

# Policy and Regulatory Working Group

Meeting record – 16 November 2021

Date: 25 November 2021

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# Pricing strategy

**On Tuesday 16 November 2021, TasNetworks convened a meeting of its Policy and Regulatory Working Group (PRWG). The purpose of the forum was to engage with PRWG members on aspects of TasNetworks' pricing strategy for the regulatory control period beginning on 1 July 2024 and ending 30 June 2029.**

The PRWG forum was held in conjunction with a meeting of TasNetworks' Customer Council. Topics relevant to both groups were shared in a joint sitting in the morning, after which concurrent workshops were conducted for each group. Stakeholders who are members of both groups were provided with the agendas for each session and asked to nominate which stream they preferred to attend. In addition to members of the PRWG, officers from the Australian Energy Regulator (AER), Energy Ombudsman and representatives of Renewable, Climate and Future Industries Tasmania (ReCFIT) attended the meeting in an observational capacity. This document summarises the discussions that occurred as part of the PRWG's meeting.

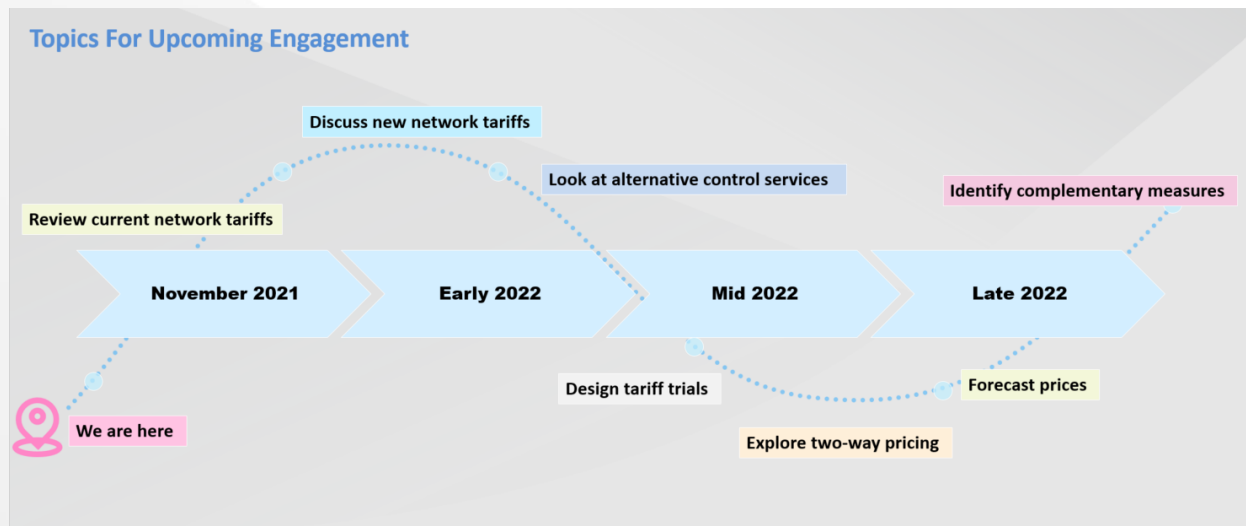
**Attendees:** Adrian Staples (ReCFIT); Charles Scarafiotti (Nekon Pty Ltd); Helen Gilmore (Hydro Tasmania); Kate Cox (Energy Ombudsman Tasmania); Kenny Tran (AER); Mark White (University of Tasmania); Penny Cocker (Australian Electric Vehicle Association); Sam Unsworth (Aurora Energy); Sharon Raymond (ReCFIT); Stephen Durney (Tasmanian Council of Social Service); Sue Morrison (ReCFIT); Veryan Patterson (ReCFIT).

**Apologies:** Jack Gilding (Tasmanian Renewable Energy Alliance); Robert Mallet (Tasmanian Small Business Council); Bruce Fyfe (Tassal); Chris Ferguson (Department of Education); Corina Woolford (Aurora Energy); Georgia Palmer (Local Government Association of Tasmania); Georgia Prenter (Hydro Tasmania); Hayden Moore (Aurora Energy); Liam Foden (1st Energy); Martin Bullen (Department Health and Human Services); Marc White (Goanna Energy); Michael Bailey (Tasmania Chamber of Commerce and Industry); Sara Chettle (TasWater); Tom Kelleher (Aurora Energy); Sue Leitch (Council on the Aging Tasmania); Deb Lewis (Council on the Aging Tasmania); Dr Lucy Mercer-Mapstone (Tasmanian Council of Social Service); John Cooper (Hydro Tasmania); Brittany Rubie (Tasmanian Farmers and Graziers Association).

## 1 Engagement roadmap

It was noted that the PRWG is at the half-way point of its journey in relation to the 2024-29 regulatory control period, between engagement commencing in June 2020 and the point at which TasNetworks will submit its proposal for 2024-29 to the Australian Energy Regulator (AER). A summary of the engagement activities conducted to date and the progress achieved by the PRWG since June 2020 was

presented by TasNetworks, along with a timeline setting out the engagement activities to come and the key topics still to be considered by the PRWG. The topics for those upcoming engagement activities and their timing are set out in the figure below.



A question was raised regarding the linkage between the tariff change proposals which the PRWG is being asked to consider and the changes to TasNetworks' framework and approach which have been proposed to the AER by TasNetworks. It was explained that the two issues are not directly related. While the framework and approach will determine the regulated services TasNetworks is permitted by the AER to provide in the coming 2024-29 regulatory control period, as well as how the AER will seek to control the pricing of those services, the processes for developing and approving the tariffs used to recover the cost of providing those services is not part of the framework and approach setting process. It was noted that the AER's public consultation process in relation to the framework and approach that will apply to TasNetworks in the upcoming regulatory control period is underway.

## 2 Embedded network tariffs

It was explained that the purpose of this session is to explore network tariff options that would reflect the value of network connection for an embedded network.

TasNetworks presented the key distinguishing features of an embedded network, which include the use of parent and child metering, with the customer assigned to the parent meter being a customer of the network, while the end-users located downstream of the parent meter are customers of the embedded network. Examples of the sort of properties that might lend themselves to the use of an embedded network and the application of an embedded network tariff include shopping centres, caravan parks, apartment blocks and residential aged care facilities.

After it was noted that the customers within an embedded network are not customers of the distribution network operator, the question was asked who is responsible for protecting the electrical safety of embedded network customers. It was noted by a representative of ReCFIT that Tasmania's building and consumer regulator, Consumer, Building and Occupational Services (**CBOS**), is responsible

for ensuring that the electrical installations operated by embedded network managers comply with electrical standards.

It was reiterated that the PRWG had previously identified that a measure of network capacity required to service an embedded network would be the best reflection of the value of network connection for the embedded network, and its downstream customers.

One stakeholder questioned the need to recover a greater contribution towards the cost of the shared network from embedded networks than would result from the application to an embedded network operator of the network tariffs that are currently applied to individual residential or small-business customers. It was suggested by that stakeholder that this scenario would be at odds with the reduction in costs for networks (and retailers) associated with the presence of embedded networks, and that any reduction in costs for the network should be reflected in the network tariffs applied to embedded networks.

A member of the PRWG also questioned why the operator of an embedded network would voluntarily opt-in to an embedded network tariff arrangement which involves higher network charges than those applied to single residential customers, and that this called into question the need for a network tariff specifically for embedded networks. The down-stream customers of embedded networks were also characterised as being vulnerable, the implication being that a greater contribution towards the cost of the shared network from embedded network operators would be passed on to those vulnerable 'tenants' by the owner/operator of the embedded network.

It was noted by TasNetworks that the PRWG had considered the issue of equity previously, and had agreed that having embedded networks pay the same network service charges as a residential customer was not equitable, and that the inclusion of embedded network tariffs on this meeting's agenda was a reflection of that position. However, TasNetworks also confirmed that it is continuing to develop its thinking in relation to embedded networks and remained open to alternative arguments, including the possibility that there may not be sufficient demand for a network tariff specifically designed for embedded networks to warrant its development. Consideration to date in relation to embedded network tariffs has focussed on new connections with the view of the tariff being the charging mechanism for these new customers, while remaining opt-in for existing customers.

The concept of a capacity charge as it might apply to an embedded network was explained by TasNetworks. The PRWG was presented with one potential model of a capacity charging arrangement, involving the use of a tiered Capacity Allowance (measured in kVA), which would see different network charges applied to each of the five levels/bands of capacity allowance. It was noted that in the interests of greater cost reflectivity and, therefore, equity, that it may also be appropriate for any embedded network tariffs to distinguish between embedded networks connected at low and high voltages.

In response to a query about how often customers on such an embedded network tariff would be able to change their nominated capacity level, it was noted that the business customers assigned to TasNetworks' existing 'specified demand tariffs' are permitted to request a mid-year change to their nominated demand once a year, in addition to the process of annual review.

PRWG members were asked to consider two issues in relation to the capacity charging model for an embedded network tariff which had been presented to the meeting:

1. How should a capacity charge be designed to appropriately reflect the value of connection for embedded networks?
2. Is there equity currently? (i.e. in the application to embedded networks of residential/small business network tariffs designed for individual customers)

This second question was added for the Group's consideration following the earlier representations made by members, questioning whether there is an inherent inequity in application of network tariffs designed for individual customers to embedded networks.

A capacity charge was assessed by a number of stakeholders as being a good means of applying, or passing-through, cost-reflective network charges to embedded network tenants. It was noted, however, that regulation would be needed to protect end-users, with embedded network operators being likened to the operators of distribution networks in terms of their role in supplying other end-users, but the risks associated with embedded networks being unregulated, whereas the prices and services of a distribution network are regulated.

Feedback was provided to the meeting by several stakeholders that there is an equity issue with the current arrangements, which don't distinguish between an embedded network that supplies multiple downstream customers and a stand-alone single customer with their own network connection, with the biggest beneficiaries of this imbalance being larger embedded networks. It was suggested by one stakeholder that applying embedded network tariffs to larger commercial enterprises operating embedded networks would help protect vulnerable customers.

Concerns were also expressed about perpetuating any current inequities if existing embedded network customers were allowed to remain on a less appropriate network tariff once an embedded network tariff had been introduced.

A capacity allowance within an embedded network was also judged by a number of PRWG members as a sensible criteria.

Some stakeholders contrasted the circumstances of customers supplied by regulated distribution networks with those of the customers of an embedded network, with the latter being 'locked-in' and potentially exposed to higher, unregulated 'network' prices and lacking the consumer protections afforded to the wider customer base. Regulatory control and/or consumer protection arrangements for the customers of embedded networks were put forward as a means of ensuring customers within embedded networks are not disadvantaged.

The AER noted that cost-reflectivity is a principle the AER likes to adhere to in relation to embedded networks.

Overall, the PRWG appeared supportive of the concept of a capacity-based charge as part of a network tariff designed specifically for embedded networks, although there was some support amongst the group for the use of a smaller number of wider/less granular capacity allowances than the five-tier structure presented to the Group.

### 3 Reviewing time of use windows

It was noted that a review of load data undertaken by TasNetworks had shown that the time of use periods featuring in TasNetworks' existing network tariffs continue to align well with peak demand measured at a substation level, noting that unlike most of the Australian mainland, Tasmania is a winter peaking market.

However, it was also found that the time of use periods applying to the consumption-based time of use tariff for businesses (TAS94) could be better aligned to reflect the collective load profile of the customers on that network tariff and times of high network utilisation. It was noted, for example, that small business consumption, unlike that of residential customers, declines on weekdays during the afternoon/evening peak period, and that the contribution to maximum demand at a network level from small businesses over the course of a weekend only fluctuates within a small range, despite time of use periods applying to small business customers on the TAS94 time of use network tariff.

Three options were put-forward to the PRWG by TasNetworks to gauge support for revised time-of-use windows for the TAS94 tariff.

Option 1: no change, retain the current tariff structure.

Option 2: reduce the duration of the peak period on weekdays to reflect the peak times for the low voltage time of use demand based tariffs for business customers (TAS88, TAS89), and conclude the shoulder period on the weekend at 9pm instead of 10pm.

Option 3: As per option 2, but with the removal of the shoulder period from the weekend entirely.

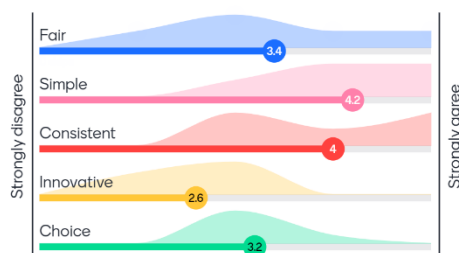
The PRWG was asked to consider the alternatives in terms of their alignment with the pricing principles previously agreed to by the PRWG (i.e. affordability, fairness, simplicity, consistency, innovative and supportive of customer choice).

Feedback from PRWG members indicated that Option three – involving removal of the weekend shoulder period – was considered to align well with the load profile shown for this group of business customers.

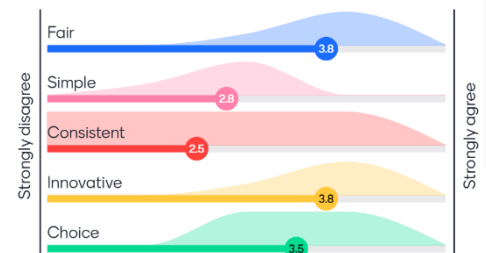
The feedback from the Menti activity is outlined below. The Menti responses were then summarised (Image 2) which supported the group's preference for option three.

**Image 1:** Engagement activity responses of members via Menti.

#### Option 1. No change to TAS94



#### Option 2. Weekend shoulder



## Option 3. No weekend shoulder

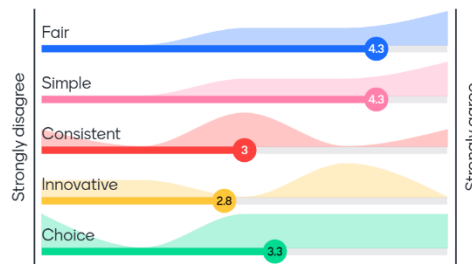







Image 2: Summary and analysis of Menti responses.

Tariff option	Fair 	Simple 	Consistent 	Innovative 	Choice 	Total (out of 25)
1. No change	3.5	4	4	2.5	3	17/25
2. Weekend shoulder, reduce peak & introduce midday shoulder	3.8	2.8	2.5	3.8	3.5	16.4/25
3. No weekend shoulder, reduce peak + introduce midday shoulder period	4.3	4.3	3	2.8	3.3	17.7/25

## 4 Prosumer network tariff

TasNetworks presented a high-level summary of the findings from its Distributed Energy Resource (DER) survey. Those results included the findings that:

- Generating electricity for self-consumption is the main driver of customers' investments in photovoltaic solar panels;
- More than half of solar PV owners intend to install battery storage in the next ten years, in order to better utilise off peak rates and self-consume during peak times.
- While electric vehicle (EV) owners prefer to charge their vehicle whenever it is convenient – which is mostly overnight or on weekends – they do change their energy use in response to time of use tariffs

TasNetworks presented load profiles for EV users which showed that while the load profile of EV owners is closely aligned with that of non-EV owning residential customers, customers with battery storage as well as an EV appear quite responsive to time of use price signals, significantly increasing their consumption of electricity during the week-day off-peak period between the morning and evening peaks, and reducing their consumption just as markedly during the evening peak period.



TasNetworks noted that it offers a DER tariff for residential customers (TAS97), which is a demand tariff with no consumption-based element featuring time of use periods that align with TasNetworks' time of use consumption tariffs. The lack of an associated retail offering means, however, that there are no residential customers assigned to TAS97.

TasNetworks sought the PRWG's feedback in relation to four options under consideration to revise the existing DER network tariff to better target the behaviours and needs of prosumer customers.

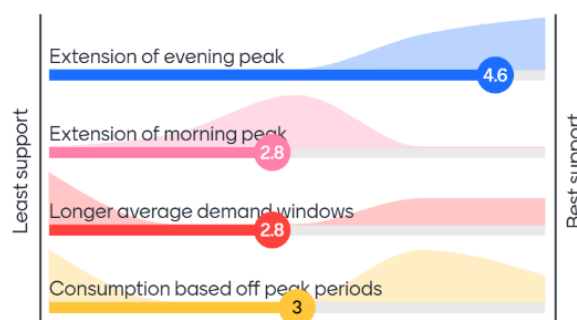
1. Extend the morning peak time of use period (to start earlier)
2. Extend the evening peak time of use period (to end later)
3. Use longer demand measurement windows (longer than the current 30 minute increments)
4. Include in the tariff's design a consumption based off peak period

The PRWG discussed the current use of the four-highest demand figures recorded for a customer during both off-peak and peak periods each month to calculate demand charges under TAS97, with some members suggesting the method was complex and potentially confusing for customers. Other members of the group, however, considered that prosumers are more actively engaged in the management of their energy use than many customers, and likely to be able to understand and respond to demand-based pricing signals.

Members were asked to consider the four alternative changes to the TAS97 network tariff in the context of which change would best support the least-cost transition to cost-reflective pricing for DER customers. Extension of the evening peak period emerged as the group's preferred option out of the four alternatives presented by TasNetworks, ahead of extending the morning peak period and the extension of the average demand windows. The feedback from the Menti activity is outlined below.

*Image 3: Engagement activity responses of members via Menti.*

### Which of these elements best support the least cost transition to cost reflectivity?



## 5 Network tariff assignment rules

TasNetworks provided a presentation confirming the feedback previously provided by the PRWG about the triggers for default assignment of residential customers to time of use consumption-based network tariffs. TasNetworks affirmed that the PRWG feedback has been considered with

TasNetworks' wider stakeholder base and the following assignment rules will be proposed in its 2024-29 Tariff Structure Statement.

*Image 3: Network assignment rules to be proposed.*

Trigger	Existing network tariff *of the house	Time of Use Consumption Network Tariff	Cooling off period applied
New builds		✓	
Advanced meter installation		✓	✓
Opting into time of use consumption network tariff		✓	
Moving house	✓*		
Actively upgrading to an advanced meter			
Receiving an advanced meter due to end of life or roll-out plan			

The meeting concluded at 3pm.