

11 October 2012

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235
E: aemc@aemc.gov.au

Reference: EPR0022 Draft Report

Thank you for the opportunity to comment on *Draft Report: Power of choice – giving consumers options in the way they use electricity, September 2012*

The Energy & Water Ombudsman NSW (EWON) investigates and resolves complaints from customers of electricity and gas providers in NSW, and some water providers. Established in 1998, EWON is the approved independent dispute resolution mechanism for customers of electricity and gas providers in NSW, and some water providers.

Our aim is to provide fair, equitable and independent investigation and resolution of customer complaints. We work with all the key stakeholders – providers, community, government, regulators – to raise the standards of service delivery for the benefit of NSW consumers.

EWON has recently made a public call for a national discussion on energy affordability issues facing consumers, in particular how we as a community:

- respond to the increasing need for assistance for customers in the context of rising energy prices
- deal with the reality of customers on low incomes who are using more energy than they can afford
- ensure customers on low incomes stay connected to essential services.

More complex energy products arising from new technology provide opportunities for reducing costs, but it is essential that the end result is not just a plethora of confusing offers. EWON recognises that in particular more effective demand side products have the potential to significantly reduce costs in the long run. It is however important to recognise that such structural change has its own costs and that there may well be increased costs to introduce change.

The *Power of Choice Draft Report ('the Draft Report')* canvasses some long term solutions to these key questions. The provision of a combination of information, education, incentives and technology will provide a basis for consumers to better manage their energy use. Just as important is the need to have the right regulatory framework which

allows the incentives needed to ensure that all participants in the energy market provide services which reduce overall capital and operating costs.

The key issues

Different electricity tariffs at different times of day and in different locations to reward consumers for changing their behaviour while providing safeguards for vulnerable customers who may be affected by time varying prices;

The Draft Report proposes that time varying network tariffs be introduced in a gradual phased approach. This is to be achieved by segmenting the market and by making mandatory (as meters are installed) a time varying network tariff for all large and medium customers, while small customers remain on a flat network tariff. Medium customers could then opt out of the time varying tariff and small customers could opt in to that tariff arrangement.

Many consumers do not understand appliance usage costs and/or forget about seasonal appliance use by the time they receive their energy bill, which can lead to bill shock. Smart technology can give immediate feedback about consumption and help consumers to better understand their usage in real time and therefore manage it more effectively.

There are many benefits from smart technology including:

- the potential for monthly billing, allowing smaller, more regular payments to help households budget more effectively
- the potential for pre-paid meters or pay-as-you-go facilities for consumers who would benefit from this, eg shared, transient households
- the potential for time shifting consumption to achieve savings
- the reduction of costs associated with manual metering and avoidance of estimated bills where access to meters is not possible.

There are concerns about the effects of time varying tariffs on vulnerable consumers. Some consumers have limited capacity to change the time of their energy consumption. This can be especially so for customers with relatively low but consistent consumption (EWON is contacted by many aged pensioners who live alone who are in this situation).

While the approach proposed in the Draft Report seems to provide the base for the protection of vulnerable consumers, EWON has one concern. The Draft Report also recommends that the wholesale settlement be undertaken using interval data. This may lead to retailers only offering products based upon time varying tariffs despite the underlying network tariff.

In NSW where Ausgrid has around 500,000 interval meters, there is very limited customer choice. Only one retailer allows customers the choice of a flat tariff. This situation has now extended to the other two networks with the widespread installation of solar arrays. EWON has received many complaints from customers who are dismayed to find themselves on time of use tariffs with no advance warning and no choice. In NSW it appears that once the data is from an interval meter then all retailers (with one exception) impose a time varying tariff.

EWON is not confident that retailers will provide the flexibility envisaged in the Draft Report. It may well be that the National Energy Retail Law could require a change so that a retailer's standing offer must be available as a flat tariff and as a time varying tariff.

Introduction of time varying tariffs to be supported by consumer education to increase understanding of the potential benefits and vulnerable consumer protections.

It is critical that any introduction of time varying tariffs be supported with consumer education and information. At present in NSW, customers are finding themselves on such tariffs with limited information. Often the first a customer knows that their tariff has changed is when a bill arrives. EWON believes that there should be educative consumer information provided by a network when the interval meter is installed and then further information should be provided by a retailer when a customer is transitioned to a time varying tariff. This same information could also be provided when a site with an interval meter is transferred to a new customer.

EWON would support consideration of options to engage and educate consumers to demonstrate the potential benefits to them. In the UK a contract offer has to include an actual comparison of the last 12 months consumption on the existing tariff structure and on the proposed offer. This provides the customer with comparative information to assist them make an informed decision. An alternative approach could be a transition period of 2 bills which remain on a flat rate before introduction of the time varying tariff, with the time varying tariff costs provided on the invoice so that customers can make a real comparative assessment of the value or otherwise of the new tariff based on their actual energy consumption.

Encouraging investment in metering technology.

The Draft Report explores options for increasing the spread of smart technology in a context of there being no mandatory roll out in jurisdictions other than Victoria. The key

options discussed include reducing the minimum functional specifications and proposing a model where metering services are open to competition.

Given the high level of consultation that established the current national minimum functionality specifications the proposal to reduce these to a minimum of interval read capacity and remote communications seems to be a reversal of significant work that went into establishing a basis for the best consumer outcomes.

Equally the proposal to open metering services to competition is a dramatic change from the status quo. Any significant changes to current arrangements, including opening metering up to both retailers and third parties, needs to ensure that choice is increased not decreased

EWON's experience shows that variations in billing due to the widespread introduction of solar arrays and the solar bonus schemes has created problems in the billing systems of retailers and in data transfers from networks. If this can be an issue in a standard centralised system then a more complex and varied system with many more participants has the potential to generate significant transition problems and possibly customer detriment, confusion, and complaints.

**Allowing large consumers or third parties, acting on behalf of consumers, to participate in the wholesale electricity market, and to receive the spot price for changing their demand;
Enabling consumers to sell their distributed generation (e.g. solar, embedded generation, battery storage) to parties other than their retail electricity supplier**

The Draft Report has a number of proposals that will result in the creation of new market participants in the National Energy Market. Government and regulatory involvement needs to be 'light handed' enough to encourage smart technology advances, but needs to ensure that these advances are customer focussed. There is little point in smart technology if it does not take the end users with it. The regulatory framework needs to adapt to encompass all the relevant industry players, including new third party service providers. In this context EWON supports consideration of matters such as:

- whether the AER could be authorised to establish Guidelines, (as currently done with exempt retailers) with a registration process for third party service providers.
- the level of detail required and the level of regulation could then be varied in proportion to the impact on customers and complexity of the service being offered.

A key part of such a regulatory approach should be to ensure independent dispute resolution for customers. This approach should aim to achieve consistency for customers in the resolution of their energy disputes. The Australian & New Zealand Energy & Water Ombudsman Network (ANZEWON) would like to enter into discussions with the relevant

regulatory authorities to develop a process to ensure that customers have access to relevant independent dispute resolution services in this context. The members of ANZEWON have a shared commitment to the principle of consistency for consumers in the resolution of their energy disputes and we look forward to further discussions.

Other Issues for vulnerable customers

EWON welcomes the proposal for an opt-in process for time varying tariffs as a critical protection for vulnerable customers. However there are a number of other issues which need consideration in the broad context of the changes proposed in this report. These include:

- Introductory costs of metering
- Potential rewiring costs when unsafe installations are identified at a point of meter installation¹
- New complex products that are marketed to inappropriate customers (e.g. direct load control product to a life support machine user)
- Informed consent is critical to ensure that small retail customers have understood the implications of new products arising from the introduction of smart meters.

Appendix C *Measures for assisting vulnerable consumers* in the Draft Report provides a comprehensive overview of current assistance measures across Australia as well as some discussions around vulnerability from within Australia and overseas. What is clear from this information is that rising energy prices are having a significant impact on vulnerable customers and that the level of assistance is dependent upon the jurisdiction that the customer lives in.

EWON has in the past called for an independent review of all state based customer assistance measures to identify the most effective assistance for customers in financial hardship and/or facing disconnection of their essential services. In the context of the Power of Choice Draft Report we renew this call.

Finally, EWON sees a role for the Networks in customer assistance measures. We consider there are a number of proposals for greater network involvement in the issue of customer vulnerability. These include:

- Networks making a contribution in 'cash or kind', e.g. a contribution to the retailers' hardship programs;

¹ We understand that some properties in Victoria were defected when technicians installing time of use meters found the electricity wiring to be faulty and dangerous. Although this is clearly an appropriate action for the safety of residents, it would leave some low income households in a very difficult position if they could not afford to engage a private electrical contractor to undertake the necessary repairs.

- free electrical services to eligible customers who face high bills because of faulty residential infrastructure but who cannot afford a private electrician and
- energy saving advice for customers.

If you would like to discuss this submission, or any of the issues raised, please contact me or Emma Keene, Manager Policy, on 02 8218 5250.

Yours sincerely



Clare Petre
Energy & Water Ombudsman NSW