

10 October 2012



Senator Thistlethwaite
Chair
Senate Select Committee – Electricity Prices
PO Box 6100
Parliament House
CANBERRA ACT 2600

via email: electricityprices.sen@aph.gov.au

Dear Senator Thistlethwaite

PIAC response to questions on notice

This letter outline PIAC's responses to two questions placed on notice at the recent public hearing of the Senate Select Committee on Electricity prices held in Sydney on 25 September 2012.

Question from the Chair:

If we were to advocate a rollout of smart meters—and I am not saying that we will, but if we were to do so—what would be the conditions that your organisations would put on that for governments or regulators to ensure that the lessons are learned from what happened in Victoria?

Consumer awareness of smart meter costs and benefits

Smart meters have the capacity to reallocate costs of supplying electricity. In PIAC's view it is important to assess whether the costs and benefits are fairly apportioned across the demand and supply sides, can stand up to public scrutiny and have regard to any lag in time between cost allocation and the realisation of benefits. For example, it would be unacceptable for consumers to bear the cost of a smart meter roll out if savings facilitated by remote meter reading did not result in demonstrable savings in network charges. It is important that the realisation of long-term benefits is accompanied by the smoothing of costs. This allows consumers, who are struggling with current electricity prices, an opportunity to avoid large step changes in prices well in advance of any benefit being delivered.

Consumers should be included in the formation of a case for or against a smart meter roll out. As PIAC noted in the recent public hearing, consumers have long purchased electricity as a generic and largely abstract product. This is because electricity is of a uniform quality and facilitates the use of other products. As such, many consumers are not aware of the complexity of the market, the cost of peak demand or the potential benefits smart meters could enable. A comprehensive campaign to educate consumers about smart meters, and to assess and respond to consumer concerns, could assist in demystifying this technology, address people's privacy and safety concerns and explain opportunities to reduce costly infrastructure investment and reduce peak demand.

A contemporary analysis that apportion costs and benefits between entities on the demand and supply sides of the market could underpin this campaign, providing consumers with information about who is likely to benefit from smart meters and whether any costs they face are a good value proposition.

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Protection from bill shock

PIAC notes that the *National Smart Meter Consumer Protections and Pricing* process is currently in train under the auspices of the Standing Committee on Energy and Resources (SCER). PIAC submits that consumers with little opportunity to shift or reduce their electricity consumption away from peak periods should not be forced to take on time-of-use electricity tariffs. Additionally, it is important that these consumers are not penalised for low levels of discretionary consumption through the application of flat-rate alternatives that are inflated in any way.

Consumers with low levels of discretionary electricity consumption should be included in opportunities to reduce their electricity costs. As such, PIAC contends that vulnerable consumers should have the capacity to opt out of time-of-use electricity contracts without penalty. The removal of any penalties will allow people to test whether these pricing structures will suit their circumstances.

PIAC also notes that a trial period where consumers are charged the lesser of the time-of-use rate and the flat rate, as well as the provision of billing information that maps out consumption across peak, off-peak and shoulder periods may provide consumers with resources to make informed choices about tariffs that suit their circumstances.

Contemporary pricing requires contemporary concessions

Lastly, it is important to note that rebates in NSW are paid at a flat rate. There is a need to assess the capacity of flat-rate rebates to provide adequate levels of assistance if variable electricity prices become the norm.

PIAC understands that budgetary constraints make adjustment to social payments and rebates challenging. However, PIAC is of the view that it is important to assess opportunities to provide customer assistance that is as responsive to changing demands, in terms of its structure and value, as the systems for charging consumers for their essential energy service. This is one of the reasons why PIAC recommended the Australian Government undertake an examination of electricity assistance measures, including developing principles for a best-practice model of delivering such assistance in its submission to this process.

Question from Senator Xenophon

In recommendation 2 you have said:

PIAC recommends that the National Electricity Objective be amended to read:

to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

1. price, quality, affordable access, safety, reliability, and security of supply of electricity; and
2. the reliability, safety and security of the national electricity system.

Can I focus on the words 'long-term interests of consumers'. EWN Publishing, which is a specialist publisher on electricity matters, says that the SCER, the standing council, has watered down the law and changed the objective of the law from 'interests of consumers' to 'long-term interests of consumers' and that by doing so it has actually made it more difficult for consumers. You may want to take this on notice. I understand what you have done: you have just added to the objectives. Do you think there is an argument, as set out by some electricity commentators, to get rid of the words 'long term' so that it just refers to the 'interests of consumers' rather than the 'long-term interests of consumers'? That is something you may want to consider. It is a technical point but I think it is still an important one in terms of the emphasis that you put on the way interpretations are made with respect to determinations.

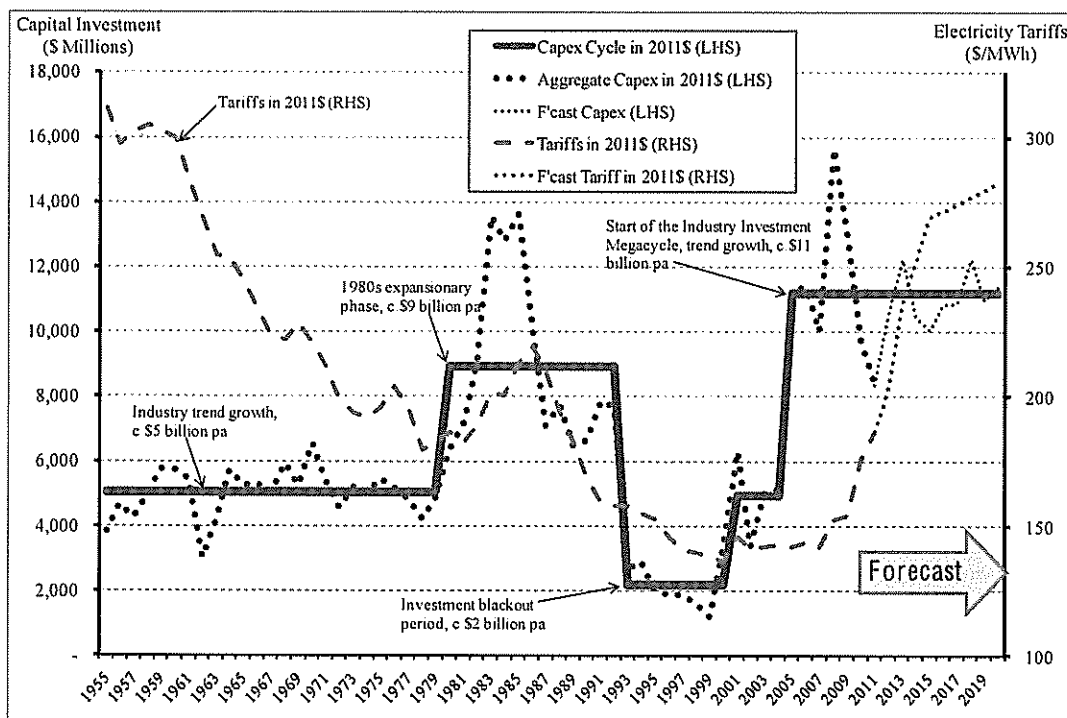
The wording of the National Electricity Objective

PIAC agrees with the fundamental premise of this question, namely that the National Electricity Objective (NEO) is not delivering the best possible results for consumers. However, PIAC does not believe that the way around this problem is to remove the words 'long-term' from the NEO. This is because if electricity investment is considered in the short term, it could be argued that the interests of consumers with regard to price are served by reducing investment in one determination period, thereby placing downward pressure on bills.

This approach creates problems when the necessary investment to maintain the grid and meet growth in demand is not carried out for a number of years, and must then be rushed through in a short timeframe and at considerable expense to consumers. This scenario occurred in Australia from the late 1970s, when overinvestment in the network (and the failure of demand to meet forecasts) resulted in spare distribution capacity. This, in turn, led to declining investment throughout the late 1980s and early 1990s, with an 'investment blackout' from 1993 to 2000.¹

Electricity tariffs, which lag behind movements in capital expenditure due to the way networks are allowed to earn a return on their investment, declined in real terms from the mid 1980s to late 1990s. The negative impact of this blackout was felt when networks needed to dramatically increase network investment from 2000, and particularly since 2004 (see Figure 1). That most recent investment spike has been a major contributor to the recent steep rises in electricity tariffs that have occurred since 2007 and are scheduled to continue until at least 2014-15 (see Figure 1).

Figure 1: Energy infrastructure investments and tariffs



Source: Simshauser and Catt (2012).

PIAC submits that the interests of consumers are best served by avoiding volatile investment cycles and creating more stable price paths, without dramatic peaks and troughs. Given that

¹ Simshauser, P. and Catt, A. (2012), "Dividend policy, energy utilities and the investment megacycle", *The Electricity Journal*, 25(3): 4, 64.

such price rises have negative impacts on affordability for many consumers, PIAC contends that making 'affordable access' part of the NEO would encourage affordability and negative price impacts to be considered by regulators in price determination and other processes. As outlined in PIAC's original submission to the Committee, PIAC recommends that 'affordable access' be inserted in point 1 of the NEO.

Question from Senator Xenophon

Does either group have a view about Mr Oakeshott's bill for a national takeover of the rules? Assuming that there are not any constitutional legal impediments, do you think that would be a better policy approach—to have a uniform body to look at issues?

Unfortunately, PIAC is unable to provide an answer to this question in the timeframe of this process.

Yours sincerely

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