



# **Clean Energy Council submission to Victorian Electricity Distribution Businesses**

## **Consultation on Network Tariffs**

The Clean Energy Council (CEC) welcomes the opportunity to provide feedback on the consultation on network tariffs by Victorian electricity distribution businesses.

The CEC is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in solar, wind, hydro, bioenergy, marine and geothermal energy, energy storage and energy efficiency along with more than 5,600 solar installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC supports the principle of using pricing to better signal, via more cost-reflective tariffs, the cost of building and maintaining the network.

Electricity retailers will play a key role in the successful implementation of the new cost-reflective tariffs. Ultimately, it will be a business decision for electricity retailers as to whether they manage the financial risk of the new cost-reflective tariffs by investing in technology, absorbing the cost or passing the tariff through to their customers. Cost-reflective pricing for consumers will be more successful the less it relies on consumers, themselves, responding to changing price signals

Issues raised in this submission include:

- Support for the move away from single rate tariffs
- The importance of building public support
- Discriminate by load profile, not appliance ownership
- What are the problems that network tariffs are seeking to address?
- Support for cost-reflective pricing for green-field sites
- Customer impacts should include consideration of technology readiness
- Consider lowering the threshold for mandatory reassignment
- Is peak usage subscription suitable for retailers or only customers?
- Peak time rebates should be further developed

These issues are explored in greater detail below.

We would be very happy to discuss these issues in further detail. We look forward to contributing further to this important area for policy development.

## The CEC supports moving away from single rate tariffs

The CEC supports the principle of moving toward more cost-reflective distribution network tariffs. There is a sound rationale for distribution businesses to pass through more cost reflective charges to electricity retailers.

The key principles guiding CEC's approach to network tariff reform are:

- We support the principle of moving toward more cost-reflective network tariffs as a means of reducing network spending,
- Cost-reflective pricing will be more successful the less it relies on consumers, themselves, responding to changing price signals,
- Automation technology for electricity demand management, digitalisation and artificial intelligence will play a key role in the success of cost-reflective tariffs,
- It should not be assumed that all electricity retailers will simply pass through demand tariffs to customers,
- Electricity retailers are in a better position than customers to make efficient investment decisions regarding whether and where to invest in automation technology,
- Electricity retailers should not be directed to pass through demand tariffs and should be free to determine the risk management strategy that most effectively balances their exposure to demand tariffs versus the business risks of investing in new technology, absorbing costs or passing through demand tariffs to their customers.

Electricity retailers will play a crucial role in responding to the demand tariffs from distribution businesses. Electricity retailers should be able to draw upon a range of strategies to manage the risks of cost reflective tariffs. If their customers are keen to embrace cost-reflective tariffs then it is reasonable to assume pass through of those tariffs from the retailer to the consumer. However, some electricity retailers might wish to pursue a customer retention / acquisition strategy based on offering simpler tariff structures. In that case the electricity retailer might choose to either absorb the cost of new tariffs or manage that risk through investment in technology, such as establishing virtual power plants, purchasing batteries or contracting services from a third party. Electricity retailers should be free to pursue the risk management strategy that best suits their business model. It would be an error to expect or force all electricity retailers to respond by passing through demand tariffs to their customers. Ultimately, it will be a business decision for electricity retailers as to whether they manage the financial risk of demand tariffs by investing in technology, absorbing the cost or passing the tariff through to their customers.

## The importance of building public support

The CEC was a supporter of the mandatory roll-out of smart meters in Victoria. We have learned the lessons of that experience, which demonstrated that a slow, steady and successful reform process is preferable to one that is rushed where the benefits of the change to energy consumers are not explained, and hence become unpopular and fail to realise its objectives.

It is crucial that the transition to cost-reflective tariffs is handled well and builds public support rather than antagonism. There was inadequate public support and education when smart meters were first introduced to Victoria and the resulting public backlash derailed the metering reform agenda.

CSIRO has concluded that,

“In all policy making around cost-reflective pricing it will be absolutely critical to distinguish what might promote *uptake* as opposed to effective *usage* of cost-reflective pricing. Anything that induces the former without also facilitating the latter will carry with it **considerable political, economic and social risks.**”

We cannot afford to make similar mistakes with the network tariff reform process. Owners of distributed generation could be enthusiastic advocates for tariff reform or they could become trenchant opponents. Their response will be shaped by the process for introducing the new tariffs and whether they are characterised as part of the problem or part of the solution.

### **Discriminate by load profile, not appliance ownership**

Discrimination between customers should be on the basis of their load profile, not on the basis of which appliances they own. The National Electricity Rules require that, “customers with micro-generation facilities should be treated no less favourably than customers without such facilities but with a similar load profile.”

The CEC strongly opposes any discrimination against customers simply because they own solar PV, other forms of micro-generation, energy storage, an electric vehicle or other appliances. We support the principle that distribution businesses should not treat customers with micro-generation facilities less favourably than customers without such facilities but with a similar load profile.

### **What are the problems that network tariffs are seeking to address?**

In the design of any policy a key question to be considered is, ‘What is the problem we are trying to solve?’

In the first round of Tariff Structure Statements (TSSs) most distribution businesses identified the key problem to be the growth of peak demand and the implications that has for network spending. Demand-based network tariffs were identified as an appropriate response pricing response.

In the development of the second round of TSSs some networks (e.g. SA Power Networks) no longer consider growth of peak demand as the major problem to be addressed. SA Power Networks has identified solar hosting capacity as a key issue for the 2020-25 period. Excess solar generation is creating a demand void or ‘solar trough’ on the network in the middle of sunny days. To address that concern SA Power Networks has proposed a time-of-use network tariff (for residential and small business customers who have interval meters) to encourage load-switching to the middle of the day.

Consultation with some Victorian distribution businesses (eg. AusNet Services) has identified that demand growth is driving network expenditure primarily in areas of new suburban development. If this is also the case for other network areas, it might be logical to focus the introduction of cost reflective tariffs in areas of new suburban development.

This submission does not put forward a view as to whether the problem to be addressed in Victorian distribution networks is growth of peak demand, demand caused by new suburban developments, solar hosting capacity or some other issue. We simply observe that better definition of the problem to be addressed would assist in analysis of the optimal solution.

### **Support for cost-reflective pricing for green-field sites**

If it is true that demand growth in Victoria is driven primarily by new greenfield developments, then there is a strong case for mandatory cost-reflective tariffs for greenfield sites. Arguments in favour of such an approach would include:

- It is more equitable to charge cost reflective tariffs in greenfield sites if it is greenfield sites that are the primary driver of demand growth and network upgrades.
- Developers will be able to design the new developments with the tariff pricing structure in mind. Developers are better placed to manage the risks and the design stage is the most efficient time to implement demand management solutions and other measures that mitigate energy demand.

- Developers will be able to consider collective demand management options (such as shared energy storage systems) that cannot be implemented by individual customers acting alone.
- It is much cheaper to install new technologies when new homes are designed, rather than trying to retrofit new technologies to older houses.

It would be useful to undertake further analysis of the merits of placing additional expectations regarding demand management onto property developers rather than assuming that the burden of adjustment should rest with consumers or electricity retailers.

### **Customer impacts should include consideration of technology readiness**

Automation technology for electricity demand management will play a key role in the success and acceptance of implementation of cost-reflective tariffs. Relying on behaviour change is a recipe for customer dissatisfaction.

Electricity pricing is crucial to influencing demand on the network. However, research into behavioural economics (eg. by the CSIRO<sup>1</sup>) shows that price signals alone are not enough. Most customers prefer simplicity to complexity. Cost-reflective pricing will be more successful the less it relies on consumers, themselves, responding to changing price signals. Automation technology for electricity demand management will play a key role in the success and acceptance of implementation of cost-reflective tariffs. 'Set and forget' options that rely on technology are preferable to strategies that rely on families and businesses changing their behaviour in line with changes to electricity prices. Those who fail to respond to a price signal are likely to suffer "bill shock" and become vocal opponents of the tariff reform process.

Customer impacts should consider the extent to which home automation technology for demand management is available and affordable, and how to facilitate access to this technology for low income and rental households.

There should also be consideration of the equity impacts of placing demand management expectations on developers of new suburbs rather than individual households. It would be helpful to put in place a driver or incentive for developers to ensure that new suburbs and new houses are technologically ready for demand response.

Smart energy management systems, automated demand management and energy storage will play a key role in assisting customers with managing the impacts of demand tariffs. It would be helpful and instructive to develop a guide to the energy management technology that is currently available and that would assist with demand response and minimising the cost impacts of demand tariffs. The guide should consider the tools that are available to electricity retailers as well as their customers. Ideally, the guide would assess the cost effectiveness of the technology or at least provide guidance on how to go about assessing their cost effectiveness.

Additional features valued by customers would include an independent web site that assesses the likely cost impact for customers considering opting in to a demand-based tariff. The web site should be operated by a government agency to ensure consumer confidence in its advice. It would ideally be based on analysis of a customer's consumption profile, using an approach similar to the Victorian Energy Compare web site (see <https://compare.switchon.vic.gov.au/>)

### **Consider lowering the threshold for mandatory reassignment**

The reassignment options considered in the discussion paper appear to have overlooked the option of progressively lowering the threshold for mandatory reassignment.

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<sup>1</sup> Stenner, K., Frederiks, E., Hobman, E. V., and Meikle, S. (2015) Australian Consumers' Likely Response to Cost-Reflective Electricity Pricing. CSIRO, Australia.

Tariff reform in Victoria commenced with businesses that consume more than 40 (or in some cases, 60) MWh p.a. Businesses with higher energy consumption are better placed to take advantage of battery storage and automated energy management solutions. The discussion paper should consider the merits of progressively lowering the threshold for mandatory reassignment.

### **Is peak usage subscription suitable for retailers or only customers?**

Network tariffs will be charged by networks to electricity retailers. Electricity retailers will play a key role in the successful implementation of cost-reflective tariffs. It should not be assumed that all electricity retailers will simply pass through demand tariffs to customers and they should not be directed to do so. Electricity retailers are in the business of managing electricity market risks on behalf of their customers. Demand-based tariffs are a new business risk for electricity retailers and they will need to decide whether to respond to the new tariff structures by investing in energy storage, virtual power plants and demand management, absorbing the costs or passing the demand tariff through to their customers.

It is unclear whether peak usage subscription tariffs are suited to be passed on to retailers or if this tariff would only make sense in a situation where the subscription bands are nominated by each customer. We will seek further advice from distribution businesses and electricity retailers on this question so as to better inform our response.

### **Peak time rebates should be further developed**

The CEC would be keen to work with distribution businesses to assist with the development of a peak time rebate, in addition to the other measures considered in this submission.

We note that the time of use feed-in tariffs are currently regulated on an 'opt-in' basis and to date we are aware of only one electricity retailer that has opted in. It would therefore be important in the design on a peak time rebate proposal to consider the role of electricity retailers and whether the rebate should be provided on an opt in, opt out or mandatory basis.

### **Assistance with engagement and next steps**

The CEC is keen to work closely with distribution businesses in the development of tariff reform proposals. We would be happy to arrange a workshop or forum where Victorian network businesses and other CEC members can discuss the issues together.