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Contact Jessica Robinson

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24 January 2024

Ms Clare Savage
Chair
Australian Energy Regulator
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via email AERresets2024-29@aer.gov.au.

Dear Clare,

IPART's submission to the AER's draft revenue determinations for NSW distribution network service providers for the 2024–29 period

Thank you for the opportunity to provide a submission to the Australian Energy Regulator's (AER) review of the network determinations for NSW distribution service providers for 2024-29.

Since electricity prices were deregulated in NSW in 2014, IPART has been required to monitor the NSW retail electricity market. Our market monitoring role is set out in the National Energy Retail Law (NSW). We must report annually on a range of matters including price movements and price and product diversity.¹

This submission sets out our views on the structure of network tariffs for 2024-29. In particular, we:

- Support tariff structures that provide customers with effective price signals about when to use electricity to put downward pressure on the costs of supply to benefit all customers. We consider that the DNSPs' tariff structures should provide price signals that encourage customers to voluntarily request smart meters, increasing the pace of the transition to cost reflective pricing.
- Consider that further analysis should be undertaken to demonstrate the benefits of the proposed demand tariff structures for residential customers, as compared to alternative cost-reflective tariff structures.
- Consider that DNSPs should be required to publish a deidentified sample of customer usage profiles so that the range of network costs likely to be faced by individual customers under different tariff structures can be calculated and understood. Access to information about the price impact on bills is critical in driving the intended changes in usage patterns.

These issues are discussed in more detail below.

¹ [National Energy Retail Law \(NSW\) 2012, Section 234A](#)

Cost reflective tariffs should benefit typical customers

IPART supports tariff structures that provide customers with effective price signals about when to use electricity. A price signal will be effective if it is well-understood by customers, or if it enables technology to optimise usage.

If households are able to respond to these signals and shift their usage to times when it is less costly, then the existing assets could be used more efficiently and the overall costs of providing electricity would fall. This would mean that bills for all customers would be lower than they otherwise would be without cost-reflective pricing.

To ensure that these benefits are realised, it is crucial that there is public support for smart meters. We consider that the AER should ensure that the DNSPs' tariffs send price signals that encourage customers with typical usage patterns to voluntarily request smart meters, increasing the pace of the transition. In practice this may mean adjusting flat rate tariffs to reflect the additional cost they impose upon the network (relative to cost-reflective tariffs).

In our review of the retail market in 2021–22, we found that a typical customer on a time-of-use tariff would pay more than customers on a flat tariff in all NSW networks.² This in part reflected significantly higher daily charges for time-of-use tariffs.³ This means that customers with low consumption levels were significantly worse off on a time-of-use tariff compared to a flat tariff. This issue is one of the key areas of complaints to IPART. In our view, an outcome where a **typical customer** pays more for their electricity as a result of being mandatorily placed on a cost-reflective tariff after they have had a smart meter installed, could undermine this important reform.⁴

Demand tariff design for residential customers

Each of the 3 networks have proposed similar demand tariff structures for residential customers. They will continue to charge for demand by measuring consumption over a 30-minute window and charging residential customers a monthly fee based on their highest demand during peak periods (e.g. between 2 pm and 8 pm) in a given month. This structure is intended to provide an incentive for customers to consume less energy during peak periods, reducing pressure on the network, and putting downward pressure on infrastructure costs in the longer term.

We consider the following analysis would be instructive in considering whether this tariff structure is more cost-reflective than alternative tariff structures for residential customers, including time-of-use tariffs:

- the variability of residential customers' maximum demand during a peak period over a month
- the probability that an individual's maximum demand will coincide with the maximum demand on the network.

² IPART, [Monitoring NSW energy retail markets 2021-22 Final Report](#), November 2022, pp 82-85.

³ For example, see Ausgrid, [Network price list 2022-2023](#).

⁴ Some people will be worse off as a result of having a smart meter if they do not make changes to their patterns of consumption. We consider that it could be appropriate for customers with higher than typical peak usage to pay more on a cost reflective tariff compared to a flat-rate tariff.

We consider that the design of the demand charges is likely to be effective for business customers where they have reasonably consistent demand for energy from day to day. Particularly for energy-intensive businesses, demand tariffs can send a strong signal to invest in energy efficient solutions that will result in a consistent reduction to their maximum demand.

We consider that analysis should be undertaken to identify whether there are significant differences in residential and business usage that affect the cost-reflectivity and incentive properties of the proposed demand tariffs. For example, it may be that residential customers' overall energy use is relatively low at any given point in time, so that any one particular action, such as vacuum cleaning, or boiling the kettle, can have a large impact on a household's usage at a point in time (e.g. a 30 minute window). This may not be reflective of their general usage patterns. A customer's peak usage may be a one-off (i.e. does not reflect "normal" usage), but will still set their demand charge for the period.

If there is significant variability in a customer's peak demand from day to day, then further work should be done to understand whether there is a strong correlation between the customer's peak demand day and the peak demand on the network. If there is not a strong correlation, then a time-of-use tariff, which takes into account usage across the whole month to determine the peak expenditure, may be just as cost-reflective as a demand tariff.

We also encourage further analysis of whether demand tariffs are likely to provide a stronger incentive to residential customers to shift demand compared to other cost-reflective tariffs. To reduce the cost of a demand tariff, a customer would need to reduce their maximum demand on every day of a month. This may not be achievable for many residential customers. Unlike a time-of-use tariff, once a customer has had a "high-demand" day, the demand tariff design does not reward them for shifting behaviour on other days.

The impact of innovative pricing options needs to be widely understood

In its review of the regulatory framework for smart meters, the Australian Energy Market Commission (AEMC) made recommendations that would help customers to make informed decisions as part of the change to smart meters.¹ These include requiring retailers to provide customers with information on how to understand and monitor their usage, and how to manage change – including allowing the customer to request an estimate of what their historical bill would have been under any new tariff structure.

As the pace of the smart meter roll-out to customers increases, we consider that regulators such as IPART also need access to additional information so they can monitor the range of customer outcomes. Better information on how prices impact bills will help drive the behaviour changes intended.

To date, IPART has not been able to conduct analysis on pricing outcomes for customers on demand tariffs because there is not sufficient information to enable us to accurately calculate bills. As part of the annual tariff reviews, we consider that DNSPs should be required to publish on their websites a statistically significant sample of deidentified customers' half-hourly consumption information for a year. We consider that a representative sample of 2,000 customer usage profiles and a sample of outlying profiles would be sufficient. This would allow maximum peak demand to be calculated for each customer, so the tariffs can be applied, and customer bills can be calculated.

IPART's contact officer for this submission is Jessica Robinson, Director, Pricing & Policy, contactable on [REDACTED]

Yours sincerely,

24/01/2024
[REDACTED]
Signed by: [REDACTED]

Carmel Donnelly PSM
Chair

ⁱ Australian Energy Market Commission, *Review of the Regulatory Framework for Metering Services – Final Report*, August 2023, p 19.