



There are times when electricity prices just aren't high enough

Energy

Peak and off-peak pricing operates in public transport in most Australian states and globally. Why should power be any different?



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Almost every aspect of the energy sector is complex. The wholesale and retail markets, the arcane economics of network regulation and the highly technical nature of energy engineering and infrastructure. Add to that major price rises over the past decade, conflated with furious disagreement over climate change policy, and we find ourselves with the most divisive energy politics ever seen in Australia.

The Australian Competition and Consumer Commission's recent report on electricity pricing covers the whole supply chain in some detail. While media coverage has centred on the controversial – generator market power, network write-downs and retail re-regulation – there are 56 recommendations covering a range of areas.

Some of what the ACCC says is not so controversial. Its report devotes a complete 16 page section to one vital policy reform where almost all the often-polarised stakeholders vigorously agree action is needed. This reform will lead to more affordable power, it will reduce the inequity that is growing every day with our current

approach and support safe and efficient integration of more solar and storage into the grid. Common sense would suggest such a change would be a no-brainer.

Unfortunately in Australia's highly-

charged energy climate, sense is commonly absent.

This much-needed reform is a move to cost-reflective electricity pricing. A fairer system of network prices that has multiple benefits for customers. Put simply, this means charging customers different amounts for power at different times of the day. At peak energy use times (typically evenings), prices are higher. At times of low demand, prices are cheaper.

The need for this is well known. The Grattan Institute has called for pricing reform in most reports it has done on the energy sector over the past decade. The benefits were explored in detail in the 2017 Energy Networks Australia and CSIRO *Electricity Network Transformation Roadmap* report.

Tariff reform offers lower network costs – the *Roadmap* report found a framework where all customers were moved to cost reflective prices on an opt-out basis would achieve up to \$1.4 billion in reduced network investment by 2026, delivering a 10 per cent saving to customers on average network bills. The report found that by 2050, more than \$16 billion in network savings could be achieved if tariff reforms were combined with frameworks for networks to buy grid services from customers with solar and storage.

The concept is simple – the true cost of electricity depends not just on how much you use, but also when you use it. Pricing signals can change customer behaviour to incentivise energy use at times of low demand and reduce the burden on the grid at

peak times. This is a tried and true method to manage congestion. Peak and off-peak pricing operates in public transport in most Australian states and internationally. Why should power be any different?

A third key benefit is reducing the significant cross-subsidies hidden in our current pricing structures. Large air conditioners have added to peak demand and cost over the past decade and the

combination of solar and simple pricing lowers bills for those who have it. But both of these increase the collective burden on customers who don't have or can't afford these things. Cost reflective network pricing would help address this inequity while

supporting new flexible loads – batteries and electric vehicles.

In Western Australia, a recent alternative pricing trial by Horizon Power, the WA Council of Social Services and Curtin University found two-thirds of the utility's vulnerable customers were financially better off under a cost-reflective pricing model and almost 90 per cent of participants changed their energy

consumption patterns as a result.

In spite of the benefits of pricing reform being well understood, it languishes in the too hard basket. The states, which have control of the energy system in their jurisdictions, have disparate policies. There is also a political conundrum – in the short term there will inevitably be some customers who aren't better off from pricing reform, either from an unwillingness or incapacity to change behaviour or to understand how to make such a change work to their advantage.

The ACCC, like the *Roadmap* report before it, found two barriers to widespread adoption of better electricity pricing – the lack of smart meters in some jurisdictions and the absence of tariff assignment policies in network areas where smart meters are available. In Victoria, for example, where every customer has a smart meter, they also have access to time-of-use tariffs, but they have to opt in. Basically nobody has.

The bottom line is that pricing reform is a no-brainer. The *Roadmap* and many other reports have found that over the medium-term all customers will be better off from cost-reflective pricing, whether or not they are actively engaged and responsive. Not only will it support lower and fairer power bills, but it is a reform that is absolutely essential at a whole-of-energy-system level to ensure Australia's energy sector can take best advantage of rapid technological advances for the benefit of all customers.

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