

Pricing Reform Workgroup Meeting #4

Date: Thursday, August 2 2017 - 9:30 am to 1.30 pm

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

TasNetworks Representatives: Kirstan Wilding (Chair), Chantal Hopwood, Mark Drew, Iain Meaney

Invitees: Craig Madden (AER), Andrew Ley (AER), Andrew Nance (CCP)

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), Margie Law (Anglicare), Kim Ayers (TasWater), Tom Kelleher (Aurora), Robert Mallett (Tasmanian Small Business Council); Michael Bailey (TCCI)

Apologies: Georgie Palmer, Nick Steel, Kim Ayers; Margie Law, Michael Bailey, Trent Allen.

Meeting Notes

Members were provided with the following pre-reading materials:

- The Australian Energy Market Commission (**AEMC**) Distribution market model project infographic (<http://www.aemc.gov.au/getattachment/124ababc-74a8-4fb2-8813-fbd385dfc1dd/Infographic.aspx>), highlighting the importance of supporting a competitive market for distributed energy resources (**DER**). TasNetworks' distribution pricing strategy for the 2019-24 period includes the introduction of dedicated DER tariffs for residential and small business customers.
- The AEMC Annual Retail Competition Review, Consumer Research Findings: 25 July 2017 infographic - <http://www.aemc.gov.au/getattachment/b7474c0b-8f1b-4e62-87ed-6aa551f3649d/Infographic-Consumer-research-findings.aspx>. This infographic highlights how competition in the retail market is evolving and what is it delivering for residential and small business customers. It also includes a summary of how customer's expectations are changing and the customer interest in uptake of new technologies is increasing.

Members have been provided with a copy of the presentation from the Pricing Reform Working Group Meeting #4, this has also been made available on our website: [Pricing Reform Working Group Presentation August 2017](#)

Meeting Purpose

The purpose of the meeting was to:

- Update Pricing Reform Working Group members on our future expenditure plans and revenue implications

- Consult with Pricing Reform Working Group members on our Distribution Pricing Strategy for the 2019-2024 regulatory period
- Provide an opportunity for Pricing Reform Working Group members to better understand Aurora Energy's Retail Pricing Strategy
- Inform Pricing Reform Working Group members of preliminary learnings from our emPOWERing You trial

Activity – Opportunity to provide feedback on the impact of a changing energy market and how this may impact developed customer groupings or clusters.

We consulted with Pricing Reform Working Group (**PRWG**) members using an activity to explore some of the preliminary learnings from our emPOWERing You trial. Using a data mining technique called clustering we were able to determine four customers groups amongst our 600 emPOWERing You Trial participants. We note that utilising data mining techniques such as clustering represents one form of analysis, the developed outputs were designed to assist discussion, we are continuing to refine our analysis approaches and intend to provide further information about customer characteristics and groups in our 2019-24 Tariff Structure Statement.

The derived 'clusters' are:

1. Morning peaking customers (group comprises 10 per cent of trial participants)
2. Evening peaking customers (group comprises 33 per cent of trial participants)
3. Large solar customers (group comprises 12 per cent of trial participants, this customers group has an average solar system size of 3.8kW)
4. Low usage (group comprises 45 per cent of trial participants)

We provided the group with an outline of average profiles of one customer chosen from each of the above outlined clusters. PRWG members were asked to comment on how they believe these customer clusters may evolve given the changes we are expecting to see in the Australian energy market. The following is a summary of the feedback we received:

- All four clusters (the low usage group to a much lesser extent) have a morning and afternoon peak with a dip in the middle of the day, consistent with the Tasmanian load profile. This is unlikely to change in the future.
- The introduction of more batteries may flatten the morning and afternoon peaks as customers are store their energy and reduce their demand during network peak periods. This trend may be exacerbated by the end of the grandfathered Feed in Tariff (**FiT**). Solar customers may have increased incentives to purchase batteries and make the most of the solar energy they produce.
- Electric Vehicles may result in increased electricity demand at night, with the correct pricing signals this load could be contained to off-peak periods.
- A transition to more efficient electric heating (heat pumps) could increase the overall usage of the low usage group (driven by improved access to relatively affordable heating).
- What are the linkages to social research? It would be interesting to see some analysis of the demographics associated with each cluster.

PRWG members are interested in learning more about the clusters as well as network charge comparisons for each group. Further information and analysis outlining customers peak demand rather than average demand would be useful in better understanding the derived clusters and the implications of a move to a demand based time of use tariff.

Aurora Energy presentation

Aurora Energy provided PRWG members with an overview of their Pricing Strategy and 2017-18 Pricing Outcomes, a copy of the presentation is provided along with these meeting notes.

The following represents a summary of feedback and questions from PRWG members.

- Why are we paying for the cost of Full Retail Contestability? – Aurora Energy noted that these costs are no longer recovered from customers.
- What is the timeframe for when cross subsidies between residential and small business customers will be unwound? Is Aurora Energy going to make a conscious effort to unwind these cross subsidies?
- Why is the demand based time of use tariff for small customers (residential and small business) not being offered by Aurora Energy even on an opt-in basis?
- What is happening with metering costs, PRWG members requested more information on metering charges post 1 December 2017 (metering contestability) (Action: Aurora Energy to provide further information to PRWG members when available).
- PRWG members are interested in learning more about the methodology for determining the wholesale energy price.
- Transparent cost reflectivity
 - What is it?
 - Will it happen?
- What are all the sources of revenue for Aurora?

Activity – Opportunity to provide feedback on our Distribution Pricing Strategy

We consulted with PRWG members on the likelihood that our Distribution Pricing Strategy would encourage customers to try a cost reflective tariff. The following is a summary of the feedback we received:

- The benefits of a switch to the cost reflective tariffs in their current state are marginal.
 - Offering cost reflective tariffs seems like a lot of effort for minimal gain for individual customers.
 - Low usage customers have less incentive to switch to cost reflective tariffs due in part to the upfront costs associated with a tariff change.
- PRWG members are interested in understanding the customer charge comparison without the application of the incentive to the off peak charges of the demand based time of use tariffs for small customers.
- 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. This includes ongoing education for residential and small

business customers including utilising real customer stories, predictive customer impact calculators and social media.

- The impact of metering must be considered
 - Metering costs are currently unknown and they represent a key cost consideration for customers trying to understand the benefits of a move to a cost reflective tariff.
 - TasNetworks could consider offering data capture services (such as an off market advanced meter) for customers considering a switch to cost-reflective tariffs. The provision of interval metering data could be used to support tariff comparisons.
- Some PRWG members remain unconvinced about the merits of rebalancing fixed and variable tariff charge components.
- Need more information about the customer impact of the rebalancing between residential low voltage general (**TAS31**) and uncontrolled low voltage heating (**TAS41**) and the transition timeline for alignment.
- The government has a role to play in supporting pricing reform, the current government policy intervention in relation pricing is inconsistent and their position on cost reflective pricing is unclear.
- Customer regret is important to consider. We should ensure we provide customers who choose to try a cost reflective tariff with the opportunity to revert back to previous tariff arrangements.
- The demand based time of use tariff peak periods are wide and based on Australian Eastern Standard Time, a consideration of daylight savings would make it easier for customers to understand the peak and off peak periods and adjust their behaviours accordingly.

Activity 2

Drawing from our feedback insights, we identified four key themes we received consistent feedback on. The four themes are:

- unwinding cross-subsidies in network tariffs
- looking after vulnerable customers
- the pace of network tariff reform, and
- government support for network tariff reform.

We asked PRWG members to provide their thoughts on the four key themes by asking the following four questions and we have summarised the feedback received below.

Question 1: Is it OK to have cross subsidies in tariffs? We have challenges in our heating tariff – how do you think we should deal with that?

- There is limited scope for cross subsidies under the Rules.
- Ongoing cross subsidies should be agreed ahead of time and a State based derogation from the Rules put in place to ensure the cross subsidy can be consistently applied.
- Removing cross subsidies needs to be well planned and customer impacts well understood, consideration needs to be given to the sunk investments made by customers on the basis of current charging arrangements and existing cross subsidies.

- Where cross subsidies exist, they should be transparent, simple to understand and the transition should be predictable.
- Cross subsidies are OK in some circumstances as electricity is an essential service.
- Are government concessions more appropriate than cross subsidies?
Postage stamp pricing is an acceptable cross subsidy.

Question 2: How do we support the transition to cost reflective pricing so we don't create or exacerbate further vulnerabilities?

- TasNetworks
 - Offer no regrets options for customers who choose different tariff options
 - Side constraints (customer charge increases capped year on year)
 - Undertake robust analysis utilising appropriate data to ensure we get it right when we set cost reflective tariffs
 - Communication and education important
- Industry
 - Dedicated vulnerable customer tariffs
 - Flags for customers in the form of SMS alerts when consumption or demand is high
 - Comparison tools
 - Retail offering more choices to customers
- Government
 - Concession framework review with a move to a percentage based application rather than fixed dollar amount
 - Supportive and transparent complementary measures – for business and residential customers
 - Need long term cross-party agreement and modelling to support cost reflective pricing
 - Need to understand what is the role of social policy
- All
 - Need to be able to identify vulnerable customers
 - Ongoing education is critical
 - Consider renters who don't have the same capacity to implement Distributed Energy Resources (DER) into their homes

Question 3: Do you see that our proposed tariffs may limit opportunities for the future? Are there particular things we should be moving quickly on?

- Offering cost reflective tariffs as opt in for too long means limited change will occur.
- Small incentives offered to change don't necessarily offset the risk associated with a change to a cost reflective tariff.
- Increased fixed charges inhibit customers' ability to manage their bill.
- You are not creating a framework that encourages customers to feed back into the network.
- Advanced meter rollout will provide customers access to the data required to make informed decisions about tariffs – it's an opportunity to bite the bullet and progress pricing reform. Although complicated information isn't going to help customers in making a change to a cost reflective tariff.

Question 4: What role should government play in supporting transition to cost reflective pricing?

- Wholesale Energy Price (WEP) cap was good for customers created more certainty and predictability
- Tripartisan policy on energy pricing and long term support for pricing strategies cost reflective pricing – important for certainty and predictability for all customers and potential customers
- Provide community support through rebates rather than cross-subsidies (review of concessional framework)
- Facilitate and participate in joint advocacy of cost reflective prices along with industry and consumers
- Monitoring and intervention in the market should be transparent and should support policy

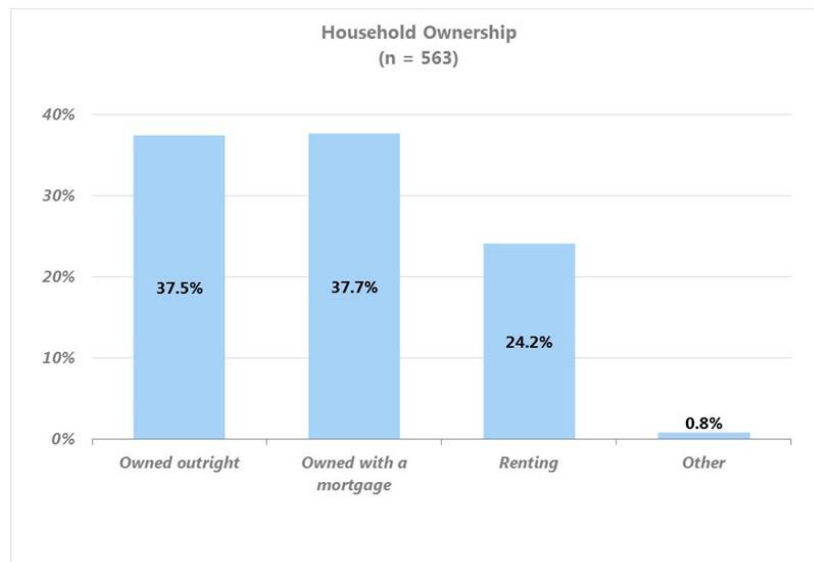
Actions

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

Action	Responsible	Due date
<ul style="list-style-type: none">• Provide forecast customer charges for small business and residential customers.	Kirstan Wilding	8 November 2017
<ul style="list-style-type: none">• Provide more information on the two-way flows in the distribution network.	Kirstan Wilding	1 September 2017
<ul style="list-style-type: none">• Provide an outline of TasNetworks revenue sources and their relative proportion of total revenue.	Kirstan Wilding	1 September 2017
<ul style="list-style-type: none">• Provide further customer charge comparison analysis utilising the emPOWERing You Trial data.	Kirstan Wilding	8 November 2017
<ul style="list-style-type: none">• TasNetworks providing briefings to PRWG members unable to attend this meeting (PRWG meeting #4), briefings have already been provided to the TFGA and TCCI. <p>If any PRWG member is interested in understanding more about the irrigation customer class and our future pricing strategy please advise the PRWG Chair (Kirstan Wilding).</p>	Kirstan Wilding	1 September 2017
<ul style="list-style-type: none">• Provide more information about metering charges post 1 December 2017 when available.	Aurora Energy	Prior to 1 December 2017
<ul style="list-style-type: none">• Provide a link to the Directions and Priorities paper and TasNetworks Revenue Building Blocks – Financial Modelling Consultation Paper when released.	Kirstan Wilding	16 August 2017
<ul style="list-style-type: none">• Trent Allen (Masonic Homes) has resigned from the PRWG. TasNetworks to review PRWG membership and Terms of Reference.	Kirstan Wilding	30 October 2017

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

1. Provide information about the number of renters involved in the emPOWERing You trial (note not all emPOWERing You Trial participants provided information in relation to home ownership status):



2. A link to the Tasmanian Small Business Council Cross-subsidies in Tasmanian Electricity Tariffs report. The full report can be found here:
<http://www.tsbc.org.au/wp-content/uploads/2016/11/Cross-Subsidies-in-Tasmanian-Electricity-Tariffs-and-Small-Business-Oct-....pdf>
3. Additional information about historic transmission development capital expenditure. Some PRWG members noted there was no capital expenditure for development in the 2014-2019 regulatory period (slide 5):

The Australian Energy Regulator approved \$20 million for development capital expenditure for the 2014-19 regulatory period. However, due to changing circumstances we have not yet progressed with these projects.

Some of the projects have been cancelled and some have been deferred with forecast commencements dates in the 2019-24 regulatory period.

Transmission capital expenditure is variable between regulatory periods due to the significant nature and costs of particular projects, they are typically high cost/low volume. We constantly re-evaluate the requirement to undertake projects considering a range of underlying factors.