

Paula Conboy
Chair
AER



By email SAatss2016@aer.gov.au

22 April 2016

Dear Paula,

SACOSS thanks the AER for the opportunity to comment on SA Power Networks Tariff Structure Statement (TSS).

SACOSS has engaged in all of the SAPN consultations on the TSS prior to lodgement of their draft TSS. Additionally, SACOSS has met with SAPN on the TSS on other occasions.

SACOSS Consultations

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. The Report on the consultations has been attached at Appendix A.

SACOSS supports the recommendations flowing from the research which are described below.

Overall, the research found that there is limited support for the mandatory introduction of demand tariffs. There was strong support for a voluntary opt in approach to new and revised demand tariffs.

Participants universally expressed strong concern about the impact of the proposed tariffs on organisations and businesses. 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.

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.

Participants from the workshops and focus groups placed significant emphasis on the importance of education about 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).

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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.

SAPN Consultation Pre TSS Lodgement

SACOSS has responded to SA Power Networks' specific consultation as attached at Appendix B.

SAPN Consultation Post TSS Lodgement

SACOSS was invited to join SAPN's Electricity Advisory Group, which considered a set of consumer impact principles to guide decision making around tariff reform.

As SACOSS stated to SAPN:

"We appreciate this is an important process and [we] must say because [we] missed the first group discussion [we] hadn't quite understood what SACOSS had agreed to participate in and specifically how discussions might be used to influence the TSS. This did however become clear after chatting with Emma.

Our decision to withdraw from the Electricity Advisory Panel is due to our belief that the Panel outcomes are designed to have a direct impact on the TSS that SAPN has already submitted to the AER. We believe that the regulatory timetable was quite clear that the time for SAPN to consult on the TSS was prior to the November deadline.

As you will recall we specifically made representations to SAPN asking for these issues to have been consulted on prior to submission of the TSS. We subsequently provided a clear indication to SAPN that the consultation process was left too late prior to commencement of SAPN's consultation, and during the consultation itself. We believe that further consultation beyond the November date on matters pertaining to the TSS should now be undertaken by the AER." (SACOSS email to SAPN, 15 February 2016)

Subsequently, SACOSS noted to SAPN that:

"[We] understand that SAPN is still keen to get SACOSS' input into the development of the Customer Impact Principles. However, as we have stated previously we are concerned about engaging with SAPN on these principles at this stage of the regulatory process." (SACOSS email to SAPN, 17 February 2016)

In response to a series of SACOSS questions, SAPN noted:

1. Are the Customer Impact Principles that you are currently drafting the same as those that you used to develop your draft TSS?

“The purpose of the deliberative process is to enable customers and stakeholders to collaboratively determine a set of impact principles. Whilst this is a bottom up development of impact principles by participants in the deliberative process the expectation of SAPN is that the outcomes of this process are likely to build upon and enhance the customer impact principles included in our December 2015 TSS which are based on our earlier consultations. As discussed in our TSS document we consulted on customer impact principles and grouped responses from stakeholders into 3 broad categories noting that there were a diverse range of principles from the consultation. Further we stated that Electricity Tariff reform in South Australia will continue for many years we believed there is great value in further refining and evolving these Customer Impact Principles with customers and stakeholders in the lead up to the AER’s draft determination on our TSS in July 2016 and our subsequent response in September. We made it clear that the Customer Impact Principles would be the topic of a deliberative engagement activity that would occur in early 2016. This process which you have declined to be involved in.

The TSS document also stated that the final form of the Customer Impact Principles will be important not only for this first round of TSS development but will also form a foundation for development of our next TSS for the 2020-25 regulatory period.”

2. Why is SAPN seeking to further consult on the Customer Impact Principles now?

“Refer above. It is delivering on a commitment we gave as part of our prior consultation on the December TSS and as was stated in that document.”

3. Will the revised Customer Impact Principles change the draft TSS that SAPN has already submitted in November 2015?

“A commitment has been given that the outcomes of the deliberative process will be forwarded to the AER and will be included in our final TSS document to be submitted to the AER in September 2016. The final Customer Impact Principles will be taken into account in finalising our TSS. It is not possible to determine whether any changes to proposed tariff structures will arise from this deliberative process until the deliberative process has concluded and outcomes are known.

You will also be aware that we made it clear that aspects of the proposed Tariff structures would be subject to review following the judicial review of the solar and social tariffs proposed for 2015-16. We have commenced discussions with the AER regarding this matter.”

4. If yes to 3, what is the status of the November 2015 draft TSS with respect to pricing structures, indicative price levels and how costs are allocated between the demand and existing tariffs?

“December 2015 TSS tariff structures currently remain as proposed but will be reviewed over coming months to take account of the matters discussed above” (SAPN email to SACOSS, 17 February 2016).

SACOSS considers that the Consumer Impact Principles are important material for the AER to consider prior to its draft decision, and as such recommends that the AER request from SAPN a copy of the Principles and all material related to the post TSS submission consultations.

New Investments

SACOSS does not accept the view that new investment customers should be treated differently to existing customers. We do not accept that these customers should have differential treatment to the existing customer cohort.

We thank you in advance for your consideration of our comments. If you have any questions relating to the above, please contact SACOSS Senior Policy Officer, Jo De Silva on 8305 4211 or via jo@sacoss.org.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ross Womersley', with a large, sweeping flourish underneath.

Ross Womersley
Executive Director

Appendix A: Demand Tariffs: Report on Consumer Consultations

Appendix B: SACOSS Response to SAPN Consultation



Demand Tariffs: Report of Consumer Consultations

**SACOSS Report
October 2015**

Demand Tariffs: Report of Consumer Consultations
SACOSS Report October 2015

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Acknowledgements

SACOSS wish to acknowledge Gavin Dufty, St Vincent de Paul, for his generous assistance with this research project including the provision of highly valued technical expertise and insights from extensive experience.

SACOSS also wish to acknowledge the consumers who participated in this research, for their highly valued conversations and willingness to participate.

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:

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 charges are about half of retail electricity costs.

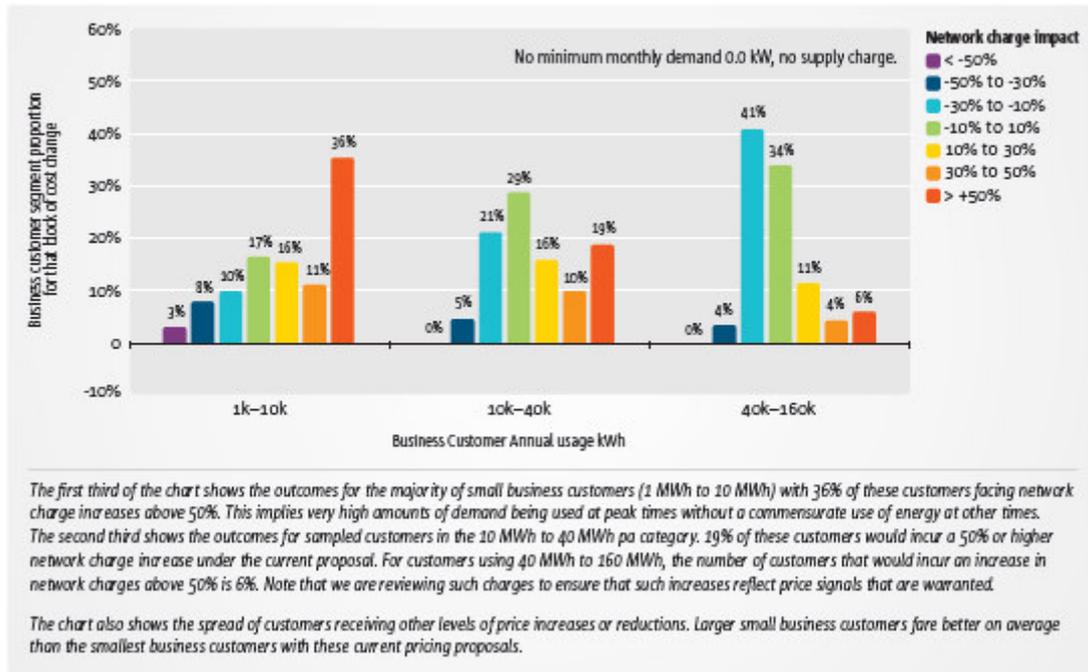


Table 1: Small Business Customers in SA Under Cost Reflective Charges

(Source: SA Power Networks http://talkingpower.com.au/wordpress/wp-content/uploads/Electricity-Tariff-Reform_Screen-FINAL.pdf: 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 through 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%9320Revised%20annual%20network%20pricing%20proposal.pdf> : p.21.

The following table indicates a range of indicative price impacts for residential consumers⁴:

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

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 if 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?

Workshops:

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?

Focus groups:

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.

Interviews:

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.

Ms Jessica Vonthethoff
GPO Box 77
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Sent via email

19 October 2015

Dear Ms Vonthethoff,

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SACOSS thanks SA Power Networks for the opportunity to comment on the Electricity Tariff Reform in South Australia Consultation Paper.

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. The Report on the consultations has been attached at Appendix A.

SACOSS supports the recommendations flowing from the research which are described below.

Overall, the research found that there is limited support for the mandatory introduction of demand tariffs. There was strong support for a voluntary opt in approach to new and revised demand tariffs.

Participants universally expressed strong concern about the impact of the proposed tariffs on organisations and businesses. 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.

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.

Participants from the workshops and focus groups placed significant emphasis on the importance of education about demand tariffs.

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

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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.
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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.

SACOSS has responded to SA Power Networks' specific consultation questions below:

Questions related to tariffs

1. *To what extent do stakeholders consider that our demand-based tariffs are in fact cost reflective?*

SACOSS is concerned that limited information has meant the proposed tariffs may not be fully cost reflective.

2. *Peak demand periods: Do customers or retailers have views on preferred alternate timings or approaches?*

SACOSS is comfortable with the proposed peak demand periods.

3. *Minimum demand charge: Customer feedback has been strong on this point and we are considering lowering the minimum demand to 1 kW. This equates to \$126 pa and compares closely to \$121 pa in fixed charges on the standard consumption-based residential tariff. Are customers supportive of this change?*

SACOSS supports the lower 1kW minimum demand as it is closer to the current fixed charge on the standard consumption based residential tariff.

4. *Measurement of peak demand: Customers have expressed concern that 'peak demand' being based on a single half-hour of each month is too sharp a signal. What alternatives to the current approach would customers prefer?*

SACOSS would prefer an averaging approach e.g. three periods as this is more reflective of consumer behaviour.

5. *Solar PV Feed-in-Tariff: Our tariffs include a component to recover the cost of payments made to solar PV customers under the State's (now closed) Solar PV Feed-in-Tariff Scheme. We currently recover this by charging a premium (17% in 2015–16) on the Distribution Charges for all customers. Do customers have views on whether alternative approaches to recovering the cost of the scheme from different customer groups should be explored? For example, instead of being evenly spread over all customers, a larger premium could be applied only to residential customers.*

SACOSS believes this cost should be recovered from all customers as it was proposed as a government scheme with communal benefit.

6. *Simplicity: An overarching message from customers and retailers has been to “keep it simple!” We would welcome suggestions on what we could do. Do stakeholders have any suggestions on how we can make our tariffs simpler?*

SACOSS believes that education about tariff reform is critical. SACOSS supports the concept of ghost billing by SAPN as it would provide consumers with an easy to understand means of assessing how changing to a new tariff would impact on them.

7. *Mitigating impacts: A key pricing principle refers to us having regard to “the extent to which retail customers are able to mitigate the impact of changes in tariffs through their usage decisions.” How should we interpret this principle?*

SACOSS believes the extent to which consumers believe they can change their behaviour is critical. The argument that the residential demand tariff would drive behaviour change was explored during the SACOSS 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.

8. *Special purpose tariffs: For many business customers shifting demand to outside of peak periods is not always possible. We have been asked to consider an irrigation tariff (as is available in some other jurisdictions) and would welcome any feedback from stakeholders on this. Note that most requests for special tariffs are related to a lower price level for a particular customer sector and other customers would experience a price increase as a consequence. Should this be an issue for business customers, or for all customers? Are customers supportive of us considering such tariffs? How should we approach this issue in our tariffs?*

SACOSS is open to further exploration of special purpose tariffs for some customers, where economic issues are a consideration.

9. *Impacts on business: What significance should we place (in considering changes to tariff structures) on the economic impact on business?*

Participants in the SACOSS research 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.

10. Air conditioning costs: Stakeholders have reiterated the point that a major contributor to the peak demand issue is air conditioning use in residential homes. How should we allocate the burden across residential vs business customers?

SACOSS understands that air conditioners are only one contributor to peak demand and believes the role of air conditioners needs to be placed in context. Some residential consumers are already facing increases of around \$150 per annum on a retail bill, and SACOSS notes that this would be a major burden for many consumers with the cost of electricity already at such high levels.

11. Robust for the future: What factors might need to be considered to make sure that customers invest efficiently in distributed energy resources, maximising benefits to the entire community?

SACOSS believes that SAPN need to be very cautious about the price signals that are sent to distributed energy users. SACOSS believes that the network needs to be sending positive incentives to these users to remain connected to the grid, otherwise there is a reality that many of these customers will disconnect from the grid once batteries become more cost effective purchase options.

Questions about complementary measures:

1. What are we missing: Are there other complementary measures we need to consider?

While the losers from tariff reform will be a minority, there is no doubt that some vulnerable consumers will fall in to the category of those who pay more than under current price structures. The current flat concession structure in South Australia will be unable to respond to the changed pricing environment in a flexible and reflective way.

The proportional energy concession scheme currently operating in Victoria is a more preferable arrangement for a cost reflective tariff environment. The "Annual Electricity Concession" is available to help ease cost of living pressures by providing concession cardholders with a discount of 17.5 per cent off household electricity bills. The concession applies to electricity costs all year round and is calculated based on the remaining account balance once any retailer discounts and/or solar credits have been applied.

On 1 December 2013 the Victorian Department of Human Services introduced the "Excess Electricity Concession". Concession households with annual electricity bills of more than \$2,763 need to apply for the Excess Electricity Concession to continue to receive the 17.5 per cent concession on energy consumed above this amount. Recipients of the "Life Support Concession" and/or the "Medical Cooling Concession" are exempt from the need to apply for the Excess Electricity Concession.

SACOSS supports the introduction of a proportional energy concession in South Australia.

2. A coordinated approach: Do stakeholders feel that the reform is significant enough to justify resources to coordinate communication activities? If so, who would stakeholders prefer to take on such a role? Retailers, Government, or SA Power Networks?

SACOSS believes there should be a shared responsibility approach to coordinating communication activities.

3. Network involvement: What sort of education/communication should reasonably be expected from distribution businesses like SA Power Networks? Examples could include the provision of data/portals/analysis. Should this be the same for retailers?

- Because solar customers are highly likely to include households on low incomes some, if not many, households in financial stress and on the edge of hardship, will end up sharing the costs of the Hardship Tariff.
- The fact there is a high likelihood that hardship programs will significantly expand as retailers and community organisations move to put more people on to hardship to take advantage of the Hardship Tariff – thereby significantly expanding the cost of the Hardship Tariff scheme and subsequent burden on other customers.
- The fact that administrative costs of the proposed tariff are not transparent to consumers in assessing the costs of the Hardship Tariff.
- The likelihood that additional retail costs related to applying the “social tariff” will be significant and will be passed on to consumers.
- The fact it is not clear what the interactive relationship is between this social tariff and the incoming residential monthly demand tariff SA Power Networks is proposing to introduce from 1 July 2017 for new customers and customers who alter their supply arrangements. SACOSS is deeply concerned that a safety net will need to be provided for those low income households who are disadvantaged by the new demand tariff and that the hardship tariff is not the optimal solution to address the issues which will arise. Moreover, if the hardship tariff was in place it is likely to be a disincentive for other forms of safety net restructure which would be needed to offset the impact of a monthly demand tariff (e.g. proportional concessions reform).

Outside of these issues there are broader social policy questions here about whether the social tariff is a proxy income transfer arrangement mandated by business transfers between customer cohorts rather than via policy from our elected governments. While we recognise the important role that philanthropy can often play in addressing hardship, this is not being proposed here, and thus we are not at all convinced this is necessarily a desirable model to manage and address income inequality issues.

Above all the issues we raised, we are still most highly concerned about the potential impact of the implementation of a social tariff to undermine our capacity to negotiate reform of the current concession from a fixed rate payment to a proportional one. We believe that this is the critical piece of safety net reform which needs to occur, particularly as we move in to a new tariff environment. As ACOSS has noted:¹

“The notably low concession payment in South Australia is in spite of the State having the second highest energy costs as a percentage of disposable income and the highest proportion of customers disconnected due to an inability to pay.

The other key variation is between Victoria and the rest of the NEM. Victoria provides the energy concession on consumption with a percentage discount on the customer’s bill. All other jurisdictions provide a flat payment...

Flat payment concessions are badly targeted to certain households, for example they fail to discriminate between household size and costs related to regional location. For example, an eligible low-income family of four, with resulting high energy needs, will receive the same rebate as an eligible single person in a smaller property...(p.9)

ACOSS has identified the following issues that need to be addressed as a priority...
b. The value of concessions in South Australia stands out as particularly low in relation to other States and Territories, despite relatively high energy prices and disconnection rates.

¹ ACOSS (2014) Preventing shocks and addressing energy poverty at http://acoss.org.au/images/uploads/Concessions_paper_2014_FINAL.pdf

c. Proportional concessions are required in more jurisdictions to address the equity of concessions for consumers in areas with high supply costs (such as those regional network areas) and the high energy needs of families living on low incomes. (p.10)

SACOSS wishes to reiterate that it is extremely concerned about the possibility that this social tariff proposal will act – even if in a completely unintended way - to remove proportional concession reform off of the policy reform agenda.

6. *For Retailers: What complementary measures or initiatives from us would assist with the implementation of tariff reform?*

N/A

7. *For Governments and Regulators: What ‘complementary’ initiatives are being progressed alongside the implementation of tariff reform? How well equipped are stakeholders to handle enquiries and complaints from customers about demand-based pricing?*

N/A

8. *Assistance for specific industries: How do stakeholders feel about special tariffs for specific (potentially vulnerable) industries?*

SACOSS is open to further exploration of special purpose tariffs for some customers, where economic issues are a consideration.

Questions on Transitions:

1. *Import/export meters: Are stakeholders supportive of the idea to re-program the existing fleet of capable import/export and controlled load meters to enable interval metering capability, therefore expediting the transition of solar PV customers to demand tariffs? Who should pay for this?*

SACOSS does not support this proposal as it would be an unfair burden on solar PV customers, some of whom are on low incomes or are disadvantaged.

2. *Access to data: In all transition approaches we are proposing that customers have access to at least 12 months of data after receiving a smart meter, before transitioning to a demand tariff. Do stakeholders consider this a reasonable approach?*

SACOSS believes that customers should have access to an open-ended period before transitioning to a demand tariff. This is to support a voluntary opt in approach for moving to any new or revised tariff.

3. *Upgrades & new services: We are proposing that from 1 July 2017 all Upgrades & new services would trigger the requirement to install a smart meter and that customers would be automatically assigned to one of our demand-based tariffs. We expect that this might affect up to 100,000 households and small businesses by 2020. Do stakeholders consider this a reasonable approach?*

SACOSS does not support this approach to automatically assign customers to a demand based tariff as it is counter to the proposal for a voluntary opt in approach. SACOSS believes the significant negative price impacts for some warrant a more careful approach to the offer of demand based tariffs.

4. *Replacements and Choice: We have presented three alternative approaches to ‘phasing in’ cost reflective tariffs to these smart meter customers. Of the three approaches presented, do customers and stakeholders have strong preferences for any one? We would also welcome preferences that take elements from each approach.*

SACOSS does not support any mandating of demand tariffs. Consumer and consumer representative participants in the SACOSS research 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.

SACOSS also believes the small business impacts are so significant that no mandated move can be supported.

5. Customer Impact Principles: We plan to develop a set of 'Customer Impact Principles' that we can use to guide future decisions on tariff reform. These principles would build on the 'pricing principles' contained in the National Electricity Rules to provide guidance on how customer impacts should be considered in an objective, repeatable way. What should be included in these principles?

Enabling customer choice is a key principle for future tariff reform.

6. Cost reflective tariffs before smarter metering: Should we pursue other options to introduce prices that are more cost reflective before meters are changed? Options considered include:
 - a. A tariff specifically for customers with solar PV panels.
 - b. Developing separate tariff profiles for public housing properties.
 - c. Developing separate tariff profiles for customers with large air conditioning systems or holiday homes.

SACOSS does not support a tariff specifically for customers with solar PV panels unless this is provided as an incentive to retain these customers in the network. SACOSS supports the development of a separate tariff profile for public housing properties as evidence has indicated these households have a lower load profile. SACOSS is open to consideration of c.

We thank you in advance for your consideration of our comments. If you have any questions relating to the above, please contact SACOSS Senior Policy Officer, Jo De Silva on 8305 4211 or via jo@sacoss.org.au.

Yours sincerely,



Ross Womersley
Executive Director