



# Essential Energy Correct Tariff Customer Consultation

Final Report  
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# Executive Summary

## Background and objectives

Essential Energy has customers who are being incorrectly charged for their electricity consumption. Some customers have been paying too much (cross-subsidising other customers), but most of those on incorrect tariffs have been paying too little. This needs to be corrected to minimise cross subsidisation and better reflect the costs of providing network services to customers, as outlined in the Tariff Structure Statement (TSS). A diverse range of industries will be impacted by changing tariffs, including community, local Councils, education, government, health services, hospitality, industrial, primary producer/irrigators, retail, strata, and wineries. As Essential Energy operates under a capped revenue set by the Australian Energy Regulator (AER), moving customers to correct tariffs will be revenue- and profit-neutral to the business.

The objective of the customer consultation about the tariff changes was to facilitate meaningful engagement between Essential Energy and its customers prior to the changes, in order to gain a detailed understanding of the concerns of customers in relation to the tariff changes, the likely impacts of the changes on their organisations, and to collaborate with customers to develop strategies for how to move customers onto the correct tariffs.

## Consultation activities

The consultation incorporated three phases:

1. Phase 1: Strategy development (Customer Advisory Committee Workshop 1)
2. Phase 2: Wider customer feedback (Customer workshops)
3. Phase 3: Strategy refinement (Customer Advisory Committee Workshop 2)

A Customer Advisory Committee was formed, comprising 12 customers who, together, represented the relevant sectors impacted by the tariff changes. Two workshops were held with the Customer Advisory Committee, one at the beginning and one at the conclusion of the consultation.

A program of 15 workshops and eight one-to-one discussions took place with customers who were not part of the Customer Advisory Committee. Workshops took place in Coffs Harbour, Orange, and Wagga Wagga, as well as online using Ipsos' Ideation platform.

## Key issues and concerns

- **Anger, frustration, confusion:** Customers are angry about the tariff changes being imposed on them, frustrated about the lack of control they feel over the situation, and are generally confused about what the tariff changes mean for their organisation. Customers feel that they lack the information needed to be able to take action, and question the equity of the changes.
- **Financial impact:** Of prime concern is the financial impact of the changes. Many feel they are unable to pass the increased costs onto their customers or service users. There is additional anxiety about the cost of changing meters (and customers are not clear about the cost of this) and the cost of energy efficiency advice and the measures that may be necessary. The impacts of the increased costs to customers are wide ranging (although for many, still unknown), with staff cuts, service cuts and operating at a deficit all seen as likely impacts.
- **Communications and engagement:** Customers are dissatisfied with the initial information received to date from Essential Energy about the tariff change. The ongoing communication of the change via letter alone is seen as insufficient. The initial letter itself has been difficult for customers to understand, and is seen as lacking vital information, such as the specific financial impact of the changes to the organisation and the actions required by them. Industry associations also feel they lack the necessary information to be able to support their members.

- **Meter issues:** Customers are unclear about what is required and who is responsible for meter changes. In addition, they are uncertain about the costs associated with new meters and have been quoted wildly varying sums by retailers.
- **Role of the retailer:** Customers are concerned about inconsistent information about the tariff changes from retailers and Essential Energy.
- **Energy use and efficiency:** Most industries have little scope to change their energy use patterns. There is also concern that, even if they do, this reduction in use will not be recognised by Essential Energy for a year.
- **Solar power:** Those with solar are frustrated that they were unaware of the tariff changes when they made the investment, and think they may not have made the same decision had they known. For some, solar is now more attractive and could help mitigate the impacts of the changes but it will not be helpful for some customers (depending on their energy use patterns).
- **Timing of the changes:** There is concern that they have not been given enough notice to prepare for the changes in July 2017, especially as they feel they do not yet have sufficient information to be able to prepare.

## Strategies developed by customers

Customers developed strategies that could potentially help mitigate the impacts of the tariff change on their organisations and industries, as follows:

### 1. More information and better engagement:

- Follow up phone calls
- Additional written communication
- Tailored, specific advice
- Online information, including a tariff calculator
- Historical consumption data
- Information to industry associations about the impacts on their members

### 2. Collaboration with retailers

- Work with retailers to provide consistent information about the changes
- Help ensure retailers provide a reliable and consistent service in relation to changing meters
- Subsidise energy audits and power factor corrections
- Recommend good value energy consultants to customers

### 3. Alternative tariffs

- Industry specific tariffs
- Additional tariffs with smaller ranges
- A demand tariff triggered by the average of multiple peaks
- Review process for peaks in demand
- Warnings prior to peaks in demand

### 4. Transitional tariffs over a 3-5 year period

### 5. Frequent reassessment of customers' tariffs

- Review tariffs again in advance of July 2017
- Review tariffs more than once yearly after July 2017

# 1 Background and objectives

## 1.1 Essential Energy

Essential Energy is a NSW Government-owned corporation with responsibility for building, operating and maintaining the largest electricity network in Australia. The organisation delivers electricity services to over 800,000 homes and businesses, spanning a region covering 95% of NSW as well as parts of southern Queensland. Its Essential Water business arm extends water services to approximately 20,000 customers as well as sewerage systems and as an employer of 3,800 people (as of 2015), Essential Energy makes a substantial contribution to the regional and rural economies of NSW<sup>1</sup>.

Essential Energy seeks to act in the long-term interests of its stakeholders by delivering three key goals:

- Improving safety performance for employees, contractors and the community;
- Ensuring the reliability, security and sustainability of the network, and;
- Striving to contain average increases in network charges to CPI or below<sup>2</sup>.

Essential Energy operates in a regulatory environment. Incorporated under the Energy Services Corporations Act 1995 (NSW), the company is a 'registered participant' within the National Electricity Market<sup>3</sup> and as a 'Distribution Network Service Provider,' its revenue and pricing is regulated by chapters 6 and 6B of the NER<sup>4</sup>. These rules are overseen by the Australian Energy Regulator (AER).

The AER has responsibility for the economic regulation of wholesale and retail energy markets. It regulates by setting maximum amounts of revenue companies can earn with reference to factors such as projected demand, operating costs and network reliability<sup>5</sup>. Funding of Essential Energy's electricity distribution network is subject to the AER and is thereby made through a five-yearly revenue determination<sup>6</sup>.

## 1.2 Tariff Structure Statement (TSS)

A series of changes to pricing rules were made in November 2014 by the Australian Energy Markets Commission (AEMC), aiming to better mirror cost drivers of distribution networks as well as achieve greater transparency relating to tariff strategies<sup>7</sup>. 'Cost reflective' network tariffs are required to provide consumers with the ability to make informed consumption decisions and manage usage expenditure, as well as allowing for more effective network investment.

In response to these changes, Tariff Structure Statements (TSS) detailing proposed tariff approaches have been requested from distributors; these will be effective from 1 July 2017 – 30 June 2019. **Price impacts on customers however, are the responsibility of distributors and will need to be managed as a result of the changes<sup>8</sup>.**

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<sup>1</sup> Essential Energy 2015, *Annual Report 2014-15*, Essential Energy, Port Macquarie, NSW.

<sup>2</sup> <http://www.essentialenergy.com.au/content/corporate-profile>

<sup>3</sup> <https://www.aer.gov.au/industry-information/energy-industry-regulation>

<sup>4</sup> <http://www.essentialenergy.com.au/asset/cms/pdf/electricitynetwork/Section59Aenforceable-undertaking-to-the-AER.pdf>

<sup>5</sup> <https://www.aer.gov.au/about-us/our-role>

<sup>6</sup> <http://www.essentialenergy.com.au/content/corporate-profile>

<sup>7</sup> <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/pricing-proposals-tariffs/jemena-tariff-structure-statement-2015>

<sup>8</sup> Australian Energy Regulator 2016, Issues Paper – Tariff structure statement proposals, NSW electricity distribution network service providers, AER, Canberra.

Essential Energy’s engagement with its stakeholders (used for developing the TSS) has identified some preliminary items to address including the introduction of different peak and shoulder rates, education of customers regarding different tariffs and meters, and an alignment with tariff structures from other NSW distributors<sup>9</sup>. Essential Energy’s objective is to introduce ‘efficient prices’, specifically this means taking into account the long run marginal cost (LRMC)<sup>10</sup>.

### 1.3 The need for tariff reform

There are four main drivers of tariff reform.

**1. Tariffs do not accurately reflect actual network costs.**

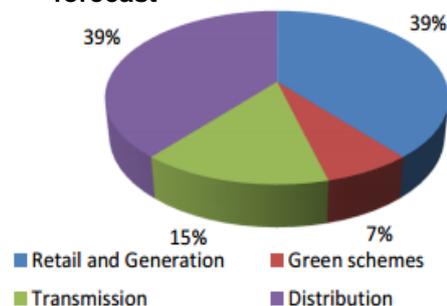
Currently, costs associated with the running and maintenance of distribution networks such as Essential Energy are poorly reflected in tariff structures. Distribution tariff charges are passed on to customers from distributors, through energy retailers, and are estimated to make up roughly 39% of an average residential bill (refer to Figure 1)<sup>11</sup>. As these tariffs do not vary according to times electricity is used, many customers are charged at rates that do not best represent their usage patterns, especially in comparison to others.

**2. Management of consumption levels and times.** New consumption patterns have posed a greater demand on the electricity network during peak times e.g. cheaper air-conditioning means increased usage on hot days. Networks must have the capacity to handle these levels of demand in a manner that is safe and reliable. However, while the associated costs of having this are high and are passed onto consumers, these assets are not fully-exhausted most days of the year, highlighting inefficiency in asset utilisation<sup>12</sup>.

**3. Advancing technology.** An increasingly complex electricity network as well as the likelihood of an ability for customers to generate or store energy (aside from pre-existing solar PV generation) foresees significant impacts on the electricity distribution system. In keeping up with these advancements, customers must be aware of appropriate price signals.

**4. Government policies and regulations.** Tariff reforms have the potential to offer prices to consumers that can re-direct their use of the network. Ultimately, the goal is to shift consumption towards lower-peak periods (times of higher capacity), through the use of incentives such as lowered costs. Not only would this mean more efficient usage of the existing network and a subsequent delay in further infrastructure investment, it will also provide customers with greater control over their energy expenses<sup>13</sup>.

**Figure 1: Average residential customer retail bill, NSW 2015-16 forecast**



Source: Australian Energy Regulator

### 1.4 The need for customer consultation

Essential Energy has customers who are being incorrectly charged for their electricity consumption. Some customers have been paying too much (cross-subsidising other customers), but most of those on incorrect

9 Essential Energy 2015, Overview of our Tariff Structure Statement, Essential Energy, Port Macquarie, NSW.

10 Essential Energy 2015, Overview of our Tariff Structure Statement, Essential Energy, Port Macquarie, NSW.

11 Australian Energy Regulator 2016, Issues Paper – Tariff structure statement proposals, NSW electricity distribution network service providers, AER, Canberra.

12 <https://www.google.com/patents/US4804938>

13 Australian Energy Regulator 2016, Issues Paper – Tariff structure statement proposals, NSW electricity distribution network service providers, AER, Canberra.

tariffs have been paying too little. This needs to be corrected to minimise cross-subsidisation and better reflect the costs of providing network services to customers, as outlined in the TSS.

A diverse range of industries will be impacted by changing tariffs, including community, local councils, education, government, health services, hospitality, industrial, primary producer/irrigators, retail, strata, and wineries. Given the diverse range of industries and activities impacted, there will be a range of needs and desires in terms of how their tariff is changed and what their new tariff is, and one solution will not fit all customers. As Essential Energy operates under a capped revenue set by the Australian Energy Regulator (AER), moving customers to correct tariffs will be revenue- and profit-neutral to the business.

In remaining true to its corporate values, Essential Energy consulted with affected customers to gain a deeper understanding of its customers and their business requirements and circumstances, but also as a communicative tool between itself and its customers.

Given the significant impacts that moving to the correct tariff will have on many customers it was of upmost importance that the communication of information about the changes and consultation about the transition to the new tariffs was effective and meaningful.

## 1.5 Objectives

The objective of this piece of customer engagement was to facilitate meaningful engagement between Essential Energy and its customers prior to tariff changes, in order to:

- Gain a detailed understanding of the concerns of customers in relation to the tariff changes, and the likely impacts of the changes on their organisations
- Gain customer input into the development of strategies for how to move customers onto the correct tariffs
- Obtain customer feedback about the strategies developed, and in doing so, demonstrate Essential Energy's commitment to customer engagement and consultation.

The customer feedback gained through this exercise will go on to inform the development of a framework for future engagement of Essential Energy customers.

# 2 Consultation activities

## 2.1 Consultation overview

An overview of the consultation process is shown below. A detailed account of each stage is provided later in this section.



## 2.2 Customer Advisory Committee

### Purpose of the Customer Advisory Committee

A Customer Advisory Committee was formed in order to involve customers in the development of strategies to implement tariff changes, together with Essential Energy. The Committee comprised customers who, together, represented the relevant sectors impacted by the tariff changes. The purpose of forming an advisory committee was:

- To genuinely involve and gain input from customers over a contentious issue which will inevitably attract criticism from customers
- To enable genuine collaboration with customers in a manageable, defined way (given the large and dispersed customer base)
- To solicit input over time and at various stages of the tariff change process.

Additional benefits of an advisory committee are:

- Instilling a sense of partnership with the community
- Informing Essential Energy of key community perspectives
- Developing constructive relationships with and between key customer groups, and promoting understanding of a range of perspectives.

The purpose of the Customer Advisory Committee was clearly communicated to members on recruitment, including the scope of their involvement and the Committee's level of influence.

## Customer Advisory Committee members

The Customer Advisory Committee comprised 12 members, each representing a business, public sector organisation, or peak body affected by the changes. A range of sectors and industries were represented, located all over the state, including:

- Primary producers/irrigators
- State Government
- Local Government
- Hospitality
- Tourism
- Property
- Transport/logistics
- Industrial
- Small business

The Committee was recruited by Ipsos. Many of those invited to be on the Committee had already expressed to Essential Energy a strong interest in being involved in the consultation.

## 2.3 Customer Advisory Committee Workshops

### Customer Advisory Committee Workshop 1

The first workshop with the Customer Advisory Committee was held on 10 August 2016, at the Stamford Plaza Hotel at Sydney Airport (Committee members' travel costs were met by Essential Energy). Prior to the workshop, members were emailed an information sheet clarifying the parameters of the Committee, including the extent of their involvement and influence (see Appendix 1). The information sheet reiterated that tariff changes are compulsory and non-negotiable, but that there may be some flexibility in the way in which the changes are implemented.

The objectives of the first workshop with the Customer Advisory Committee were to:

- Gain a better understanding of stakeholders' concerns, and the potential impacts of the tariff changes on their organisation/industry
- Develop strategies for how to best implement the changes, and what ways these might mitigate potential impacts for customers.

Eleven Committee members attended the first workshop, in addition to four representatives from Essential Energy and four from Ipsos. A representative from the AER also attended the workshop. Ipsos facilitated the workshop, with Essential Energy providing further information about the changes and answering questions as they arose.

The workshop comprised four sections:

1. Welcome and introduction: information about the context of the tariff changes from Ipsos and Essential Energy.
2. Goals: Customer Advisory Committee members outlined their goals for the workshop, followed by the Ipsos team setting out the goals for the consultation.
3. What the changes mean for their organisation or industry: identifying the potential impacts of the tariff changes on customers.
4. Strategy planning: how to help mitigate the potential impacts: identifying potential solutions to address the impacts of the tariff changes.

During the final two sections, attendees broke out into three smaller groups to discuss the impacts of the changes and potential solutions, before coming together for plenary discussions with the whole Committee.

The feedback provided by the Committee has been incorporated into this report. In addition, the minutes of the workshop can be found in Appendix 2.

## Customer Advisory Committee Workshop 2

The second workshop with the Customer Advisory Committee was held on 7 September 2016, at the same venue as the first workshop.

The objectives of the second workshop were to provide feedback to the Committee about the content of the customer consultation workshops, including:

- Concerns and issues described by customers
- Likely impacts of the changes on customers
- Views on the solutions and mitigation strategies developed by the Committee
- Refine the mitigation strategies developed during the first workshop
- Inform Committee members on how the customer feedback received will be used by Essential Energy and what the next steps in the process will be.

Twelve members attended the second workshop, in addition to two representatives from Essential Energy and four from Ipsos. A representative from the AER again attended the workshop. Ipsos facilitated the first section of the workshop, with Essential Energy providing further information and taking questions in the second half of the day.

The workshop comprised four sections:

1. Introduction, goals for the day and a summary of the consultation activities conducted since the Committee last met.
2. Customer feedback part 1: Key issues and concerns emerging from customer consultation workshops and areas where customers require further information, with feedback related back to the issues and concerns outlined by the Committee in the first workshop.
3. Customer feedback part 2: Customer feedback about the strategies and solutions proposed by the Committee.
4. Essential Energy's response to the customer feedback and strategies developed, including the feasibility and progress of each.

Each section included discussion with and questions from the Committee, and the workshop concluded with a Questions and Answers session, giving Committee members the opportunity to ask any further questions they had for Essential Energy at this stage.

The feedback gained and strategies discussed during the workshop have been incorporated into this report, and the minutes of the workshop can be found in Appendix 2.

## 2.4 Customer consultation workshops

A program of workshops took place with customers who were not part of the Customer Advisory Committee. The purpose of these workshops was to provide an opportunity for customers to contribute to the development of strategies that Essential Energy could adopt to support customers through the tariff change process. The specific objectives of the customer consultation workshops were to:

- Gain detailed feedback from customers across the full range of sectors affected by the tariff changes, about their concerns and issues, and the likely impacts of the changes on their organisation or sectors

- Gain feedback from customers about the draft strategies and solutions proposed by the Customer Advisory Committee, and allow customers the opportunity to contribute to the further development of these potential activities.

A total of 15 workshops and eight one-to-one discussions took place, as shown in Table 1. Workshops took place in Coffs Harbour, Orange, and Wagga Wagga, as well as online using Ipsos' Ideation platform. The online groups used a teleconference in combination with an online platform, which provided an opportunity for customers from all over the state to participate in workshops in an efficient, convenient way. Some groups were held with a specific industry or sector, but most were mixed (the level of interest in taking part varied by sector, meaning sector-specific groups were not possible or warranted for all sectors).

**Table 1 Customer consultation workshop program**

	Sectors	Location	Date
1	Primary Industries	Online	22-Aug
2	Hospitality	Online	25-Aug
3	Council/Government	Online	29-Aug
4	Health	Online	29-Aug
5	Mixed	Orange	29-Aug
6	Mixed	Coffs Harbour	30-Aug
7	Mixed	Coffs Harbour	30-Aug
8	Mixed	Wagga Wagga	30-Aug
9	Mixed	Wagga Wagga	30-Aug
10	Mixed	Online	30-Aug
11	Mixed	Online	31-Aug
12	Mixed	Online	31-Aug
13	Mixed	Online	1-Sep
14	Mixed	Online	1-Sep
15	Retail	Online	2-Sep
	Mixed	Telephone 1:1 interviews	Various

# 3 Customer feedback

## 3.1 Initial reactions to the tariff changes

### Anger and frustration

High demand customers (those who use over 160MWh per year) in particular are angry about the tariff changes. They see the changes as potentially resulting in very large increases to their energy bills, for what they see as no discernible benefit. They feel as though they are being forced to pay more for a service which is not improving, for example they will still experience the same number of blackouts.

As high demand customers, this group tend to be more knowledgeable than others about their energy usage and the factors that impact their bill. They have frequently invested a lot of time learning about their usage as it forms a significant part of their running costs, and many have invested in energy audits and infrastructure upgrades to minimise their energy bills. This adds to their frustration that no matter what they do, their energy costs are going to significantly increase and it is out of their control.

There was frustration among customers in all industries, that they have no choice of network operators to use, and no option other than to pay the increased bills.

### Irritation with the information provided

There is irritation about the initial information that has been provided to customers about the changes, in particular, the lack of information about the likely financial impacts to individual businesses. This is a major concern for all customers, and worry about this aspect prevented many from meaningfully engaging in a conversation about ways in which the impacts could be mitigated. Customers were generally disappointed and annoyed about the way in which the changes had been communicated to them and the content of the information; this is discussed in more detail in section 3.2. The letter was described as “unspecific”, “too technical”, “confusing”, and “not helpful at all”.

*“The letter was basic; it was a ‘you’ll do as you’re told’ type of thing”*

### Confusion about what the changes are

Customers who use 100-160 MWh per year were also angry, however their main reaction was confusion. These customers are less likely than the high demand customers to have a good understanding of their bills and the different components contributing to the price of electricity. They are typically not as familiar with the role of Essential Energy versus their retailer, and do not understand what tariffs are or how they work. These customers (as well as some high demand customers) do not fully understand the information provided in the letter informing them of the tariff changes, either in terms of what the changes mean and what the new tariffs are, or what actions they are expected to take as a result. This added to customers’ feelings of frustration and a lack of control, as they felt decisions were being made which they did not understand, but that they needed to understand in order to be able to manage the situation for their organisation.

*“Is it non-negotiable? Tell us why. Are there options or opportunities to challenge it?”*

*“[The letter] is deliberately confusing, like a letter from Telstra or the bank”*

While knowledge of Essential Energy and its role varied, there was almost no awareness of the AEMC and its role.

### Questions about the fairness of the changes

There is widespread scepticism about the reasons for tariff change and it being revenue and profit neutral for Essential Energy. This scepticism tends to increase among high demand users who reject the underlying facts behind the tariff change, and some perceive it as a means of boosting Essential Energy funds prior to privatisation.

*“This is not the customer’s fault, it’s their fault, and they should pay for it out of their profits... It is a rubbish argument”*

There is no understanding that some customers may have previously been subsidising other customers, and when this was explained, there is confusion about how this could have been allowed and why they were not informed sooner if they were on the wrong tariff. This also led some to question why only a limited number of businesses are being affected by the tariff changes, thinking that there should be more businesses like theirs that this applied to. Customers asked to be shown how the changes are equitable, using maps for example to show which customers are affected and how.

Higher demand users tended to reject the idea that historically they may have been subsidised by medium or low users. These customers argued that there should be an ‘economy of scale’, holding firm to the idea that it is a market norm that the more you buy, the less you pay ‘per unit’.

*“This is just power companies playing God.”*

Customers do not accept that the increases are necessary to pay for network infrastructure. They view the tariff changes in the context of sharp increases in their energy bills over recent years, and feel that these increases should already cover network upgrades.

*“What is the \$ figure they need to reach, is this in perpetuity? How much revenue do they need to recover?”*

The demand tariff was viewed as being unfair and (among those who knew the cost implications) unreasonably punitive to high demand customers. There is little understanding or acceptance of the need for a demand tariff. There was a suggestion that Essential Energy should do more to manage demand rather than simply charging customers more, such as battery storage. Further to this, the way in which the tariff is applied (being based on peak use over a month, no matter how long the peak use lasted for) was perceived as particularly unforgiving.

*“What about hospitals and aged care facilities? And schools? There is absolutely nothing they can do about it, and they will be penalised for running business as usual”*

*“The demand tariff is daylight robbery.”*

*“The demand tariff is a positive disincentive to do anything else [to reduce usage] all month, if you’re paying for it anyway after having one spike”*

*“Essential Energy need to view us in a different light. We’re different to private enterprise. Unlike a business, we try to make a lot of stuff as cost neutral as possible.”*

*“There needs to be recognition that increased tariffs do not allow greater value for the product. There needs to be a tariff arrangement that recognises this.”*

## 3.2 Issues and concerns of customers

### Financial impact

The primary concern of customers was the financial impact of the tariff change on their organisation. This was the case among customers in all sectors and organisations of all sizes.



#### Inability to pass costs onto customers

Most organisations facing a tariff change will not be able to pass on increased costs. This is especially applicable to those in industries such as agriculture, where a market price is set for the goods that they produce. Others will not be able to increase prices without making their business uncompetitive.

In addition, some businesses are locked into fixed contracts for several years that determine the price of their goods and will not be able to renegotiate these contracts before July 2017. This is also the case for franchises, where prices are dictated by head office. Councils and not-for-profit organisations will not be able to raise their revenue by July 2017, and have limited ways to do so, with Council rate increases only permitted every so often and by so much.

Some businesses thought they may be able to increase prices, but doing so may mean losing customers and the flow-on impact of this on their business.

*“We’re going to have to pass on costs to parents. That means fewer extracurricular activities, and parents won’t be able to afford lessons.”*

*“Farmers are at the bottom of the pile; we have no one to pass costs onto. We are at the mercy of the market for everything. Our options: turn off bores and let crops die”*

*“Farmers are price-takers, not price-givers”*

*“We can’t pass on costs. In the marketplace, most organisations are establishing export businesses. And for consumers, wine is getting cheaper and cheaper.”*



### Costs associated with changing meters

Customers expressed frustration about having to pay for meters in addition to their bills increasing so significantly. This is particularly frustrating for organisations that had recently purchased a new meter that now needs to be replaced.

There was widespread lack of understanding of the requirements for changing meters or the reasons behind needing to do so. In addition, customers are not generally aware of the cost of new meters (including installation and maintenance costs). Detailed customer feedback relating to changing meters is discussed further later in this section.



### Costs associated with energy efficiency measures

There is considerable interest among most businesses for an energy audit, however there is some hesitation among smaller businesses in particular who are concerned about the cost of this to them. The customers most likely to have had energy audits in the past were high demand customers and Councils. These customers felt they were already doing everything they could and had no scope to further change their consumption patterns.

Many customers said that they would want a guarantee that the price of an audit would be covered by the savings made by the efficiency measures recommended. If there was a cost incurred by the business, a subsidy from Essential Energy would be important.

There was some concern that the confusion and worry about the tariff changes that customers were experiencing, would provide an opportunity for ‘cowboy’ consultants to take advantage of their situation by conducting expensive energy audits which promised effective energy efficiency measures, but which did not offer realistic solutions or result in real savings. These kinds of operators were thought to be fairly prevalent, and combined with the lack of understanding of many customers about energy use and efficiency, lead some to worry about how customers would be able to find reputable energy consultants.



### Increased costs may result in staff reductions and other cost cutting

In order to meet the increased costs resulting from the tariff change, customers said they may have to cut staff hours and reduce staff numbers. Others will have to reallocate budgets intended for other things.

Councils said the only way they can meet the increased costs is to cut services, and not-for-profit organisations are facing the prospect of operating at a deficit. The not-for-profit sector described how this not only impacted their bottom line, but also their relationship with their clients and the long term reputation of their organisation, as they will be judged negatively for operating at a deficit.

Customers were unable to be specific about the ensuing impacts of the increased costs due to not currently being able to determine exactly what the financial impact will be.

## Communication and engagement



### Difficulty understanding the detail and financial impact of the change

Customers lack understanding of the changes, why they are happening, what they mean for their organisation, and whether Essential Energy will be offering any support. Customers' specific information requirements are detailed in section 4.1.

Customers expressed a strong desire to be told exactly how much the increased costs will be for their organisation, and found that they are unable to make any plans (or know if they even need to make plans, given the increase for them could be minimal) to mitigate the impacts of the changes until they know the specific financial impact.

In addition to finding the content of the information to date to be lacking, customers do not understand the information that has been provided. They find it confusing, overly technical, and lacking in clarity about what will happen and the actions required by them.

*"It's like we have a truck coming towards us, we know it's happening but we don't know how it's going to impact us"*

*"It's a forced shift, with forced costs impacts, in unknown quantities. How can we possibly know what to do about it?"*

*"The letter doesn't properly explain the cost implications of moving to the demand tariff. We need information on the typical impact of the demand-based tariff."*

*"We just need clarity around changes and how they translate into costs. I'm not expecting more than that."*

*"We need an email or letter, outlining what the increases are, how much they'll be."*



### The letter is insufficient to communicate the changes

Communicating the changes via letter alone is seen by customers as inappropriate and insufficient. Some customers did not recall the letter and confused it with letters from their retailer. Others remember seeing it but disregarded it as they did not understand it and did not see any actions required on their part. Those who had read the letter and understood that tariff changes are happening have further information requirements and areas of clarification which they feel cannot be met, given all they have was a letter. There is further dissatisfaction that the letter did not provide a contact telephone number. Some have had the letter explained to them by energy efficiency consultants.

*"The letter is very alarming, and with no real solution there. It just tells us we'll have increased expenses but we don't know how much. This has been very poorly done."*

*"The letter just leaves people in a black hole."*

*"[The letter] doesn't explain how the demand charge is derived. There are not enough actions people can take. Not enough on how it might impact on business."*

Some customers have received a letter in relation to one or some of their sites, but not all of them. It is not clear to them whether this means that the remaining sites will not be subject to the tariff change, or whether they have just not received letters for these yet. Some said that they cannot work out which account(s) the letter is referring to, out of the hundreds which the organisation has with Essential Energy. Customers often do not understand the use of the NMI number quoted on the letter and what this refers to. Those who have multiple sites found it irritating that they had to look up the NMI to see which sites the letter applied to, and requested that the letter refer to the site by address as well as NMI.

The nature of communication to date about the changes is seen as "disrespectful" to customers, given the magnitude of the changes for some organisations, and the size of some of the high demand customers in terms of how much energy they use. These customers feel that they at least deserved a telephone call and a two-way conversation with Essential Energy about the changes, with the opportunity to seek clarification

and receive tailored advice. This is exacerbated when they receive standard non-personalised responses to their letters or emails to Essential Energy.

*“A \$20,000 a year customer deserves more respect than a 50 cent letter.”*

*“This consultation should’ve happened before sending the letter...or the letter should’ve explained the consultation process better to soften it, saying that Essential Energy do want to engage with stakeholders and aren’t just dumping this on us”*

*“They need to talk to us. As a very large customer with eleven sites, we expect a face to face meeting”*

*“Want to talk to someone who truly understands the changes, not a glossy salesperson”*



### Industry associations also need to know more about the extent of the impacts

As with individual customers, industry associations feel they lack the information needed to be able to consult with their members or take further action. They would like to know the actual cost increases for their member organisations so that they can better understand and prepare for the likely impacts of the changes on their sector.

*“We can’t answer questions until we have the information.”*

## Meter issues



### Unclear about what is required and who is responsible for meter changes

There is widespread confusion relating to the requirement to change meters and the action customers need to take. There is little understanding of why meters need to change and what the process is to obtain a new meter. Questions were raised about what the consequences would be if they don’t change meters in time.

The role of the retailers in the process of changing meters is not clear to customers. Many customers do not understand that the retailer is responsible for providing them with their new meter, and it is likely that many customers will contact Essential Energy to obtain a new meter.

Customers with solar pointed out that solar customers are also having to change meters in preparation for the ending of the solar bonus scheme (on 31 December), which has the potential to lead to confusion and be an additional burden on customers.

*“It would be good to spell out what is needed”*



### Uncertain about costs associated with new meters

There is low awareness of the cost of new meters, including installation and maintenance costs. There were questions raised about who pays for the meter upgrade if there are complications incurring additional expenses (such as asbestos boards behind meters), with a view that it should not be the customer’s responsibility given that it is being mandated with no alternative options. There is also concern among customers who have a large number of sites (and meters) and how they would meet the cost of replacing so many meters at once.

Only a minority had contacted their retailer and started the process, but most customers realise it would require effort from their end to familiarise themselves with the requirements and costs. Some have received quotes from their retailers and these vary wildly, with some retailers quoting up to \$20 per day maintenance charge. There is a view that retailers are taking advantage of the situation and many customers will be vulnerable to this given the lack of knowledge about how much the charges should be.

*“[Retailers are] unethical opportunists supplying overpriced metering agreements, which are costing businesses thousands. Customers are being left very exposed.”*

## Role of the retailer



### Unclear how retailers will be involved

Customers do not see the retailers needing to play a significant role in the process (other than in the provision of meters).

There is some concern that having both the network provider and retailer providing information to customers may lead to confusion and inconsistent messaging. It is viewed as Essential Energy's role to ensure the tariff changes are sufficiently explained to customers. There is, however, recognition that most customers have a relationship with their retailer but not Essential Energy; therefore, retailers are seen as playing a role in helping customers understand who Essential Energy is and its role versus the retailer's role.

## Energy use and efficiency



### Most industries have little scope to change energy use patterns

The predominant view among customers in relation to changing patterns of energy use is that they are unable to adapt any further than they already have. Those moving to a time of use tariff generally do not think they could change the times that they use energy. For example, services such as schools, hospitals, and retirement villages need to be able to serve their students, patients and residents during certain hours (for example, at meal times) and are not able to change this. Adapting to time of use may also require businesses to roster staff at different hours to operate machinery, and such a change may not be possible, with staff not able to work at such times.

*"We can't control when people use energy. We can't tell them not to flush their toilet or just switch off the street lights."*

*"In aged care, we will still need to shower residents daily, feed them their meals at set times, these things won't change."*

*"At the end of the day, if the crop needs water, it needs water... there is not a lot of ability to change patterns due to other factors... we're pretty much stuck in this position."*

*"We need to use a lot of energy for short periods. We need to turn on the CT, MRI, Ultrasound. This creates high peak. And we need energy pricing to be appropriate to that. They need to take that into consideration."*

*"It is not possible to change the time of use in agriculture...when a crop needs water, it needs water."*

Customers moving to a demand tariff described an inability to even out their peak usage, again due to the requirements of their business. For example, in agriculture, needing to use all of their pumps simultaneously in certain situations.



### Concern that reductions in energy use will not be recognised for 12 months

Those customers who have a reasonably good understanding of the tariff changes are concerned that they may invest significantly or make changes to their energy use before the tariff change, but that this may not be recognised by Essential Energy and applied to their tariff for another year. These customers want their tariffs to be reviewed again in advance of July 2017, and more regularly than once yearly thereafter (especially important for those with seasonal usage patterns). This is particularly relevant to customers whose use is around the threshold for each tariff (i.e. 100MWh or 160MWh), as they may be able to avoid a tariff change altogether.

## Solar power



### Those with solar were unaware of tariff changes when they made the investment

Customers who had installed solar power did so on the expectation that tariffs would remain as they were, and their business case and payback period was based on these tariffs. These customers feel that their decision to install solar power may have been different, had they known about the tariff changes. There was a perception that their business case for solar would be weaker after the tariff change. There may be some confusion among customers between this tariff change and the ending of the solar bonus scheme (on 31 December 2016).

Customers with solar power generally feel annoyed that the assumptions used in their business case for solar are now out of date. They want to know how long the new tariffs will apply for and feel the regulator should provide market certainty. Feedback from energy efficiency consultants was that they are finding it difficult to advise their customers when there is no certainty being provided.

*“Moving goal posts all the time.”*



### Solar is now more attractive for some, but impossible for others

Many customers are exploring alternative energy sources, including solar and diesel. Farmers who moved away from diesel generation many years ago are now considering a return, given the continuing and significant increases to electricity prices.

Without a battery solution for solar power, some businesses would not be able to use solar to mitigate the increased costs of their new tariff. This applies to irrigators who need to pump overnight, as well as services with peak use at the night time, such as hospitality.

Those without solar, but who are now considering it, also want some certainty about how long the new tariffs will apply before more changes. This is particularly important for those considering installing solar power to reduce their usage to below 160MWh per year to avoid the demand tariff, who questioned whether the demand tariff will soon also apply to 100MWh per year customers.

*“The outlay [for solar] is \$60,000-100,000. It’s not a cheap expense. The time to recoup is four and a half to five years. What if we leave the premises, if we decide to move? We leave that behind.”*

## Timing of the changes



### Concern that 1 July 2017 is not enough notice to prepare for the changes

Some customers are satisfied with the notice period provided. Others felt unsure at this stage whether it is an adequate notice period or not, as it depends on the financial impact of the change (which was unknown).

There is significant concern among many customers that the notice period is too short, and questions were raised about why they were being informed so late. Customers feel that they have a lot to learn to understand the changes, predict the likely impacts, and make plans to manage the cost increased, within a very short timeframe. The timeframe is particularly problematic for Councils and not-for-profit organisations, due to long term planning and funding cycles. Council customers are unable to make significant changes within the same financial year, and any capital expenditure takes more than 12 months to plan. Others who are investigating what they can do to mitigate the impacts of the tariff change, such as staff cuts, power factor correction, or investment in solar, require more time than this to make these changes.

# 4 Strategies developed by customers

As part of the customer consultation, customers developed plans and strategies that they would like Essential Energy to consider in the implementation of the changes. The ideas put forward were seen to potentially help mitigate the impacts of the tariff changes on their organisations and industries. It was made clear to customers during the consultation that the tariff changes are a certainty and are non-negotiable, but that Essential Energy wanted to collaborate with customers in the development of ways to best implement the changes.

Broad plans were developed with the Customer Advisory Committee during their first workshop. Feedback on these plans was sought during the customer consultation workshops and more detail was provided by customers about how each strategy may or may not help their organisation and industry. This feedback led to the refinement of the strategies with the Customer Advisory Committee during their second workshop.

Each strategy for implementation developed by customers is detailed in this section.

## 4.1 More information and better engagement

Customers made it clear that they need further information from Essential Energy about the tariff change, and that Essential Energy's engagement with customers to date has been insufficient. The key areas of concern relating to the communication of the changes are:

- Difficulty understanding the detail and financial impact of the change
- The letter is insufficient to communicate the changes
- Industry associations also need to know more about the extent of the impacts.

The activities requested by customers to address these concerns involve Essential Energy engaging in a more personalised and meaningful way with customers going through the tariff change, and providing more specific, detailed information about the changes. Specifically, customers want:

**Follow up phone calls:** This will serve to provide customers with the opportunity for a two-way conversation with Essential Energy. Phone calls to affected customers (or even better, face-to-face meetings) are seen to be more respectful than letters, and more appropriate given the magnitude of the change for some organisations. Customers want the opportunity to work with Essential Energy to manage the changes, rather than being informed of them without any further discussion.

It is important to customers that this individual communication is with a member of staff who is knowledgeable about the tariff changes and understands the technical aspects of it.

**Additional written communication:** This was seen as important, given that many customers may not have read or understood the first letter. Customers requested that the second letter (or email) include a Frequently Asked Questions document or information pack. The content of this should consider the specific information required by customers, which is detailed later in this section.

Any further written communication to customers needs to be clear and non-technical, assuming no prior knowledge of electricity distribution or tariffs, and in plain English.

**Tailored, specific advice:** Information and advice to customers needs to be tailored to their particular circumstances. This needs to include the specific financial impact to their organisation, as well as advice which considers the size and activities of their business.

It was suggested that Account Managers should be assigned to each customer during the tariff change period. The Account Managers would be customers' first point of contact to answer any specific questions about the tariff changes. Account Managers could also help customers investigate any irregular spikes in energy consumption and provide strategies to businesses to reduce these spikes. Account Managers would have access to customers' historical data and be able to offer tailored solutions based on their circumstances. Ideally, this account manager would have a high level of understanding of the customer's

industry and how they are required to use energy as a result of this. However, Essential Energy discussed this option at length with Customer Advisory Committee members, who agreed that individual Account Managers would be resource intensive, and a Specialist Support Team could provide similar and adequate support to customers.

**Online information, including a tariff calculator:** More information to be made available on the Essential Energy website, including a tariff calculator to be able to predict the anticipated expenditure with the new tariffs in comparison with the current.

**Historical consumption data:** Energy usage data to be provided to enable customers to understand their consumption patterns and being to make plans to minimise their energy bills. There were concerns about how readable and useful this data would be to those unfamiliar with it or lacking in time, so customers requested that this be provided in the easiest to read format possible.

**Information to industry associations about the impacts on their members:** Industry associations want to understand the impacts to the industries they represent. They are interested in receiving data in relation to each of their member organisations, so that they can understand the way in which tariffs are allocated and the likely financial impacts, and support their members accordingly.

## Specific information required by customers

Customers specifically requested more information about the following aspects of the tariff changes, and emphasised the importance of it being provided as soon as possible:

- **Context and rationale for tariff change**
  - Clear reasons for the changes, and an explanation of how the changes are fair (particularly important for public sector and not-for-profit organisations)
- **What the tariffs are and how they work**
  - Explanation of the tariffs including the codes used (e.g. BLNT3AU) and the 'alternative demand tariffs' referred to in the letter to customers.
- **Financial impacts**
  - Customers need to know the dollar value of the impact to their organisation, without which they feel unable to make plans.
  - Clarity about which sites the tariff change applies to, with more than an NMI to indicate this.
- **Past energy usage**
  - In a format which is accessible to non-experts, with graphical representations.
  - Preferably available without having to go through their retailer.
- **How reduced use will be recognised**
  - Is it worth making changes before July 2017 to try and avoid the tariff change, or will it make no difference?
- **Metering information**
  - How should the meter change be done, what does the customer need to do?
  - What is the existing meter, and what type of meter is required?
  - If the organisation has multiple meters, which need to change?
  - Who is responsible for paying for the new meters?
  - Guidance around how much customers should expect to pay for meter installation and maintenance.

- Advice regarding customers' right to shop around among retailers.
- **Role of the retailer**
  - Clarity about their role versus Essential Energy's role, in general and in relation to tariff change and new meters.
- **Information in plain English, that assumes no technical knowledge**
  - Customers generally find information from energy companies confusing and technical, and most lack the background knowledge of the industry to understand it. All information needs to be in plain English, and not assume any prior knowledge about energy distribution, tariffs or Essential Energy.

## 4.2 Collaborate with retailers

It is unclear to customers precisely what the role of retailers ought to be in the tariff change process, but there is a view that retailers can and should play a role in educating customers about the changes. However, customers are concerned about inconsistent information and messaging from retailers and Essential Energy. To address this issue, customers suggested that Essential Energy:

**Work with retailers to provide consistent information about the changes:** There is a lack of understanding among customers about the different roles of Essential Energy and retailers, and many customers have already contacted (and will continue to contact) their retailer about the changes. Given that customers have a relationship with their retailer but not Essential Energy (in most cases), there is a call from customers that Essential Energy work with retailers to ensure that retailers are well informed about the changes, and that the information and advice provided to customers is consistent. Customers suggested that information about the changes could also be provided to customers with their bill from their retailer, as this is more likely to capture the attention of customers who have otherwise ignored the letter from Essential Energy.

**Help ensure retailers provide a reliable and consistent service in relation to changing meters:** In order to provide clarity about the process of changing meters, customers want Essential Energy to request that retailers also contact customers about the process of meter change. Customers also want Essential Energy to play a role in ensuring that retailers provide fair and consistent pricing for new meters.

## 4.3 Provide support for energy efficiency advice

Customers want tailored, specific, and actionable recommendations of ways to reduce their energy use. This is especially important for smaller customers who have not had energy audits in the past and have limited resources for energy audits. Customers see Essential Energy playing a key role in supporting them to access energy efficiency advice. To provide this support, customers want Essential Energy to:

**Subsidise energy audits and power factor corrections:** Customers are not willing to spend money on energy audits unless they pay back through the efficiency measures taken. A subsidised energy audit will allow customers who would not otherwise pay for one to get this done. It is seen as being in Essential Energy's interests to improve energy efficiency among its customers, and in light of the tariff changes, also its responsibility to help enable organisations become more efficient.

**Recommend good value energy consultants to customers:** There is concern among customers about poor quality energy efficiency consultants charging large sums for inadequate advice that does not pay off in reduced bills. Customers would like Essential Energy to provide a list of consultants that it recommends, to help ensure that customers get good value for money. This could either be developed by Essential Energy, or Essential Energy could direct customers to an existing list (e.g. one already developed by the Office of Environment and Heritage).

## 4.4 Alternative tariffs

Customers perceive the tariff change, and the demand tariff in particular, as extremely unfair. The equity of the tariff change is particularly difficult to accept among sectors who cannot pass costs on to their customers or service users. In order to improve the equity of the tariff change, customers suggested that Essential Energy introduce:

**Industry specific tariffs:** There is strong support for reduced rates and specifically tailored tariffs for sectors that have little or no flexibility in their energy usage patterns and cannot pass the additional costs onto their customers or service users, such as agriculture (e.g. food and fibre tariff), government, and the not-for-profit sector. It is viewed by the agricultural industry as unreasonable that they should be put under increased financial pressure, given the importance of the food and fibre industry. These customers have inflexible usage patterns and increasing demand for power (due to rising temperatures in rural NSW), so a tailored approach for this industry is viewed as extremely important.

There is concern among some that this is unfair and 'playing favourites'. If other customers have to subsidise industry specific tariffs, then it defeats the objective of changing tariffs for improved equity across Essential Energy's customers.

**Additional tariffs with smaller ranges:** Customers feel that the gap between 100MWh and 160MWh per year is too large, and that additional tariff brackets should be added within this range. It is thought that this would encourage those at the higher end of the 100-160MWh per year bracket to lower their consumption so that they could move onto a different tariff.

Customers also believe that 160MWh is too low for the demand tariff to be applied, and that it is unfair for customers using 160MWh per year to be on the same tariff as customers using 1GWh per year.

Customers suggested an alternative to the demand tariff for customers who use 160MWh-400MWh per year, with the current demand tariff only being applied to very high demand customers using 400MWh per year or more.

**A demand tariff triggered by the average of multiple peaks:** Customers are concerned about the demand tariff being applied for the entire month based on a single peak. These concerns relate to peaks caused by unexpected situations, after blackouts, and where the nature of a business's operations mean certain times throughout the year when they use far more energy than usual in a very short period. Customers suggested that the demand tariff trigger could be based on an average of a number of peaks in demand to better reflect the load that business placed on the system over the month.

A demand tariff triggered by multiple peaks would only benefit those organisations who have clear peaks followed by sharp drops in demand, rather than those who have peaks with longer duration.

**Review process for peaks in demand:** Customers requested that there be an opportunity for certain peaks in usage to be reviewed by Essential Energy, and the application of the demand tariff reversed if deemed appropriate. For example, if a peak had followed a blackout or was caused by another anomaly, customers would like the opportunity to apply for demand charges to be removed.

**Warnings prior to peaks in demand:** There was support for an alert to be provided to customers who were about to reach a peak in demand, so that they could try and avoid the higher charges, rather than realising when their bill arrives.

## 4.5 Transitional tariffs

There is significant concern among some customers that the notice period for the tariff changes is too short.

The timeframe is particularly problematic for Councils and not-for-profit organisations that have long term planning and funding cycles. Customers who are investigating the value of making significant changes, such as investment in solar, require more time than this to make these changes.

**Transitional tariffs over a 3-5 year period** are popular with customers. The transitional time period will allow businesses more time to understand and plan for the change, and take measures to reduce their

bills. Customers suggested that the length of transition to the new tariffs could be tailored according to the impact on the particular customer, for example based on the financial impact on the business. Those who are in the payback period for solar power suggested that the transition should last as long as the payback period, given that their business case for solar was based upon current tariffs. Customers in the health sector commented on upcoming changes to bulk billing that will impact their bottom line. They suggested that delays to the tariff changes, at least for their industry, would allow them to avoid being hit with additional costs at a time when they are already having to implement changes to meet increased operating costs.

There was a suggestion that customers should use smart meters for a year before having any tariff changes applied, so that they can understand their use, determine the impact of the change, and take necessary measures to mitigate the impacts in advance of the tariff change.

## 4.6 Frequent reassessment of customers' tariffs

Customers are concerned that changes in energy use will not be recognised and reflected in their new tariff. Customers suggested that Essential Energy should:

**Review tariffs again in advance of July 2017:** Customers are concerned that any investments and changes they make to their energy use before the tariff change may not be recognised by Essential Energy and applied to their tariff for another year. If there is any chance of them reducing their usage enough to avoid a tariff change (e.g. if their annual usage is close to the 100MWh or 160MWh threshold), they want their tariff reviewed before July 2017 so that this is recognised by Essential Energy.

**Review tariffs more than once yearly after July 2017:** It is especially important for those with seasonal usage patterns (such as farmers) that tariffs are reviewed more frequently than once a year, for example every quarter. These customers feel that they are penalised all year for high demand during one season. Customers who can potentially make changes to significantly reduce their usage also want a more frequent reassessment of their tariff, so that they do not have to wait a year until their reduction in usage is recognised.

# 5 Concluding comments

## The tariff changes come in the context of increased financial pressure

Customers' reactions to the changes and the communication of the changes should be seen in the context of rising energy bills, which for many customers have impacted their bottom line and the viability of their business. In addition to this, many have had negative experiences with their retailer (and/or Essential Energy) which all contribute to very negative perceptions of the energy distribution and retail industries.

## Customers lack understanding of energy distribution and their own energy use

The tariff changes are difficult for customers to understand. The context and rationale of the changes is complicated and difficult to comprehend without background knowledge and understanding of energy distribution. Customers do not typically have a good understanding of tariffs, the roles of distributors versus retailers, and meters. In addition, customers lack understanding of their own energy use and bills, and the different charges applied to their bill and what is driving these. Customer education is critical to improved energy efficiency and reduced bills, and energy efficiency audits can play a role in this.

## Communication is key

Communication and customer engagement around the tariff change is key. Together with the magnitude of the financial impact, the main source of customer dissatisfaction and strength of feeling about the changes relates to the way the changes have been communicated to them. Customers need more specific information about the impacts of the changes on their organisation. Customers want this information provided to them in multiple ways (including via two-way conversations with Essential Energy as well as by letter, email and online sources), and they want it as soon as possible.