

Policy and Regulatory Working Group

Meeting record – 7 April 2022

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Policy and Regulatory Working Group Minutes

On Thursday 7 April 2022, TasNetworks convened a meeting of its Policy and Regulatory Working Group (PRWG). The purpose of the forum was to ascertain PRWG members' preferences regarding network pricing to facilitate increasing levels of DER technology and embedded networks, and inform the PRWG of proposed changes to TasNetworks' connections policy and alternative control services for the 2024-29 regulatory control period.

In addition to members of the PRWG, officers from the Australian Energy Regulator (AER) and members of the AER's Consumer Challenge Panel attended the meeting in an observational capacity. 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: Thursday 7 April 2022, 1:30pm to 3:30pm.

Venue: TasNetworks Offices, Lenah Valley, Tasmania.

TasNetworks Representatives: Chantal Hopwood (Leader Regulation); Julie Morrison (Specialist Regulatory and Network Analytics); William Godwin (Team Leader Revenue and Economic Regulation), Jochen Reitz (Senior Regulatory and Network Analyst), Scott Lancaster (Senior Regulatory Analyst).

Attendees:

Rob Mallett (Tasmanian Small Business Council); Ben Morris (Local Government Association of Tasmania); Jack Gilding (Tasmanian Renewable Energy Alliance); Adrian Staples (Renewables, Climate and Future Industries Tasmania); Penny Cocker (Australian Electric Vehicle Association); Deb Lewis (Council of the Ageing); Stephen Durney (Tasmanian Council of Social Services); Hellen Gilmore (Hydro Tasmania); Darcy O'Connor (Renewables, Climate and Future Industries Tasmania); Sam Unsworth (Aurora Energy); Mike Swanston (Consumer Challenge Panel) – Part.; Robyn Robinson (Consumer Challenge Panel) – Part.; Bethanie Adams (Australian Energy Regulator); Kenny Tran (Australian Energy Regulator); Paul Harrigan (Australian Energy Regulator) – Part.

Apologies: Bruce Fyfe (Tassal); Charles Scarafiotti (Nekon Pty Ltd); 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); Robert Mallet (Tasmanian Small Business Council); Sara Chettle (TasWater); Tom Kelleher (Aurora Energy); Mark White (University of Tasmania); and Sue Leitch (Council on the Aging Tasmania).

1. Workshop objective

The workshop's objectives were:

- to build an understanding amongst the PRWG of TasNetworks' alternative control services and seek the group's input on TasNetworks' proposed metering services strategy;
- to present and consult on the revised tariff structure of TasNetworks' DER demand-based time of use network tariff, and test the options under consideration;
- to inform and consult with the PRWG regarding the revisions to the time of use periods applying to the small business time of use network tariff being considered by TasNetworks;
- to confirm the approach being taken by TasNetworks' in developing the proposed network tariff for embedded network operators; and
- to seek the PRWG's endorsement of TasNetworks' proposed export tariff trial engagement.

2. Agenda

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

3. Introduction

Speaker: Chantal Hopwood, Leader Regulation

- The participants introduced themselves and Ms Hopwood presented the objectives and agenda of the workshop.
- Ms Hopwood explained that TasNetworks plans to conduct an export tariff trial during the next regulatory control period (2024-25 to 2028-29), but that there are no plans to introduce an export tariff during this time.
- Ms Hopwood thanked the group for their ongoing and valuable participation and feedback, and acknowledged how the group's contributions continue to guide the direction of our pricing strategy.

4. Alternative Control Services

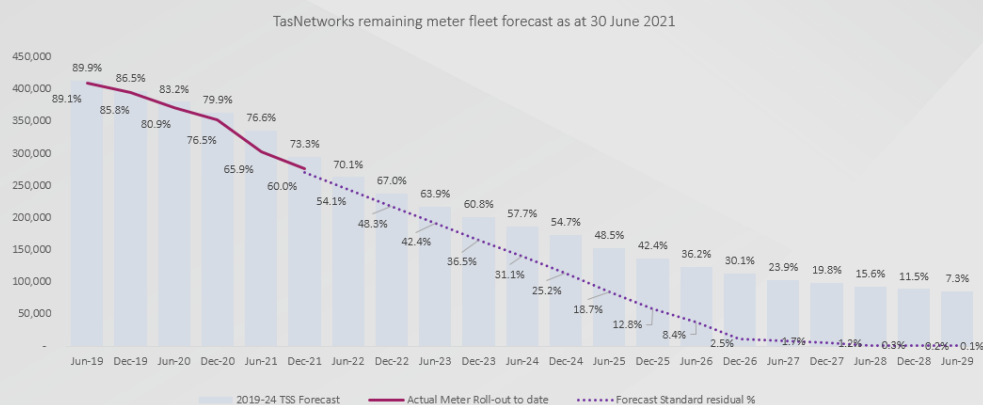
Speaker: William Godwin, Team Leader Revenue and Economic Regulation

- The PRWG were presented with an overview of distribution services, including the explanation that, unlike the shared network, Alternative Control Services are delivered for the benefit of individual customers. These services are regulated by the Australian Energy Regulator using price caps (referred to as an 'alternative' form of control). In contrast, the shared network, as a service, is provided to the whole customer base and regulated using a revenue cap (Standard Control).
- In response to a member's question on what would happen if the AER's capped prices did not cover TasNetworks' costs, Mr Godwin presented the individual components of the allowance (Labour, Materials, Contractor, Margin) and explained that each component is capped or benchmarked by the AER.

- With regard to metering services, it was explained to the PRWG that since December 2017 these services have become the responsibility of retailers as a result of changes to the National Electricity Rules and TasNetworks is now only responsible for looking after legacy (i.e. non-advanced) meters. Metering charges generally comprise a capital component, which seeks to recover the costs of providing and installing the meter, and a non-capital component, which seeks to recover TasNetworks' ongoing costs of providing the service, mostly in relation to meter reading.
- It was explained by TasNetworks that capital charges only apply to legacy meters and that TasNetworks only recovers these costs from customers who had a legacy meter at the beginning of 2017.
- This led to a discussion around the cost recovery of TasNetworks' metering charges at a retail level, during which a representative of Aurora Energy confirmed that the retailer currently allocates these costs across the whole customer base.
- Revised forecasts of the State's advanced meter roll-out were presented by TasNetworks, taking into account the accelerated advanced meter roll-out which is now underway and showing a significantly faster roll-out of advanced meters than the forecasts that were used for the 2019-24 regulatory proposal. Under these forecasts, the majority of legacy meters are projected to be replaced by the end of 2026-27.

TasNetworks' Proposed Metering Services Strategy

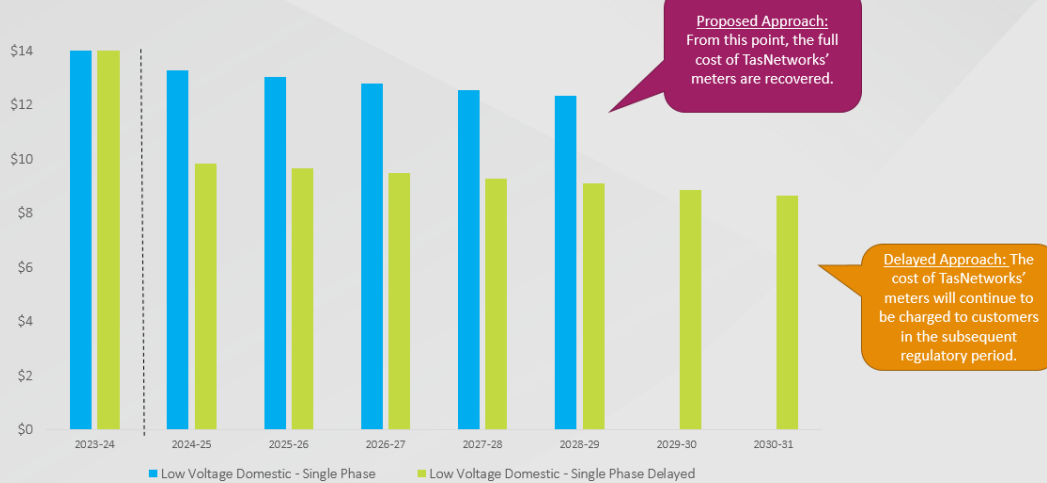
Meter roll-off forecast



- There has been an increased roll-out of advanced meters in excess of what was forecast for the 2019-24 regulatory control period.
- TasNetworks has forecast 4,500 meter replacements per month, with a small number of residual meters extending to the next regulatory control period.
- Based on these forecasts, TasNetworks is proposing to fully recoup the remaining capital cost of the superseded meters by the end of 2028-29, instead of continuing the current rate of recovery that would take until 2030-31. This approach would better align the cost recovery with the reduced service life of the meters, as well as the end of the current regulatory control period, and prevent customers from paying beyond that point for a legacy meter they no longer use, as well as an advanced meter.

TasNetworks' Proposed Metering Services Strategy

Capital costs (\$ per annum)



- In the discussions that followed, the PRWG members supported this approach, which would still ensure savings for customers compared to the current level of metering charges.
- It was noted by TasNetworks that there is likely to be a “tail” of legacy meters that will be harder to replace (due to access issues, for example). There is also a non-linear relationship between TasNetworks’ operational (i.e. non-capital) costs and the number of meters still in service, as not all meter reading rounds can be amended because there are less meters to read. TasNetworks will need to consider the cost and equity implications of this as the legacy meter fleet continues to be retired.
- A member of the PRWG suggested the more wide-spread use by TasNetworks of estimated meter reads, as a means of reducing meter reading costs in the face of declining numbers of legacy meters. Estimated meter reads were employed early in the Covid-19 pandemic and, for customers on a quarterly billing cycle, two estimated reads could be used per annum, alternating with meter reads.
- It was noted by TasNetworks that the scope for TasNetworks to use estimated meter reads under the current rules was not clear, and would need to be investigated before contemplating such a course of action. It was also noted that estimated meter reads can sometimes lead to bill shocks when trued-up by subsequent meter reads, in cases where an estimated meter read materially understated a customer’s consumption of electricity.
- A member of the group asked about the current ratio of capital charges to operational charges and this question was taken on notice.

5. Approach to DER

Speaker: Julie Morrison, Specialist Regulatory and Network Analytics

- The PRWG was provided with a summary of the group’s previous discussions around the increase of two-way flows on the network and the increased use of Distributed Energy Resources (**DER**) by customers.

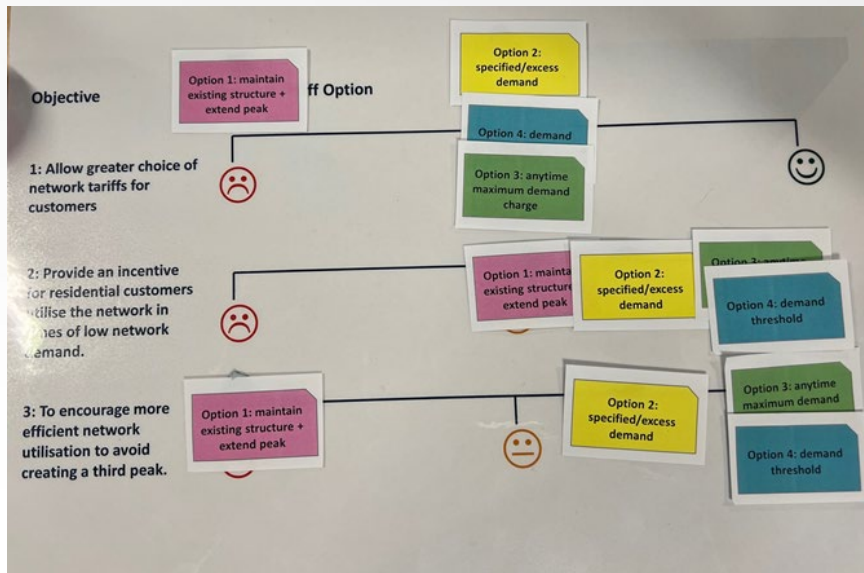
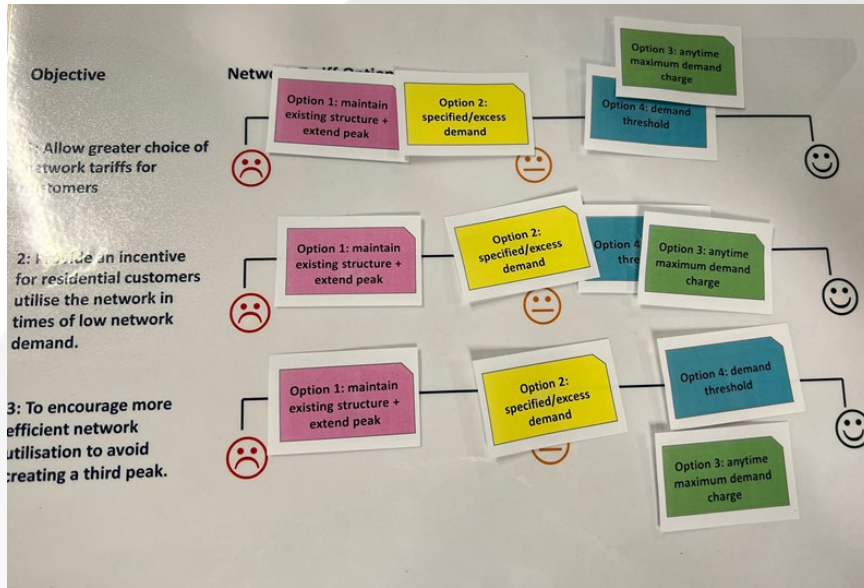
- A DER survey recently conducted by TasNetworks has also yielded useful insights into customers' intentions around DER implementation and usage.
- It was explained that TasNetworks intends taking a staged approach to DER pricing in the future. The proposed approach recognises that there is currently network capacity to accommodate additional DER uptake in the near term, which permits a smooth transition to cost-reflective pricing that will enable recovery of the cost impacts of more widespread DER utilisation in the longer-term.
- TasNetworks' strategy will involve amendments to the existing Residential DER tariff and a trial of an export tariff in the 2024-29 regulatory control period. Based on the findings of the trial, TasNetworks would look to implement an export tariff in the following (2029-34) regulatory control period.
- A recap of previous PRWG feedback regarding the proposed extension of the evening peak period from 9PM to 10PM, as a first step in the DER tariff transition, was presented by TasNetworks.
- It was noted that demand tariffs are not popular with retail customers, but that there is still a need to use price signals to avoid the creation of additional network peaks in the future, which are most likely to be caused by unmanaged Electric Vehicle (**EV**) charging.
- Three potential DER tariff options were presented to the group, which were all mostly consumption based, but included a demand component. The presented options also included the extended evening peak period and offered a "super off-peak" rate between midnight and 4 AM, mostly aimed at influencing EV charging.

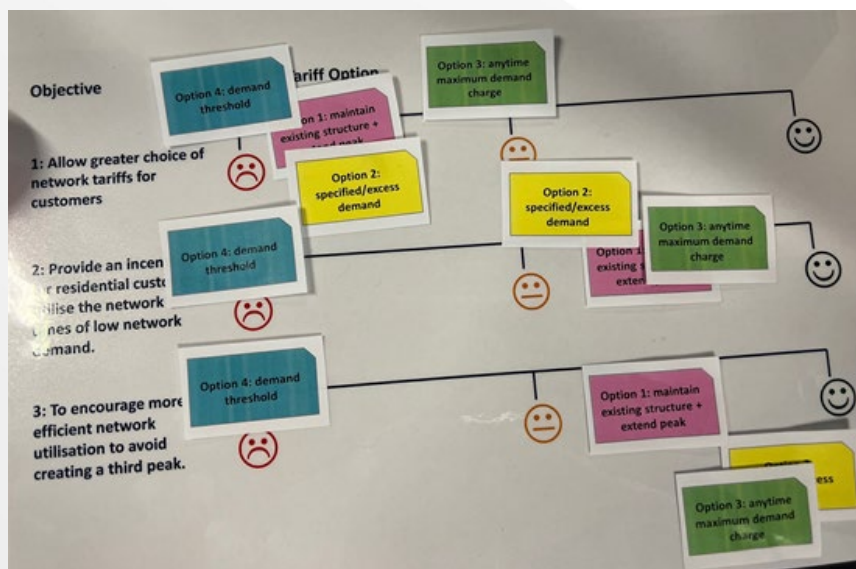
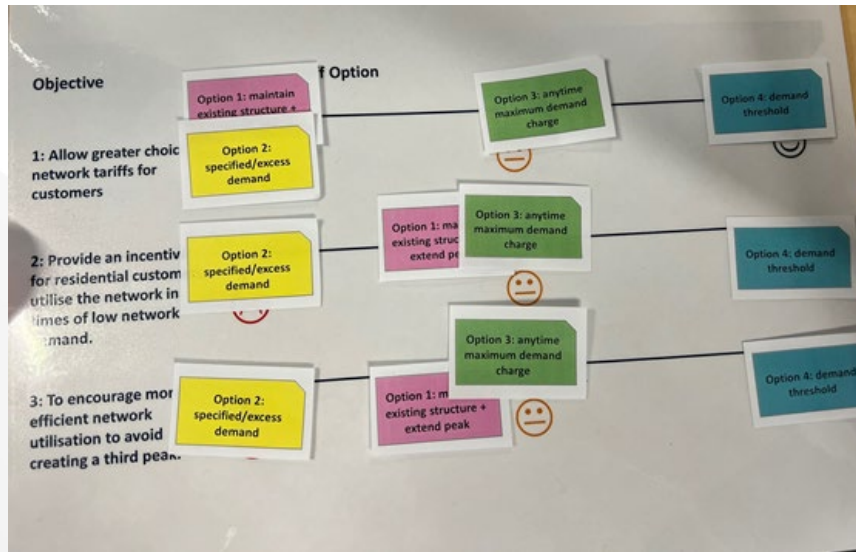
Options for making changes to DER network tariff:

1. Maintain existing tariff structure but extend peak period duration
 2. Anytime maximum demand charge
 3. Demand threshold and excess demand throughout the whole day
 4. Demand threshold and excess demand excl. midday periods on weekdays
- In response to a question from a PRWG member about whether TasNetworks could cut a customer's supply off if they exceeded a certain level of demand, it was noted by TasNetworks that there is no network tariff under which TasNetworks disconnects customers if they exceed a particular load, and that any demand threshold applying to a revamped network tariff for customers with DER would need to be determined in conjunction with TasNetworks' engineering teams and draw on analysis of customers' loads.
 - It was asked whether the DER tariffs being considered are intended to be primary or secondary network tariffs, in the way that the space heating and hot water tariff (TAS41) has been a secondary tariff to the general network tariffs applying to residential customers and small businesses. In response, it was explained by TasNetworks that if a customer were to opt-in or be assigned to a DER network tariff, that tariff would be apply to the customer's entire load profile.
 - A number of PRWG members expressed support for the use of a demand threshold as a means of preventing consumer behaviour that creates new peaks in demand in what are currently off-peak periods for the network.
 - The PRWG members engaged in small-group discussions with the aim of determining the group's preferred tariff option and assessing how the proposed tariff structures align with TasNetworks' Pricing Principles.

- The discussions were facilitated by the TasNetworks staff members, who were on hand to further explain the different tariff components for each of the proposed tariff options and their implications for customers.
- One of the small groups indicated its support for options 3 and 4, which they both scored highly against the assessment criteria incorporated into the group activity. That support extended to the use of a demand threshold.
- Another group also indicated their support for option 3, but rejected option 4 because of its perceived complexity and concerns about consumer's ability to understand and respond to the tariff.
- Another group preferred option 4, because the demand-based pricing signal is daily, rather than affecting billing for the whole month.
- As an aside, a member of the PRWG asked how the time of use periods associated with any of the DER tariff options under consideration would interact with Daylight Savings in Tasmania (noting that the network is operated with reference to standard time).
- A member of the PRWG also observed that the ability of customers to respond to time of use pricing and demand thresholds is reliant/heavily dependent on the ability of appliances to be controlled or respond to pricing signals etc.
- In response to a question from a member of the PRWG, TasNetworks clarified that its intention is to make changes to the existing DER tariffs in the next regulatory control period, not to conduct a trial of those changes.
- It was also explained that there are currently no minimum demand issues due to solar exports in Tasmania, and that the demand thresholds in the proposed tariff structures would need to be quantified in conjunction with TasNetworks' engineers.

DER tariff feedback – small groups activity





A ranking of the above feedback indicated that Option 3 was the preferred option based on simplicity but achieving the overall objectives. Of a possible score of 120, option 3 ranked 86.5 and option 4 ranked 80.5

Option 1	Group 1	Group 2	Group 3	Group 4	Total
Objective 1	2.5	1.0	1.0	2.0	6.5
Objective 2	2.5	5.0	4.0	7.0	18.5
Objective 3	2.5	1.0	4.0	7.0	14.5
Total	7.5	7.0	9.0	16.0	39.5

Option 2	Group 1	Group 2	Group 3	Group 4	Total
Objective 1	4.0	5.0	1.0	2.5	12.5
Objective 2	5.0	7.5	1.0	6.0	19.5
Objective 3	5.0	7.5	1.0	9.0	22.5
Total	14.0	20.0	3.0	17.5	54.5

Option 3	Group 1	Group 2	Group 3	Group 4	
Objective 1	7.5	5.0	6.0	5.0	23.5
Objective 2	7.5	10.0	6.0	8.0	31.5
Objective 3	7.5	10.0	6.0	8.0	31.5
	22.5	25.0	18.0	21.0	86.5

Option 4	Group 1	Group 2	Group 3	Group 4	
Objective 1	7.5	5.0	10.0	1.0	23.5
Objective 2	7.5	10.0	10.0	1.0	28.5
Objective 3	7.5	10.0	10.0	1.0	28.5
	22.5	25.0	30.0	3.0	80.5

6. Export services

Facilitator: Julie Morrison, Specialist Regulatory and Network Analytics

- It was explained to the PRWG that TasNetworks does not intend introducing an export tariff in the next regulatory control period, as DER take-up levels in Tasmania lag behind the levels in other states where export-driven network issues are being experienced. TasNetworks is, however, wanting to conduct a trial of a tariff in the next regulatory control period, as well as draw on the experience of other jurisdictions.
- One PRWG member observed that there was a lot of negative publicity when the prospect of export charges as a result of the changes made to the National Electricity Rules to recognise the provision of export services by networks was first announced, so the messaging about not introducing an export tariff in the next regulatory control period needs to be communicated to customers and stakeholders by TasNetworks.
- In response to a question about why embedded generators should pay export charges when large generators connected to the transmission network do not, TasNetworks noted that export charges for embedded generators connected to the distribution network are not necessarily just about charging for exports, and that there is the potential for export pricing to reward exports in certain circumstances. It was also noted that the connection charges faced by large generators are quite different.

7. Small business time of use peak window review

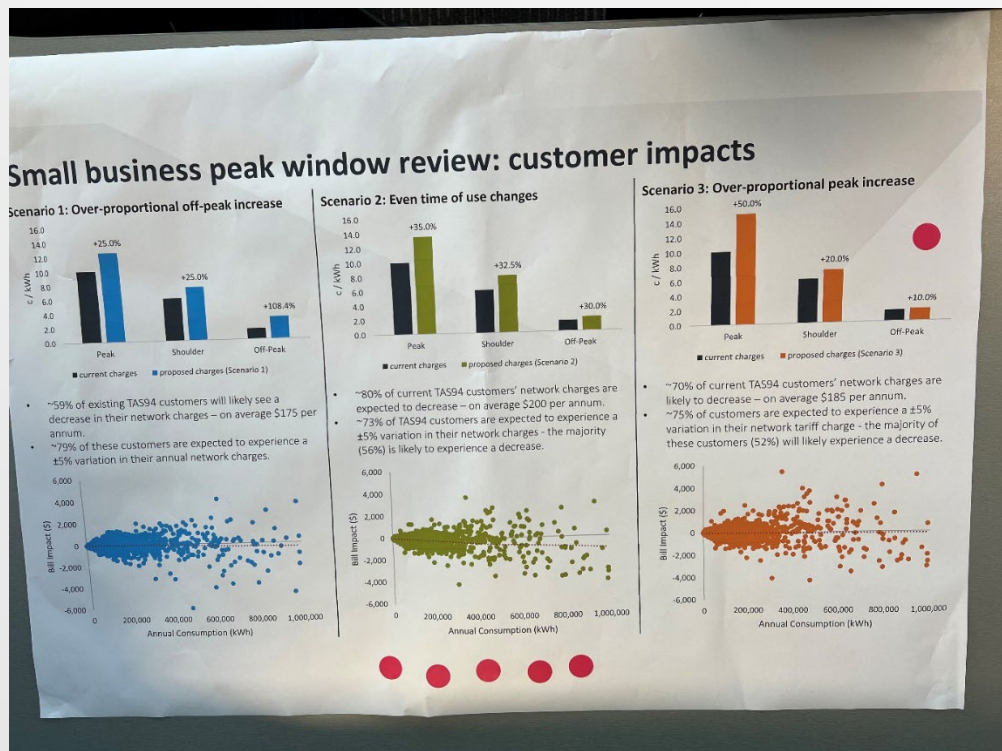
Facilitator: Julie Morrison, Specialist Regulatory and Network Analytics

- TasNetworks provided a recap of the consensus view reached at the most recent meeting of the PRWG regarding changing the time of use windows applying to small business customers. At that meeting, the PRWG expressed a preference for an option involving:
 - the removal of the weekend shoulder period to off-peak,
 - the inclusion of a shoulder period during the middle of the day on weekdays
 - reducing the length of the peak evening period from 10pm to 9pm

- It was noted that if these changes were implemented and TasNetworks were to maintain the existing prices applying to the tariff, the recovery of the total efficient cost (**TEC**) of serving the customers on the small business time of use tariff, which is currently close to 100 per cent, would be significantly reduced. This would create a cross-subsidy that would have to be borne by other customers, which would be inconsistent with the pricing principles in the National Electricity Rules, as well as the pricing principles agreed with the PRWG, specifically the principles of fairness and affordability.
- Three alternative scenarios for ensuring TEC recovery under the modified tariff design were presented to the PRWG, in order to gauge the group's preferred alternative.

Small business peak window review: seeking feedback

1. Increase off-peak over-proportionally
 2. Largely maintain existing relativities
 3. Increase peak over-proportionally
- PRWG members were asked to indicate their preference for setting the peak, shoulder and off-peak prices for small business customers on the small business time of use network tariff.
 - Supportive comments were made by several PRWG members about the desirability of eliminating peaks demand in the middle in the day.
 - One PRWG member suggested that stronger network pricing signals (in terms of the differential between peak and off-peak network charges) may be needed to preserve the pricing signal by the time it flows through into retail pricing.
 - Alternatively, another PRWG member expressed the view that stronger pricing signals may not sit well with many small businesses, which may have limited capacity to move their time of use.
 - Five (5) votes in favour of scenario 2 were received, with one (1) vote in support of scenario 3.



8. Embedded network tariff

Facilitator: Julie Morrison, Specialist Regulatory and Network Analytics

- It was noted that the assignment principles proposed for any new network tariff designed for embedded network operators reflect previous feedback provided by the PRWG, particularly the principles applying to tariff assignment to existing customers (operators of embedded networks).
- It was mentioned that the identification of embedded network connections is currently an issue in Tasmania, and it was pointed out that the proposed embedded networks tariff would only apply to new embedded networks. Existing embedded networks can select the tariff on an opt-in basis, however won't be able to switch back to a non-embedded network tariff once assigned.

Meeting closed at 2.40pm.

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 and publish forum minutes and actions to all members.	29 April 2022	14 April 2022
TasNetworks to share the results of the recently conducted DER survey with PRWG members.	29 April 2022	14 April 2022
TasNetworks to distribute feedback form for participants to complete and return.	29 April 2022	14 April 2022

10. Further reading

- Members were provided with additional reading to support our member's understanding of the forum topics and provide further insights into the opportunities and impacts of DER. We encourage all members to review the additional reading at their own leisure.