

Pricing Reform Workgroup Meeting

Date: Friday, 20 July 2018 - 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, Shannon Culic, Mark Drew

Invitees: Andrew Nance (Consumer Challenge Panel); Craig Madden (Australian Energy Regulator); Anthony Hynes (Australian Energy Regulator).

Attendees: John Cooper (Hydro); Jack Gilding (Tasmanian Renewable Energy Alliance); Mark White (University of Tasmania); Duncan Livingston (Energy ROI); Penny Cocker (Electric Vehicle Association); Hayden Moore (Aurora Energy); Kate Cox (Office of Ombudsman); Ray McKendrick (Office of the Ombudsman); Sue Leitch (COTA Tasmania); Bernadette Jago (TasCoss); Glenn Bounds (Office of the Economic Regulator); Bryce Matthews (Office of the Economic Regulator); Sharon Raymond (Department of State Growth); Mark Searle (The Key Group); Nick Merse (Department of Treasury and Finance); Robert Mallett (Tasmanian Small Business Council).

Apologies: Chris Ferguson (Department of Education); Mark Grenning (Consumer Challenge Panel); Chris Fitz-nead (Consumer Challenge Panel); Charles Scarafiotti (Nekon Pty Ltd); Andrew Bowen (TasNetworks Customer Council member); Craig McKinlay (Aurora Energy); Georgia Palmer (Local Government Association of Tasmania); Nick Steel (Tasmanian Farmers & Graziers Association); Margie Law (Anglicare); Michael Bailey (TCCI); Greg Zooeff (Nyrstar); Rosalind Herbert (COTA Tasmania); Tom Kelleher (Aurora Energy).

Meeting Notes

Members were provided with the following pre-reading materials:

- Australian Energy Market Commission Retail Energy Competition Review (with specific reference to Tasmanian section);
- Key recommendations from the Australian Competition and Consumer Commission's (ACCC) Retail Price Enquiry Report;
- Energy Networks Australia media release – *Network modernisation will deliver customer benefits*; and
- Presentation and workshop outcomes from previous Pricing Reform Working Group (PRWG) meetings.

Meeting Purpose

The purpose of the meeting was to:

- explore customer feedback on a proposed change to our pricing strategy;
- expand our pricing strategy engagement beyond the terms of reference of our Pricing Reform Working Group to involve a wider group of interested parties, regulators and Government;
- collaborate with interested parties at an important stage in the engagement process, as we seek to refine our pricing strategy prior to the Australian Energy Regulator's (AER) draft decision on our Regulatory Proposal and Tariff Structure Statement (TSS), which is due to be released at the end of September 2018;
- provide an update to the group on TasNetworks' pricing strategy, including information about the possibility of applying cost reflective pricing to retailers for new residential customers (on an opt-out instead of opt-in basis);
- provide members with an opportunity to understand the AER's perspective on cost reflective pricing and the national context for network tariff reform; and
- provide members with an opportunity to hear from Aurora Energy about their plans for cost reflective retail pricing and the roll out of advanced meters.

Presentations

TasNetworks

- TasNetworks outlined the pricing strategy included in the 2019-24 TSS and submitted to the AER in January 2018, the feedback we received from the AER and our approach to submitting a revised proposal;
- TasNetworks submitted a TSS which sought to:
 - continue realignment of legacy network tariffs;
 - introduce demand based time of use network tariffs for small customers with distributed energy resources (DER);
 - incentivise take-up of demand based time of use network tariffs with 'introductory' discounts on the off-peak charge; and
 - change the way we measure demand from a single measurement each month to the average of the top four as discussed previously with the PRWG.
- Discussed the lack of progress made towards more cost reflective pricing in other jurisdictions where an opt-in approach has been taken; and
- TasNetworks in response to feedback received from the AER and the Consumer Challenge Panel regarding the pace of pricing reform in Tasmania, propose to consider a move to opt-out consumption based time of use network tariffs to retailers for new residential customers, residential customers that change their connection or residential customers that have an advanced meter installed from 1 July 2019.

Australian Energy Regulator

- Discussed the process they employ to determine the amount of revenue TasNetworks collects from its customers and the pricing structures used by TasNetworks to collect this revenue;

- Also discussed the lack of progress made towards more cost reflective pricing in Tasmania and across the National Electricity Market (**NEM**) with an opt-in approach; and
- Suggested an opt-out approach is more able to ensure momentum towards cost reflective network pricing is maintained.

Aurora Energy

- Discussed the difficulty of progressing cost reflective retail pricing in the context of a State Government mandated cap for electricity bill increases until 2021; and
- Indicated they are not supportive of TasNetworks' transition towards more cost reflective network pricing at this time.

The presentation Slide pack has been attached for your information.

Feedback Activity – Network price outcomes and network tariff assignment

In January 2018, TasNetworks submitted its draft TSS which discussed plans to continue to offer cost reflective network tariffs on an opt-in basis. The AER provided feedback that TasNetworks should consider a faster pace of reform.

In response, TasNetworks' is considering a change to our pricing strategy involving a shift to opt-out assignment onto a consumption based time of use network tariff for new and replacement residential customers – with replacement referring to customers whose existing accumulation meter is replaced with an advanced meter. This activity was designed to explore customer feedback on this proposed change to our pricing strategy.

In providing this opportunity, TasNetworks responded to feedback previously provided by PRWG members wanting to understand customer pricing outcomes for different customer types under time of use pricing. PRWG members have previously suggested they are interested in understanding what a move to more cost reflective tariffs might mean and the distributional impact (which is the network charge outcomes for each customer group as demonstrated in the presentation).

The analysis presented during the meeting was based on data from TasNetworks' emPOWERing You trial. In order to help customers understand network pricing outcomes for different residential customers groups, TasNetworks has separated trial participants into five groups based on demand curve clustering analysis.

TasNetworks identified five distinct clusters based on the shape of their demand curve and sought to identify demographic similarities within and differences between groups in order to develop the customer groups presented below. It is important to note that due to the way the clusters were developed, not every customer in a group has demographic characteristics that are consistent with the name of the group (i.e. not every customer in the large working family group is actually a large working family).

- Large working families
- Large stay at home families

- Small working families
- Small stay at home families
- Singles and retirees

The network price outcomes as a result of a move to a consumption based time of use network tariff were shown as a distribution for all five groups. Although there was variation within the five groups, the data showed that approximately 75 per cent of all participants would benefit from a move to the consumption based time of use network tariff (TAS93). The analysis uses data from the emPOWERing You trial to compare the annual network charge for each customer under existing flat rate network tariffs and a consumption based time of use network tariff.

Meeting attendees were separated into four groups with each group asked to consider the analysis by “standing in the shoes” of one of the customer groups from the trial. Each group was provided with a distribution of pricing outcomes for one particular customer group, with one group considering two of the customer groups.

Feedback on network price outcomes

We asked the group to provide feedback specific to each cluster about:

- their comfort level with the network price outcomes provided through the emPOWERing You Trial analysis; and
- how we should communicate the benefits of time of use pricing;

We also asked the group to provide feedback on:

- Our strategy to maintain an opt-in approach for small business; and
- Whether or not more research is required to better understand the impact of time of use on small businesses.

The following represents a summary of the feedback received.

- Group members acknowledged the long term benefits for all customers in a move to more cost reflective network pricing;
- Solutions must consider pricing outcomes for vulnerable customers and for customers who have a heavy dependence on electricity for space and water heating;
- Any change in tariff assignment policy should be implemented in conjunction with a review of the current reassignment policies (i.e. it would be a bad outcome to have a customer ‘stuck’ on an unfavourable network tariff for 12 months);
- It is important to ensure we have a solid definition of key assignment concepts (i.e. opt-in, opt-out etc.);
- Customer education must remain a priority for all parties involved in the supply of electricity in Tasmania (i.e. TasNetworks and Aurora Energy) if cost reflective pricing is going to deliver efficiencies that benefit all customers;
- Advanced meters play a large part in providing information to customers to help them get the most out of time of use pricing;
- The group encouraged more analysis on:

- retail price outcomes for customers;
- the impact of water and space heating on bill outcomes; and
- the outcomes for solar customers and vulnerable customers as a result of time of use pricing.
- The role of Government is integral to a successful transition to cost reflective pricing, in conjunction with reconsidering the concessional framework, there is opportunity for Government to support the transition by considering their role in respect to:
 - quality of housing stock;
 - efficiency of hot water heating; and
 - policy initiatives which support vulnerable customers.
- The majority of members supported a continuation of TasNetworks current pricing strategy for small business customers, which is to maintain an opt-in approach to more cost reflective network tariffs.
- There is a need for ongoing and improved education to support small business customers in making tariff selections that suit their usage patterns. This will be crucial in supporting a move to cost reflective tariff and to maximise the benefits provided through advanced metering technology.

Feedback on network tariff assignment

Because TasNetworks has multiple tariff classes, and multiple tariffs within each tariff class, a series of eligibility criteria determine which tariffs apply to a given type of customer or from which range of tariffs they may choose (through their retailer). Network tariff assignment to cost reflective network tariffs can be used to support a faster pace of reform. TasNetworks asked for feedback from each group in relation to four potential tariff assignment options for residential customers:

1. *Maintain proposed customer-led approach to network tariff reform*

Opt-in assignment to *demand* based time of use network tariff for residential and small business customers on a new and replacement basis, plus active customer choice through their retailer, followed by cost reflective pricing applied to retailers (on an opt-out basis) from July 2024.

2. *Apply consumption based time of use network tariffs for new and replacement residential customers on an opt-out basis*

Small business customers continue to access consumption based time of use tariffs on an opt-in basis, as they do currently, with *demand* based time of use network tariffs also available on an opt-in basis for both small businesses and residential customers through their retailer.

3. *Apply demand based time of use network tariffs for new and replacement residential customers on an opt-out basis, plus active customer choice through their retailer.*

Small business customers continue to access time of use consumption network tariffs on an opt-in basis through their retailer, as well as time of use demand based network tariffs.

4. *New and replacement residential customers receiving advanced meters retain existing tariff for 12 months.*

After 12 months, customers are reassigned to a consumption based time of use network tariff on an opt-out basis, plus active choice for all residential customers through their retailer.

Given the four options outlined above, feedback was sought from members regarding:

- their preferred assignment approach for cost reflective pricing in Tasmania;
- the benefits of implementing their preferred approach;
- the challenges involved with implementing their preferred approach; and
- their least preferred tariff assignment approach for cost reflective pricing in Tasmania.

The following represents a summary of the feedback received.

Option 1 - Maintain proposed customer-led approach to network tariff reform

Option 1 was one of the least preferred options discussed. The view expressed by the majority of group members was that option 1 would perpetuate cross subsidies and prices that don't reflect network costs too far into the future.

Option 2 - Apply time of use consumption based network tariffs for new and replacement residential customers on an opt-out basis

Option 2 was widely supported by group members. Group members were generally comfortable with both options that moved customers to consumption based time of use network pricing, due to the large percentages of customers with neutral or positive network charge outcomes based on the analysis of emPOWERing You trial data presented to the group. Some group members suggested this option could be implemented with the addition of a shadow tariff or some other mechanism that protected customers from large increases in their network charge.

Option 3 - Apply demand based time of use tariffs for new and replacement residential customers on an opt-out basis, plus active customer choice through their retailer

Option 3 was one of the least preferred options discussed. Group members suggested they were not able to support option 3 as most customers did not have a good understanding of the concept of demand.

Option 4 - New and replacement residential customers receiving advanced meters retain existing tariff for 12 months

Similarly to option 2, most group members were in support of option 4. Like option 2, group members suggested they were comfortable with this option due to the large percentages of customers with neutral or positive network charge outcomes based on analysis using emPOWERing You trial data. Attendees believed option 4 promotes transparency and reduces the likelihood that customers will view a move to more cost reflective tariffs as a revenue raising initiative, rather than a long term cost saving mechanism.

Activity – Question and answer panel session

A panel comprising Kirstan Wilding (TasNetworks), Craig Madden (Australian Energy Regulator), Andrew Nance (Consumer Challenge Panel) and Hayden Moore (Aurora Energy) provided an opportunity for members to ask questions in an open forum.

The major themes of the discussion are discussed below.

The role of advanced meters in enabling pricing reform

- Hayden Moore discussed Aurora Energy's plans to roll-out 20,000 advanced meters (predominantly to customers with Aurora Energy's existing Pay as you Go product) in 2018;
- Hayden Moore discussed the work Aurora Energy are currently doing to ensure customers with advanced meters will eventually have access to the advanced meter data through an app; and
- Kirstan Wilding discussed the ways advanced meters can assist customers by providing information about price outcomes for different types of customers who use electricity differently.

The roles of Tasmanian electricity companies and Government in educating and supporting customers during pricing reform

- Kirstan Wilding discussed how TasNetworks' current role has been to communicate to customers predominantly about safety and how TasNetworks has plans to explore new ways to communicate with customers in regard to the services offered and how customers pay for them;
- Andrew Nance discussed a national trend amongst network businesses to have more direct relationships with customers, particularly larger customers; and
- Andrew Nance congratulated TasNetworks for communicating with customers better than other networks but noted there is still room for improvement.

Protecting vulnerable customers – what ways can this be done other than through cross-subsidies?

- All panel members noted the importance of being mindful of pricing outcomes for vulnerable customers in any discussion around pricing reform; and
- In response to a question about the role of Government in protecting vulnerable customers, Craig Madden suggested more thought should be given to ways to assist vulnerable customers, other than to use cross-subsidies in electricity pricing.

The relationship between state-based and federal electricity regulation

- Craig Madden discussed the role of the AER in regulating the network and the role of OTTER in regulating the retailer; and
- Craig Madden indicated the AER approach was to be mindful of state-based regulation impacting the retailer; however national consistency is a greater priority when making regulatory determinations for TasNetworks.

Next steps

TasNetworks has heard feedback that group members are interested in better understanding the retail pricing outcomes for customers on consumption based time of use tariffs and will look to work with Aurora Energy to further the current analysis so that it includes retail impacts.

Members are encouraged to advise TasNetworks if they would like an additional PRWG meeting later in the year to discuss customer pricing outcomes in more detail.

Summary of Actions

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

Action	Responsibility	Due date
• TasNetworks presentation to be circulated amongst the PRWG members and interested stakeholders, including some changes discussed during the meeting to clarify key assumptions and methodology.	Kirstan Wilding	15 August 2018
• The AER presentation to the PRWG has been circulated amongst the PRWG members and interested stakeholders.	Kirstan Wilding	15 August 2018
• The Aurora Energy presentation to the PRWG has been circulated amongst the PRWG members and interested stakeholders.	Kirstan Wilding	15 August 2018

Meeting closed at 12:30 am

Next meeting: To be determined