

Policy and Regulatory Working Group

Meeting record – 16 August 2022

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Contents

1. Workshop objective	3
2. Agenda.....	3
3. Introduction	3
4. The role of the AER in price setting	3
5. Standard control services	4
6. Engaging with our customers	6
7. Marinus Link	7
8. Alternative control services	8
9. Summary of actions	11

Policy and Regulatory Working Group Minutes

On Tuesday 16 August 2022, TasNetworks convened a meeting of its Policy and Regulatory Working Group (PRWG). The purpose of the forum was to conclude discussions of the new network tariffs for embedded network operators and residential customers with distributed energy resources (DER) being proposed for the 2024-29 regulatory period, test proposed improvements in the way TasNetworks prices quoted services and seek PRWG advice about the topics of importance to customers in relation to network tariff reform. The PRWG was also provided with a briefing about the proposed Marinus Link undersea interconnector.

In addition to members of the PRWG, officers from the Australian Energy Regulator (AER) attended the meeting as guest presenters and in an observational capacity, along with officers from Renewables, Climate and Future Industries Tasmania (ReCFIT). This document summarises the discussions that occurred as part of the PRWG's meeting. It is not a verbatim record but a summary of the information provided to the PRWG by TasNetworks and the issues raised by forum attendees.

Date: Tuesday 16 April 2022, 10:15am to 12:30pm.

Venue: TasNetworks Offices, Lenah Valley, Tasmania.

TasNetworks Representatives: Chantal Hopwood (Leader Regulation); Julie Morrison (Specialist Regulatory and Network Analytics); Jochen Reitz (Senior Regulatory and Network Analyst), Kirsty Palmer (Pricing Analyst, Revenue & Economic Regulation), Scott Lancaster (Senior Regulatory Analyst); Prateek Beri (Economic & Pricing Lead, Marinus Link) - part.

Attendees: Charles Scarafiotti (Nekon Pty Ltd); Corina Woolford (Aurora Energy); Helen Gilmore (Hydro Tasmania); Kenny Tran (Australian Energy Regulator); Lisa Free (Council of the Ageing Tasmania); Lynden Pennicott (Department of Communities Tasmania); Rob Mallett (Tasmanian Small Business Council); Stephen Durney (Tasmanian Council of Social Service); Sharon Raymond (ReCFIT); Sue Morrison (ReCFIT); Bethanie Adams – part. (AER).

Apologies: Brittany van Dijk (Tasmanian Farmers and Graziers Association); Chris Ferguson (Department of Education); Georgia Palmer (Local Government Association of Tasmania); Jack Gilding (Tasmanian Renewable Energy Alliance); Marc White (Goanna Energy); Mark White (University of Tasmania); Michael Bailey (Tasmania Chamber of Commerce and Industry); Penny Cocker (Australian Electric Vehicle Association); Sue Leitch (Council on the Aging Tasmania); Tom Kelleher (Aurora Energy).

1. Workshop objective

The workshop's objectives were:

- provide PRWG members with an understanding of the AER's role in the setting of distribution network prices;
- seek PRWG guidance about the topics of importance to customers in the coming regulatory control period (2024-29) relating to network pricing;
- explain the demand threshold proposed for the revised residential DER network tariff;
- test proposed improvements to the way TasNetworks prices quoted services; and
- Inform PRWG members about the Marinus Link undersea interconnector.

2. Agenda

The presentation slide pack and additional reading has been attached for information.

3. Introduction

Speaker: Chantal Hopwood, Leader Regulation

- Participants introduced themselves and Ms Hopwood presented the objectives and agenda of the workshop.
- Ms Hopwood thanked the group for their participation and feedback to date, and acknowledged how the group's contributions have influenced the development of TasNetworks' tariff reform plans and pricing strategy.

4. The role of the AER in price setting

Speaker: Kenny Tran, Australian Energy Regulator

- The PRWG were presented with an overview of the AER's role in the regulation of network pricing, the benefits of network tariff reform and of cost reflective network pricing.
- In response to questions about the urgency of introducing export charges in Tasmania, given the State's different load profile, lower take-up of photovoltaic solar panels and lower solar yields, it was acknowledged by TasNetworks that Tasmania is not yet facing the imbalance during the middle of the day between renewable energy production and the demand for electricity that is being experienced in other states and territories, which lessens the impetus for the introduction of export charges.
- It was explained by Mr Tran that when export pricing is eventually introduced for customers with their own generation that the reason for its introduction is not to increase the revenue of distribution networks' like TasNetworks, but to change the split between customers of networks' revenue recovery.
- In response to questions about the interaction between State Government policy and the AER's regulatory determinations, it was explained by Mr Tran that the network revenues set by the AER are an input cost of retail electricity prices. The Tasmanian Economic Regulator is

effectively setting the retail price of electricity, of which network charges are but one component.

5. Standard control services

Speaker: Julie Morrison, Specialist Regulatory and Network Analytics

- The PRWG was provided with a summary of the issues previously considered by the PRWG in the lead-up to TasNetworks Reset '24.

Residential DER network tariff

- In the current regulatory control period TasNetworks has been offering a demand based network tariff for residential customers, which was designed for customers with distributed energy resources (**DER**) but has not been taken up by retailers, meaning customers have not been able to opt-in to the tariff. Retailers have passed-over the network tariff because of it being demand based, something which is not considered to be well understood by customers.
- This has been the impetus behind TasNetworks' collaboration with the PRWG to redesign the tariff, and has led to the development of features such as the extended evening peak period and the super off-peak period overnight.
- While the PRWG has previously indicated its support of the revised tariff structure and the use of a demand threshold to send a price signal that discourages electricity use which creates new network peaks in the future, the level of that threshold is yet to be determined.
- TasNetworks is proposing an anytime demand threshold of 8.5kW to apply to residential customers assigned to the residential DER network tariff in the coming 2024-29 regulatory control period.
- TasNetworks shared the analysis which has informed the value being proposed for the demand threshold.
- It was noted that 90 per cent of residential customers currently have an anytime maximum demand (**ATMD**) of 8.5kW or less and that 50 per cent of residential customers have a maximum demand overnight (between the hours of 12 and 4am) of 1.0kW or less, while 70 per cent have maximum demand during the same period of 1.5kW or less.
- For those customers, over the course of the 4-hour super off peak period an ATMD threshold of 8.5kW should enable customers to charge household batteries, ready for the morning peak period, or add enough charge to an electric vehicle to cater for a range of typical daily commutes and travel, without exceeding the demand threshold.
- Members of the PRWG were keen to understand how maximum demand is measured/calculated. It was explained that the measurement of maximum demand is based on average demand over 30 minute intervals. The advanced meters in use in Tasmania record usage (i.e. consumption) over 30 minute intervals, which is then converted into a demand figure for that interval. The meter doesn't constantly record instantaneous demand.
- Another line of questioning from members related to the use of a demand threshold in what is still primarily a consumption based network tariff, particularly given the lack of customer familiarity with the concept of demand. It was explained that using demand was easier as a means of placing a threshold on the tariff as it measures the rate, rather than how much is used.

- Another question related to the sample size used by TasNetworks in its analysis of minimum and maximum demand amongst residential customers. There was no sampling used, as such, in that load data for every residential customer with an advanced meter was included in the analysis (noting that approximately 40 per cent of residential customers currently have advanced meters). The reference to sample size in the pre-reading pack provided to members of the PRWG related to the survey of customers with DER.
- A member of the PRWG asked whether customers will be able to understand the tariff. It was noted by TasNetworks that the tariff is to be made available on an opt-in basis, targeting prosumers, who tend to be more heavily engaged in managing their energy use and interested in the technology to do so, and are likely to be more able to understand the different elements of the proposed network tariff. Mr Tran from the AER also noted that there are two elements to the pricing principle regarding to consumer understanding of network tariffs¹, which could be summarised as the requirement that customers be able to understand a network tariff and/or a retailer is able to incorporate the network tariff into their retail offering.
- Noting that the explanations provided about the setting of the demand threshold for the residential DER tariff included an obvious focus on customers looking to charge electric vehicles, another member of the PRWG questioned whether the demands that customers with electric vehicles are likely to make on the network have overtaken 'conventional' consumers in the thinking behind tariff design, as demonstrated by the extension of the evening peak period applying to customers on the residential DER network tariff.
- It was noted by TasNetworks that the tariff being discussed is designed with prosumers in mind, so not the wider residential customer base, most of whom are likely to be assigned in the future to a consumption based Time of Use network tariff which has an evening peak period that concludes an hour earlier at 9pm. The proposed tariff for residential customers with DER also includes the super off-peak period to encourage charging of batteries (including EV batteries) between midnight and 4am, which other network tariffs do not. So, while there is a strong emphasis in relation to this particular tariff on EV charging, that focus is considered appropriate given that customers with EVs are considered more likely to choose to be assigned to this tariff.
- A member of the PRWG asked whether the residential DER network tariff might ever become a default tariff, rather than an opt-in alternative to the default tariff. TasNetworks advised that the network tariff may evolve further to include, for example, an export tariff component in future years (informed by the trials to be conducted in the coming 2024-29 regulatory control period). But its role in future regulatory periods is likely to remain as an opt-in network tariff.

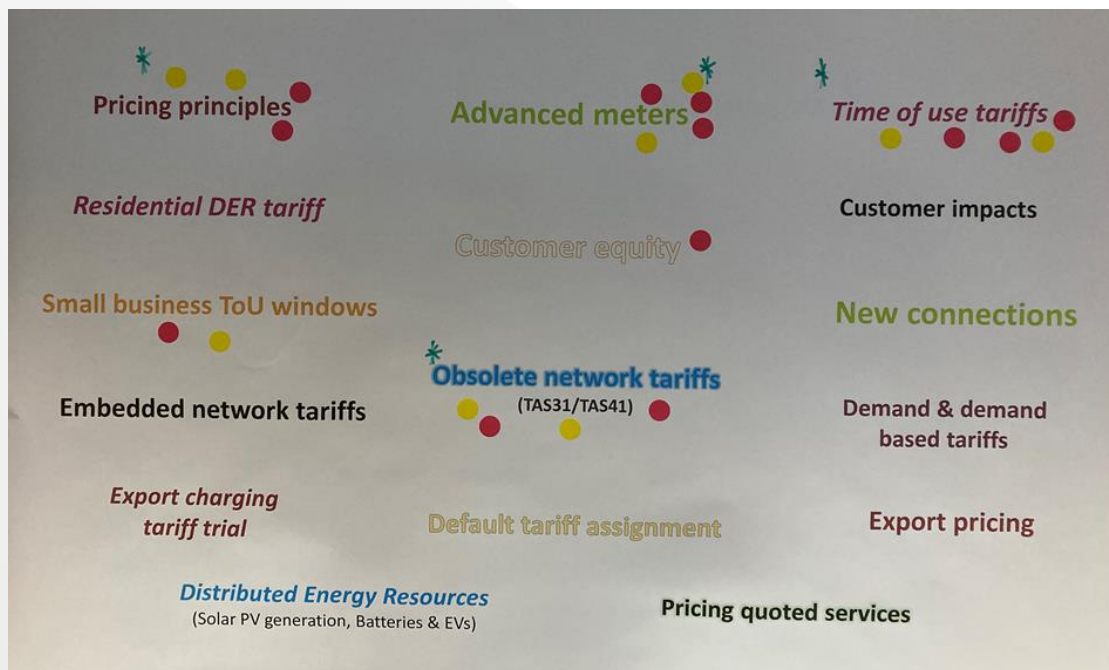
¹ Clause 6.18.5(i) of the National Electricity Rules requires that the structure of a tariff must be reasonably capable of being understood by retail customers that are, or may be, assigned to that tariff, or of being directly or indirectly incorporated by retailers or Market Small Generation Aggregators in the contract terms offered to those customers.

6. Engaging with our customers

Facilitator: Julie Morrison, Specialist Regulatory and Network Analytics

- PRWG members were provided with a recap of the range of issues considered by the PRWG as part of TasNetworks' efforts to develop its regulatory proposal and tariff structure statement for the 2024-29 regulatory period.
- In order to guide TasNetworks' customer communications in the future, PRWG members were presented with a wall-chart listing a range of sixteen key issues, ranging from time of use pricing and default tariff assignment to export pricing, and asked to vote for the three issues which they considered would be of the greatest importance to end-use customers in the coming regulatory control period.
- The topic of "**Advanced meters**" received the equal highest number of votes (five).
 - When discussing the voting outcomes, it was suggested that if TasNetworks wants customers to change their behaviour, while tariffs will set the rules, it is advanced meters that will give consumers the information they need to see how they are 'performing' against those rules.
 - Advanced meters were seen as a priority issue for customers because of the role they play as an enable of potential new services and functionality.
- The subject of "**Time of use tariffs**" received the equal highest number of votes (five).
 - The observation was made that 'people need to understand how time of use tariff tariffs work. Time of use consumption tariffs were characterised by PRWG members as being easy to understand, making them the starting point for the widespread adoption of cost reflective network pricing.
- "**Pricing principles**" (i.e. the six principles developed by the PRWG in partnership with TasNetworks to guide the development of TasNetworks' pricing strategy) received four votes.
 - Trust and transparency is important to customers. An understanding of the pricing principles would provide consumers with confidence in 'the system' and in TasNetworks.
- "**Obsolete network tariffs**" also attracted four votes from PRWG members.
 - Members noted the close link between plans to make a number of flat consumption based network tariffs obsolete during the coming regulatory control period and time of use tariffs.
 - It was observed that 'customers need to know that they're going to be transferred to new tariffs and the opportunities and risks this presents'.
 - Members of the PRWG enquired about what means exist to compel retailers to incorporate the cost reflective network tariffs that TasNetworks has collaboratively developed with customers into their retail tariffs if a retailer doesn't want to do so.
 - In response, it was noted that there is no longer just one retailer servicing residential and small business customers anymore, and competition can encourage innovation. It was also noted that the State's largest retailer, Aurora Energy, has already foreshadowed the introduction of optional retail tariffs as part of its future market offerings.
 - It was acknowledged by a representative of Aurora Energy that the phasing out the TAS31 and TAS41 network tariffs is an important issue for Aurora Energy and that Aurora Energy has done analysis which suggests that a significant portion of customers currently on that combination of tariffs will potentially face higher charges.

- A representative of the AER observed that there is nothing [in a regulatory sense] to prevent retailers from offering flat retail tariffs. As long as TasNetworks is giving an efficient pricing signal in relation to use of the network the AER has no problem with retailers continuing to offer flat tariffs. Experience interstate suggests that when the number of customers on cost reflective network tariffs reaches 30-40 per cent, that critical mass is enough to prompt retailers to incorporate these network price signals into their retailer tariffs.
- It was noted that the advanced meter roll-out in Tasmania has reached that sort of level amongst residential customers already, although the take-up rate of advanced meters is not equivalent to the proportion of customers assigned to cost reflective network tariffs.
- The votes cast by PRWG members are shown in the following image.



- With regard to customer engagement more generally, it was observed that customers ‘want to be told once, by one party’ rather than face potentially conflicting and confusing messaging from multiple parties.
- One member of the PRWG noted that ‘customers’, as TasNetworks likes to refer to them, are not, in fact, TasNetworks’ customers. They are customers of their retailer, so communications with customers is largely the province of retailers.

7. Marinus Link

Facilitator: Prateek Beri, Specialist Regulatory and Network Analytics

- Marinus Link’s estimated cost has increased since it was first identified by the Australian Energy Market Operator (**AEMO**) as an actionable project in the 2020 *Integrated System Plan*. However, its cost is still within the range approved by AEMO and still beneficial for the National Electricity Market (**NEM**).

- The energy able to be delivered into the NEM from Tasmania Marinus Link will not be sufficient on its own to replace the thermal generation which is to be retired from the NEM.
- The question was asked whether the additional generation which is proposed in New South Wales, Victoria and South Australia will make Marinus Link redundant and render it a stranded asset. It was explained that the variable nature of most forms of renewable generation means that the NEM needs new renewable generation and transmission infrastructure across the country, and that Marinus Link is an important part of that infrastructure. With Marinus Link underpinned by Tasmania's hydro-electric generation capacity, Marinus Link has a different role to play in the future of the NEM, even with the addition of more renewable generation interstate.
- Members of the PRWG asked whether the export of energy over Marinus Link will make supplying new industrial loads in Tasmania, such as hydrogen production, impossible. In response, it was explained that the large-scale energy intensive industries of the future will, unlike heavy industries of the past, be more flexible in terms of the way they use energy, and are unlikely to have the traditional 24 hour a day, 7 days a week flat load profiles of Tasmania's remaining major industrial ventures. So, the export of energy over Marinus Link is likely to be compatible with those new industries, which will tend to use energy when there is excess supply (from variable renewable sources).

8. Alternative control services

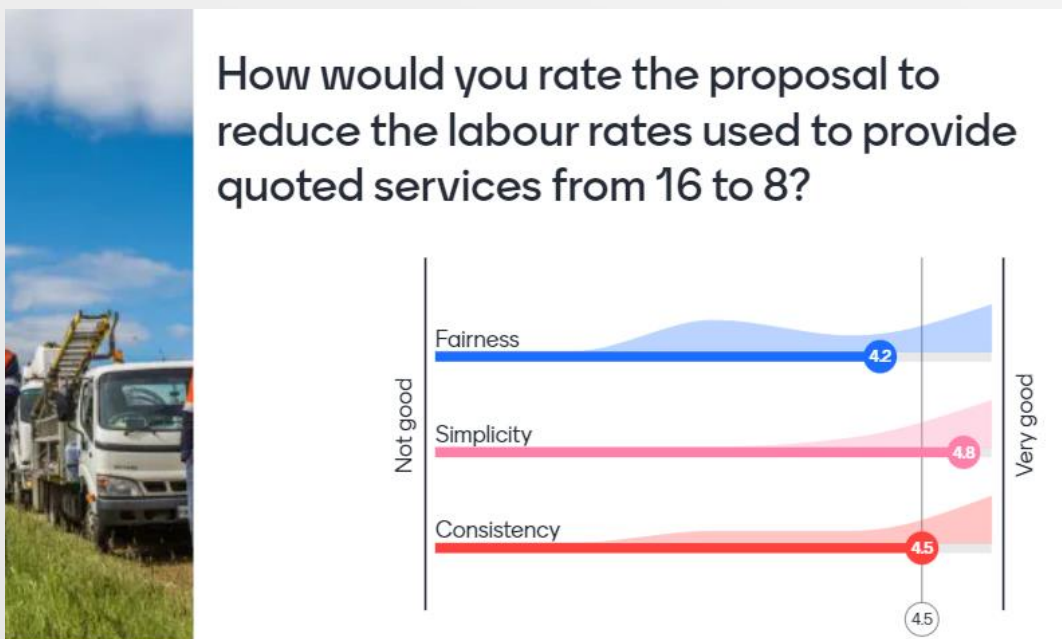
Facilitator: Scott Lancaster, Regulatory Analyst

- For ancillary network services that are non-standard in nature and provided on a quoted basis, the prices charged to customers are derived using an AER-approved method.
- This allows TasNetworks to recover the costs for labour, contractors and the materials directly involved in providing the service specific, as well as a regulated margin and the income tax liability incurred by TasNetworks in relation to cash contributions and/or gifted assets from customers.
- It was explained that TasNetworks has 42 internal labour categories, covering all employees from field apprentices to its CEO, and that around half of those are directly involved in the delivery of quoted services.
- For the current regulatory period, these were mapped to 16 labour categories, with different hourly charge-out rates approved by the AER and applied to each.
- Similarities between some of the categories can make it difficult for customers to understand what tasks are completed by the different labour categories and can result in inconsistencies in the build-up of the prices.

Simplification of quoted services labour categories

- TasNetworks' presented its proposal to further reduce the number of labour categories used when pricing quoted services to eight in the 2024-29 regulatory control period.
- In response to questions about the nature of the services delivered as quoted services, it was confirmed that asset relocations requested by customers or other stakeholders, such as the relocation of distribution network assets to facilitate road widening, are quoted services, as are the provision of above standard connections requested by a customer or the design and construction of a Developer Main.

- Members of the PRWG questioned whether TasNetworks was competing against other providers in the provision of these services. It was explained to the Group that the services involved are not currently delivered by a competitive market, but that the addition of a margin – which is set by the AER – means that TasNetworks is not in theory undercutting the pricing that a competitive market would deliver, were one to develop over time.
- A representative of the AER explained that the methodology used to price quoted services provided by distribution networks is designed with competitive neutrality in mind, with the AER looking to ensure that the prices charged are both cost-reflective, consistent and transparent. Like all networks, TasNetworks is required to provide a detailed breakdown of the cost components involved with delivering each quoted service on the invoices given to customers.
- A member of the PRWG note the importance of keeping the pricing of quoted services as simple as possible, opining that customers don't want to spend a lot of time understanding a quote, noting that in their experience, most customers don't have issues with the cost of quoted services from TasNetworks. However, the time it takes TasNetworks to deliver those services is an issue and it was suggested that the delays experienced by customers in getting a new connection or having their electricity supply upgraded are a significant cost to those businesses, over and above the actual cost of the service.
- PRWG members were asked to rate the proposal to reduce the number of labour categories used to price quoted services from 16 to 8 against three of the pricing principles developed by the PRWG in collaboration with TasNetworks: Fairness, Simplicity, and Consistency.
- Using a scale of 1 – 5, where a score of 1 would indicate that the proposal to reduce the number of labour rates was not good in delivering outcomes that satisfy a given pricing principle and a score of 5 would suggest the proposal was very good in its delivery of outcomes that satisfy a given pricing principle, on average the PRWG members present gave the proposal a score of 4.5 out of 5 across all three pricing principles.
- The results of the poll used to assess the proposal to reduce the number of labour categories used to price quoted services are reproduced below for the PRWG as a whole for each pricing principle.



Asset relocation services – removal of accumulated depreciation rebate

- TasNetworks presented a recap of its proposal to remove the accumulated depreciation rebate from the build of asset relocation prices.
- When calculating the customer contribution towards a requested asset relocation, TasNetworks separates the work in to the work that is dedicated to that particular customer and provided as an alternative control (quoted) service and work on the shared network, which is undertaken as a standard control service.
- Under the current policy the customer contribution towards the cost of new distribution network assets is reduced by the value of the accumulated depreciation on any network assets which are removed assets. It means that if the asset being removed is old, then the customer is charged less for its replacement than if it were a newer asset.
- As this is a standard control service this reduction in the contribution from the customer requesting the asset relocation/removal is funded by the general distribution customer base, which creates an equity issue (i.e. cost shifting).
- For the upcoming regulatory control period TasNetworks is proposing to remove the accumulated depreciation rebate, on the basis that it does not align with the principle of cost reflectivity.
- In doing so, it was acknowledged by TasNetworks that the change will increase the cost of asset relocations for the customers/third parties that request them, although the overall cost to TasNetworks of removing assets and relocating network infrastructure would be unaffected.
- It was noted that TasNetworks does not stand to receive more income from the relocation of network assets as a service, and that the proposal will simply change who pays for the asset relocation, and move the recovery of the cost up-front and in full from the proponent, rather than having the amount of the rebate added to TasNetworks' regulatory asset base and recovered from customers over time through their network charges.
- In response to observations made by a member of the PRWG, it was noted that the rebate in question does not related to the provision of new connection services. It includes the relocation of assets to accommodate road widening, as well as the undergrounding of existing overhead infrastructure that might be requested by a customer or group of customers to improve visual amenity.
- The PRWG members present were invited to discuss final incidence of the cost, the pricing signals and the equity outcomes offered by the two alternative pricing methods.
- The PRWG broke into three small groups to discuss the proposal.
 - Noting that local governments are prominent amongst the customers that request asset relocations, some PRWG members wondered whether the removal of the depreciation rebate and the corresponding increase in cost would discourage smaller councils from making town planning decisions that require the relocation of network assets.
 - Other PRWG members noted that the requirement for the proponents to face the full cost of asset relocations means that the decision to have network assets relocated becomes a commercial decision.

Meeting closed at 12.30pm.

9. Summary of actions

The table below provides a summary of the actions captured during the workshop.

TasNetworks will update members as the actions are progressed.

Actions	Due date	Status
TasNetworks to circulate to all members and publish forum minutes and actions.	16 September 2022	2 September 2022