SACOSS
South Australian Council of Social Service

Demand Tariffs: Report of Consumer Consultations

SACOSS Report
October 2015

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Responsibility for all errors and omissions rests with SACOSS.

Executive Summary

In early October this year, SACOSS held a series of face to face consultations with consumers and consumer representatives to consider SA Power Networks' (SAPN) proposed demand tariffs. The aim of these consultations was to inform consumers of the proposed changes and to document their response. These consultations were supplemented by telephone interviews with business consumer representatives.

Participants in this research were provided a briefing about demand tariffs and informed of the following likely impacts of the proposed demand tariff arrangements on households and businesses:

- Approximately 50% of residential households will be worse off;
- The residential consumer price impact varies and can be as much as around a $150 per annum increase on an annual electricity bill;
- Approximately 50% of businesses will be worse off and,
- Of those businesses whose annual usage is between 10,000 - 40,000kWh, 19% will face more than 50% increases.

Overall, the research found that there is limited support for the mandatory introduction of demand tariffs.

Consumer representatives understood the rationale behind a demand tariff arrangement but highlighted significant concerns with the current SAPN proposal and the potential for these arrangements to negatively impact their clients.

Whilst most consumers also understood the rationale behind demand tariffs, the majority did not want to change to a new tariff arrangement. 90% of participants did not support demand tariffs and 10% were undecided.

Business consumer representatives indicated that energy can be as much as 50% of costs for some businesses. They indicated that SAPN's proposals were a major impact on some small businesses and one representative indicated they could lead to some businesses closing, where the businesses were negatively impacted by 50% or more increases.

There was strong support for a voluntary opt in approach to new and revised demand tariffs.

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Introduction

The South Australian Council of Social Service is the peak non-government representative body for health and community services in South Australia, and has a vision of Justice, Opportunity and Shared Wealth for all South Australians.

SACOSS has a long-standing interest in the delivery of essential services. Our research shows that the cost of basic necessities like electricity impacts greatly and disproportionately on vulnerable and disadvantaged people.

Over the past five years, the spotlight has been on the increasing prices consumers are paying for their electricity. The public discourse has focused on the significant increases to prices and the concerning impacts this has had on household and business budgets. Running concurrently to this is a major shift in the interest consumers have taken in engaging with the causes of increased prices and the potential solutions.

A major component of electricity bills is the network charge, the cost of physically supplying electricity to households and businesses and accounts for approximately 40% of average residential bills.[1] Changes to how SA Power Networks' (SAPN) charge consumers the network component are currently in review and are the result of regulatory changes made by the Australian Energy Market Commission.[2]

[1] St Vincent de Paul Society 2015, *South Australian Energy Prices July 2015*, https://www.vinnies.org.au/icms_docs/225203_SA_Energy_Prices_July_2015.pdf,p. 29.
[2] AEMC 2015, Distribution Network Pricing Arrangements, http://www.aemc.gov.au/Rule-Changes/Distribution-Network-Pricing-Arrangements#.

Tariff Reform

Cost reflective tariffs are being developed and implemented by distribution businesses across Australia in response to a decision by the Australian Energy Market Commission (AEMC). By more closely aligning the charges for electricity consumption with the costs of electricity consumption, the AEMC argue that the fairness and efficiency of the electricity distribution system can be improved.

The AEMC have set a new pricing objective for distribution businesses so prices reflect the efficient costs of providing network services to each consumer. Distribution businesses must comply with four new pricing principles to achieve this objective:

- Each network tariff must be based on the long run marginal cost of providing the service;
- Distortions to price signals that encourage efficient use of the network by consumers must be minimal;
- Network businesses must consider the impact on consumers of changes in network prices and develop price structures that are able to be understood by consumers, and;
- In general, network tariffs must comply with any jurisdictional pricing obligations imposed by state or territory governments.

Current Tariffs

In general, most consumers are currently charged via an inclining block tariff. This is reflected in the picture below:

Energy Charges

Meter Type	Meter Number	Previous Date	Previous Reading	Current Date	Current Reading	Bill Days	Usage kWhs
Basic		26-Nov	56656 A	25-Feb	57527 A	91	871.00
Tariff	**Description**				**Consumption**	**Unit Price**	**Total (excl GST)**
Peak	Electricity 27-Nov to 03-Dec			First	23.01 kWh	0.300400	$6.91
				Next	43.99 kWh	0.306100	$13.47
Peak	Electricity 04-Dec to 31-Dec			First	92.05 kWh	0.300400	$27.65
				Next	175.95 kWh	0.306100	$53.86
Peak	Electricity 01-Jan to 25-Feb			First	184.11 kWh	0.316600	$58.29
				Next	351.89 kWh	0.345100	$121.44

Supply Service Charges

Description		Unit Price	Total (excl. GST)
Supply Charges	(91 Days)	0.722400	$65.74

Discounts

Description		Total (excl. GST)
Discount Plan : 6% Energy Reward		
Electricity	$281.62 @ fixed 6%off	$16.90Cr
Supply Charges	$65.74 @ fixed 6%off	$3.94Cr
Total for		$326.52
GST standard rate @ 10.00%		$32.65

Figure 1: Excerpt from Energy Bill

The picture is an excerpt from an energy bill. The orange highlighted figures represent the supply charge, which is also referred to as the fixed component of the bill. In this example, the supply charge for the billing period of 91 days is $65.74. The yellow highlighted sections are the variable components of the bill and are a usage or consumption charge. These are generally charged in blocks, with the unit price of the “first” block being cheaper than the “next” or second block.

Demand Tariffs

Demand tariffs generally include supply and usage components, with an additional component known as the demand charge. This is charged by the highest level of usage within a given time period. St Vincent de Paul have explained this in terms of appliances – the more appliances a consumer has on in a given period, the higher their demand charge will be.

SAPN’s Tariffs for Business

Of SAPN’s large customers, virtually all 5,000 business customers are already on cost reflective tariffs. SAPN is currently consulting about the design and pace of change for introduction of demand tariffs for SAPN’s 95,000 small business customers.

The table below indicates the impact of cost reflective tariffs on SAPN small business customers. Those in red are businesses facing increases of 50% or more.

Figure 8 Small business customer sample showing impact of cost reflective network charge saving vs current charge. Network changes are about half of retail electricity costs.

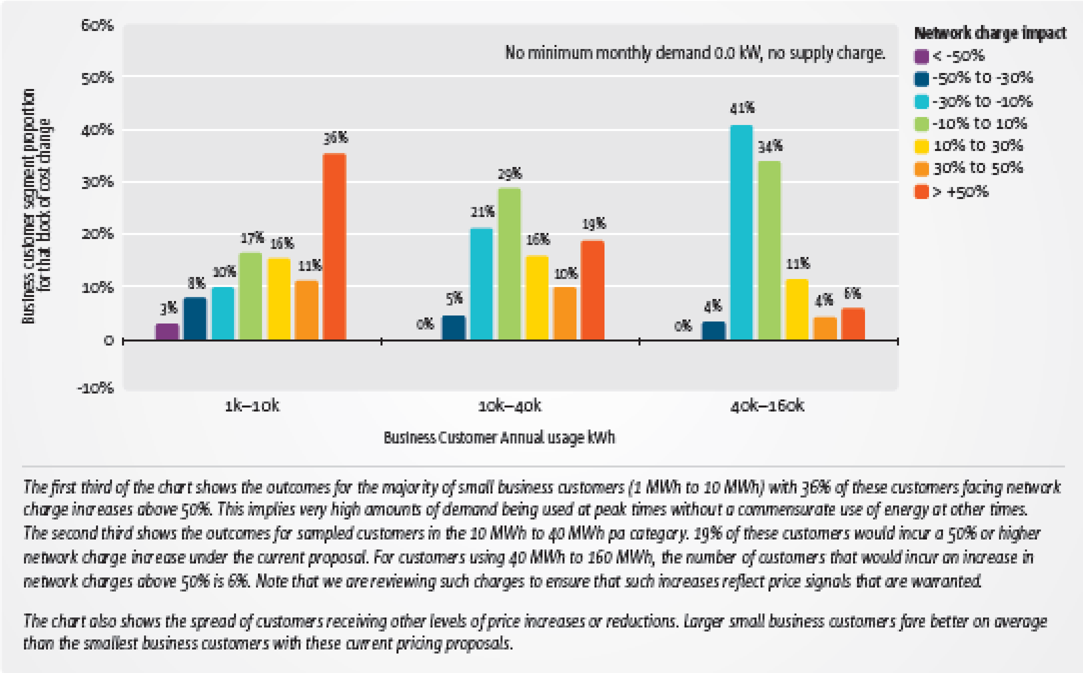

Table 1: Small Business Customers in SA Under Cost Reflective Charges

(Source: SA Power Networks [*http://talkingpower.com.au/wordpress/wp-content/uploads/Electricity-Tariff-Reform_Screen-FINAL.pdf*](http://talkingpower.com.au/wordpress/wp-content/uploads/Electricity-Tariff-Reform_Screen-FINAL.pdf)*: p.13)*

SAPN's Tariff for Residential Consumers

In South Australia, SAPN is still developing its range of cost reflective tariffs. During 2012/13, SAPN commenced a small scale pilot of capacity pricing for small customers equipped with interval meters. The trial incentivised participants to manage their demand during summer in the afternoon/early evening peak period. The trial resulted in the introduction in 2014/15 of the opt-in residential monthly demand tariff.

The low voltage residential monthly demand tariff has been available to eligible residential customers taking supply at less than 1kV since 1 July 2014. Customers on this tariff require a Type 1-5 NEM compliant meter read at least monthly:

"Metered energy consumption is charged at a single rate. The maximum kW demand (measured over a half hour interval) between 4pm and 9pm on any day in the month is used to bill the monthly demand. A higher price applies for the five summer months (November to March) than the winter months (April to October)."[3]

In its Regulatory Proposal 2015-20, SAPN had proposed to require new customers and customers who alter their supply arrangements to utilise the monthly demand tariff from 1 July 2017. SAPN estimates this will be 35,000 customers per annum plus there is an estimated additional 40 – 60,000 network/retail initiated meter changes.

Expected Outcomes for Residential Consumers

From 1 July 2015, distribution businesses will be required to develop network prices that are cost reflective and send efficient pricing signals to consumers.

Moving to network prices that better reflect the way that consumers use network services will result in some consumers facing lower network prices and some consumers facing higher network prices than under current price structures. While the majority of consumers are expected to benefit from these changes though lower network prices in the medium to longer term, the key factors that will decide how much consumers pay will be their individual load profiles and the value they place on using energy at different times.

There are considerable differences between how individual consumers choose to use energy. Two households might look the same, with similar incomes and the same family size, but because of the appliances they have and the different lifestyles they lead they may have very different load profiles, i.e. the amount of electricity they use at different times of the day.

[3] SA Power Networks (2015) SA Power Networks Annual Pricing Proposal 2014-2015 at http://www.aer.gov.au/sites/default/files/SA%20Power%20Networks%20Distribution%E2%80%942014%E2%80%9315%20Revised%20annual%20network%20pricing%20proposal.pdf : p.21.

The following table indicates a range of indicative price impacts for residential consumers[4]:

Low consumption **Low demand** **-$9**	**Medium consumption** **Low demand** **-$10**	**High consumption** **Low demand** **-$9**
Low consumption **Medium demand** **+$50**	**Medium consumption** **Medium demand** **-$2** **+$16 (PV)**	**High consumption** **Medium demand** **+$13** **+$54 (PV)**
Low consumption **High demand** **N/A**	**Medium consumption** **High demand** **+$98** **+$64 (PV)**	**High consumption** **High demand** **+$140**

Table 1: Residential Demand Tariff Outcome (per annum)

(Source: Derived from SA Power Networks data)

[4] The prices are indicative and the distributional impacts change when the tariff changes.

Consumer Consultation

In early October this year, SACOSS held a series of face to face consultations with consumers and consumer representatives to consider SAPNs' proposed demand tariffs. The aim of these consultations was to inform consumers of the proposed changes and to document their response. These consultations were supplemented by telephone interviews with business consumer representatives.

Methodology

40 people participated in a workshop or focus group facilitated by SACOSS. St Vincent de Paul presented on demand tariffs and their implications. A representative from SAPN attended each workshop and focus group as an observer.

Two workshops were held for consumer representatives with attendance from a diverse range of community organisations such as Consumers SA, Good Shepherd Microfinance, Uniting Communities, UCWB, The Salvation Army, St Vincent de Paul and SA Financial Counsellors Association.

Two focus groups were held for consumers who are clients of a local provider of social health and wellbeing services. As the research was targeted at investigating consumer responses to the design of a demand tariff and likely behavioural responses, SACOSS determined that population sampling was not required for the research purpose.

In addition to the workshops and focus groups, telephone interviews were conducted with three business consumer representatives.

Research Approach

To collect the views of consumers and consumer representatives during the workshops and focus groups, a number of research techniques were used:

- St Vincent de Paul provided presentations on demand tariffs and their implications;
- Discussions were facilitated by SACOSS, with key insights being recorded, and;
- Quantitative analysis for support of initiatives was conducted through a 'hands raised' count in the focus group sessions.

Participants of the workshops and focus groups were informed that:

- The SAPN demand tariff proposal could see consumers paying a higher, same or lower amount on their electricity bills;
- The proposed changes are not definite and will not commence until 2017 at the earliest, and:
- The introduction of the changes will be gradual, so it is anticipated that not everyone will be impacted immediately.

Participants were given the opportunity to look at the current arrangements for electricity charges. An example of an electricity bill (Appendix A) was provided to participants and explanations were given about the supply charge and the usage charge and how these are calculated.

Participants were then informed about how the proposed demand tariff arrangement would work. This arrangement was explained as follows:

- Consumers would still be charged a supply and consumption charge, however a 3rd component would be added to the bill – the demand charge;
- A demand charge essentially measures how many appliances are used at once. So a higher demand will occur for example when a consumer has an air conditioner, washing machine and oven running at the same time;
- The higher the demand, the higher the bill;
- Demand is charged according to the time of year and is higher in the peak period, November to March and lower in the shoulder period, April to October;
- Demand is measured in kilowatts and consumers will be charged for their demand each month;
- Within a month consumers are charged for the highest demand over a half hour period between 4-9pm. Consumers need to be careful about appliance use during these times.

A visual diagram of the relationship between multiple appliance usage in summer and SA's peak demand on the electricity infrastructure was presented by St Vincent de Paul to illustrate the rationale behind demand tariffs and the possible impacts of consumer behaviour.

Participants were provided with a case study of a residential consumer (Appendix B) and a discussion of the property type, features, electricity profile, load characteristics and residential demand tariff outcome took place. Participants were asked if anyone fits the case study situation and if there is capacity to shift demand. Participants were also asked to consider the impacts of a $50/month increase in summer and how this would affect household budgets.

Participants were provided with a business case study (Appendix C) and a discussion of the business type, electricity type, load characteristics and demand tariff outcome took place. Participants were asked the following questions:

- Is it likely the business could shift their load?
- Is electricity likely to be a major expense for the business?
- What are the economic consequences for the business if this were to go ahead; can the business absorb the costs?
- What are the economic consequences for SA is this was to go ahead?

Participants were told the following likely impacts of the proposed demand tariff arrangements on households and businesses:

- Approximately 50% of residential households will be worse off;
- Approximately 50% of businesses will be worse off and;
- Of those businesses whose annual usage is between 10,000 - 40,000kWh, 19% will face more than 50% increases.

A discussion on the reasons behind why the changes to current tariff arrangements may go ahead took place and participants were informed that:

- Demand tariffs better reflect underlying costs and incentivise consumers to reduce their demand at peak times, and:
- Consumers may be able to reduce their overall bills by shifting their demand, in which case bills will come down.

Participants were then asked if they thought the benefits are outweighed by the costs and is it important for consumers to understand what the price impacts are if they shift their demand?

<u>Workshops:</u>

Following information sharing, participants were asked:

1. How will communication with clients go regarding the changes to tariff arrangements?

2. What do you think about SAPN's reasoning that the introduction of the proposed demand tariff arrangements will decrease costs for consumers in the future?
3. Is the loading up of a bill problematic for clients?

<u>Focus groups:</u>

Following information sharing, participants were asked:

1. Do you want to change to a new tariff arrangement?
2. Do you support demand tariffs?
3. What do you think about SAPN's reasoning that the introduction of the proposed demand tariff arrangements will decrease costs for consumers in the future?

Finally, workshop and focus group participants were also asked to consider a range of measures that SAPN could implement alongside the introduction of demand tariffs. These are outlined in the final section of this report.

<u>Interviews:</u>

Business consumer representatives were provided with an overview of discussion during the workshops and focus groups. Interviews explored business attitudes to SAPN's proposals as well as measures to support the introduction of demand tariffs. Interviews with business representatives did not comprehensively explore the residential demand tariff and hence this report reflects only consumer and consumer representative perspectives on the residential demand tariff issues.

Overview of Consumer Themes

Overall, there is limited support for the mandatory introduction of demand tariffs.

Consumer representatives understood the rationale behind a demand tariff arrangement but highlighted significant concerns with the current SAPN proposal and the potential for these arrangements to negatively impact their clients.

Whilst most consumers also understood the rationale behind demand tariffs, the majority did not want to change to a new tariff arrangement. 90% of participants did not support demand tariffs and 10% were undecided.

Business consumer representatives indicated that energy can be as much as 50% of costs for some businesses. They indicated that SAPN's proposals were a major impact on some small businesses and one representative indicated they could lead to some businesses closing, where the businesses were negatively impacted by 50% or more increases.

Consumer Themes

Across the three participant activities, seven key themes emerged from participant responses as outlined below:

Fear of the Design

The overwhelming majority of residential focussed participants expressed concern about the design of a demand tariff, even where there was no price loaded in to the demand charge. It was indicated that the structure of the tariff combined with the reality of household living needs made it very difficult to gain any benefit from the tariff design. Participants strongly maintained that appliance use during peak times was largely out of their control, and they were generally using only what was needed at that time of the day or what they had little control over (e.g. children using electronic devices after school, charging of mobile phones, etc).

Strong concern was also raised about the issue of residential demand being charged for the highest single use during a half hour period. Participants were alarmed at the prospect of having to pay a demand charge which may have been incurred by appliance use during one single time event.

The following issues were directly raised by participants:

- Strong concern for vulnerable households;
- Proposed practice of charging for a month where demand could be reached in 1 x ½ hour session seems unfair;
- Medical heating and cooling concession is inadequate to account for electricity use during peak times;
- The design is scary never mind about the prices, and;
- Majority of consumers did not support demand tariffs in the current form proposed but were more receptive if they had the choice of staying with current or moving to new arrangements and with more options available if the decision to move was made.

Impacts on Organisations and Businesses

Participants universally expressed strong concern about the impact of the proposed tariffs on organisations and businesses. There was heated discussion about negative economic growth, employment and price of goods impacts. It was agreed that the changes should not go ahead if they were to have the significant negative impact that is currently anticipated. Although it was recognised by residential consumers that some businesses would be better off as a result of the proposed changes, the cost of some businesses potentially closing or putting up prices was seen as far outweighing the gain. The serious economic situation of South Australia was recognised by all participants and participants were generally opposed to any tariff changes which would exacerbate negative economic outcomes.

Business consumer representatives indicated that energy can be as much as 50% of costs for some businesses. They indicated that SAPN's proposals were a major impact on some small businesses and one representative indicated they could lead to some businesses closing, where the businesses were negatively impacted by 50% or more increases.

The following issues were directly raised by participants:

- Huge concerns for how businesses will be affected, especially the potential for unemployment to increase as businesses close their doors;
- Concern about state economic growth;
- Capacity of Not for profit sector to pay increased charges. Higher running costs means less staff, and;
- Concern over higher prices being charged by businesses to cover increased power costs.

Summer Shocks

The seasonal impacts of a residential demand tariff were explained to consumers and consumer representatives to indicate that there are likely to be significant summer bill increases for some households, relative to non-summer bills. Participants were asked to indicate whether they thought this would present issues for them or their clients. There was consensus that increased bills during summer would present issues for low income and vulnerable households, including those on Centrelink payments and families with children due to the Christmas period.

It Works for Some

Consumer and consumer representative participants were presented with a scenario of some consumers moving to a demand tariff while the majority remained on the current inclining block tariff. The presentation posited that those who moved to a demand tariff would both benefit from the tariff and be likely to take advantage of the cheaper energy during non-peak times. It was put that this would lower costs for the network while enabling it to maintain its revenue. These participants universally agreed that this was a highly desirable scenario.

The following issues were directly raised by participants:

- Not all consumers need to change for the community to be rewarded, and;
- Not all consumers need to make the transition to demand tariffs for the overall peak to decrease.

Lack of Trust

A section of the workshop and focus group discussions was centred on the justifications for the proposed changes. It was put to the participants that if SAPN costs could be reduced by reduced demand at peak times, then electricity prices could come down. There was overwhelming scepticism about this proposition and participants unanimously doubted that reduced prices would be an outcome of the new demand tariffs. This suggested a significant break down in trust between participants and SAPN.

The following issues were directly raised by participants:

- The value proposition for consumers is not apparent;
- People will not trust that SAPN will lower costs in the future and there is a high degree of scepticism from consumers;
- No trust from participants with the proposition that SAPN's revenue will come down and hence bills will come down in the future;
- Trust between SAPN and consumers needs to be built via rewards;
- There needs to be a mechanism for SAPN to report back to consumers, and;
- SAPN needs to clarify if average load profiling with current accumulation meters will be used.

Behavioural Responses

The argument that the residential demand tariff would drive behaviour change was explored during the workshops and focus groups. The expectations about consumer behaviour under a demand tariff were generally considered to be out of step with the reality of how consumers would behave in practice.

Participants expressed the view that it was very difficult to minimise appliance use during peak times. Some indicated that it may be possible for a single person household to manage it but there was general agreement that this was extremely difficult in family situations. A strong concern was raised about the impact on carers and parents who are responsible for policing appliance use. There was a strong feeling that this could drive negative behaviours towards the person who was responsible in the household for the policing.

Concern was also expressed for consumers who currently already minimise their appliance use, particularly air conditioners and heaters in hot and cold weather. Participants generally agreed that as the demand tariff was complex to explain, the result might be that consumers increasingly ration their energy use for fear of increased energy bills.

Consumer representatives raised the issue of how challenging it is to encourage behavioural change amongst their client base.

The following issues were directly raised by participants:

- Behavioural change for clients is very challenging
    - Poor housing stock, changing consumption behaviours is not realistic;
- Could lead to increased energy rationing and fear of costs;
- It's hard to budget on a budget;
- High bills is not always enough to change behaviour;
- Empower clients to get control of consumption;
- Mixed response to being asked about minimising consumption between 4pm – 9pm
    - Single person household may be able to manage it
    - Very difficult for families, working households, consumers with health issues;
- Flexibility of consumers to respond is difficult;
- The need to develop new behaviours in new houses, depending upon appliances, and;
- Pressure on people in caring and parenting roles.

Complexity of the Market

Complexity of the energy market continues to be a significant concern for residential consumers and residential consumer representatives. Feedback from both groups indicates the current tariff design is not well understood. Adding a demand tariff component to residential consumer bills is likely to exacerbate this, particularly as the interplay between supply, usage and demand charges is not easily understood.

Complexity is a barrier for consumers to respond to demand tariffs in a way that delivers benefits. Some participants also expressed the view that as the SAPN proposal only covers network charges, the responses from energy retailers potentially adds another dimension of complexity to consumer bills.

Further concern was also expressed about whether specific groups could actively engage in a complex market. These groups included young people leaving home, new entrants to the market, people moving from interstate, new arrivals to Australia and members of culturally and linguistically diverse communities.

The following issues were directly raised by participants:

- Community understanding of existing arrangements is not there;
- Young people leaving home, new arrivals to Australia, new people in the market and people moving from other states may not understand the complexity of the market;
- Adding demand tariffs to bills will make reading bills even more complicated;
- The interplay between supply, usage and demand charges will be complex;
- Network charges are one component of bills and it is not known how retailers will respond;
- Complex costings are hard for clients;
- People may not have the capacity to understand the associated issues and may be unable to respond to demand tariffs in a way that delivers a benefit;
- The community is diverse, and;
- Pricing is hard to understand.

Education

Participants from the workshops and focus groups placed significant emphasis on the importance of education about demand tariffs for the residential consumers. Whilst most participants could understand the rationale of demand tariffs and their potential impacts, as they were explained during the sessions, concerns about all consumers understanding this information were very strong.

Consumer representatives raised questions regarding who would take responsibility for educating the community about demand tariffs and also stated that adequate resources must be allocated to all education programs and processes, including the production of program materials.

The following issues were directly raised by participants:

- While understanding the rationale behind the theory of demand tariffs, significant concerns were raised about all consumers understanding them;
- Responsibility for and adequate resourcing of education are needed, and;
- Educative processes will be critical especially when consumers are able to sign up for solar and battery arrangements.

Measures to Support the Introduction of Demand Tariffs

The following measures were put to the participants to assess their support:

1. Voluntary opt in for new and revised tariffs, with a commitment from SAPN that opt in will remain.
2. A suite of tariff options (time of use; capacity; demand; inclining block; peak, shoulder and off peak).
3. Phased in approach i.e. 20% cost reflective and 80% inclining block for the first year.
4. In home devices (i.e. the glowing Orb which goes red when your demand is too high).
5. Trial periods.
6. Threshold limit (rather than demand being charged in blocks, there would be a threshold above which demand would start to be charged).
7. Ghost billing (allows consumers to see a tangible comparison between current tariff structures and costs and demand tariffs, so consumers could see how they would fare before they commit to a demand tariff).
8. Support for limiting demand tariffs to business days only, excluding public holidays and weekends.

Whilst all of the options were positively supported, the highest degree of support was for a voluntary opt in for new and revised tariffs. Consumer participants strongly indicated a high degree of fear and apprehension about the residential demand tariff and were very sceptical about behaviour modification to reduce demand being easy or possible. There was a strong feeling that residential consumers would like to remain on an inclining block tariff.

However, consumers could see some of the positive outcomes of a demand tariff and were much more willing to consider it under a voluntary opt in approach. Participants considered that under an opt in approach, trial periods and ghost billing had appeal as then consumers could make informed decisions about whether a demand tariff was right for them.

Business consumer representatives were favourable towards a voluntary opt in approach coupled with ghost billing. Information during an opt in period was seen as vital in ensuring that businesses could make informed decisions about which tariff was most suitable for them.

There was strong support for the residential demand tariff not to apply during public holidays.

The following issues were directly raised by participants:

- How much electricity can I use where it is affordable? How much can I use before I go above, need cut off points?, and;
- Visibility of real time demand levels is critical.