Policy and Regulatory Working Group (**PRWG**)

2024-29 Distribution Pricing Strategy

3 March 2021

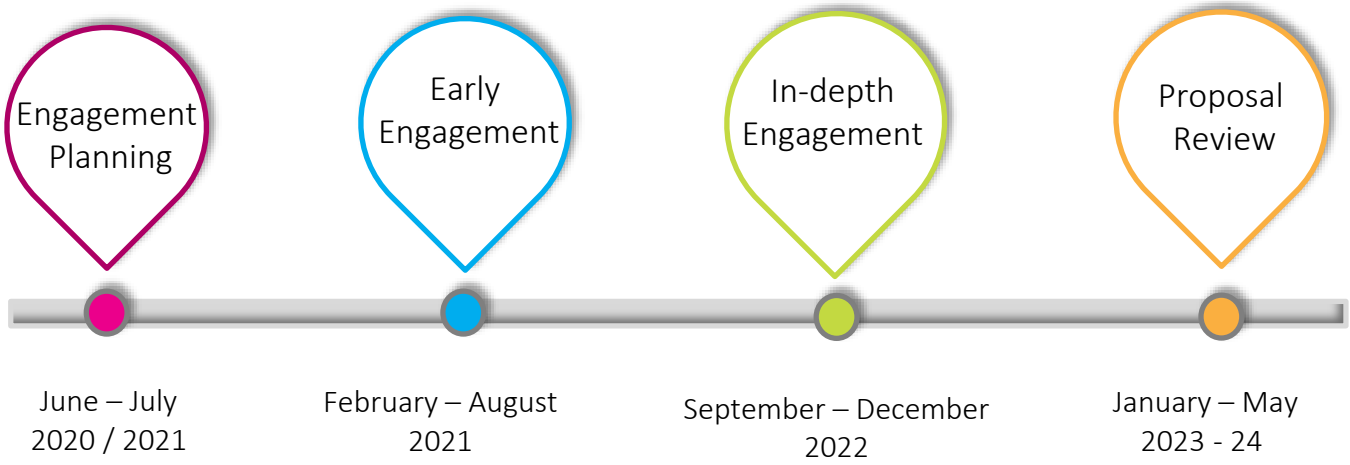
Agenda

Stream 1 – Policy and Regulatory Working Group		Presenter
12.30pm	Introduction	Chantal Hopwood
12.40pm	Residential Customer Analysis	Julie Morrison
1.00pm	Residential – Engagement Activity	Shannon Culic
1.20pm	*Break 5 minutes*	
1.25pm	Small Business Customer Analysis	Julie Morrison
1.45pm	Small Business – Engagement Activity	Shannon Culic
2.05pm	Pricing Principles and customer education – Engagement Activity	Shannon Culic
2.20pm	Questions	Shannon Culic
2.25pm	Next Steps	Shannon Culic

Purpose of the Policy and Regulatory Working Group

Policy and Regulatory Working Group is supporting the development and submission of the 2024-29 regulatory and revenue proposal by providing advice on key regulatory decisions and pricing strategy development.

- Forums held on a quarterly basis.
- Frequency and length of workshops will be reviewed from the 'in-depth engagement' phase.



Purpose and objectives of this Pricing Strategy Forum

The purpose of this meeting is to continue the development of our 2024-29 pricing strategy and to:

- Demonstrate the pace of network tariff reform both in the National Energy Market (NEM) and for TasNetworks.
- Identify whether there are barriers that may be impacting the pace of reform in Tasmania, including:
    - understanding the network charges for particular customer groups;
    - determining whether there is a need to incentivise certain customer groups to take-up cost reflective network tariffs; or
    - whether changes to the tariff assignment policy can assist with increasing the uptake of cost reflective network tariffs.

The objective of the meeting is to determine whether there are any changes needed to our tariff assignment policy.

TasNetworks Distribution Pricing Strategy Engagement

So far, in 2020-21 we have held two PRWG forums and released three consultation papers.
The consultation papers are prepared to assist all members understand the purpose and topics for discussion at our forums. The intent is to provide opportunities for better results, decisions and ultimately better outcomes for our communities.

The October meeting was a introduction to the upcoming issues for TasNetworks, including:

- the uptake of cost reflective network tariffs
- the opportunities and impact of distributed energy resources (DER)

This engagement expands on the uptake of cost reflective network tariffs discussed at the October forum. A future forum will explore DER and embedded networks.

TasNetworks Distribution Pricing Principles

The working group will need to continue to reflect on the agreed pricing principles throughout our discussions.

Affordable

We offer an essential service and recognise that customers want affordability in the delivered cost of electricity. To support this we will ensure sustainable network investment and that particularly vulnerable customers will not be exposed to hardship as a result of our pricing or network tariff reforms.

Consistent

We will avoid creating price shocks for customers and minimise upward pressure on the delivered cost of electricity.

Fair

We will provide transparent and cost reflective pricing signals so that all customers contribute to their portion of total network costs.

Innovative

We will investigate innovative solutions that meet the changing needs of our customers and changes in technology.

Simple

Our network pricing will be both cost reflective and easy for our customers, retailers and stakeholders to understand.

Choice

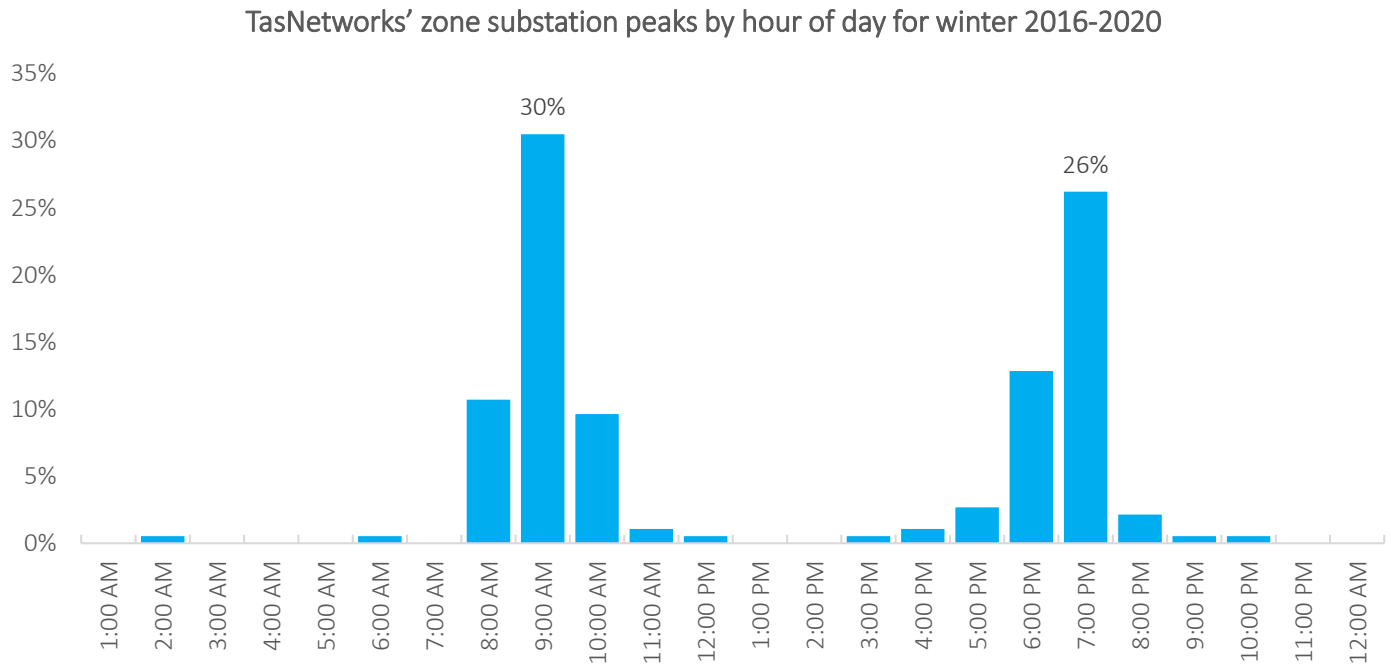
We will not stand as a barrier for customers who invest in distributed energy resources, such as solar generation and battery storage. Our pricing will provide choice to our customers to best meet their energy needs, while not imposing on the needs of others or the network.

Peak Demand

Network costs are driven by the need to meet peak demand across the distribution network. Peak demand is impacted by a number of factors. TasNetworks' peak demand days typically occur over winter and are a result of increased heating load.

Analysis of our substations show that approximately 85% have peaked over winter in the last 5 years. Of those peaking substations:

- 30% peak between 8am and 9am and
- 26% peak between 6pm and 7pm

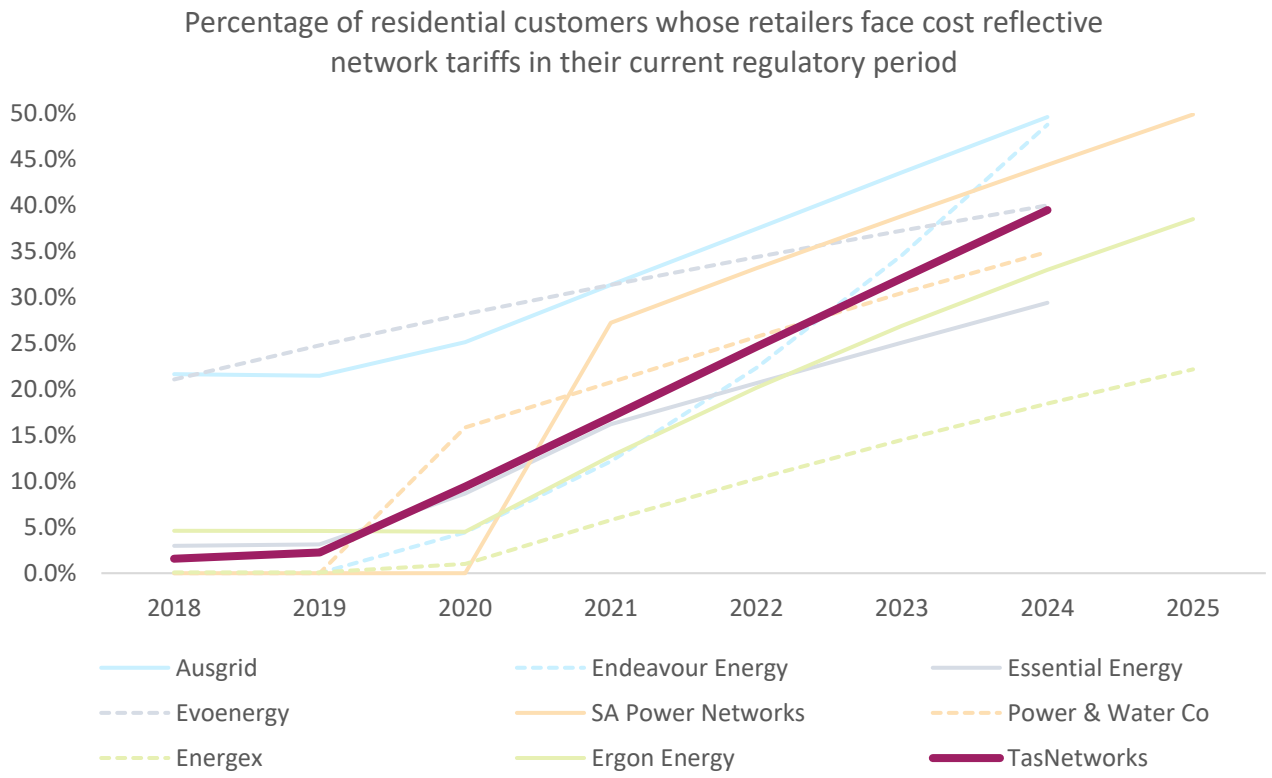


Residential Customers

Pricing reform

Pace of network tariff reform to cost reflective tariffs

At the end of the current regulatory period, the Australian Energy Regulator (AER) shows that TasNetworks will have approximately 40% of customers on cost reflective network tariffs. This is compared against other DNSPs across New South Wales, Queensland, the Northern Territory and South Australia.



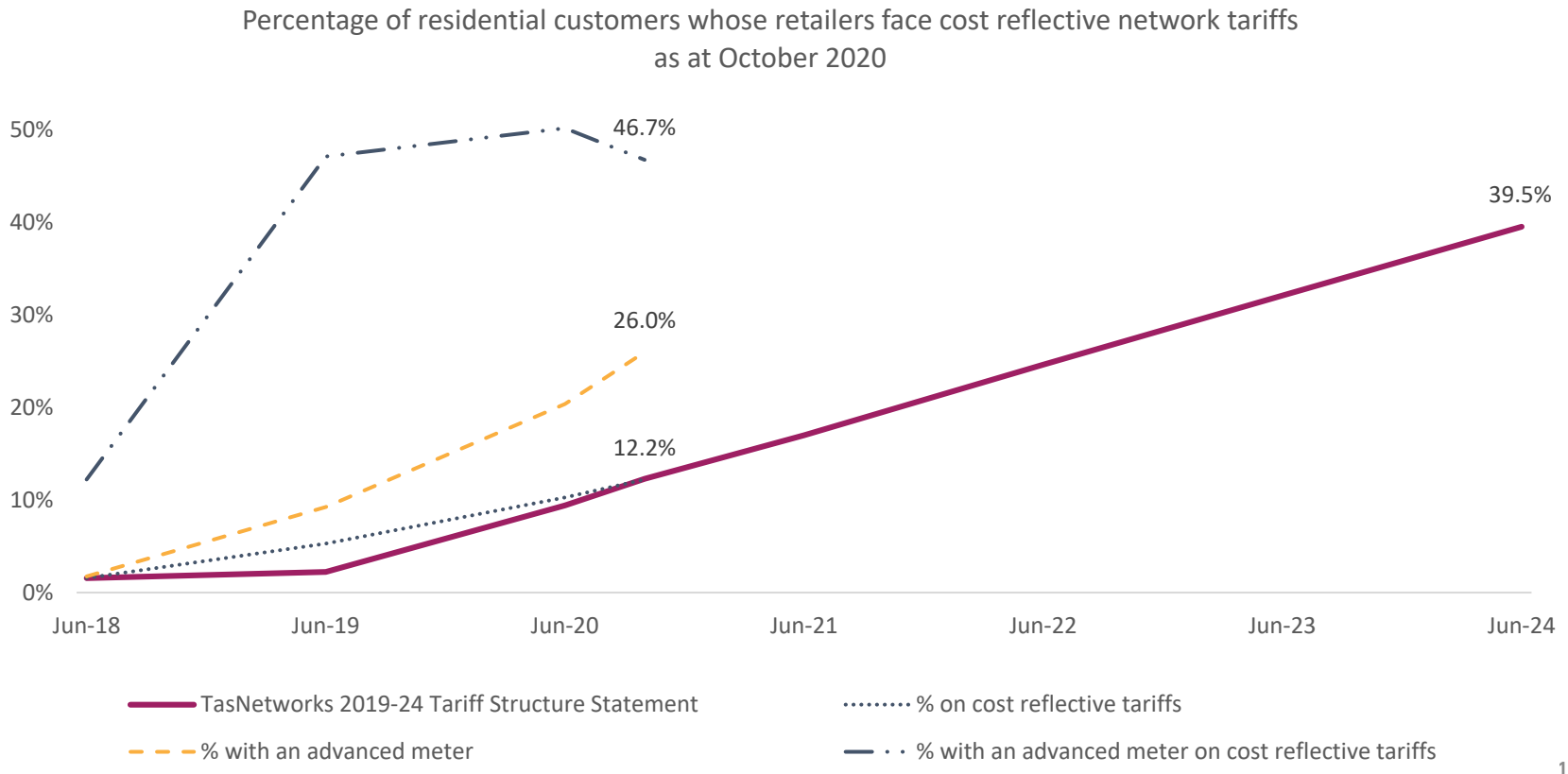
Source: https://www.aer.gov.au/networks-pipelines/network-tariff-reform#tariff-structure-statements downloaded on 30 November 2020

Ausgrid (NSW), Endeavour Energy (NSW), Essential Energy (NSW), Evoenergy (NSW), Power and Water Co (NT), South Australia Power Networks (SA), Energex (Qld), Ergon (Qld)

Pace of network tariff reform to cost reflective tariffs

However, in reality network tariff reform looks different and is strongly influenced by the uptake of advanced meters.

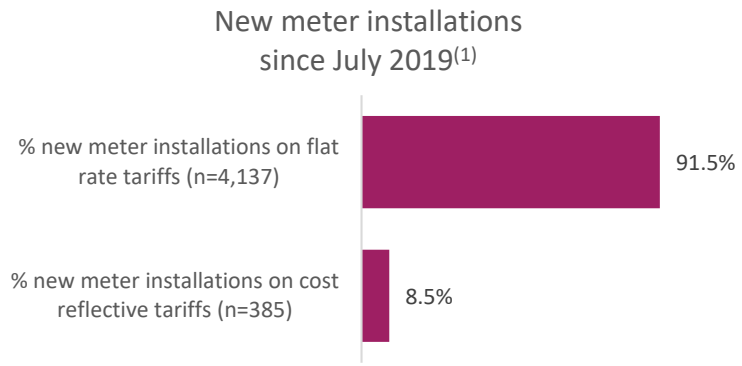
- 12.2% of all residential customers are on a cost reflective network tariff.
- However, only 26% of our residential customers are on advanced meters – of those customers 46.7% are on cost reflective network tariffs.



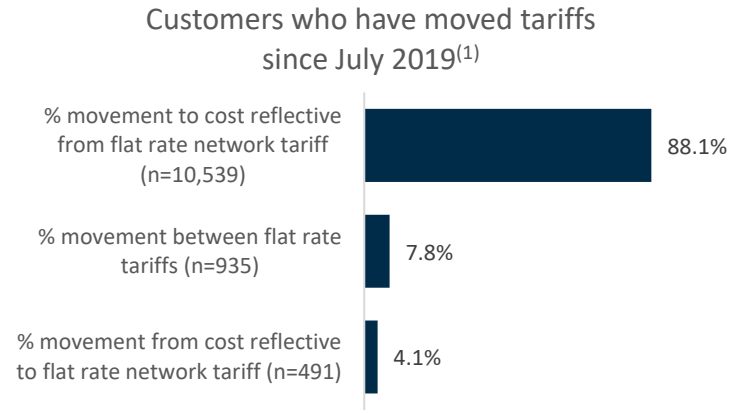
Residential customers and the flat rate tariffs

87.8% of all residential customers are on the residential flat rate network tariff (TAS31), of those customers 93.6% also have the heating and hot water network tariff (TAS41).

- The majority of new meter installations (91.5%) for residential customers are connected to the flat rate (TAS31) network tariff.



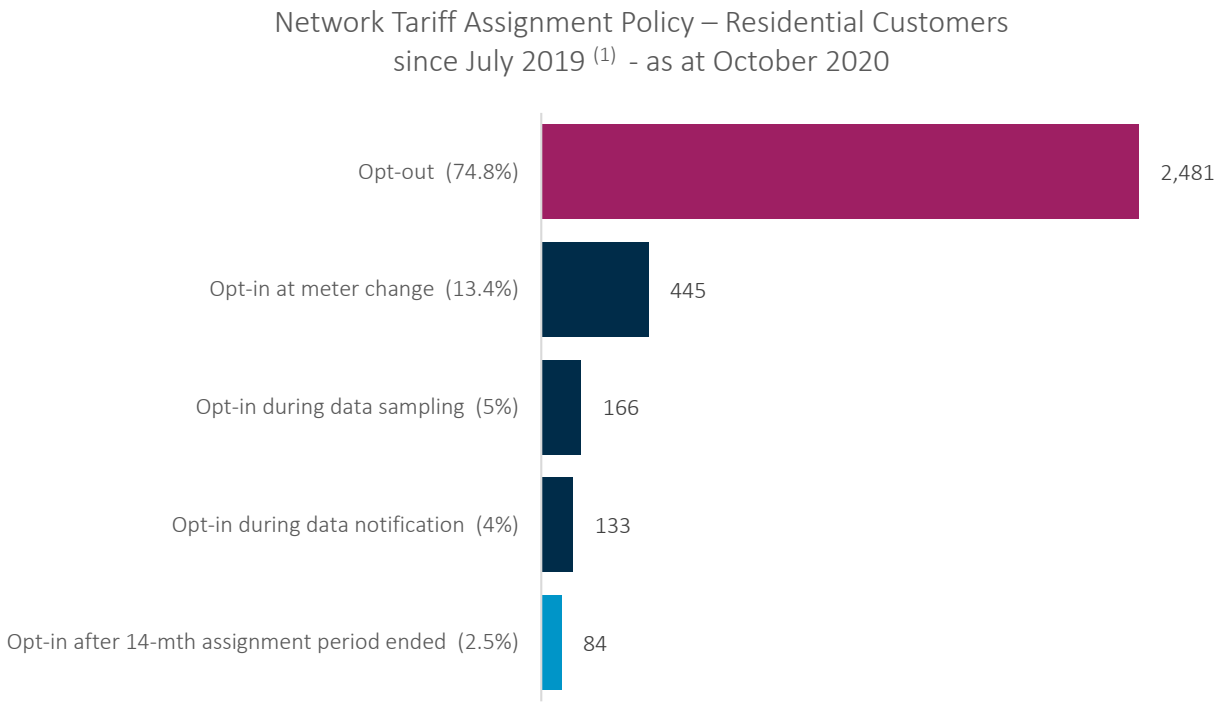
- For those customers who have changed their tariffs, 88.1% move to a cost reflective tariff – 2.7% (281) customers were new connections since July 2019



(1) Excludes those customers who were historically on Aurora's PAYG (TAS101) tariff

Residential customers and the tariff assignment policy

TasNetworks is monitoring tariff movements under the network tariff assignment policy. Since July 2019, approximately 75% of customers are opting out of the cost reflective network tariff.

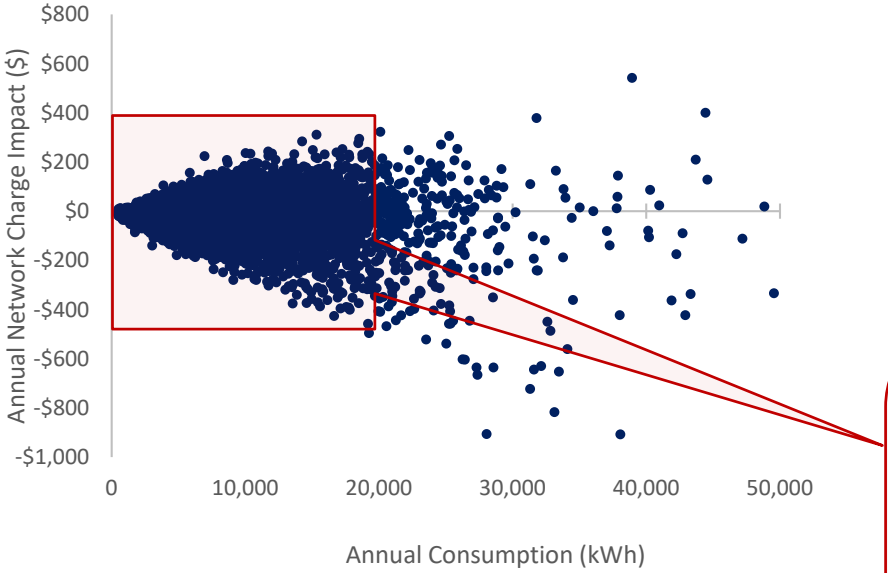


(1) Excludes those customers who were historically on Aurora's PAYG (TAS101) tariff

Residential customers consumption

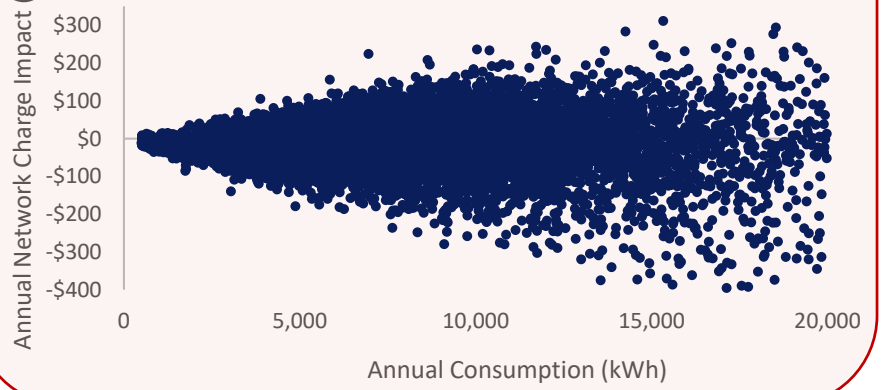
Approximately 97% of residential customers' consumption is less than 20,000 kWh per annum. Annual consumption patterns differ and this can result in a different network charge impact across the customer base.

Annual network charge for customers on the flat rate consumption tariff (TAS31) *(n=11,348)*



- Approximately 58% of customers would benefit from switching to the cost reflective tariff with an average annual network charge saving of approximately $58.
- For those flat rate customers (TAS31/41) who would benefit from being on the time of use tariff (TAS93), their peak to off peak ratio is generally lower than those who are better off on the flat rate tariff (TAS31), with the ratio being 42 per cent compared to 54 per cent respectively

Annual network charge for customers on the flat rate consumption tariff (TAS31) where annual consumption < 20,000 kWh *(n=11,058)*

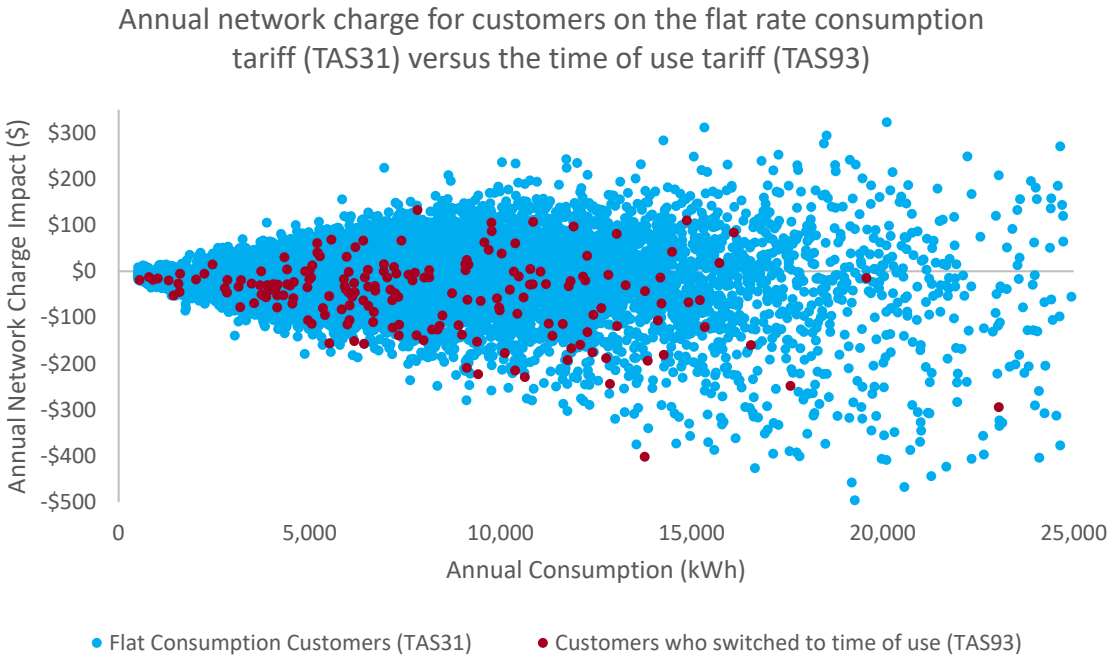


(1) Excludes those customers who were historically on Aurora's PAYG (TAS101) tariff

Residential customers consumption

Approximately 80% of residential customers who switched to time of use have benefitted – however it is likely that we are seeing customers initiate the tariff change in these circumstances.

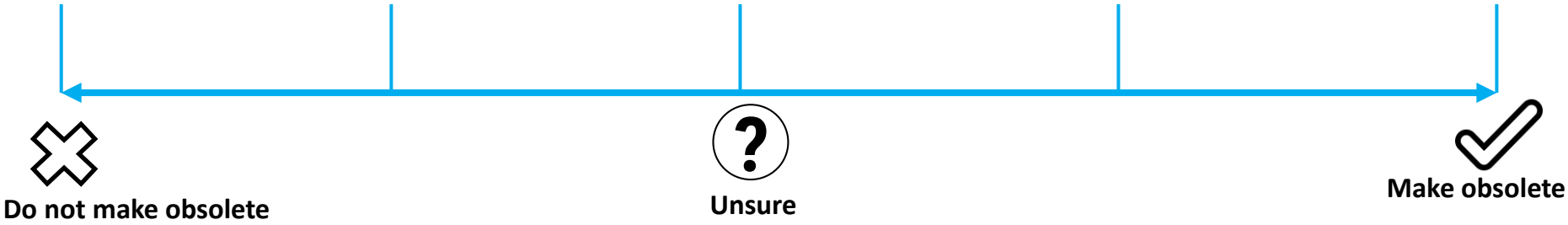
- The average network charge savings for those customers who have switched is $55 per annum
- TasNetworks has observed that as a group, the customers who have changed to the time of use consumption tariff have reduced their peak percentage moderately by approximately 1%.



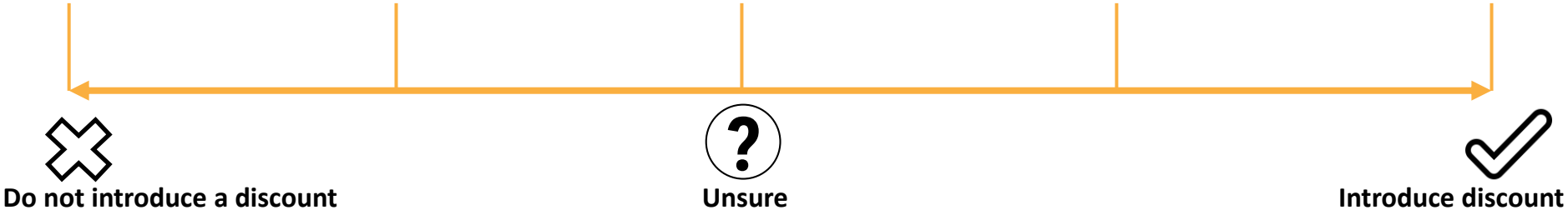
Engagement Activity 1

Complementary measures

Question 1. Should TasNetworks make the flat rate network tariff obsolete for residential customers?



Question 2. Should TasNetworks consider introducing a discount for the cost reflective network tariff options for residential customers? Why, why not?



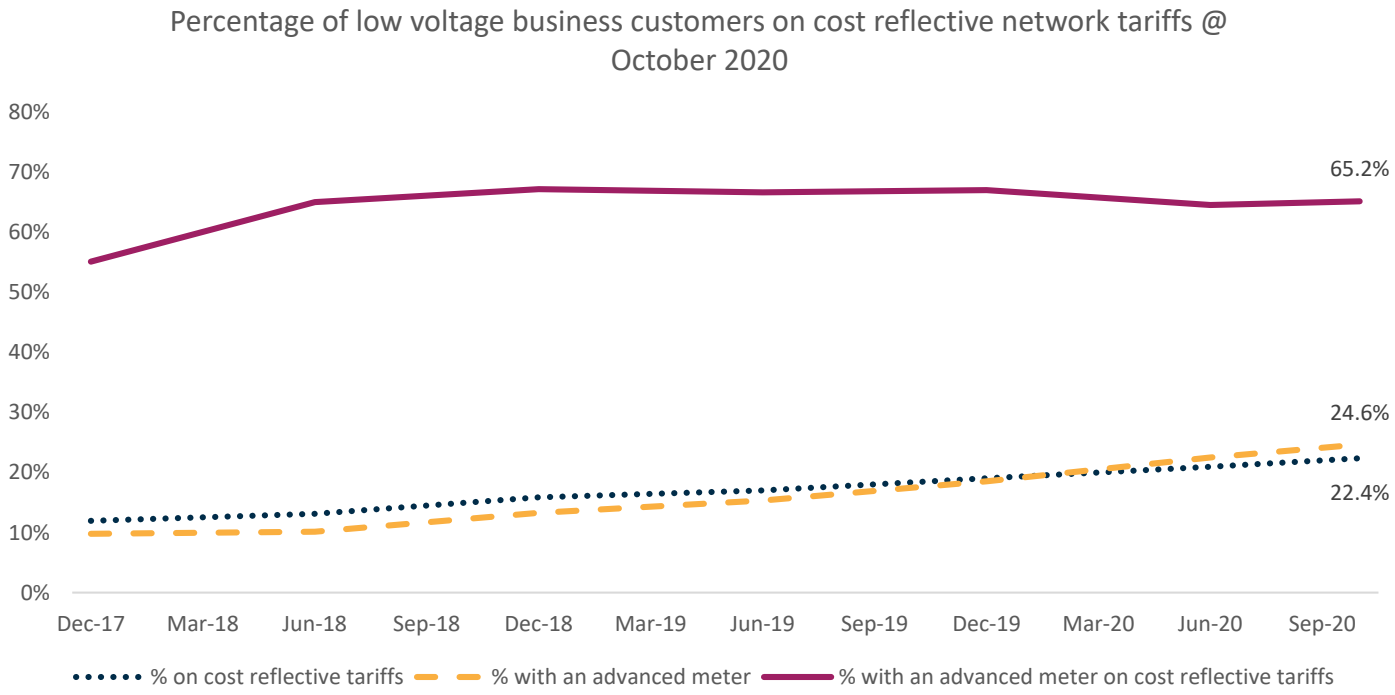
Obsolete network tariffs are no longer available to new installations or able to be applied to an existing installation not already assigned to the obsolete tariff.

Low Voltage Business Customers

Pace of network tariff reform to cost reflective tariffs

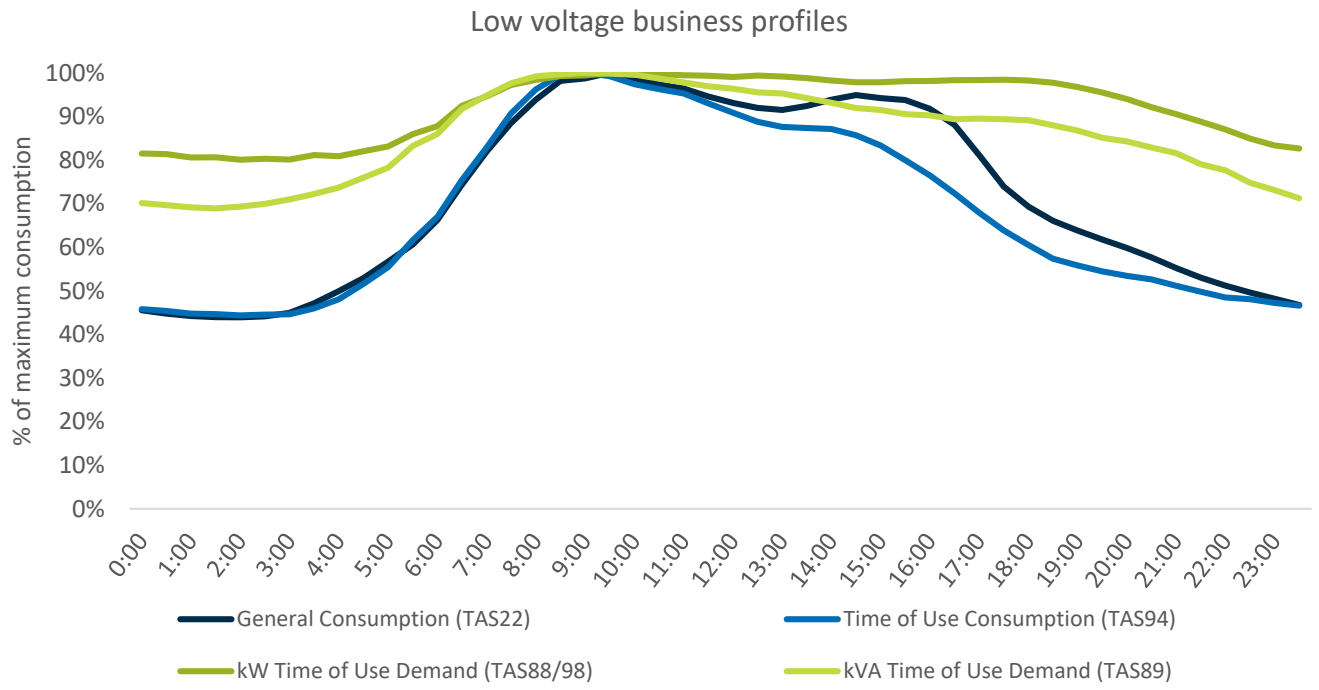
Tariff reform for low voltage business customers differ to residential customers. There is a higher proportion (65.2%) of customers who have advanced meters that are on cost reflective tariffs – this compares to 46.7% of residential customers.

- The proportion of low voltage businesses who have an advanced meter is 24.6% - this is a similar proportion to residential customers where 26.0% have advanced meters.
- However, the total number of low voltage businesses who are on cost reflective tariffs is 22.4% - proportionally higher than the residential customers where only 12.2% are on cost reflective tariffs.



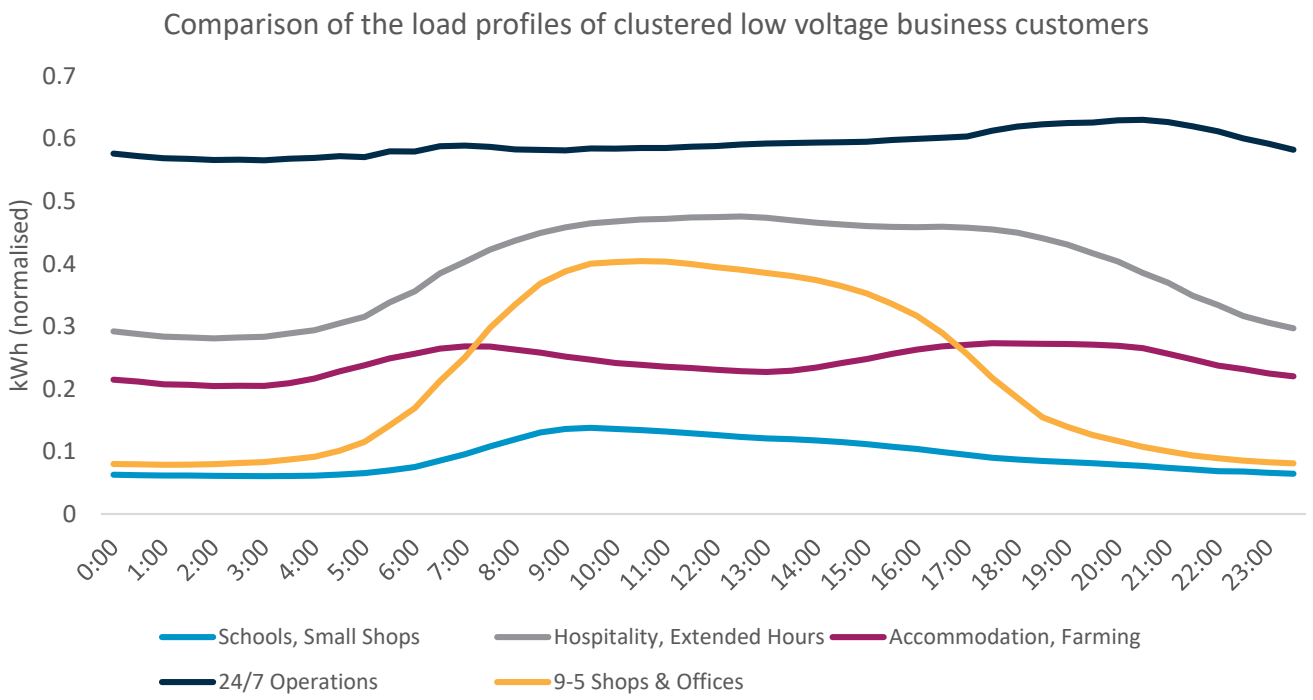
Low voltage business customers' consumption profile

TasNetworks has observed that the consumption profile of a business will determine the tariff that they select. Demand based network tariffs are generally taken up by customers with a flatter profile – this may reflect a 24/7 business operation.



Low voltage business customers' consumption profile

A clustering analysis confirmed that 24/7 businesses have the flattest profile for business customers, whereas the 9-5 shops and offices have the profile that mostly aligns with the network peaks.

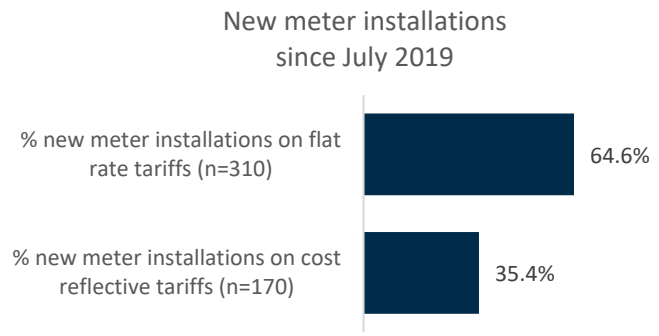


Small Business Customers

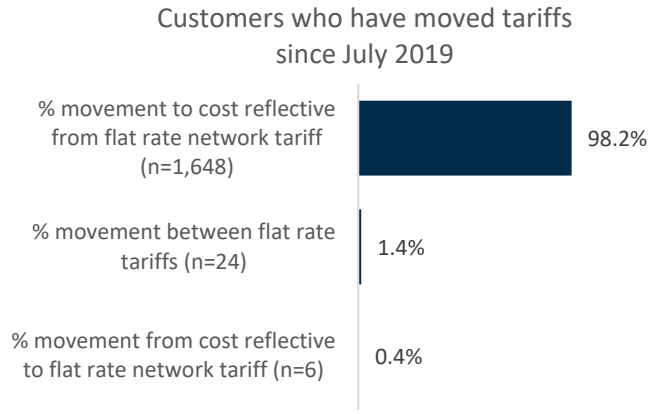
Small business customers and the flat rate tariffs

77.7% of all small business customers are on the flat rate business network tariff (TAS22), of those customers 4.5% also have the heating and hot water network tariff (TAS41).

- 64.6% of new meter installations for small business customers are connected to the flat rate (TAS22) network tariff.

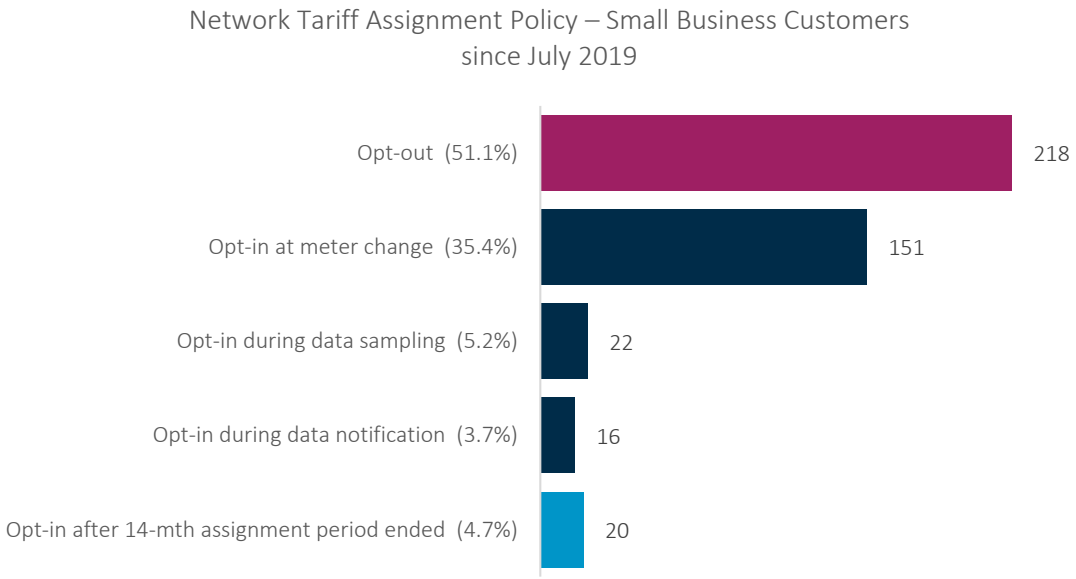


- For those customers who have changed their tariffs, 98.2% move to a cost reflective network tariff – 1.6% (28) customers were new connections since July 2019



Small business customers and the tariff assignment policy

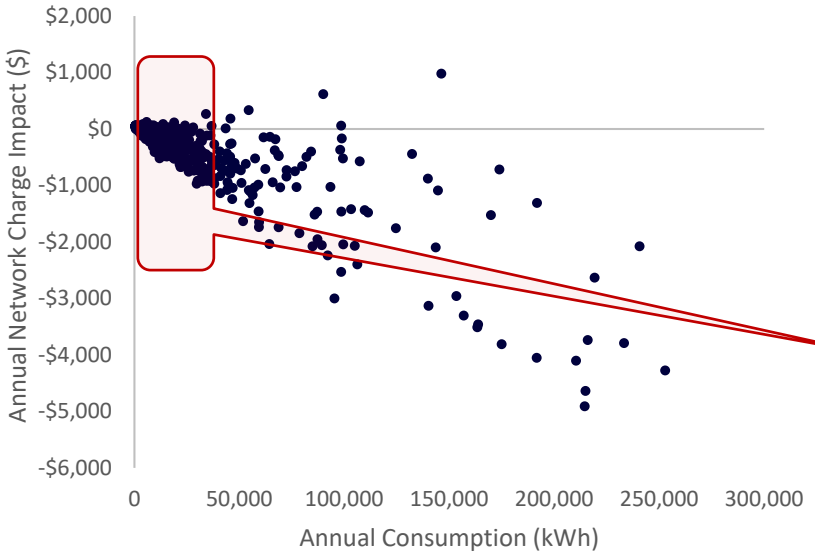
TasNetworks is monitoring tariff movements under the network tariff assignment policy. Since July 2019, slightly more than 50% of small business customers are opting out of the cost reflective network tariff.



Small business customers annual network charge impact

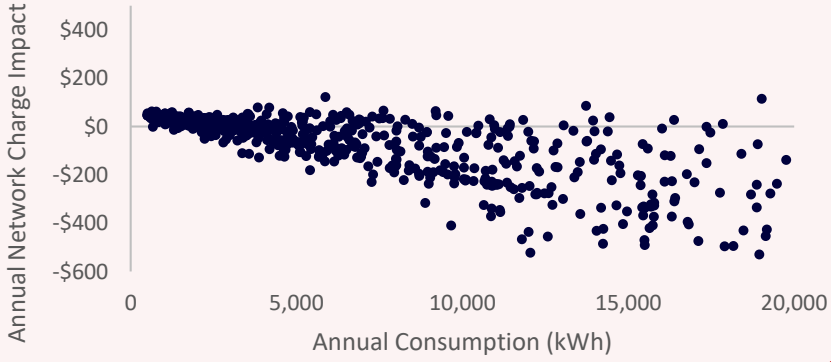
Approximately 83% of small businesses consume less than 20,000 kWh per annum. Annual consumption between different business types will differ resulting in a different network charge impact across the customer base.

Annual network charge for customers on the flat rate consumption tariff (TAS22) *(n= 809)*



- A large proportion (65%) of customers on the flat rate (TAS22) are likely to benefit from moving to the cost reflective time of use (TAS94) tariff..

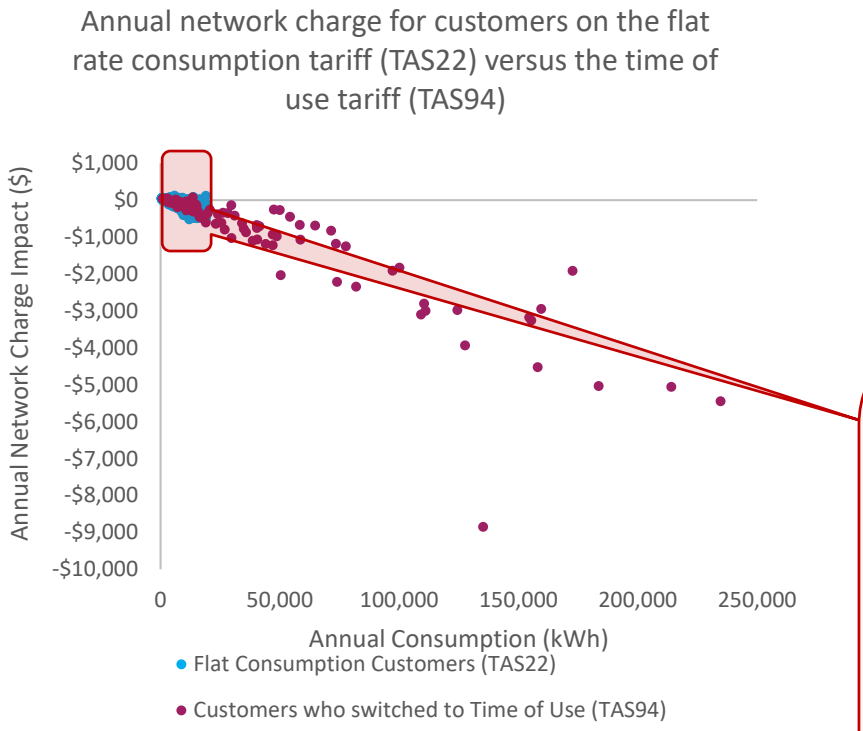
Annual network charge for customers on the flat rate consumption tariff (TAS22) where annual consumption < 20,000 kWh *(n=619)*



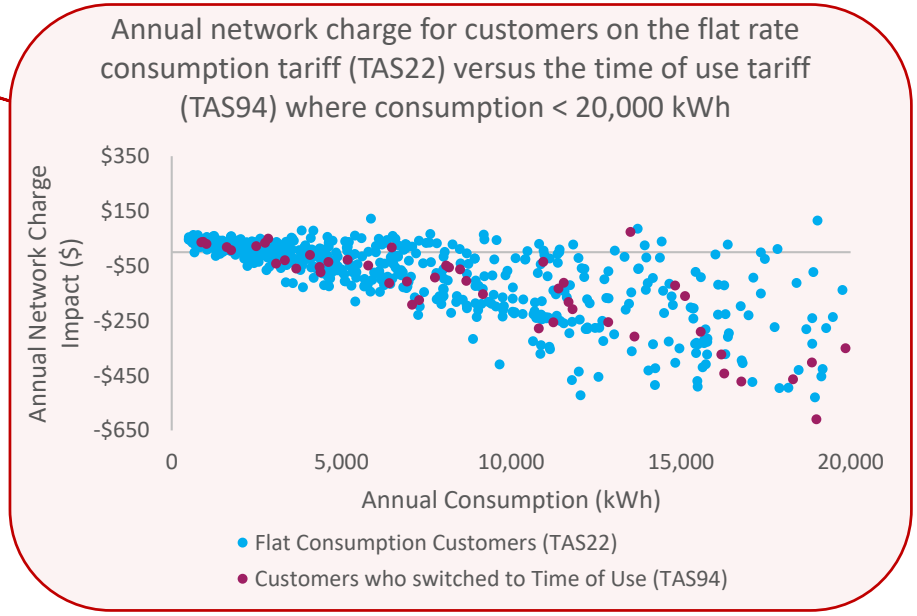
(1) Excludes those customers who were historically on Aurora's PAYG (TAS101) tariff

Small business customers annual network charge impact

Approximately 90% of small business customers who have switched to time of use have benefitted – however it is likely that we are seeing customers initiate the tariff change in these circumstances – the average savings for these customers is $975



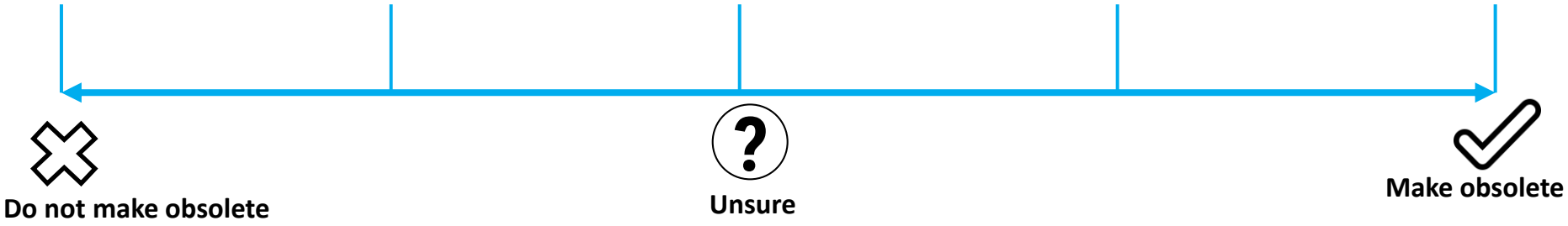
- Approximately 90% of business customers who have elected to move to the time of use consumption tariff (TAS94) have benefited from the move. The 10% remaining were approximately $50 worse off.



Engagement Activity 2

Complementary measures

Question 1. Should TasNetworks make the flat rate network tariff obsolete for small business customers?



Obsolete network tariffs are no longer available to new installations or able to be applied to an existing installation not already assigned to the obsolete tariff.

Engagement Activity 4

Customer needs

At our last meeting, we heard that customer education and communication was one of the most important ways we can support our customers in the transition to cost reflective pricing.

What are some examples of businesses providing excellent customer education?

Ask us anything

TasNetworks Distribution Pricing Strategy

Next Steps

- The next Policy & Regulatory Working Group forum will be held in mid 2021
  - Your feedback will determine whether this is a combine forum or a separate engagement session
- We will continue to refine our pricing strategy based on our discussions today and will keep you updated as this progresses.