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07 May 2015

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

ERC0175 - NATIONAL ELECTRICITY AMENDMENT (ALIGNING NETWORK AND
RETAIL TARIFF STRUCTURES FOR SMALL CUSTOMERS) RULE 2015 –
CONSULTATION PAPER

Ergon Energy Corporation Limited (Ergon Energy), in its capacity as a Distribution Network Service Provider in Queensland, welcomes the opportunity to provide comment to the Australian Energy Market Commission on its *National Electricity Amendment (Aligning Network and Retail Tariff Structures for Small Customers) Rule 2015 Consultation Paper*.

Ergon Energy does not support the proposed rule change. The proposal will act counter to the recently developed distribution network pricing principles and will inhibit energy sector reform, particularly for our customers in regional Queensland. Further detail on Ergon Energy's position is included in the enclosed submission.

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'Jenny Doyle', written over a blue circular stamp.

Jenny Doyle
Group Manager Regulatory Affairs

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Enc: Ergon Energy's submission



*Submission on the
National Electricity
Amendment
(Aligning Network and
Retail Tariff Structures for
Small Customers)
Rule 2015 - Consultation
Paper*

07 May 2015

Submission on the *National Electricity Amendment (Aligning Network and Retail Tariff Structures for Small Customers) Rule 2015 – Consultation Paper*

Australian Energy Market Commission

07 May 2015

This submission, which is available for publication, is made by:

Ergon Energy Corporation Limited and Ergon Energy Queensland Pty Ltd

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Introduction

Ergon Energy Corporation Limited (EECL) in its capacity as a Distribution Network Service Provider (DNSP) in Queensland welcomes the opportunity to provide comment to the Australian Energy Market Commission (AEMC) on its National Electricity Amendment (Aligning Network and Retail Tariff Structures for Small Customers) Rule 2015 – Consultation Paper (Consultation Paper).

Ergon Energy considers the proposal outlined in the Consultation Paper will restrict innovation and the ability for our customers to engage in managing their electricity bills. Furthermore, proceeding with the change will counteract the overarching intent of the new distribution network pricing principles only recently developed; potentially reducing the network savings this reform seeks to deliver. As such, Ergon Energy is strongly opposed to the rule change request.

In response to the AEMC's invitation to provide comments on the Consultation Paper, Ergon Energy has focused on the impact the rule change would have on hindering our network and our customers from engaging in the benefits of new tariff structures and energy services.

Ergon Energy is a member of the Energy Network Association (ENA), the peak national body for Australian's energy networks. The ENA has prepared a comprehensive submission addressing the AEMC's Consultation Paper. Ergon Energy is fully supportive of the arguments contained in their submission.

Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the AEMC require.

Specific Comments

Cost Reflective Pricing

Ergon Energy started our network tariff reform journey in late 2012 as we sought to gradually transition to full cost reflectivity over time. The new distribution network pricing principles underpin this process by requiring networks to set prices that reflect the efficient cost of providing our services. These principles are intended to support customers in making informed decisions about their consumption patterns to create a fairer and more economic electricity marketplace.

COAG Energy Council's rule change request states the proposal is designed to facilitate the use of flat network tariffs. This is counter-productive to the network pricing principles which are designed to deliver greater cost reflectivity. Consequentially, Ergon Energy is concerned the proposal will have significant negative impacts on cost mitigation and market reform. Flat tariffs will maintain existing behaviour and consumption patterns that drive peak demand and provide little incentive for energy efficiency due to the absence of price signals. In turn, low energy users will continue to pay for the consumption of large users through the continuation of cross-subsidies. These are subsidies that current reform measures have been focussed on eliminating, not enabling.

A gradual transition

Tariff reform is an on-going process and Ergon Energy has an extensive stakeholder engagement campaign in place. We are extremely conscious of developing new tariffs in close consultation with our customers. The COAG Energy Council rule change request highlights the primary reason for the proposal is to support customer choice during the transition to cost reflectivity. Ergon Energy is currently developing in collaboration with our stakeholders the transition pathway and support mechanisms required as tariff reform is implemented. We are doing so while moving to a network model that produces more efficient investment on both the customer and network side, and can therefore reduce overall price rises and improve long term stability. These benefits will not be realised by maintaining a flat tariff system that will likely increase costs for our customers.

Cost of flat tariff structures

Ergon Energy has undertaken preliminary modelling that indicates there are significant costs associated with retaining existing tariff structures, especially for residential and small business customers.

The results suggest that the current volume based tariffs drive inefficient wide-scale uptake of large solar PV systems, and stifle investment in demand management and storage technology in particular. This leads to an under recovery of network revenue without a commensurate reduction in network augmentation costs. As a result, the unit price of network charges must rise each year to allow Ergon Energy to cover the costs of sustaining a secure, reliable and safe electricity network.

Preliminary modelling of network price rises in the residential tariff class shows prices up to 13% higher under the current tariff compared to the most efficient cost reflective network tariff by 2025.

Slowing innovation and uptake of new energy services

Facilitating flat tariff structures will also undermine one of the most important energy sector reforms ever undertaken; metering contestability and the uptake of new energy services. The roll out of

smart meters, data analytics and further load control is expected to unlock a new wave of innovation in the sector designed to help consumers manage their bills. This shift is underpinned by the ability to encourage households to take an active role in their energy consumption patterns via price signalling.

Providing flat network tariffs will maintain existing energy behaviours and hinder customers from engaging in this new market. This is because complex change is extremely difficult to implement. When faced with anything but the simplest of decisions, CSIRO research has shown people do not select the optimal solution, but rather stick what they know.¹ Enabling existing behaviour patterns only creates another barrier to successful uptake of new energy services as customers will have no incentive via price signals to consider new tariff options. It will also hinder customers from tapping into the benefits of new energy services that can help them manage their bills.

Market Flexibility

If the AEMC does determine COAG Energy Council's rule change has merit, then the fact is jurisdictions already have the choice to stipulate the type of tariff structures networks' must offer, rather than having such a structure forced upon them. The rule change is consequentially not required.

The AEMC's distribution network pricing determination information paper notes that the National Electricity Rules (NER) provide that "network tariffs must comply with any jurisdictional pricing obligations imposed by state or territory governments"² (NER clauses 6.18.5(c) and (j)). As such, if an individual jurisdiction wants to stipulate that networks' must offer a specified tariff structure (as desired by this rule change request) then the ability to do so already exists. Importantly, it exists by choice. The rule change though will force networks to align with any retail tariff structure requested by jurisdictions, regardless if there is a basis for doing so. Jurisdictions could by law be forced into offering a tariff structure that is counter to cost-reflective principles that drive efficiencies.

The proposal removes the flexibility required in tariff settings as reform measures progress and the market evolves. In an era of rapidly changing market conditions, flexibility is extremely important to enable responsive changes. Removing this freedom will stifle innovation and likely have unintended consequences.

¹ CSIRO, (2009). *Behavioural Economics and Complex Decision-Making*.

http://www.taxreview.treasury.gov.au/content/html/commissioned_work/downloads/CSIRO_AFTS_Behavioural_economics_paper.pdf

² AEMC, (2014). *New rules for distribution network pricing*. <http://www.aemc.gov.au/getattachment/0ec31ed0-9f7c-40ea-ac23-889dce0259c3/Information-sheet.aspx>