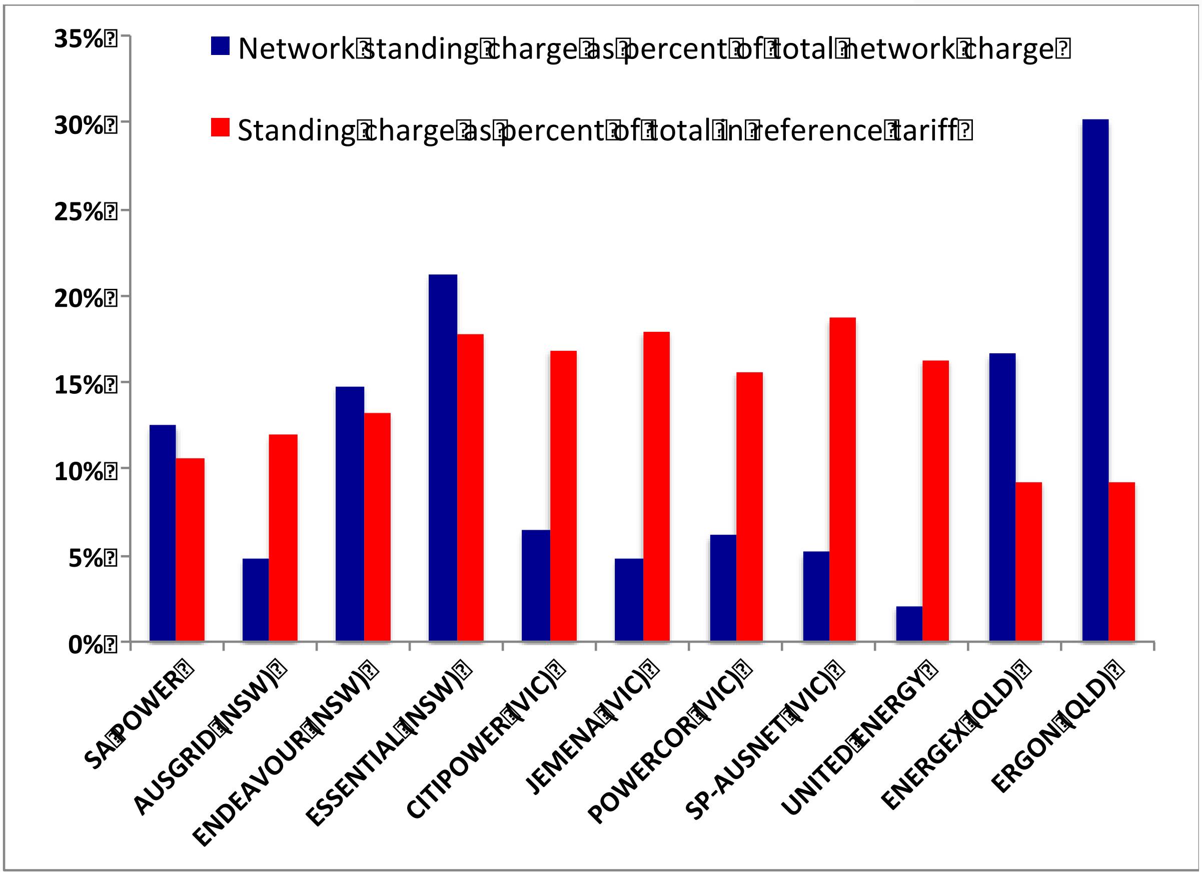
This shows that in Victoria high fixed charges in retail tariffs compared to relatively low standing charges in network tariffs. This is reversed in New South Wales and Queensland.

This data reinforces that tariff setting varies across Australian energy markets, and there is no benchmark standard of network costs as a share of total bills, meaning that there are quite different end-tariff outcomes across the NEM.

Since households are not billed directly for network tariffs, changing network tariffs - as the rule change is seeking - will not necessarily translate into different retail tariffs.

We appreciate that this is outside the scope of the rule change. However, we suggest that this does not diminish the importance of changes to network tariffs to either households or DNSPs.

Figure 2. Network standing charges as a percentage of total network charges compared to retail tariff standing charges compared to total income in retail reference tariffs



Source: CME analysis, gazetted regulated/reference tariffs and DNSP tariff schedules

Inconsistency between fixed charges and Long Run Marginal Cost-based tariff construction

As the AEMC notes, LRMC is a "broad concept". Its essence, in application to electricity pricing from the time of its pioneers Marcel Boiteaux and concurrently Peter Steiner to the present, is to calculate charges that reflect the change in the service providers' future total costs attributable to an enduring change in the demand for the service providers' services. Long run costs, by definition, include the costs of changes in the capital stock, not just changes in operating costs. By definition, in the long run no costs are fixed, and also by definition an LRMC charge is a charge per unit of demand or consumption, not a fixed charge.

We appreciate that an LRMC-derived charge is unlikely to recover the income needed to recover sunk investment and short run operating costs. The shortfall (or excess) needs to be recovered (or returned). Whether this is done in inverse proportion to demand elasticity (per Ramsey) or through “postage stamp” charges does not lead to a fixed charge. Ramsey or postage stamp charges could be per kWh of consumption or kVA of demand.

The important issue, from our perspective, is to ensure as far as possible that the LRMC-determined price structures are not diminished, as would be the case through a simple fixed charge.

We appreciate that for many residential consumers without interval or smart meters, demand charges or multiple time of use charges may be impractical. An alternative option – subscribed demand charges (i.e. fixed charges based on the customer-determined subscribed demand) were introduced in France in the 1960s and endure to this day. We commend this option to the AEMC for consideration.