



19 February 2010

Mr Chris Pattas
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Australian Energy Regulator
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Dear Mr Pattas,

**RE: AER REVIEW OF THE
VICTORIAN DISTRIBUTORS' REGULATORY PROPOSALS**

The Victorian Employers' Chamber of Commerce and Industry (VECCI) is the largest and most influential employer organisation in Victoria and has been providing services to and representing business in Victoria for over 150 years.

Our focus is on leading business into the future. We are committed to being the voice for business, representing and championing the interests and concerns of our members, customers and clients in public policy and regulatory matters.

VECCI supports the role that effective regulation has to play and welcomes the opportunity to lodge this submission on behalf of small business customers of the Victorian electricity distribution network businesses.

VECCI considers that the particular circumstances of small business customers are not well addressed through the Victorian DNSPs' Regulatory Proposals for the 2011-15 period.

We propose that the AER consider our major recommendations in this submission in determining its response to the Regulatory Proposals.

VECCI would like to ensure that the AER is also mindful of a number of particular aspects in relation to small business customers in responding to the DNSP Proposals outlined in this submission.

Yours sincerely

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**VECCI SUBMISSION TO THE AUSTRALIAN ENERGY REGULATOR
ON THE VICTORIAN ELECTRICITY DISTRIBUTION SERVICE PROVIDERS' PROPOSALS
FOR THE 2011-2015 REGULATORY PERIOD**

About VECCI

Our Vision

VECCI makes a difference to Victoria's economic, environment and community health. It influences Victoria's future through business leadership and services focused on policy solutions, innovation and excellence.

VECCI's Mission

VECCI will be respected and trusted for its ability to forecast and honestly describe the challenges and responsibilities which confront the business sector. It will be admired for its innovation and courage in devising and introducing productive responses.

It will be a trusted advocate for business, community and government accountability in supporting and encouraging an economically, socially and environmentally confident future. Victorians will celebrate VECCI as an organisation that genuinely serves its mission, lives its values and believes what it says.

Introduction

In December 2009, Victoria's five electricity distribution networks: CitiPower, Jemena, Powercor, SP AusNet and United Energy, filed Regulatory Proposals with the Australian Energy Regulator (AER) for their monopoly electricity distribution networks for the period from January 2011 to December 2015.

As distribution charges (far more so than transmission charges) make up a significant proportion of a small business consumer's total bill, VECCI is conscious of the implications of this price review process for small business consumers.

Collaboration with other small business representative organisations

For the purposes of this submission, VECCI has sought broad input from small business representatives on the Victorian Small Business Leaders Panel and other business and industry organisations.

VECCI works closely with the Australian Chamber of Commerce and Industry (ACCI) as a matter of course and, in the context of this project, will enhance understanding and capacity on small business consumer energy advocacy through ACCI's national communication channels.

VECCI also remains in contact with other small business representative organisations, and expects to be able to represent a broader constituency as the price review process progresses.

Acknowledgement

This project was funded by the Consumer Advocacy Panel (www.advocacypanel.com.au) as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas.

The views expressed in this document do not necessarily reflect the views of the Consumer Advocacy Panel or the Australian Energy Market Commission.

VECCI would like to take this opportunity to thank the Consumer Advocacy Panel for its support for VECCI's involvement in this project on behalf of small business

About Victorian small business

The Australian Bureau of Statistics defines an SME (Small to Medium Enterprise) as having less than 200 ‘full time equivalent’ employees. According to the ABS, a business is traditionally regarded as small if:

- it is independently owned and operated;
- it is closely controlled by the owners who also contribute most if not all of the operating capital; and
- the principal decision making functions rest with the owners.

According to the ABS, in Victoria:¹

- there are 503,379 businesses;
- more than 99% of businesses have fewer than 200 employees;
- more than 95% of businesses have fewer than 20 employees;
- more than 60% of businesses with fewer than 20 employees are based at, or operate from, home;
- more than 50% of businesses have no employees.

The ABS considers a medium business to be one which employs 20 to 199 individuals.

For the purposes of research VECCI defines a ‘small’ business as employing fewer than 100 full time equivalents.

A review of the DNSPs’ Regulatory Proposals suggests that small business makes up about 10% of total Victorian customer numbers and consumes as much as 15% of the total electricity load.

It is not clear how the ABS definition, based on employee numbers, would translate to the electricity industry standard of 160MWh of electricity consumption per year. However it would be reasonable to expect that some of the larger “small businesses”, particularly in the manufacturing sector, would consumer electricity in excess of this threshold.

¹ Australian Bureau of Statistics www.abs.gov.au (accessed July 2009) and Small Business Victoria www.business.vic.gov.au (accessed July 2009), quoted in VECCI Carbon Down market research study *Victorian businesses’ climate change knowledge, attitudes and behaviours*, July 2009.

While there appears to be some diversity in the definitions of “small business”, the unavoidable fact is that the small business sector is a significant customer class for the electricity distribution network businesses.

Features of Victorian small business

As a group, the small business community is both disparate and diverse. Small business operates in every region of Australia and across virtually every sector of the economy. In aggregate, small business is the largest employer in Australia and in Victoria.

As diverse as this group is, there are some key commonalities that are relevant to this electricity distribution price review:

- Small business operators generally do not have the background and expertise to monitor their electricity supply closely.
- Small business management tends to be very “hands on” to manage the core day-to-day functions of the business.
- Small business management does not have time to educate itself in the nuances of electricity supply tariffs and regulatory reforms ongoing in this arena.

Small business has generally not had a voice in energy regulation matters, largely due to the diversity of the constituency. In contrast to small business, big business has resources to participate directly in the price review process; domestic consumers have power through political processes. This has given rise to an anecdotal concern that historically, costs have been assigned to the small business class because they have not had a voice in the proceedings.

VECCI is pleased to be able to represent the small business community in this price review process.

Through its advocacy and membership activities, VECCI is able to maintain close contact with small business. VECCI also has capacity to survey its members using traditional methods and web 2.0 communication channels. However, as noted above, with small businesses unlikely to be strongly aware of electricity tariffs and reforms, engaging directly with business owners on this issue is challenging.

Focus of this submission

VECCI recognises that the regulation of electricity distribution businesses is a very technical undertaking, from both an engineering and economics perspective. In

this respect VECCI will engage positively with the businesses on those areas in which small business representatives can demonstrate expertise. That is, VECCI will not comment on the details of the capex and opex forecasts, the load and demand forecast, or the Cost of Capital.

Rather, VECCI's focus and emphasis is on:

- The DNSPs' Cost Allocation Methodology (CAM) particularly as it assigns costs to small business customers;
- The DNSPs' Demand Management plans, particularly as they relate to the DMIA (Demand Management Innovation Allowance) and DMIS (Demand Management Incentive Scheme)
- Scope for designing and proposing tariffs that will be suitable for small businesses.

Approach

VECCI proposes to take a cooperative approach to this price review process, notably:

- Engaging with the distribution businesses;
 - VECCI will establish contact with the regulatory management of the Victorian DNSPs to discuss our approach and to establish a cooperative relationship.
- Working with the distribution businesses to achieve outcomes for joint submission and approval;
 - VECCI takes the view that more can be achieved in cooperation with the network business than in opposition.
 - In particular, VECCI seeks to achieve outcomes with the businesses which can then be jointly submitted to the regulator for endorsement, seeing this as a much preferable route than placing the regulator in the position of dispute arbiter.
- Acknowledging that there are areas in which VECCI or its constituent members cannot reasonably provide meaningful commentary;
 - We recognise that there are aspects of the Regulatory Proposals on which we cannot reasonably provide valuable commentary. For example, aspects of network planning or other network engineering

matters; and similarly, the technical aspects of the cost of capital debate.

- Focusing on those areas in which VECCI can add the most value in providing commentary such as;
 - the cost allocation methodologies for determining the “fair share” of costs that should be borne by small business customers,
 - Working with the distribution businesses to develop tariffs (which can be adopted by retailers) to assist small business customers to pay that fair share.
- Restricting its commentary to those areas identified in the Rules on which the Regulator has relevant discretions to consider VECCI’s comments;
 - VECCI is conscious that the regulator has a job to do and clear legislative requirements within which to do it.
 - Our response in this submission will be directed primarily to those areas clearly actionable by the regulator within the legislative framework.

Having said that, VECCI also recognises the Victorian and Australian Governments as an audience for submissions to this price determination process. As such, we may also use our submissions to draw contextual matters to the attention of the Government on areas where its support may be required to achieve positive outcomes related to the price review process, or to areas where the legislative requirements are unduly restrictive and do not allow consideration of important small business consumer considerations.

Pending engagement with the network businesses on cost allocation matters, VECCI would like to take this opportunity to comment on the foundations of the tariff proposals to be filed by the businesses later this year.

VECCI hopes that these comments can be taken on board proactively before the pricing proposals are finalised.

Tariffs and price signals

There is considerable discussion in the DNSPs’ Regulatory Proposals regarding the evolution of network tariffs to take advantage of the rollout of interval “Advanced Metering Infrastructure” (AMI) meters across Victoria. However, there is very little discussion on the ability of customers in general to respond to the price signals touted by the DNSPs as benefiting electricity consumers. The DNSPs appear to be promoting Time of Use (ToU) tariffs on blind faith. The comments of

SP AusNet and United Energy Distribution, especially considered together, paint the picture best:

- In its discussion of the impacts of its Critical Peak Pricing tariff changes, SP AusNet comments that its energy and demand forecasts take into account the impact of Time of Use and Critical Peak Pricing tariff changes. Figure 5.16 of its Regulatory Proposal indicates that more than 65% of all energy use is off peak, with only 4.5% affected by the summer Critical Peak Pricing tariff. However, SP AusNet has based this analysis in the Net System Load Profile as

“SP AusNet does not have any reliable interval metering data, stratified across the various customer classes that make up ‘residential and small commercial’ customers”²

- In its discussion of Critical Peak Pricing (CPP) and ToU tariffs, United Energy Distribution comments that

“with both types of charging system, customers retain control of their loads and are presumed to respond to price signals”³ (our emphasis)

VECCI is concerned at the high expectations placed on the assumed and ‘presumed’ customer response to the price signals inherent in ToU and CPP tariff structures.

VECCI submits that, in order for a price signal to be effective, there are three critical hurdles that must be cleared:

- The network business must send the price signal
 - *The price signal must not be distorted in communication*
- The customer must receive the price signal
 - *The customer must receive the price signal in a timely manner*
 - *The customer must understand the price signal and see it as a message to modify its behaviour*
- The customer must act on the price signal (in the manner desired by the sender)
 - *Importantly, the customer must be able to act on the price signal*

² SP AusNet Regulatory Proposal S5.6 p91

³ United Energy Distribution Regulatory Proposal S18.5.2 p229

VECCI will touch on each of these hurdles below. However, VECCI's experience, being in contact with small businesses daily, is that the foundation assumption to the ToU and CPP tariff reforms; that customers (particularly small business customers) are *able* to act on the price signals, is erroneous.

VECCI submits that, while price is one of the few levers available to the network businesses to encourage behavioural change, the process of sending, receiving and acting on price signals requires significant improvement before price signalling can be of use in developing network tariffs.

Until this chain of communication and responsive action is improved, a movement to more sculpted tariffs featuring higher charges for peak usage will simply constitute a "revenue grab" on the part of the network businesses, to the detriment of the small business community.

The network business must send the price signal

Lack of customer communication relationship

It is not clear to VECCI that a distribution business can send a price signal to an end use customer. Since the disaggregation of the energy supply industry, the distribution businesses no longer maintain customer communication channels. Responsibility for managing the customer relationship is clearly the domain of the retail businesses.

The "customer" of the network business is the retailer more than the end user. As a result, the network business can send a price signal to the retailer, but it is not at all clear that the network business can send a price signal to an end use customer.

It is also not obvious that customers, particularly small business customers, are aware of the identity of their network business. As discussed above, small business management generally has little time to spend on researching the details of their electricity bills beyond the price on their current bill and the name of the retailer to whom it is payable.

This is most critical in the case of Critical Peak Pricing signals. If the network business is unable to send clear signals to end use customers, it will be difficult to imagine how end use customers will be able to respond to the price signals.

Communication protocols and channels

It is not clear, from the Regulatory Proposals, which communication channels the DNSPs propose to use to send price signals, particularly CPP alerts.

It is also unclear in the Regulatory Proposals how the DNSPs propose to disseminate a CPP event message. Given the time-critical nature of the message, it would be reasonable to assume that some form of mass electronic communication would be required.

Following the Victorian “Black Saturday” bushfires, an attempt was made to deliver fire alert warnings via SMS message. The experience of that trial was that SMS messages were received by people distant from the bushfire affected areas, both interstate and internationally. The dissemination of this message also “spooked” some recipients, causing up to 150 emergency “triple zero” calls from panicked country residents.⁴

The emergency alert SMS trials indicate that, although it is possible to communicate via existing systems, the message may lead to unanticipated or unsafe responses unless clear preceding education and ‘self selection’ is made available ahead of CPP being allowed under the regulatory review.

Further, it is also unlikely that the existing emergency warning SMS system would be made available to network businesses to send CPP alerts - this is not an emergency situation. It is not clear that the cost of duplicating such a system, in the order of \$20 million⁵ would constitute a prudent expenditure.

VECCI submits that, until cost effective mass communication protocols can be established and tested, it is not reasonable to expect customers to be able to receive CPP signals reliably, let alone be sufficiently informed to act on the content of that communication.

Information on bills

It is not clear at this stage whether the network proposes to issue bills to retailers that detail the half hourly consumption information by customer. Moreover, it is not at all clear that retailers will provide this information to end use customers, particularly demonstrating half hour consumption against both network ToU tariffs and retail ToU tariffs.

The trend in billing (notably in the telecommunications sector) is towards online billing with a one page summary delivered on paper and an expectation that a customer has registered to access online billing information. This presents an additional barrier, in that the customer must make an additional effort to log on to

⁴ See: The Herald Sun, [Emergency services admit SMS bushfire alerts not foolproof](#); The Australian, [Early bushfire alert cover-up exposed](#); youngandgrumpy.com, [Vic Police Emergency Text SMS Fire Risk](#)

⁵ The Australian, [Early bushfire alert cover-up exposed](#)

the retailer's website and navigate their way through the site to locate the interval billing information.

Interpreting the detailed billing data presents a further hurdle. VECCI submits that it is unreasonable to expect a small business operator to understand the complex information presented, including the time of consumption (up to three months ago) and the different network and retail tariffs⁶ applicable to that consumption.

The price signal must not be distorted in communication

Filtering through retail tariffs

As discussed above, small business owners generally do not have the skills, experience or time to fully understand their electricity bills. It is not safe to assume that small business owners appreciate the differences between the network and retail components of the bill.

Moreover, consistent with the removal of regulation on the retail electricity businesses, there is no obligation on the part of the retailers to "pass through" the price signal being sent by the network business.

While most retailers do appear to pass through network charges, there remains scope for the retailer to modify those signals to suit its own purposes. It cannot be taken as given that the price signal sent by the network business will not be distorted by the retailer and the message "lost in translation".

There is also scope for the retail business, also seeking to take advantage of the AMI rollout, to implement its own ToU tariffs. Critically, it is not necessarily the case that the peak, shoulder and off-peak time periods nominated by the retailer would align with those of the distribution business. In this situation, the price signals being sent by the network business would then be distorted by the retailer.

The customer must "receive" the price signal

Presuming the distribution business can send the price signal, it then faces the next set of barriers – whether the customer can actually *receive* the price signal. While physically (or electronically) receiving the message is a relatively low hurdle, the bigger issues are whether the customer can receive the message in a timely

⁶ With the removal of price regulation from the retail energy market, it would not be unreasonable to expect the network to define one set of peak, shoulder and off-peak periods based on network usage patterns and the retailer to define a different set of tranches based on pool behaviour.

fashion, and whether the customer understands the message and the action required.

As discussed above, one of the general characteristics of small business is the “hands on” nature of management. Often small businesses do not have a separate administrative function that has scope to monitor email messages or other forms of communication suitable for rapid mass deployment. It cannot be taken as given that an electronic message would necessarily be received once sent.

There is also a concern that the message may not be received by the customer because it was delivered to the wrong person. Small business operations may be owned by one person (even interstate or internationally) and operated by another – such as in a franchise arrangement. The person receiving the retail bills may be another person again. In this case, the recipient of the message may not be the same as the person who is required to take action in response to the message. This is clearly a more significant issue for small business than the residential class.

The customer must receive the price signal in a timely manner

In the context of ToU pricing, perhaps the largest barrier to timely receipt of the message is the quarterly billing cycle. Even if meters are “read” every half hour, the detail of price and consumption does not reach the customer until well after the fact – up to three months later. ToU pricing then, can only be realistically expected to have some impact after a number of high bills cause customers to investigate the cause of the high bill more closely.

The concern of timely receipt of the message is even more important for a CPP notification. Even with an advance message that a CPP event is likely to be called within the next day, the CPP message would need to be reinforced closer to the time action is required. In the case of the emergency warning system trial discussed above, the message took four to five hours to be dispatched. VECCI seriously doubts that sufficiently reliable systems are in place to deliver CPP messages on a timely basis to elicit action from customers.

The customer must understand the price signal

VECCI submits that, more important than the technical sending and receiving of electronic messages, the customer must “receive” the message *cognitively*. That is, the customer must understand the message and understand what action is to be taken in response to the message. VECCI considers that this is a significant, and fatal, gap in the process.

As discussed in more detail below, there is a critical need for education in the market place ahead of broad changes to pricing structures, to ensure small businesses are aware of the price signals, understand them, and can – over time – make adjustments to their businesses to cope with these changes.

The customer must act on the price signal

VECCI acknowledges that, over the longer term, the incentive of a customer to act on a price signal will be related to the strength of the signal – the margin between peak and off-peak tariffs in this case. It would be reasonable to assume that United Energy Distribution’s five-fold increase over average tariffs for CPP events⁷ would be a strong “call to action” if it were received.

But before the customer can act on the price signal, it must know what action it should (or can) take in response to the price signal. As discussed more fully below, VECCI submits that an education program is required well before ToU and, critically prior to CPP tariffs being implemented.

The customer must be able to act on the price signal

Even in the price signals are adequately sent, transmitted and received, the effectiveness of the price signal initiative will depend entirely on the capability of the recipient to act on that price signal.

VECCI submits that the *ability* of small business to act on the ToU price signals is the most critical aspect to the success of the price signals contemplated by the rollout of interval meters.

VECCI submits that domestic customers have considerably greater scope to modify behaviour than do small business customers. In particular, a domestic customer makes energy consumption decisions acknowledging the impact on the family unit, whereas a small business operator must consider its customers, employees and community.

For example, a domestic customer can choose to run the dishwasher later in the evening – a restaurateur must meet the peak mealtime demands of its customers. A furniture manufacturer may not be able to shift the time of its operations due to local noise restrictions and the imposition of penalty rates. A retailer may be restricted by shopping centre opening hours. The time of energy consumption of a small dairy operation is tightly governed by the needs of its livestock.

This is the crux of the matter as price signals relate to small business. If small business is unable to act on the price signal, then ToU and CP pricing will simply constitute a revenue grab from this customer class and will not achieve its objective of developing more efficient use of the network over time.

⁷ United Energy Distribution Regulatory Proposal, S18.5.2 p229

Feedback from small businesses in relation to their *capacity* to respond to such signals overwhelmingly indicated that they do not consider they have capacity to change their consumption patterns (see Appendix A). Therefore, the ‘presumption of response’ is – in our view – completely overstated in the case of small business customers.

Recommendations on tariff arrangements

- Prior to allowing CP pricing structures to be considered within the Regulatory Proposals, VECCI urges the AER to first assure the community that communication capacity exists.
- In the case of small business customers, VECCI requests that the AER gain robust evidence that small businesses would have the capacity to respond to such messages as it is our firm view that CP pricing is a concept in its infancy and, at this stage, not an appropriate pricing structure for small business customers.
- Before contemplating any implementation of mandatory ToU or CP pricing, an education program is critical to ensure customers understand the price signals and what they can do in response to them.
 - VECCI will work pro-actively with Government to progress such a program.

Need for consumer education

As discussed briefly above, there is a critical need for education in the market place, to ensure small businesses are aware of the price signals and can make adjustments to their businesses over time to cope with these changes.

As discussed below in the context of VECCI’s market research on environmental issues, many small business customers do not take further action to reduce greenhouse emissions because they do not know what further action they can undertake. This is a clear indication that there is significant benefit to be gained through an education program to inform customers of the strategies they can take to reduce carbon emissions and reduce peak demands on the networks.

In the context of the Government policy imperative to roll out interval meters VECCI submits that the responsibility to conduct this broad based education campaign properly rests with Government. The scope for externalities suggests that retailers will not undertake this campaign, as resources expended on this activity will ultimately benefit other retailers. The network businesses could undertake this

activity, but do not have the customer relationship infrastructure to support such a campaign.

VECCI will liaise with Government regarding such a campaign, and would be pleased to assist, using its small business communication channels to increase the coverage of the key messages.

However, until such a communication process has been completed, VECCI requests the AER to refrain from introducing “price signal” tariffs that have scope to harm small business.

Recommendations on consumer awareness

- ♦ VECCI submits that it is critical for an education campaign to be undertaken to allow small business customers to understand the impacts of time of use pricing before such tariffs are imposed. This education phase is a crucial prerequisite to any expectation that small business operators will be able to adjust their business operations to be able to respond to the price signals.

Recommendations on tariff arrangements and consumer awareness

- VECCI recommends that any tariffs designed to take advantage of interval metering be restricted until such education and awareness campaigns are in place and:
 - are restricted to voluntary adoption by the customer;
 - are based at first on a simple 2-period tariff (peak and off-peak) with a small margin between them. At this stage of market development, a wider margin between peak and off peak tariffs will simply cause harm to no benefit⁸.

Demand management

VECCI's has strong credentials in the area of carbon reduction and environmentally sustainable business operation, as evidenced by its business services offered through VECCI, Grow Me the Money and Carbon Down.

⁸ Depending on the success of the education campaign discussed above, it may be possible to transition to a more granular tariff with a wider margin between peak and off peak over time.

Carbon Down is a joint initiative of VECCI, the Victorian Government and its agency Sustainability Victoria. Carbon Down's mission is to empower the Victorian business community to work together to reduce Victoria's carbon emissions.

In July 2009, Carbon Down published the Market Research Study, *Victorian businesses' climate change knowledge, attitudes and behaviours*. Overall, the research revealed that:

- Small businesses are concerned about the environment, but climate change and carbon emissions are not 'top of mind'. The financial crisis is affecting businesses, and the economy/financial survival is their most pressing issue.
- Victorian small businesses believe that their business can make a difference. They believe that they can and should act; they understand the urgency of the climate change issue and its global nature.
- Small businesses are implementing carbon-reducing activities that are simple, low-cost and obvious. The majority of businesses that are not taking further action are not aware of what else they could do.
- Small businesses are motivated to introduce changes to reduce their carbon emissions by their support for environmental/ethical reasons and cost savings.
- The barriers for small businesses to introduce changes to reduce their carbon emissions are cost, believing there is nothing else to do and not knowing what else to do.
- Small businesses are not actively involved in environmental programs or focused on monitoring total greenhouse gas emissions (carbon footprint).

In the context of the DNSPs' findings that system demands were growing as a result of increased air conditioning usage, a slight majority of respondents to VECCI's market research report indicated they were reducing the amount they used heating or cooling (55.8%) and were adjusting the temperature to use less power (53.7%). Fewer respondents were undertaking other actions to reduce the power used for heating and cooling: 41% improved insulation or draft proofing, and 37.9% had purchased a more efficient system.⁹

Importantly, more than one-third (36.7%) indicated they were not thinking about doing anything to further reduce the power used for air conditioning and heating in their business, of which the majority (73.1%) indicated they did not know what else they could do.

⁹ Carbon Down, *Victorian businesses' climate change knowledge, attitudes and behaviours* Market Research report, July 2009, p13

Similarly, the VECCI study found that more than eight in ten businesses indicated they were turning appliances, equipment and machinery off when not in use (86.5%) and maintaining them to ensure efficient operation (89.1%). Half the respondents (50%) indicated they had purchased more efficient appliances, equipment and machinery, and 53.8% were turning them off standby. More than one-third (37.6%) indicated they were not thinking about doing anything to further reduce the power and fuel used to run appliances, equipment and machinery in their business. Of this group, the majority (80.6%) did not know what else they could do.

VECCI considers that there are potential opportunities for the network businesses to take a lead role in an education program to help small business understand the ways in which they can contribute to reducing peak demands on the network and reducing carbon emissions at the same time. There is also a degree of support and interest within the small business community (see Appendix A) on this issue.

However, VECCI is disappointed at the disjointed approaches to funding such measures in general and in the level of funding provided for programs under the Demand Management Innovation Allowance (DMIA).

In May 2009, the AER specified level of funding when it published its Framework and Approach¹⁰ paper relating to this review, in accordance with S6.8.1 of the National Electricity Rules. In the Framework and Approach paper, the AER has outlined its likely approach to many aspects of the current review process, including the operation of various incentive mechanisms.

However, VECCI notes that S6.8.1(h) the Rules provides that the proposed approach in the Framework and Approach paper is not binding on the AER or the relevant DNSPs:

6.8.1(h) Subject to clause 6.12.3, a framework and approach paper is not binding on the AER or a Distribution Network Service Provider.

VECCI therefore considers that it is open to the AER to reconsider the level of funding provided for the DMIA, or to recommend this be investigated by the Ministerial Council on Energy.

VECCI considers that the funding of the DMIA needs to be reviewed with a view to ensure a level sufficient to allow for a meaningful education program to be carried out by the DNSPs, directed at behavioural changes targeted at reducing the peak

¹⁰ Framework and approach paper for Victorian electricity distribution regulation: CitiPower, Powercor, Jemena, SP AusNet and United Energy - Regulatory control period commencing 1 January 2011, May 2009

demands on the networks. VECCI considers that this would complement the education program identified above regarding the introduction of ToU tariffs.

VECCI would be pleased to work collaboratively with the DNSPs to develop such a program to assist small businesses understand the actions it can take to reduce the peak demands on the network, reduce their carbon emissions and save money on energy bills.

Summary and Recommendations

VECCI considers that the particular circumstances of small business customers are not well addressed through the Victorian DNSPs' Regulatory Proposals for the 2011-15 period.

We propose that the AER consider our major recommendations in this submission in determining its approach to the Regulatory Proposals:

- Prior to allowing Critical Peak (CP) pricing structures to be considered within the Regulatory Proposals, VECCI urges the AER to first assure the community that communication capacity exists.
- In the case of small business customers, VECCI requests that the AER gain robust evidence that small businesses would have the capacity to respond to such messages as it is our firm view that CP pricing is in its infancy and, at this stage, not an appropriate pricing structure for small business customers.
- Before contemplating any implementation of mandatory ToU or CP pricing, an education program is critical to ensure customers understand the price signals and what they can do in response to them.
- VECCI submits that it is critical for an education campaign to be undertaken to allow small business customers to understand the impacts of time of use pricing before such tariffs are imposed.

Further, VECCI would like to ensure that the AER is mindful of a number of particular aspects in relation to small business customers in responding to the DNSP Proposals are that:

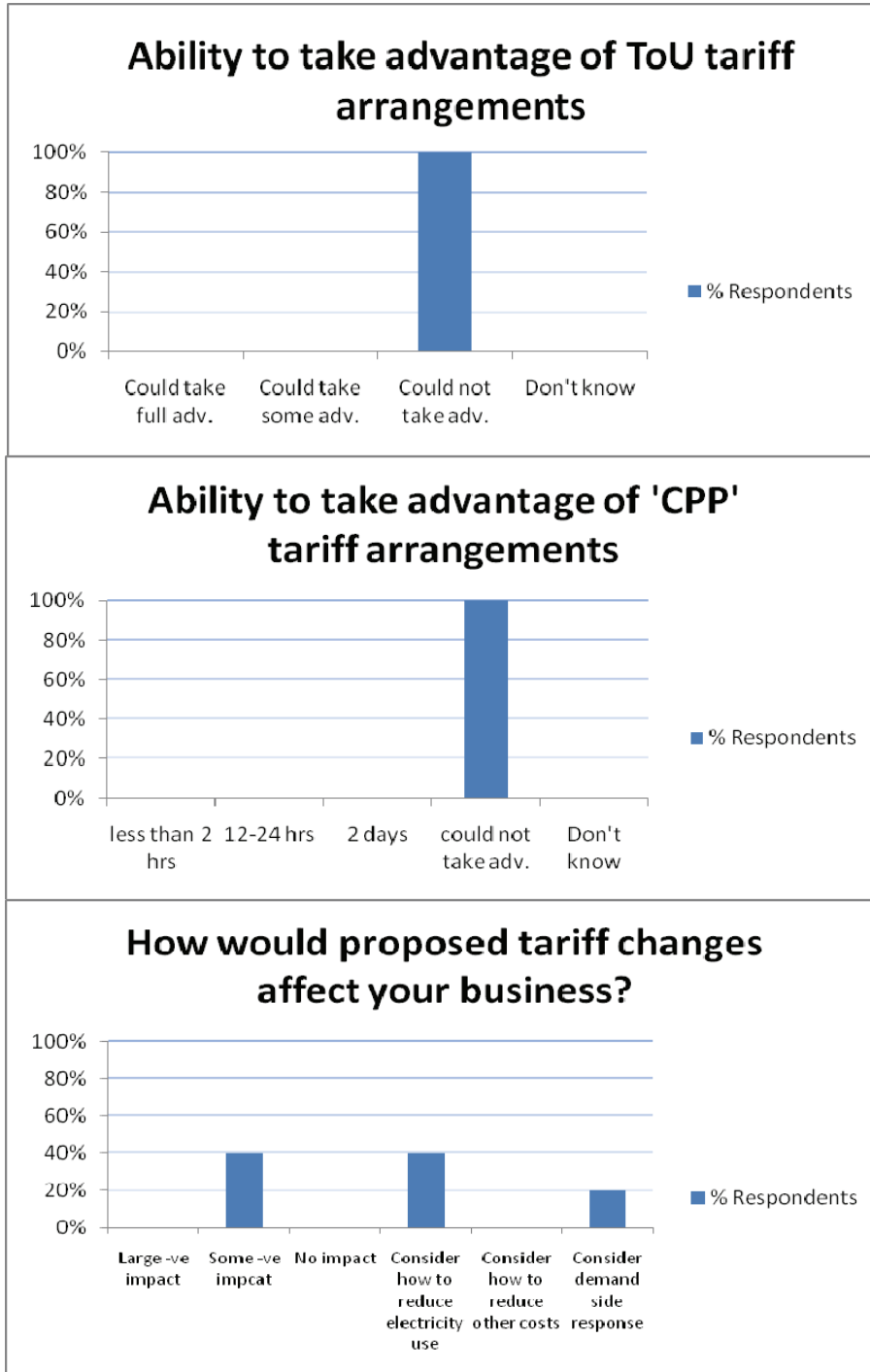
- Small business is a significant customer class, accounting for about 10% of customers and 15% of electricity consumption.
- The key focus of small business operators is managing the small business.
- Small business operators generally do not have the skills or experience to monitor their electricity supply.

- Small business customers cannot be expected to have an understanding of Time of Use tariffs, the price signals associated with them, and the actions to be taken in response to those price signals.
- Even if small business customers can receive and understand the price signals associated with ToU and CP pricing initiatives, small business customers are generally not able to *act* on those price signals.
- Imposition of ToU or CP pricing differentials will simply impose costs on this customer class with no impact on peak demand.
- Before imposing ToU tariffs broadly across network customers, it is critical that an education campaign be undertaken to inform customers of the nature of this new charging regime, the impacts on customer bills and strategies that can be adopted to take advantage of the ToU tariffs. Considering the customer relationships and externalities, this program is probably best carried out by Government.
- Communication channels (from sending a message through to the recipient comprehending it) are not in place to consider implementing any sort of Critical Peak Pricing tariffs.

There is considerable scope for the DNSPs to undertake consumer education activities in the demand management space. To this end, VECCI recommends a review of the level of funding allocated under the Demand Management Innovation Allowance to support these initiatives. VECCI would be pleased to assist on further development of demand management initiatives targeted at the small business sector.

APPENDIX A

Small Business Responses¹¹



¹¹ These results are indicative only. VECCI will continue to collect responses from small business and provide an updated appendix in subsequent correspondence.