

Essential Energy Draft 2024-29 Tariff Structure Statement

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Public Interest Advocacy Centre
ABN 77 002 773 524
www.piac.asn.au

Gadigal Country
Level 5, 175 Liverpool St
Sydney NSW 2000
Phone +61 2 8898 6500
Fax +61 2 8898 6555

About the Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is leading social justice law and policy centre. Established in 1982, we are an independent, non-profit organisation that works with people and communities who are marginalised and facing disadvantage.

PIAC builds a fairer, stronger society by helping to change laws, policies and practices that cause injustice and inequality. Our work combines:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change and public interest outcomes.

Energy and Water Consumers' Advocacy Program

The Energy and Water Consumers' Advocacy Program works for better regulatory and policy outcomes, so people's needs are met by clean, resilient and efficient energy and water systems. We ensure consumer protections and assistance limit disadvantage, and people can make meaningful choices in effective markets without experiencing detriment if they cannot participate. PIAC receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

Contact

Douglas McCloskey
Public Interest Advocacy Centre
Level 5, 175 Liverpool St
Sydney NSW 2000

E: dmcloskey@piac.asn.au

Website: www.piac.asn.au



Public Interest Advocacy Centre



@PIACnews

The Public Interest Advocacy Centre office is located on the land of the Gadigal of the Eora Nation.

Introduction

PIAC welcomes the opportunity to respond to Essential Energy's Draft 2024-29 Tariff Structure Statement (TSS). In this submission we set out the role of network tariffs, the purpose of cost-reflectivity, and respond to specific elements of Essential's Tariff proposals and other priorities for consideration in this TSS.

PIAC supports the rapid adoption of cost reflective network tariffs (CRNT) to promote the long-term interests of consumers. Well-designed cost-reflective network tariffs are a crucial enabler for fairness and efficiency in the transition of the energy system.

Retailers and CRNTs

CRNTs are a signal to energy retailers for efficient pricing of network services.

The introduction of CRNTs is effective or successful when:

- The network charges recovered from a retailer for a given customer reflect the cost to serve that customer¹
- Consumers have access to retail tariff options that suit their needs and preferences, such as:
 - Simple two-part tariffs (with fixed and volumetric pricing) for consumers who prefer this.
 - Tariffs that reflect the shape of the underlying network tariff for customers who prefer this.
 - Tariffs and/or rebates that reflect location-specific opt-in network tariffs or rebates, where available, for consumers who prefer this.

This does not require all retailers to offer all consumers each option. Rather, consumers should be able to find sufficient offerings to meet their needs from whatever combination of retailers serve their area and customer type.

- Consumers can manage or change their energy demand – for example by installing solar and/or batteries, shifting loads away from peak periods, investing in energy efficiency or purchasing an electric vehicle - without requiring cross subsidy from other consumers or going unrewarded for benefits they create for the energy system.

This does not entail consumers having to reduce or change their energy use in response to pricing. Some consumers (particularly those with peakier loads and/or solar PV) will pay more under cost reflective pricing. Others (particularly those with flatter loads and/or no solar PV) will pay less. Neither should be expected to respond to any price changes.

¹ Except for subsidies or transfers resulting from postage stamp pricing for default and standard tariff offering. By and large, consumers are supportive of postage stamp pricing and accept that means consumers in built-up areas pay above their cost-to-serve so those in regional and remote areas can access energy for a similar price.

In the absence of a response to price signals, CRNTs still have the benefit of equitably allocating costs between consumers on a more 'causer pays' basis. Retailers are exposed to network tariffs, and it should be their decision if and how they pass on these charges.

Despite their apparent resistance to CRNT reforms, retailers are well placed to manage the risk associated with being exposed to time-variant network prices while passing on a flat (or otherwise different) charge to consumers, as they do with wholesale costs. Wholesale costs are vastly more volatile and unpredictable than CRNTs.

The view that retailers should be 'passing through' CRNTs is, in PIAC's assessment, ill-conceived. Retailers smearing or absorbing 'peak' price signals is beneficial for consumers who choose those retail products, and beneficial to other consumers as it aligns retailer incentives to reduce exposure to peak costs with more efficient network outcomes. In the best-case scenario, retailers would seek to manage network price risk in innovative way, which may include peak time rebates, load control, or cost reflective retail tariffs.

Tariff reform principles

PIAC supports the adoption of cost reflective network tariffs (CRNT) to promote the long-term interests of consumers. Well-designed cost-reflective network tariffs are crucial for efficiency, and to reflect the community's preference for fairness, in the transition of the energy system.

CRNTs encourage retailers to respond to price signals about efficient network costs by helping consumers efficiently manage their electricity use, generation and storage. In doing so, they can more fairly share network costs and are likely to reduce the need for future network augmentation expenditure and, therefore, consumer bills.

PIAC has observed many of Essential Energy's community engagement sessions. Consumers have expressed a preference for non-mandatory tariff assignment and provision for opt-outs from default tariffs. PIAC considers this preference to relate to the retail tariff that consumers themselves face, rather than the underlying network tariff the retailer is exposed to. This distinction is crucial to Essential's proposals regarding tariff assignment and transition. Mandatory tariff assignment of network tariffs, and a more rapid transition does not require, and should not involve, any mandatory assignment of retail tariffs for end consumers.

PIAC recommends Essential's policy on transition and tariff assignment should reflect the principle that retailers are the intended target for cost reflective tariffs. Once tariffs are implemented retailers should not be able to opt-out from them, except in limited, defined circumstances. Where export charges are to be applied to all customers from 1 July 2025, the assignment of network consumption tariffs should be consistent with this timeframe. PIAC supports maintaining consumer choice of retail tariffs, but it must be clear that this does not apply to retailers. Essential should consider stronger measures to transition tariffs at a network level, while providing more clearly articulated education and information to the community on how retail tariff choice can be exercised.

Two-way pricing

PIAC broadly supports Essential's approach to the introduction of two-way pricing and agrees that the proposed approach is consistent with the priorities and preferences expressed by the community through engagement. It is crucial the final approach to two-way pricing is clearly founded on the preferences of consumers and the community in addressing the identified issues:

- Ensuring fair and efficient sharing of available network solar hosting capacity, and
- Ensuring fair recovery of costs associated with hosting solar, and
- Providing transparent network pricing signals which support more efficient use of household solar for household and system benefit.

While the approach proposed in the draft broadly addresses these issues, there are aspects that may need clarification and, potentially, some amendment. Specifically:

- How the 'free' or basic export limit (and any subsequent charging band) is implemented. It is clear why Essential has determined 1.5kW to be the appropriate export capacity available to all consumers. However, it is not clear whether an individual consumer's limit and charges for export will be calculated on a cost reflective basis (i.e. Can export 1.5kW at any point in time, before being charged), or on a volumetric basis (i.e. Can export up to a certain amount in a period before being charged). PIAC strongly recommends export limits and charges be implemented on a cost reflective basis.
- How any curtailment or export limit is implemented. Fair and efficient hosting of solar should involve curtailment of solar export where this is more efficient than undertaking the network augmentation required to accommodate additional exports. It is clear that Essential is seeking consumer and community preferences on how curtailment can be undertaken in a way that optimises the amount of solar hosted but shares that hosting capacity fairly.

At the most recent engagement session, Essential presented an option to implement curtailment by first curtailing larger connections to 'equalise them' before implementing a fixed or proportionate curtailment to all systems. PIAC supports this option. Any curtailment should be undertaken on exports at the time any export limit is exceeded, rather than on a volumetric basis (i.e. kW rather than kWh).

- Charging windows and alignment between peak/off-peak for sun-soaker and low-voltage battery two-way pricing. While the low-voltage battery price retains shoulders and a narrow evening peak (5-8pm) the sun-soaker has a single extended evening peak between 3-10pm. It is not clear why there is a difference in approach. PIAC questions whether such an extended evening peak period for the default tariff (sun-soaker) is appropriate.

PIAC does not consider there is adequate justification to support a consistent 7-hour peak window for summer and winter. PIAC generally supports consistency of peak charging windows between seasons where this is an accurate reflection of network peak demand, and where there is no material difference between seasons. However, it is materially harder for households to respond to peak tariffs longer than 3 or 4 hours. We also question whether increasing the peak window for all areas of the network – and reducing the scope for consumer response – is a fair or reasonable trade-off in response to the potential constraints

of some areas of the network. PIAC would appreciate more detail demonstrating the proposed peaks are necessary to respond to existing or immediately likely network demand issues.

- PIAC has concerns about the use of non-dynamic sun-soaker and solar-sponge tariffs. Unlike more cost reflective tariffs, the sun-soaker tariff is only likely to be effective when it encourages users to respond by using more energy during times of high solar export. While dynamic, opt-in solar sponge tariffs could sustainably target better utilisation of local solar energy at times and locations where it's beneficial to do so, non-dynamic solar-sponge tariffs may come with a number of risks that result from being less cost reflective:
 - When set at a price high enough to provide a signal that can help facilitate behaviour change and investment in appliances to use more energy during the day, non-dynamic solar soaker tariffs may not be sustainable. There is also a risk of unintentionally driving up consumption at times where it is not beneficial to do so. This could increase the risk of:
 - Higher wholesale energy prices, offsetting the benefit to participating consumers with higher costs to all energy users in a given region.
 - Removal of the price signal, to the detriment of consumers who have invested in technology on the basis of the price signal being removed.
 - When the sun-soaker tariff has little price differential to avoid the impact mentioned above, there is a risk retailers won't pass through the saving, meaning there is no potential for consumer benefit and less likelihood of improvement to network utilisation. Unlike a cost-reflective consumption tariff which can serve its purpose (fairer sharing of network costs) regardless of consumer behaviour, if the sun-soaker is not passed through in some form or does not facilitate desired consumer behaviour change it will not serve its purpose.
 - Based on our understanding of consumer preferences and behaviour, PIAC is concerned there may not be a sustainable 'sweet spot' between the 'too high' and 'too low' sun-soaker settings noted above. In PIAC's view, to best serve their intended purpose, sun-soaker tariffs should be implemented as opt-in, dynamic tariffs, limited to the times and locations where they provide benefit.

NSW Roadmap costs

PIAC considers costs related to the NSW Electricity Infrastructure Roadmap would be more appropriately recovered through Transmission Network Service Providers, or from the NSW Government budget.

Where Roadmap scheme costs continue to be recovered by DNSPs, PIAC recommends:

- The LTESA-related portion of costs should be recovered through volumetric charges. The consumer benefit of LTESAs is downward pressure on energy wholesale costs, so recovering this through fixed charges would mean lower energy users are paying more than their fair share, and higher energy users are paying less.

- The cost of new transmission under the Roadmap would ideally be recovered from the generators for whom it is built. Whatever costs are passed through to consumers should be recovered in the same way as other Transmission Use of System charges: a combination of volumetric and fixed charges, weighted towards volumetric charges.

NSW Hydrogen strategy costs

In PIAC's opinion, the decision to discount network tariffs for hydrogen producers is not consistent with Essential's tariff principles, the NER network pricing principles, or the long-term interests of energy users. Any subsidy for hydrogen production should be provided directly by the NSW or Commonwealth Government, not other energy users. PIAC would strongly support Essential seeking a change to NSW Government policy to that effect.

In the absence of a change to this policy, and given the original intent of the policy was to improve utilisation of the existing network, in PIAC's view the 90% discount should be conditional on the hydrogen producer imposing the need for little or no network augmentation. A combination of fixed and critical peak charges would be an effective tariff for a new hydrogen producer, and the 90% discount should be reflected in the fixed component, such that:

- If they require no network augmentation in normal operation, they pay a fixed charge equal to 10% of the network costs they would otherwise pay
- If they require the reduction of load at network peak times to avoid augmentation, a critical peak charge should apply to any demand triggering the need for network upgrades. This should be over and above the fixed charge.