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

2024-29 Distribution Pricing Strategy

20 October 2020

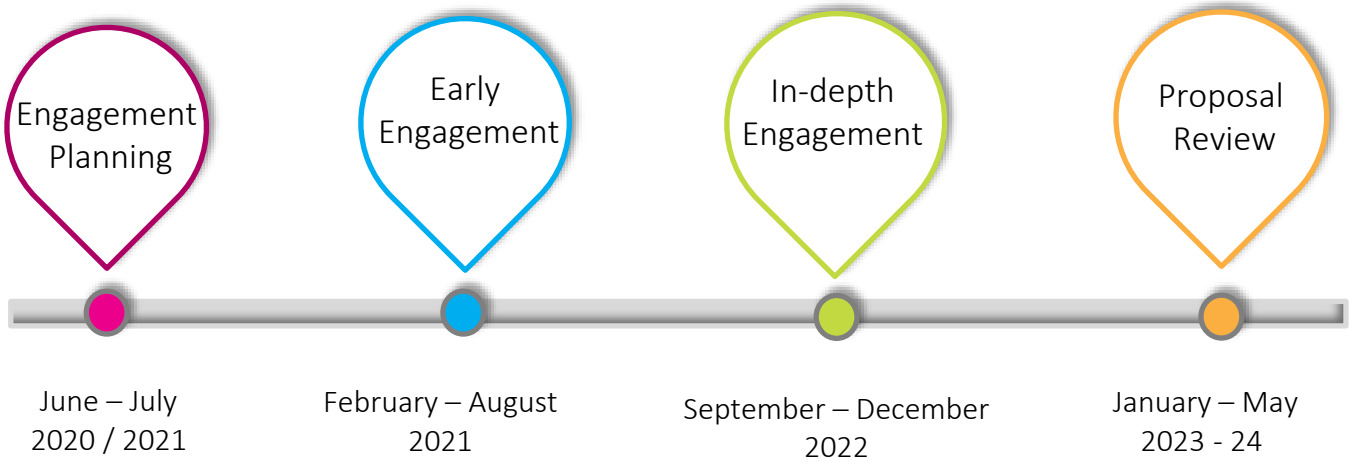
Agenda

Stream 1 – Policy and Regulatory Working Group		
11:10am	Customer Engagement and Participation	Chantal Hopwood
11:15am	Distribution Pricing Principles confirmation - What did we hear? - What have we changed?	Chantal Hopwood
11:20am	Pulse check of the - 2019-24 Pricing Strategy Tariff Assignment - What was agreed? - How are we going?	Julie Morrison
11:30am	Engagement Activity 1	Shannon Culic
11:50pm	2024-29 Pricing Strategy – The Future of the Network - Network Utilisation and Distributed Energy Resources (DER)	Julie Morrison
12:00pm	Engagement Activity 2 - Feedback on the Focus Areas for the 2024-29 Strategy	Shannon Culic
12:20pm	Next Steps and Questions	Chantal Hopwood
12:30pm	Close	

Purpose of the Policy and Regulatory Working Group

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

- Forums will continue on a quarterly basis but we will review the frequency and length of workshops from the 'in-depth engagement' phase.



TasNetworks Distribution Pricing Strategy

Purpose and Objectives

The purpose of this meeting is to recap our 2019-24 Pricing Strategy. We will show our progress against this strategy on two key reform areas – Network Tariff Assignment and Distributed Energy Resource (DER) tariffs.

We will confirm our commitment to refining our distribution pricing strategy using this as the basis to continue our reforms into 2024-29.

Utilising the enabling technologies and accessibility of data we can better identify the benefits, opportunities and barriers to our strategy to continue building and refining our distribution pricing reform agenda.

TasNetworks Distribution Pricing Strategy Engagement

At TasNetworks we recognise that engagement allows for better results, decisions, projects and ultimately better outcomes for our communities.

Increasing Level of Customer Participation

Customer Engagement Goal	**Inform:** To provide our customers with balanced and objective information to assist in understanding the problem, alternatives, opportunities &/or solutions.	**Consult:** To obtain customer feedback on analysis, alternatives and/or decisions.	**Involve:** To work directly with our customers throughout the process to ensure that customer concerns and aspirations are consistently understood and considered.	**Collaborate:** To partner with our customers in each aspect of the decision, including the development of alternatives and the identification of the preferred solution.	**Empower:** To place final decision making in the hands of our customers.
Promise to our Customers	We will keep you informed.	We will keep you informed, listen and acknowledge concerns and provide feedback on how customer input influenced the decision.	We will work with you to ensure your concerns and issues are directly reflected in alternatives we develop and provide feedback on how customer input influenced the decision.	We will look to you for direct advice and innovation in formulating solutions and will incorporate your recommendations into decisions where possible to the maximum extent.	We will implement what you decide.
Customer Engagement Tools	Fact sheets Newspaper/TV/radio Letters/Customer cards Social Media Customer charter Brochures	Focus Groups Community Forums Public Meetings Trade Nights Surveys	Workshops Consumer Engagement Forums	Advisory committees Contracts/Legal Agreements	Delegated decisions

TasNetworks
Delivering your power

Distribution Pricing Principles

What our stakeholders told us

Affordable.

Fair.

Simple.

Consistent.

Innovative.

Choice.

Have to think about what it's [DER] doing to our network and that there'll be costs somewhere and making sure we don't have a cross-subsidy occurring between those that can afford to put renewable energy resources in their house and those that can't.

Powering a bright future

Stakeholders noted concern regarding the word 'support' within the choice principle and instead encouraged a softer approach.

Urges TasNetworks to always place affordability and the customer's ability to pay as the most important pricing principle.

We appreciate that TasNetworks' distribution pricing strategy recognises its role in accessing affordable electricity.

Pricing is becoming more complex.

Simple pricing principles is very much needed as a lot of feedback we receive on a regular basis is that pricing is complicated and hard to understand.

Overall our internal stakeholders were comfortable that the pricing principles reflect the needs of our customers and the opportunities that pricing can provide.

Images courtesy of Icongeek26, Kiranshastry, ultimatearm, itim2101, and srip via www.flaticon.com

Pricing Reform across the NEM

Residential and Business Customers

- All customers have a default pricing assignment for their customer type.
- Most new and existing customers can also choose other pricing options if they meet eligibility criteria.
- Reassignment can occur if a customers characteristics change.

Energy Queensland:
Default demand based tariff

AusGrid:
Default demand tariff, option to be reassigned to residential ToU demand.

Essential Energy:
Opt out ToU tariff.

SAPN:
From 2020/21, flat rate tariffs will be closed to all new customers. Residential and small business customers default ToU consumption tariff.

Victoria:
Default ToU consumption tariff for new connections. Opt in to flat rate or demand tariff.

TasNetworks:
Opt out TOU consumption based tariff for residential and small business customers.

Total Distribution Network Connections

Compared to the rollout of advanced meters, it is observed that the move to cost reflective pricing is progressing at a slower pace. TasNetworks has been progressing network tariff reform since its inception in 2014.

292,905 total distribution network connections ▲**1.4%**

In total there are **71,270** advanced meters in Tasmania – representing **24.3%** of all meters. For some customer groups this exceeds the expectations stated in the 2019-24 Tariff Structure Statement:

- **24%** of Residential customers are on advanced meters (17%)*
- **22%** of Low Voltage Business customers are on advanced meters (25%)*
- **41%** of Irrigation customers or advanced meters (25%)*

* Represents expected proportion of customers on advanced meters for the 2019-24 regulatory period

34,334 (48%) of customers with advanced meters have cost reflective tariffs – largely driven by *Pay As You Go* customers.

12.6% of <u>all</u> customers are on cost reflective tariffs

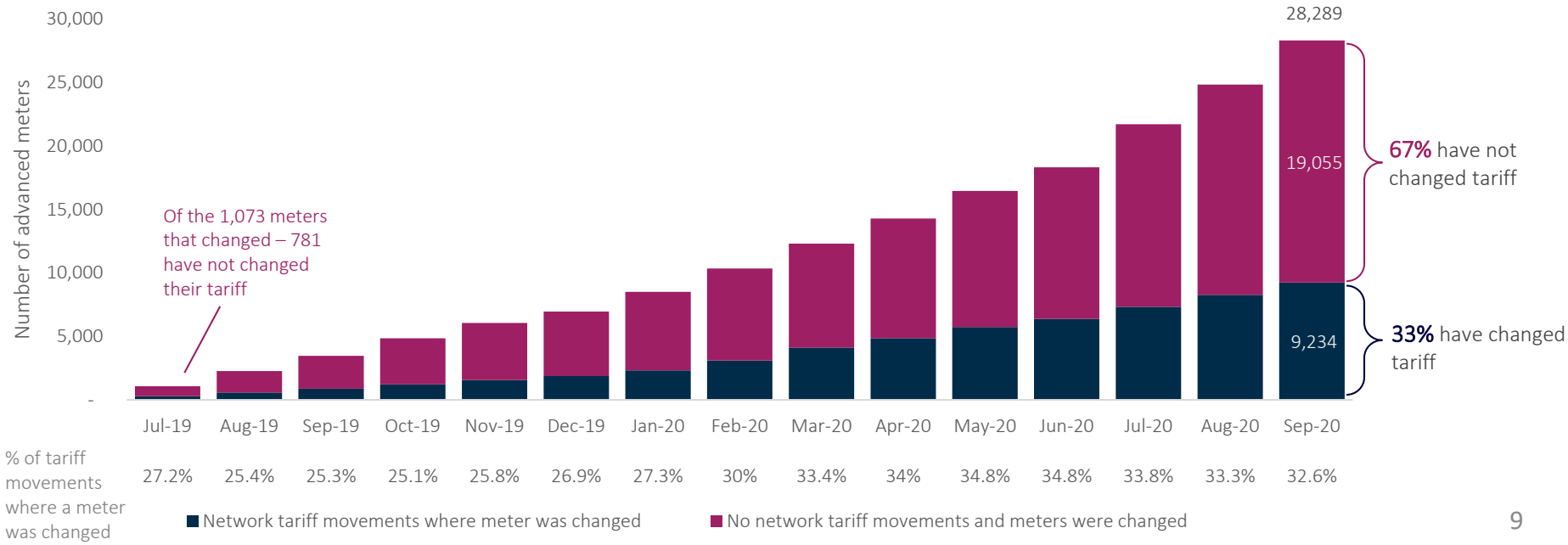
Advanced Meter Roll outs and Cost Reflective Tariff Uptake

Since July 2019, a total of 28,289 advanced meters have been rolled out by retailers - 33% of those customers have churned to a new tariff*

** Excludes New Connections and Residential PAYG (TAS101) tariff changes – which were mandatorily reassigned to TAS93 when 8,894 PAYG meters were replaced over the period*

- The remaining 19,055 customers will have entered the Data Sampling and Notification Period determined from the date of their meter being changed.
- In the month of July 2019, 1,073 meters were changed – 72.8% (781) did not change their tariff.

Cumulative total of meters changed and associated network tariff movement as at 30 September 2020

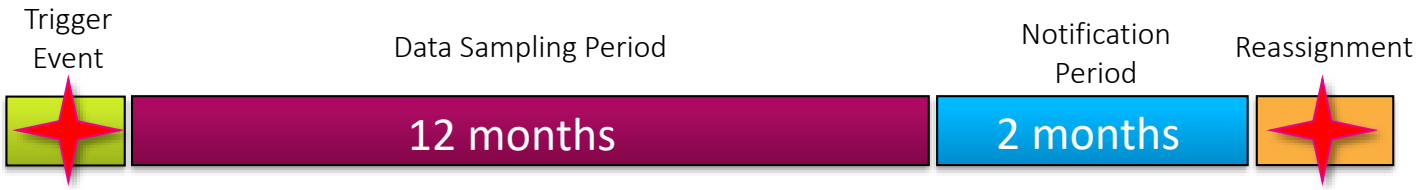


Network Tariff Assignment Policy

There are several trigger events that will initiate the assignment policy process for customers. TasNetworks has implemented a 12 month data sampling period and a 2 month notification period.

Our current assignment policy:

- From 1 July 2019 consumption based Time of Use network tariffs are the default network tariffs for all new small business and residential connections and meter replacements or upgrades.
- The decision includes a 12 month delay to be applied to each customer for the 2019-24 regulatory period.
- Retailers will then have a two month notification period to notify TasNetworks if a customer wishes to opt out of a time of use network tariff.
- At the conclusion of the notification period, TasNetworks will begin billing the customer's retailer on a Time of Use basis, unless the retailer notifies us of an opt out decision.

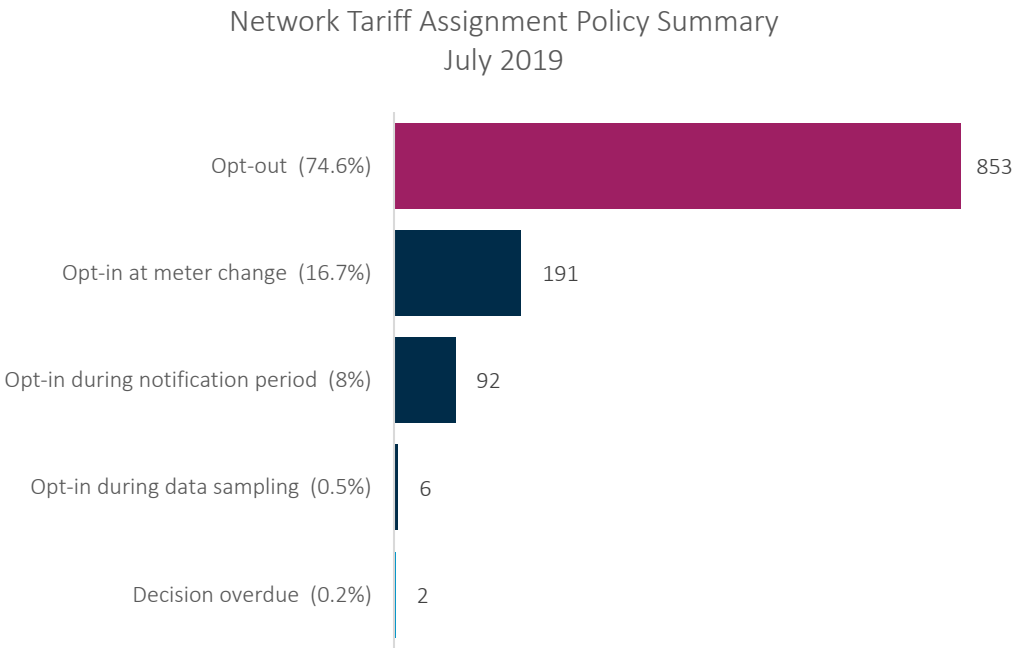


Network Tariff Assignment Policy

75% of customers opted out from moving onto Cost Reflective tariffs where customers had their meter changed (including new meter installations) *

** Excludes Residential PAYG (TAS101) tariff changes – these were mandatorily reassigned to TAS93 when 8,894 PAYG meters were replaced over the period*

- Those customers who did opt-in
  - Nearly 17% churned their tariff at the time the meter was changed; and
  - 8% churned during the notification period (as a result of data sampling)



Engagement Activity 1:

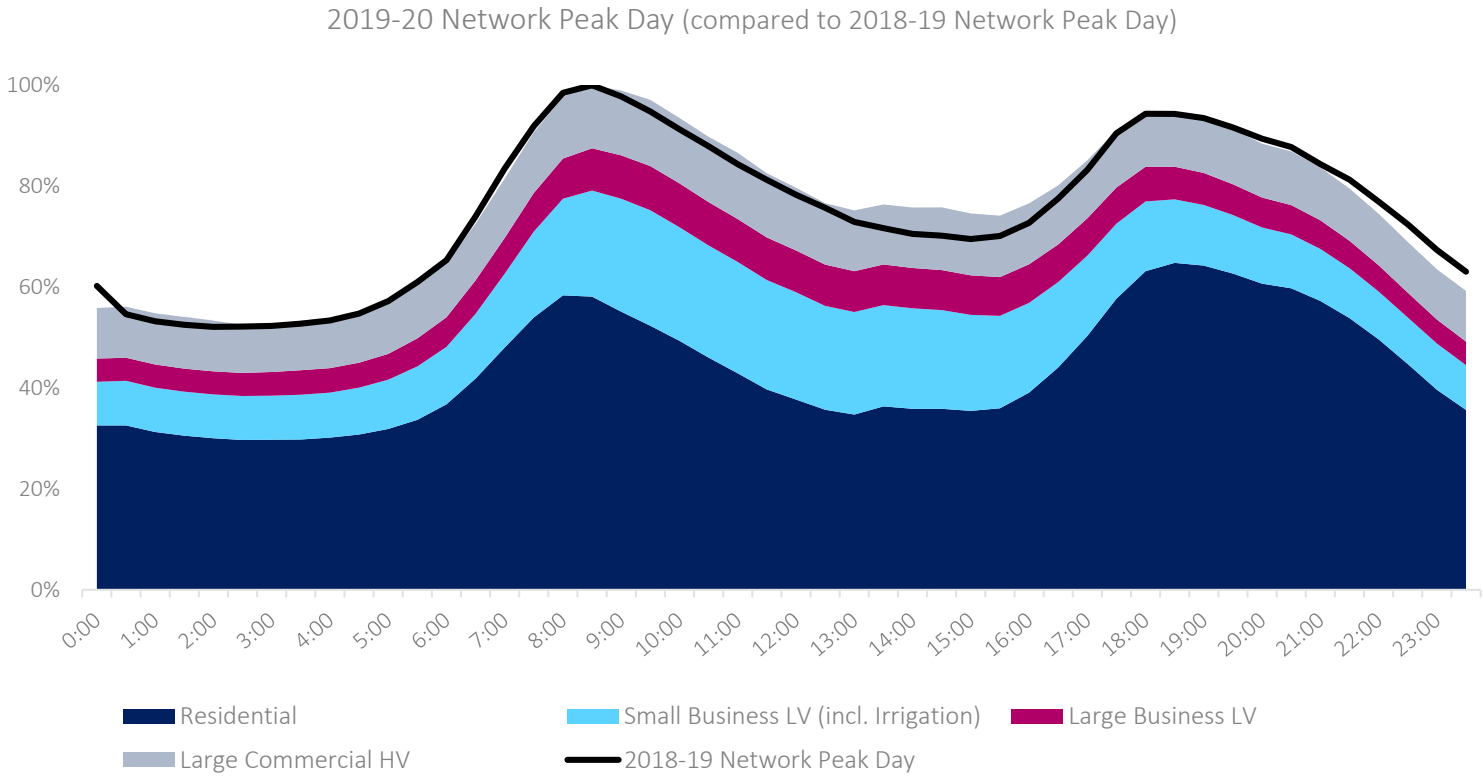
1. What are the barriers to TasNetworks achieving the current pricing strategy?

2. What is needed to facilitate effective electricity network tariff reform? What are we currently missing?

Network Peak Days

The demand profile on network peak days shows a "double hump", largely influenced by residential customers.

- Within residential, the Heating and Hot Water tariff (TAS41) places the highest demand on the network.
- At the time of the Network Peak, TAS41 demand is more than twice as high as demand of the Residential Low Voltage General tariff (TAS31).

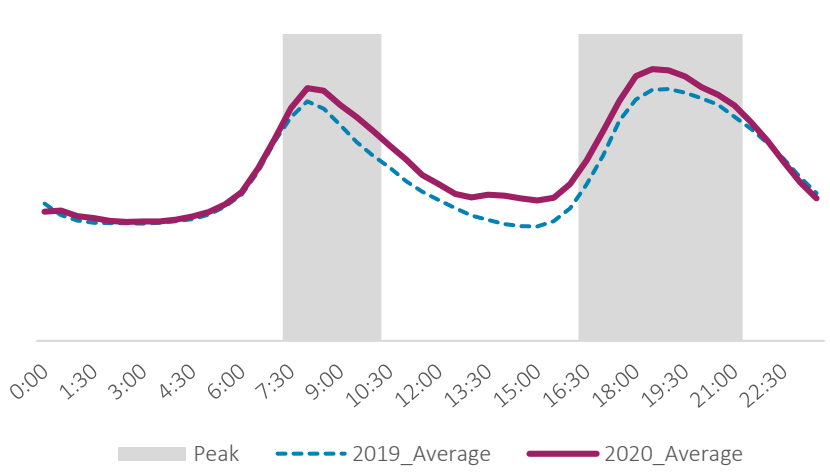


Price Responsiveness

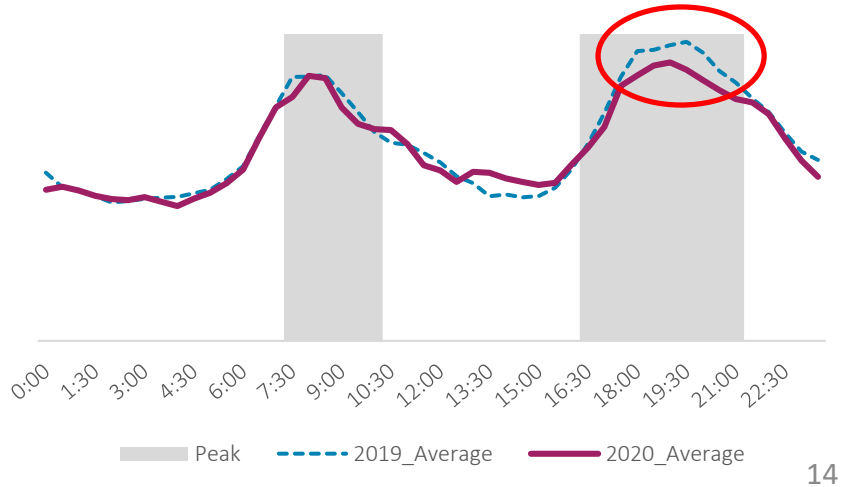
Customers who have moved onto a cost-reflective tariff show responsiveness to the time of use pricing signals.

- While there is still limited data, customers who have moved from TAS31/41 to the Residential Time of Use tariff (TAS93) over the last two years are showing the following characteristics on Network Peak Days:
  - An overall decline in usage of approx. 2%
  - A downward shift in in peak times of approximately 5% - particularly during the evening peak period.
  - At midday, usage has increased 4%. However, it isn't clear whether this is in response to pricing signals, or of COVID-19 related impacts.
- By comparison, customers who remained on TAS31/41 have increased their consumption by 7% in total – 8% during peak times. Again, we are seeing a midday increase of 16% between the two years.

Comparison of Network Peak Day for 2019 and 2020
Customers who remained on TAS31/41



Comparison of Network Peak Day for 2019 and 2020
Customers who moved from TAS31/41 to TAS93

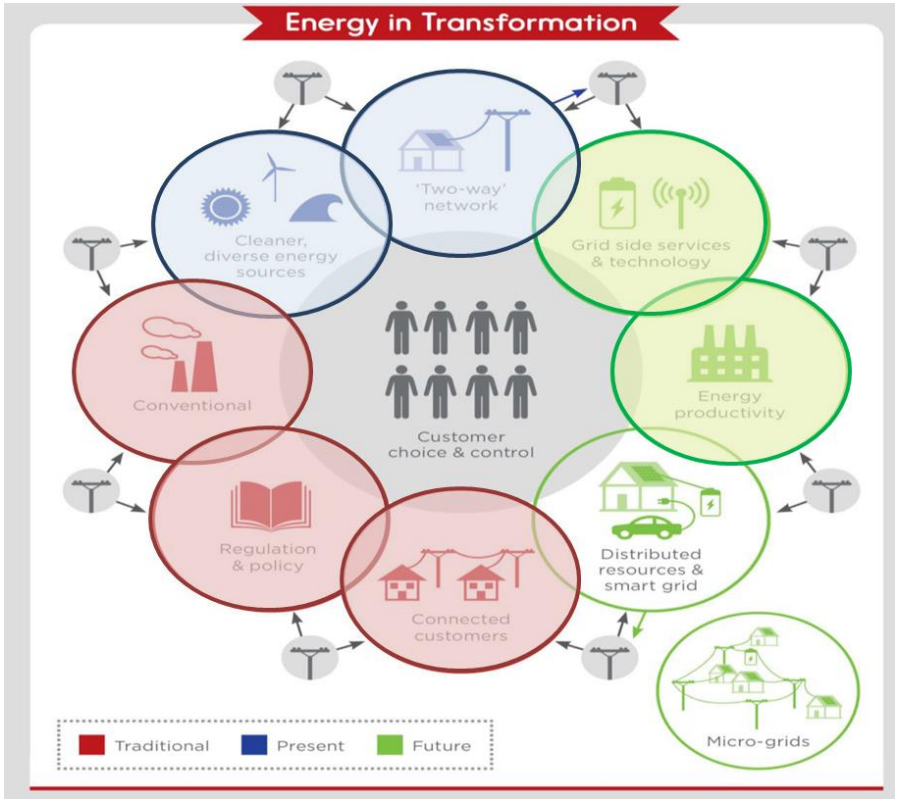


Distributed Energy Resources

Whilst understanding the current network utilisation, the significant transformation within the energy sector cannot be under-estimated. Distributed Energy Resources (DER) will provide energy generation into the future.

Distributed Energy Resources (DER) encompass renewable energy systems that are typically located at residential properties and businesses to provide them with power.

- Energy generation has diversified to include wind and solar farms, rooftop solar PV and household storage batteries.
- Common examples include
  - Rooftop Solar PV and Battery Storage
  - Electric Vehicles
  - Demand Response
- Benefits
  - Affordability
  - Reduce the need for network expansion
- Challenges
  - Network Reliability
  - Modernisation of the Network

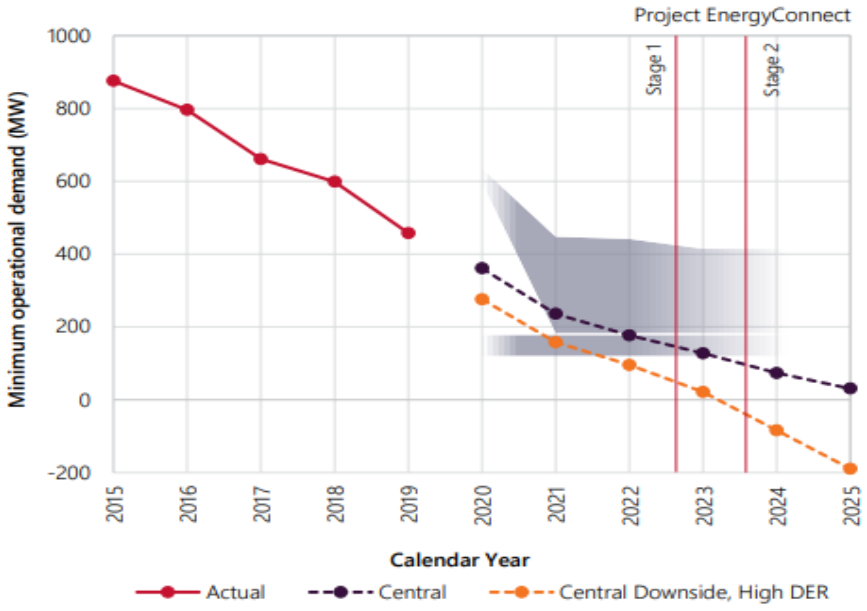


Minimum Demand

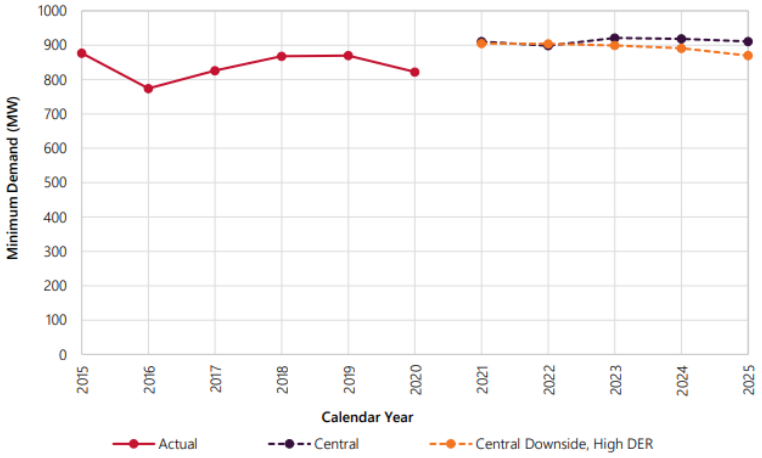
Minimum Demand and its potential impact on the network needs consideration. AEMO's recent Electricity Statement of Opportunity (ESOO) forecasts declines in Minimum Demand in some NEM jurisdictions.

- Forecasts indicate that there will be relatively small growth in distributed PV in Tasmania, suggesting that minimum demand levels are not likely to reduce significantly over the next few years.
- This differs to the active issue arising in South Australia and emerging issues in Queensland and Victoria.
- Nonetheless, reverse flows from embedded generation are increasingly driving network expenditure in Tasmania and will be an important consideration in TasNetworks' upcoming Revenue Reset.

Minimum operational demand thresholds in South Australia



Minimum operational demand thresholds in Tasmania

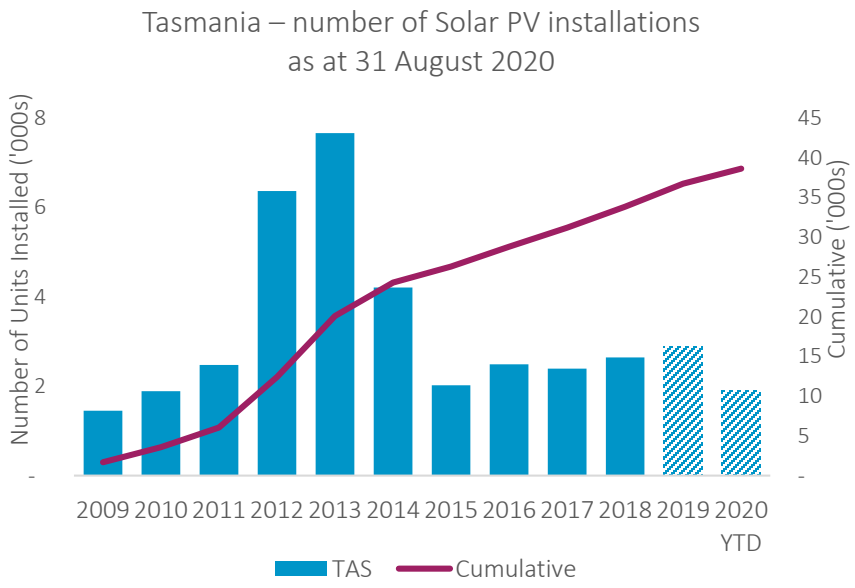


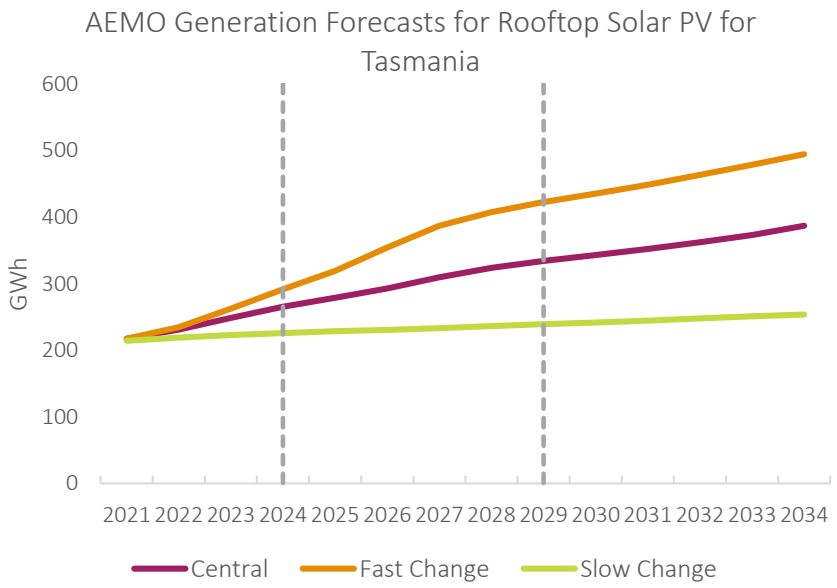
Source: AEMO 2020 | 2020 Electricity Statement of Opportunities

Rooftop Solar PV Installation and Generation

In Tasmania, the uptake of Solar PVs have reduced approximately 15% from their high in 2013. Since 2015, the number of Solar PV installations are between 2,000 and 2,890 units per year in Tasmania.

- Tasmanian solar PV growth has been a low 5% since 2016 compared to the NEM where growth is 32% over the same period.
- Tasmania's low growth is consistent with AEMO's assessment of minimum demand on our network, which is reflected in their generation forecasts





Source: Clean Energy Regulator
NOTE: There is a 12 month window to submit data, therefore 2019 and 2020 data will change.

Source: AEMO | 2020 Statement of Opportunities (ESOO)

Engagement Activity 2:

1. What are the key network challenges associated with the emergence of these new technologies (solar PV, batteries, EVs)?

2. How does TasNetworks work with stakeholders to develop a pricing structure that is relevant for the future?

Ask us anything

TasNetworks Distribution Pricing Strategy

Next Steps

- The next Policy & Regulatory Working Group forum will be held in early 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.