

Pricing Reform Working Group Meeting #2

Date: Wednesday November 23, 2016 – 9.30am to 12.30pm

Venue: Salamanca Inn Boardroom – 10 Gladstone Street Battery Point

TasNetworks Representatives: Chantal Hopwood (Chair), Kristy Evans, Mark Drew, Iain Meaney

Attending: Charles Scarafiotti (Nekon P/L), David Bowker (Hydro), Penny Cocker (AEVA), Jonathon Bellette (Aurora), Jack Gilding (TREA), Marc White for Kim Ayers (TasWater), Mark White (UTAS), John Devereaux (for TFGA), John Cooper (Hydro), Trent Allen (Masonic Homes)

Apologies: Kath McLean (TASCOS), Margie Law (Anglicare), Kim Ayers (TasWater), Tom Kelleher (Aurora), Robert Mallett (Tasmanian Small Business Council), Bruce Fyfe (Tassal Limited), Georgie Palmer (LGAT), Michael Bailey (TCCI)

Meeting Notes

Meeting Purpose:

The purpose of the meeting was to:

- Continue the process of engaging the PRWG in matters related to TasNetworks' Pricing Strategy by discussing specific elements of TasNetworks pricing strategy that are of interest to customers and have been identified as such by the AER.
- Specifically focus on feedback received by the AER regarding points identified for consideration relating to future Tariff Structure Statements.
- Determine the group's thoughts on how we should structure time of use demand based network tariffs for residential and small business customers. In the upcoming regulatory period, TasNetworks will determine demand charges for its new network tariffs based on the maximum 30 minute period in the month. The AER has asked us to consider alternative methods of calculating demand such as using the average of the top four 30 minute periods in the month.
- Determine the group's thoughts on the pace of reform. Our current plan is to gradually realign subsidised network tariffs over a period of up to 15 years.
- Continue to strengthen the relationships within the PRWG. TasNetworks' role continues to be to balance the interests of multiple stakeholders with competing priorities against the pricing principles which were discussed.
- Provide information to help PRWG members understand how changes to the network tariffs structure will impact different groups of customers.

Activity 1 – Demand based charging structure

We conducted an activity with PRWG members exploring charging structure options for demand based network tariffs. The current structure for TasNetworks' new time of use demand based network tariffs (available as a choice to customers from 1 July 2017) includes a peak and off-peak demand charge based on a customer's highest 30 minute demand for the billing period.

We explored the option with the PRWG of changing the demand calculation method to be based on the average of a customer's highest four 30 minute demands for the billing period (with no more than one billing period per day). In order to facilitate the discussion, we shared with the PRWG some modelling that looked at two possible charging options:

- A time of use maximum demand charge based on the single maximum peak demand within the billing period.
- A time of use maximum demand charge based on the average of the four highest peak demands recorded in the billing period.

[Time of use demand based network tariff charging options](#) (PDF) outlines the above options and explores the impact of both options through examples based on real data.

The list below represents a summary of the discussion with feedback grouped into common themes.

Question 1. *What would cause a 30 minute anomaly in demand in your house?*

Group members were asked about what they thought would create a 30 minute anomaly in their house. Group member's thoughts are summarised below:

- Turning on multiple appliances at one time. Group members specifically focussed on more discretionary appliances such as clothes dryers, washing machines, dishwashers and bathroom heat lamps.
- Visitors.
- Welding activities.

Question 2. What pros and cons do you see with the two demand calculation options?

Group members were asked to talk about the relative benefits of each of the two methods proposed, the below table provides a summary of the discussion.

Benefits of a single maximum demand point	Benefits of the average of the top four maximum demand periods
<ul style="list-style-type: none">• Simpler• Some suggested it was a more efficient method in an economically pure sense. Because our network is built to accommodate the single largest period of demand, some suggested charging on the same basis would provide the most economically efficient outcome.	<ul style="list-style-type: none">• Deemed a fairer network tariff structure as it does not place an over emphasis on a potential one-off anomaly. Increased fairness outweighs perceived increase in complexity in network tariff structure• The group also suggested they would like to see the same methodology applied to the off peak charge as they believed consistency was important.• Less likely to create 'bill shock'.• Averaging of four periods potentially increases the probability that at least one billed peak coincides with the actual system peak, therefore increases the cost reflectivity of the network tariff structure.• Group members thought there would be a percentage of customers that would not understand the charge, however this could be overcome through effective communications.• Customers are likely to view this network tariff structure as less punitive and therefore preferable for the residential demand based tariff and the small business demand based tariff.

We asked PRWG members about their preferences.

Question 3. Do you have a preference? What are the reasons for your preference?

Question 4. Which option do you think customers would prefer and why?

Preferred option - Average of the highest four 30 minute maximum demands in both the peak and off-peak periods

The reasons the group held this view are summarised in the table above.

- PRWG members discussed price elasticities and the signals associated with service charge and variable network tariff components, in particular the importance of ensuring adequate revenue recovery via variable tariff components to influence behavioural the change was noted and discussed.
- The information provided to the group included a summary of the method currently being used to calculate demand charges by Ergon Energy. The group noted Ergon's use of an off peak kW floor and suggested strongly that they were not in favour of this approach.

Activity 2 – Pace of Pricing Reform (Opt in versus Opt out)

We conducted an activity with PRWG members to discuss options in relation to the pace of pricing reform. Specifically, we wanted to know the group's thoughts on reconsidering the timeline for tariff alignment of subsidised tariffs. We also asked the group to consider opportunities for accelerated alignment noting the trade-off between cost reflectivity and customer impacts. The group's thoughts are summarised below:

Common themes

- Pricing reform should not be delayed, rather there was a strong preference for reform to be undertaken sooner rather than later.
- The ideal time to move from opt-in to opt-out options for demand based time of use tariffs is early in the 2019-2024 regulatory period for the following customer segments:
 - Customers requiring a replacement meter
 - A new customer
 - A customer who requests a change to connection characteristics (i.e. single phase to three phase, install solar, embedded generation, alteration to existing switchboard)
 - A customer who moves into an existing premises
 - Mandatory reassignment for customers on obsolete network tariffs
 - Customers who request a change to their connection class (i.e. residential to business) or network tariff
- The next two year regulatory period, during which the new time of use demand based network tariffs will be available to customers as a choice via their retailer, provides sufficient time for stakeholders to understand the new network tariff offerings in preparation for opt-out options from 2019.
- The two year regulatory control period (2017-2019) should be utilised by TasNetworks in conjunction with retailers to educate and inform customers of the new cost reflective network tariffs. In addition, TasNetworks should utilise this period to communicate with likely impacted customers (including those impacted by mandatory tariff reassignment from obsolete tariffs).
- The uncertainty around underpinning metering technology and, in particular, future cost structures. The costs associated with metering have the potential to impact the pace of network tariff reform.
- The opportunity to accelerate the pace of reform, particularly targeting customers building new premises. These customers have the opportunity to consider the impact of more cost reflective network tariffs on their housing related investment decisions.
- The opportunities to align the move to more cost reflective tariffs with that of metering technology improvements/replacements. The group suggested they were less enthusiastic about changes to network tariffs where the metering infrastructure for individual customers would need to be updated to facilitate the new network tariff.

Other themes discussed

- The benefit to all customers of a move towards more cost reflective tariffs. Efficient price signals may decrease the size of the network that must be maintained and operated.

Actions

The table below provides a summary of the actions captured during the second PRWG meeting.

Action	Responsible	Due date
<ul style="list-style-type: none">We have committed to a discussion about Metering strategy (including TasNetworks' metering revenue post 2019).	TasNetworks	23 February 2017
<ul style="list-style-type: none">We have committed to have the discussion about the merits of increasing the service charge components of network tariffs.	TasNetworks	23 February 2017
<ul style="list-style-type: none">TasNetworks to provide further explanation in subsequent PRWG meetings regarding the rationale underpinning the inclusion of an off-peak charge component in the new demand based time of use network tariffs given our costs are not driven by off peak demand.	TasNetworks	23 February 2017
<ul style="list-style-type: none">Given any impact on customers is seen through retail bills, the group suggested it would be appropriate for retailers to present to the group regarding their retail strategy and proposed customer engagement strategy. TasNetworks will facilitate a presentation by retailers at the next PRWG meeting in February.	TasNetworks	23 February 2017