

Pricing Reform Workgroup Meeting #3

Date: Thursday, April 27 2017 - 9:30 am to 12.30 pm

Venue: TasNetworks Offices 1-7 Maria Street (Admin 1 – Gordon Meeting Room)

TasNetworks Representatives: Kirstan Wilding (Chair), Chantal Hopwood, Mark Drew and Robert McMillan (from Farrier Swier)

Members: Charles Scarafiotti (Nekon P/L), Penny Cocker (AEVA), Jonathon Bellette (Aurora), Jack Gilding (TREA), Marc White for Kim Ayers (TasWater), Bruce Fyfe (Tassal Limited), Mark White (UTAS), John Devereaux for Nick Steel (TFGA), Georgie Palmer (LGAT), Trent Allen (Masonic Homes), John Cooper (Hydro), Cynthia Townley (TASCOSS), Kath McLean (TASCOSS), Margie Law (Anglicare), Kim Ayers (TasWater), Tom Kelleher (Aurora), Robert Mallett (Tasmanian Small Business Council); Michael Bailey (TCCI)

Apologies: Jack Gilding, Robert Mallett, Jonathon Bellette, Tom Kelleher; Kath McLean, Margie Law, Michael Bailey.

Meeting Notes

Meeting Purpose

The purpose of the meeting was to:

- Members are provided with a copy of the presentation from the Pricing Reform Working Group Meeting #3, this has also been made available on our website: [Pricing Reform Working Group Presentation April 2017.pdf](#)
- TasNetworks has also provided an update on the emPOWERing You Trial to OTTER's Customer Consultative Committee, the presentation is also provided to members as an attachment to these meeting notes.
- Provide an overview of the strategic context in the national electricity market and outline TasNetworks pricing strategy for 2019-2024.
- Inform PRWG members of the Australian Energy Regulator's Draft Decision on TasNetworks 2017-19 Tariff Structure Statement and Regulatory Proposal.
- Consult on options and seek feedback from members on the proposal through activities, weighing principles and benefits of tariff reform in the discussion.

Activity – Designing new tariffs for new energy and to encourage take-up of more cost reflective tariffs

We consulted with PRWG members using an activity to explore new tariff offerings for the 2019-24 regulatory control period, including:

1. A demand based time of use network tariff specifically for DER customers with a discounted off-peak period charge for the 2019-24 regulatory period.
2. A demand based time of use network tariff for small customers with a discounted off-peak period charge for the 2019-24 regulatory period.

Information outlining the indicative network charge impact on customers choosing the new tariffs as well as the network charge implications for the remaining customer base (note: the price points for the remaining network tariffs would increase in order to fund the discount incentives) was presented to PRWG members. The following three options were presented:

1. No discount applied to the current demand based time of use tariffs
2. A 25 per cent discount applied to the off-peak demand charge compared to the applicable demand based time of use tariff with the discount transitionally removed over the regulatory control period.
3. A 50 per cent discount applied to the off-peak demand charge compared to the applicable demand based time of use tariff with the discount transitionally removed over the regulatory control period.

The following is a summary of the feedback received in the group activity where we split into two groups. One group focussed on the needs of business while the other group concentrated on residential customers.

A demand based time of use network tariff specifically targeting DER customers

- The majority of PRWG members are supportive of a network tariff specifically targeted at DER customers and discounted for the 2019-24 regulatory period so as to incentivise take-up.
- There is value in targeting early adopters of DER technology now so that we can provide price signals before customers make new investments.
- The discount and transition should be very clear. Business customers, in particular, make long term investments and will require certainty. TasNetworks should consider the opportunity to discount beyond a single regulatory period.

A discounted demand based time of use network tariff to encourage customers to take up more cost reflective network tariffs

- The majority of PRWG members are supportive of a discounted demand based time of use network tariff to encourage small customers to move to more cost reflective network tariffs. Participants suggested this incentive will assist in accelerating the pace of reform.
- A successful transition to more cost reflective tariffs requires not only a change in pricing structures but also support processes to help customers understand demand based tariffs and what it may mean for them.

Discounted demand based time of use network tariffs for DER customers and all small customers

- A 50 per cent discount is preferred over a 25 per cent discount. The larger discount provides more incentive for customers to choose a demand based network tariff.
- The discount needs to be big enough to make a difference to people, this is an instance where consideration of long terms is required in order to be consistent with long-term network investments (for example, average 40 year assets and replacement cycles).
- Some PRWG members suggested larger discounts could be considered to ensure the discount is adequate to incentivise take-up.
- The needs of vulnerable customers must be considered. TasNetworks should encourage a review of the concession framework by the State. It is important to ensure this reform is not jeopardised by recovering the discount amount from the rest of the customer base in an irresponsible manner.
- There is value in targeting (via network tariff offerings) DER customers before they make new investments.
- TasNetworks must be clear about the long term benefits for all customers in the implementation of a new tariff for DER customers and the transition of small customers to more cost reflective network tariffs.
- Any discount will be more effective if it is front-loaded as people tend to be more responsive to short term benefits.
- Both new tariff offerings have the potential to put downward pressure on electricity prices in Tasmania and have the potential to ensure customers do not migrate away from the network.
- Recovering the discounting costs from other users is fine in principle because of the long-term benefits case, however the implications of recovery need to be carefully considered. While we value equity in the recovery, it will be important not to jeopardize the reform by recovering discounts in a way that is not palatable. We recommend recovering it in a way that limits its impact on customers. Group observed that in a low inflation environment, the impact of <1% on other users may be easier to manage.
- Preconditions of success include: adequate customer information, government acceptance, retailers make facilitating offers to the market and discount is enough to drive behaviour.
- Take-up of the new tariffs would be improved if customers were offered a shadow price for an initial period.

Actions

The table below provides a summary of the actions captured during the meeting that have since been completed.

Action	Responsible	Due date
• Provide explanation about the status of rebalancing tariffs and revenue	Kirstan Wilding	Complete
• Share media regarding Bruny Island trial	Kirstan Wilding	Complete
• Share link to TasNetworks Network Planning Report	Kirstan Wilding	Complete
• Share Australian Energy Regulator communication regarding TasNetworks final decision for 2017-19 regulatory period	Kirstan Wilding	Complete

During the meeting, TasNetworks also took actions to provide PRWG members with additional information which can be found below:

1. A link to the Tamblyn report into the feasibility of a second Bass Strait interconnector. The full report can be found here:

<http://www.environment.gov.au/system/files/pages/014e6ca4-f681-4ea5-a671-3301dde84217/files/final-report-feasibility-second-tasmanian-interconnector.pdf>

2. An explanation about the status of rebalancing tariffs and revenues (slide 18):

The tariffs percentage reflects the forecast level of consumption for all customers on cost reflective tariffs divided by total tariff consumption. Percentages are reflective of an end of regulatory control period forecasts.

We have modelled the removal of the current cross subsidies between tariff classes over time. The revenue percentage change reflects the reduction of revenue over-recovery by tariff class compared to the base year of 2014-15.

3. A link to recent media related to the Bruny Island battery trial:

<http://www.abc.net.au/news/2017-04-14/tasmanias-bruny-island-tests-battery-system-australia-energy/8444964>

The PRWG Chair noted the replacement of Kath McLean from TASCOS. Kath is retiring and we are very thankful to Kath for the significant contribution she has made to TasNetworks and previous networks businesses. Kath has been a strong representative voice for vulnerable customers, we will miss the insights and valuable feedback that Kath brings to every meeting. Best wishes to Kath on behalf of the PRWG.