

TasNetworks' Pricing Reform Working Group

Kirstan Wilding, Leader Regulation

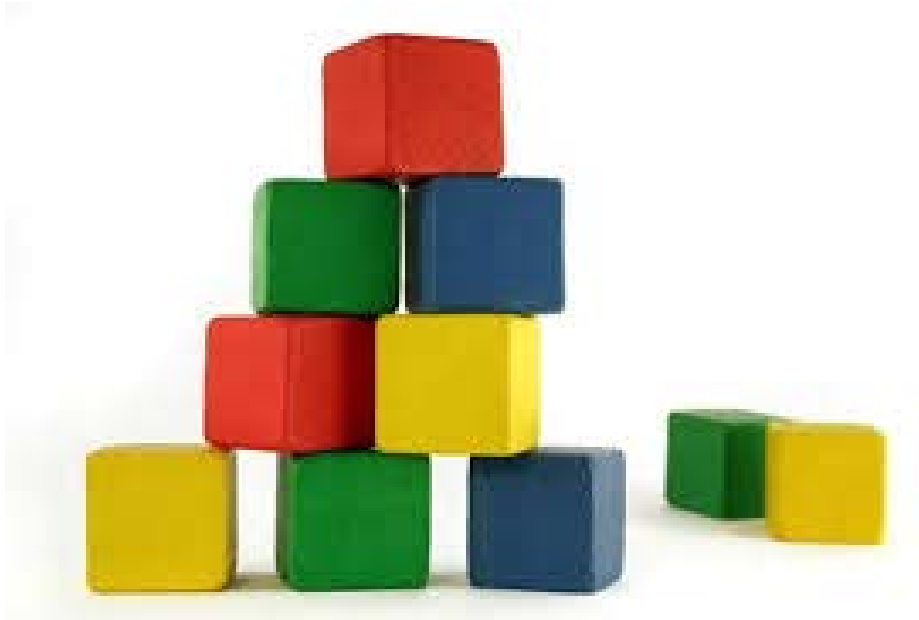
Chantal Hopwood, Team Leader Revenue and Price Regulation

2 August 2017

Today's Agenda

Today's Agenda	
Welcome	Standing agenda items, welcome, safety and introductions
Update	Update on our future expenditure plans and revenue 2019-24 <i>Inform</i>
Explain	Explain our Distribution Pricing Strategy 2019-24 <i>Consult</i>
Outline	Aurora Energy – Retail Pricing Strategy Overview
Break	Morning Tea
Update	Our emPOWERing You Trial <i>Inform</i>
Explain	Outline indicative network tariffs and charge comparison <i>Consult</i>
Open Forum	Seeking your feedback <i>Consult</i>
Looking ahead	Planned engagement activities <i>Inform</i>
Lunch	

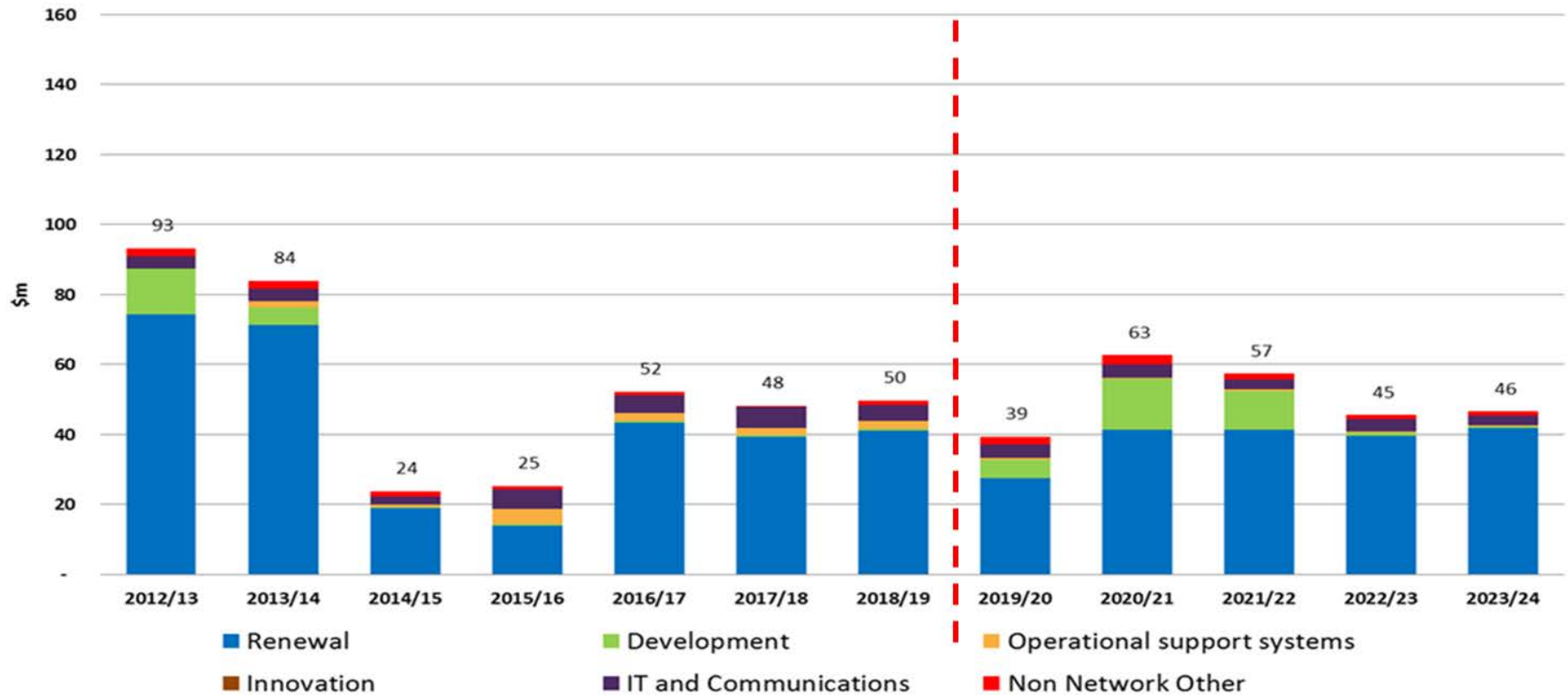
What makes up our revenue



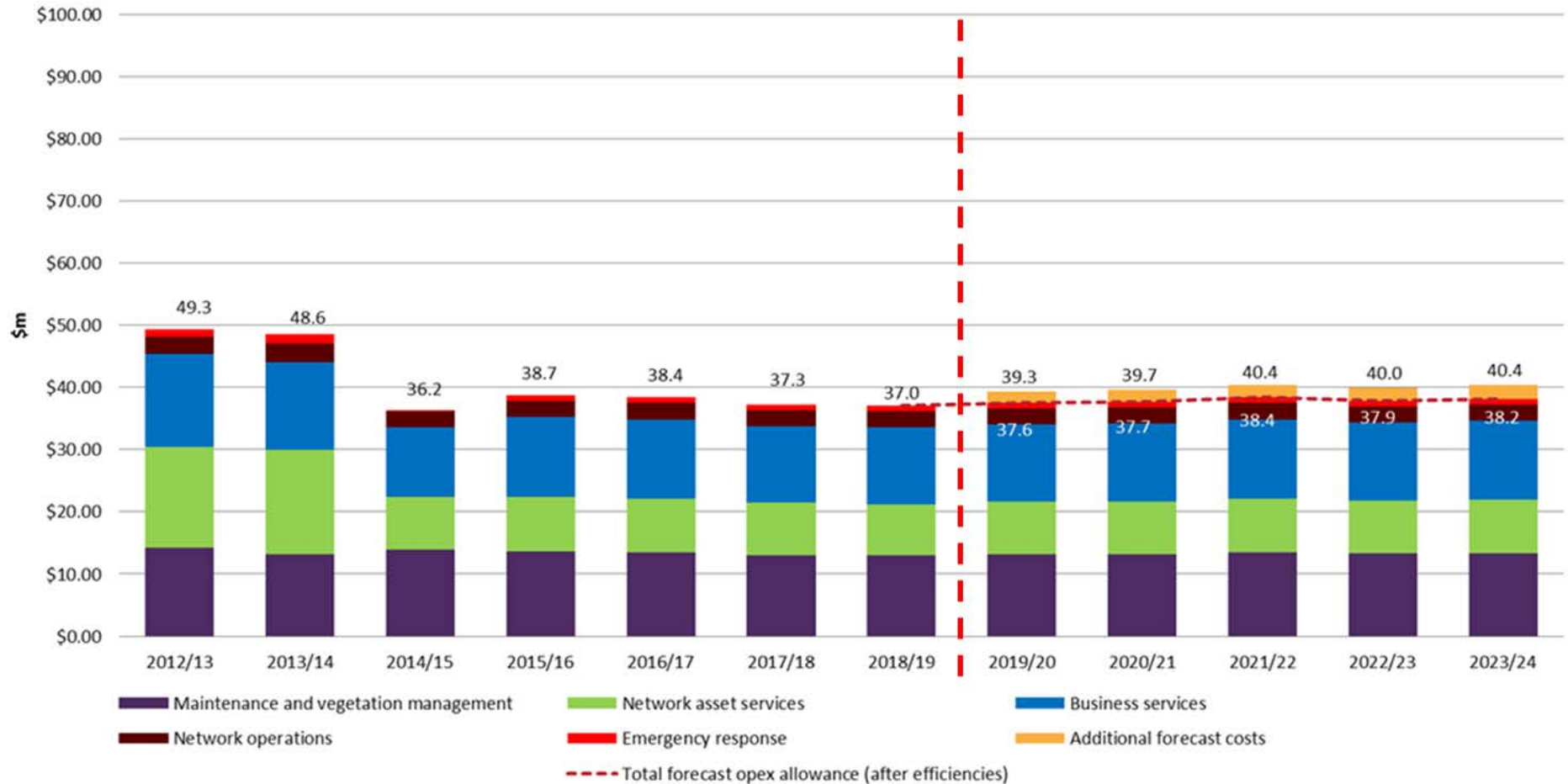
Transmission

- Continuing role in bulk energy transfer
 - to large Tasmanian users and distribution connection points
 - transporting Tasmania's clean hydro and wind energy resource – including to the rest of the NEM
- Limited load growth in Tasmania at system level
- Continue to renew assets in poor condition
- Ensure a secure system to manage changing load and generation mix
- Continue to maximise network utilisation through innovation
 - including through ongoing investment in technology
- Pricing methodology - no change

Incurred Preliminary Capital Expenditure Forecast Prescribed Trend Profile (Transmission) - \$m 16/17

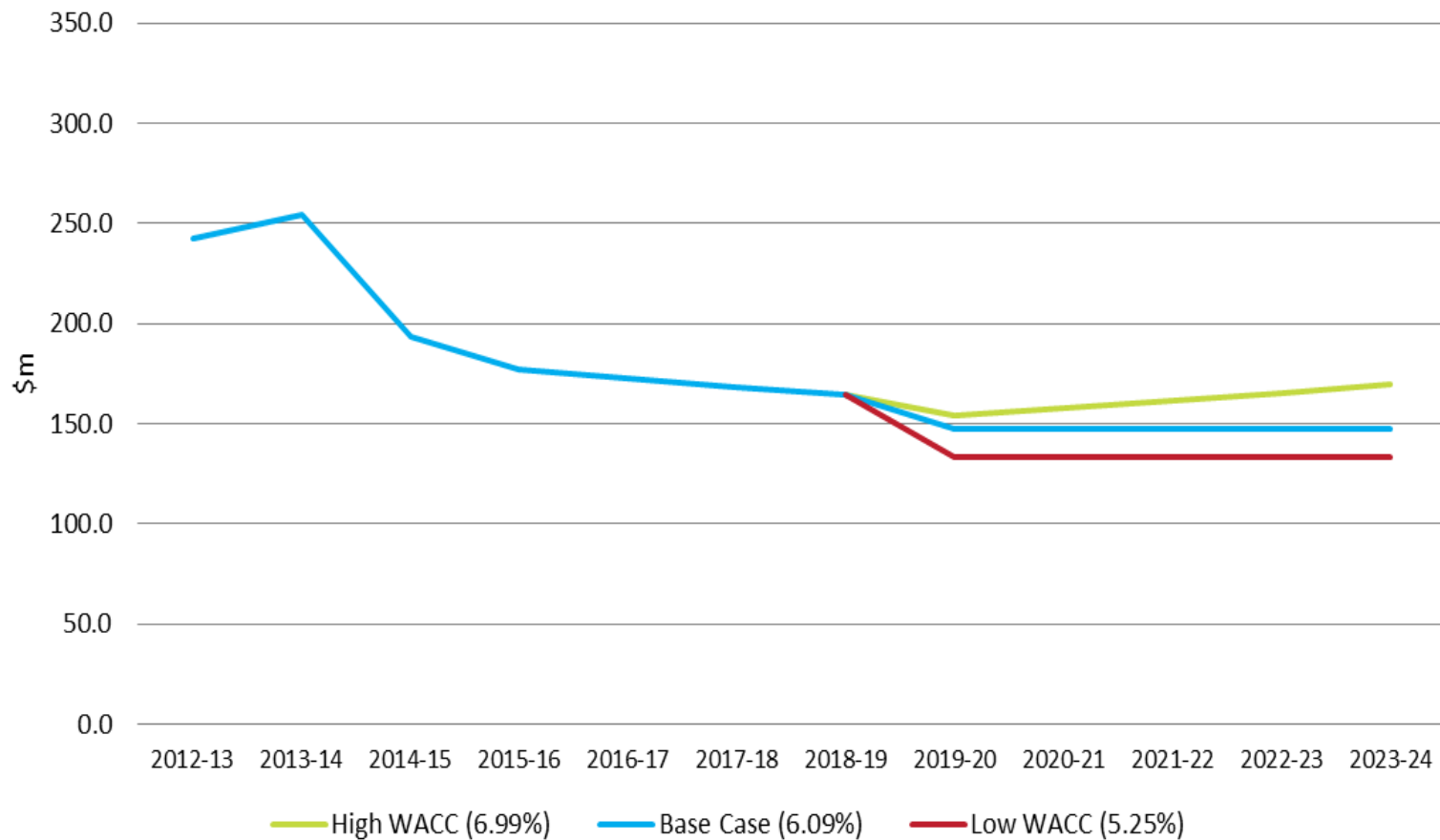


Preliminary Operating Expenditure Forecast Prescribed Trend Profile (Transmission) - \$m 16/17



Indicative Revenue Profile – Transmission

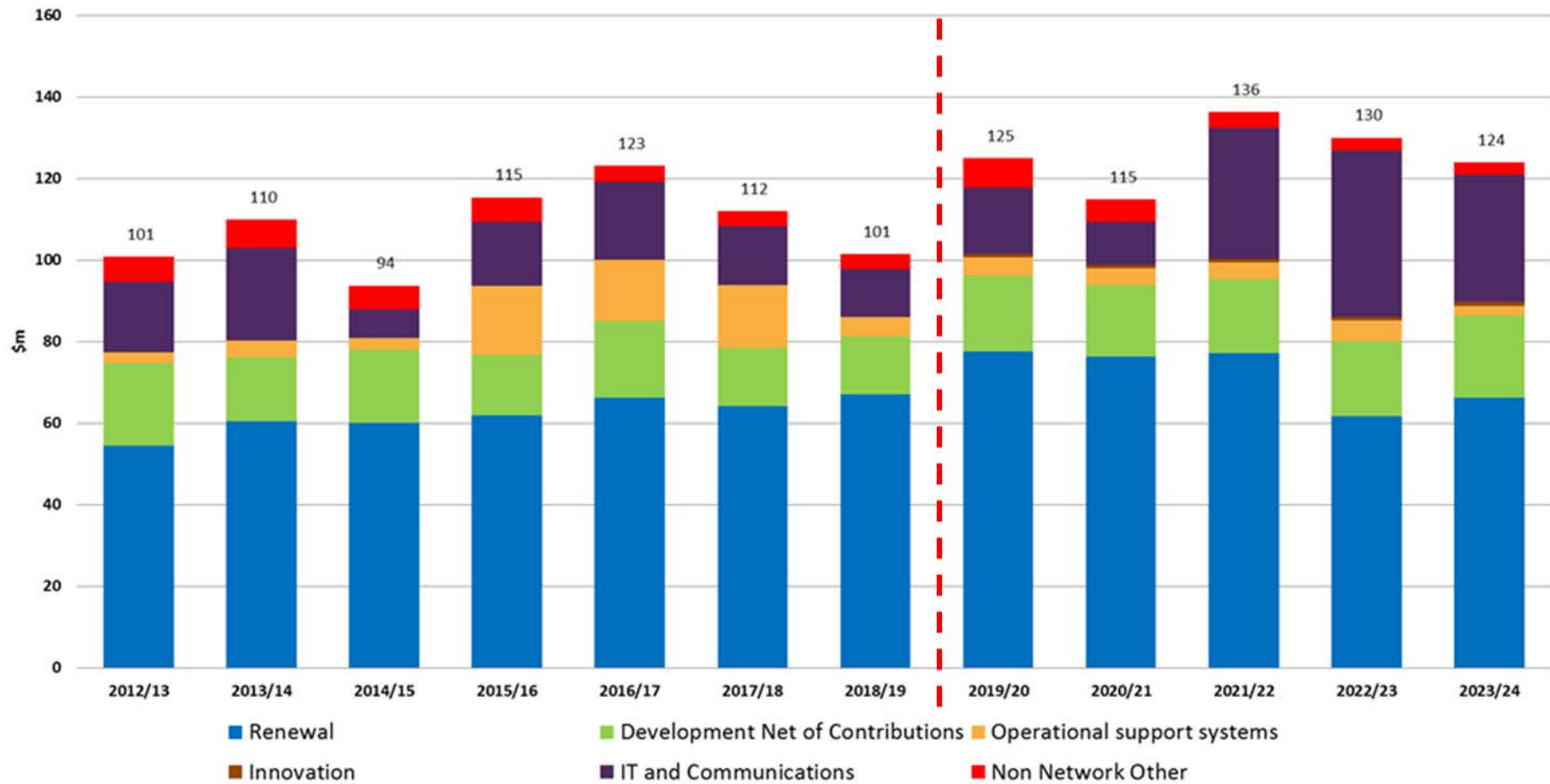
(\$m 2016-17 real dollars)



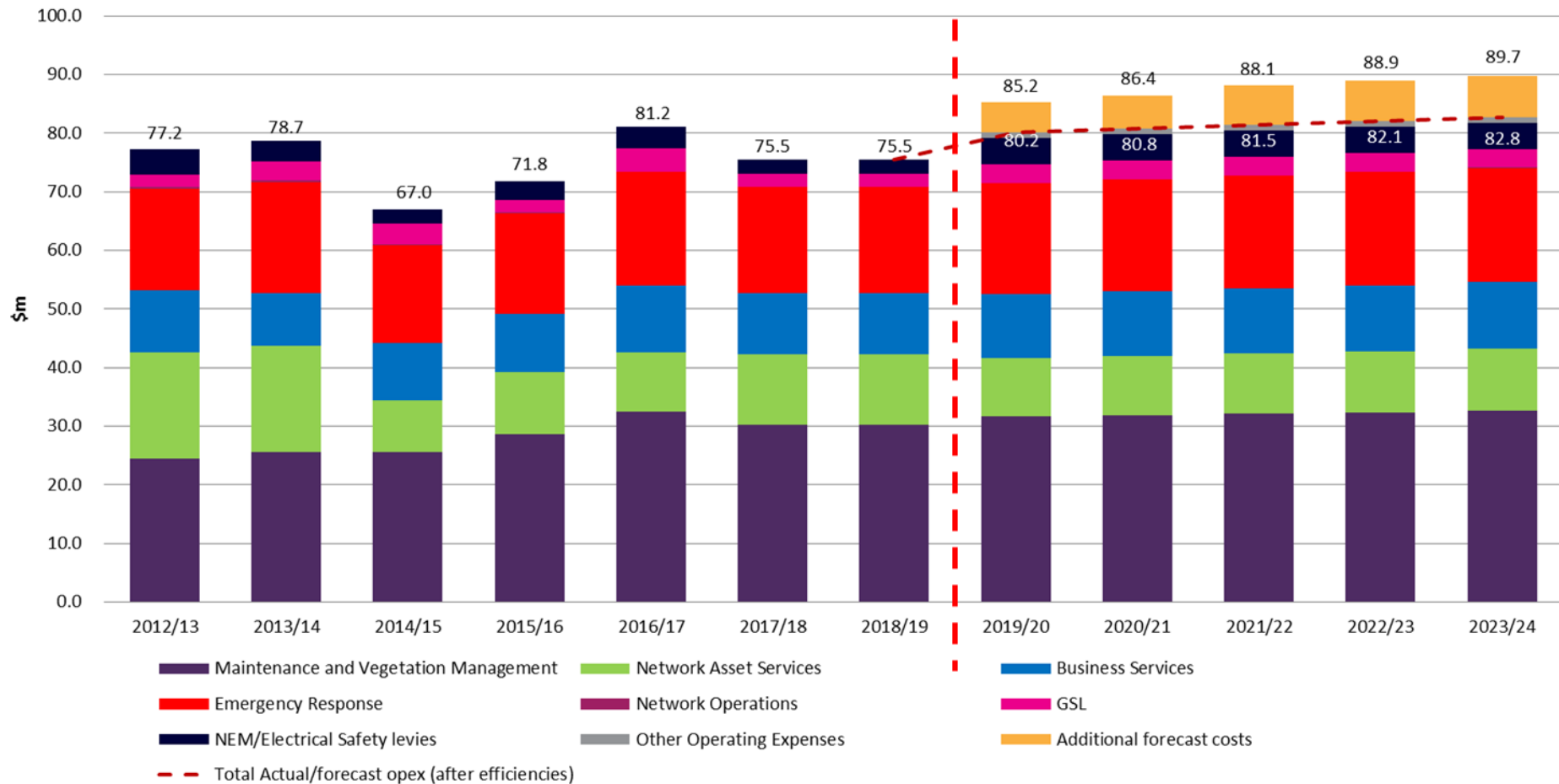
Distribution

- New connections forecast to remain stable
- General continuation of asset management strategies
 - increased investment to manage safety risks
- Increase in emphasis
 - **supporting two way flows in distribution network**
 - range of new customer-side services and options for 'distributed energy resources'
 - increase in technology investment to support timely customer information and network management

Preliminary Capital Expenditure Forecast Gross Standard Control Trend Profile (Distribution) \$m 16/17

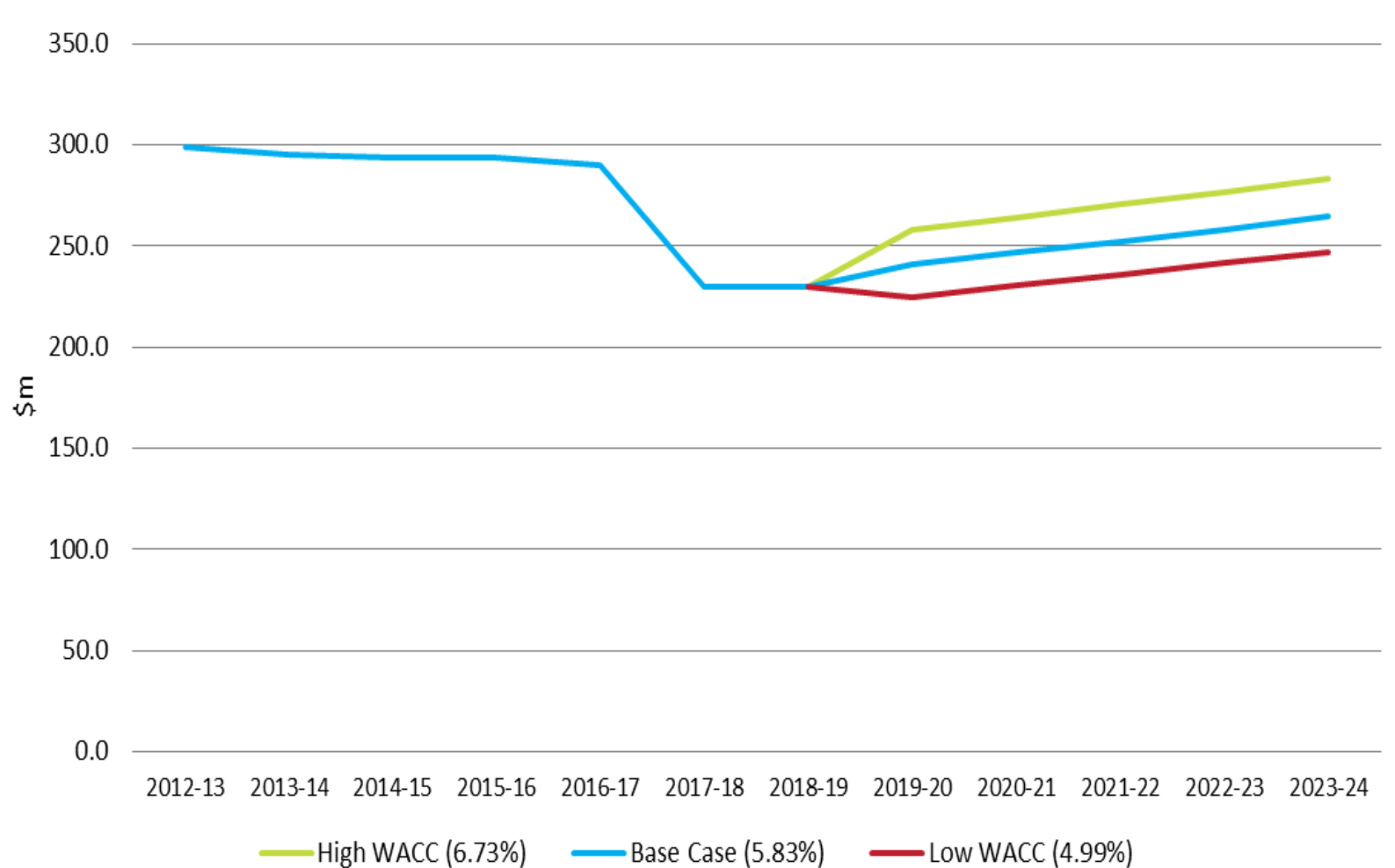


Preliminary Operating Expenditure Forecast Gross Standard Control Trend Profile (Distribution) \$m 16/17



Indicative Revenue Profile - Distribution

(\$m 2016-17 real dollars)



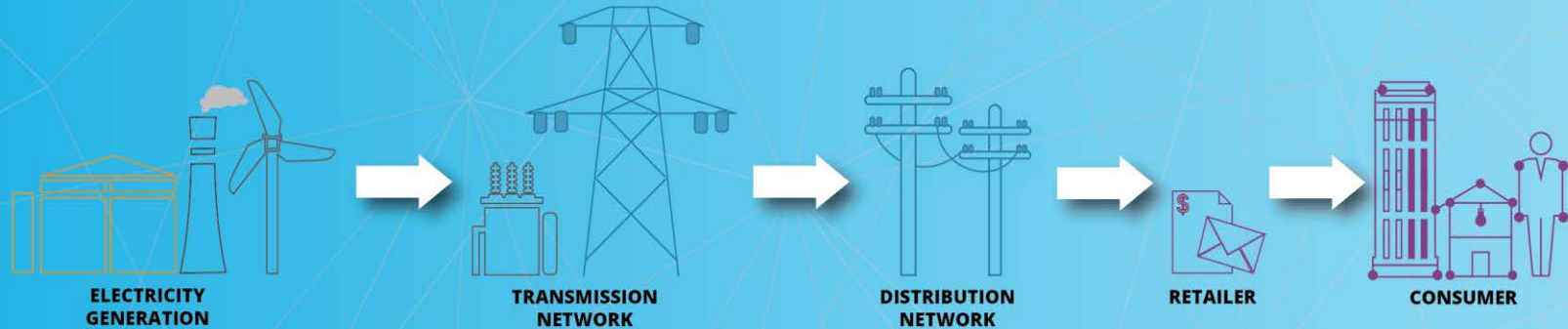
Our distribution pricing strategy

*empowering our customers to understand
and manage their electricity use and
enable more choices for our customers*

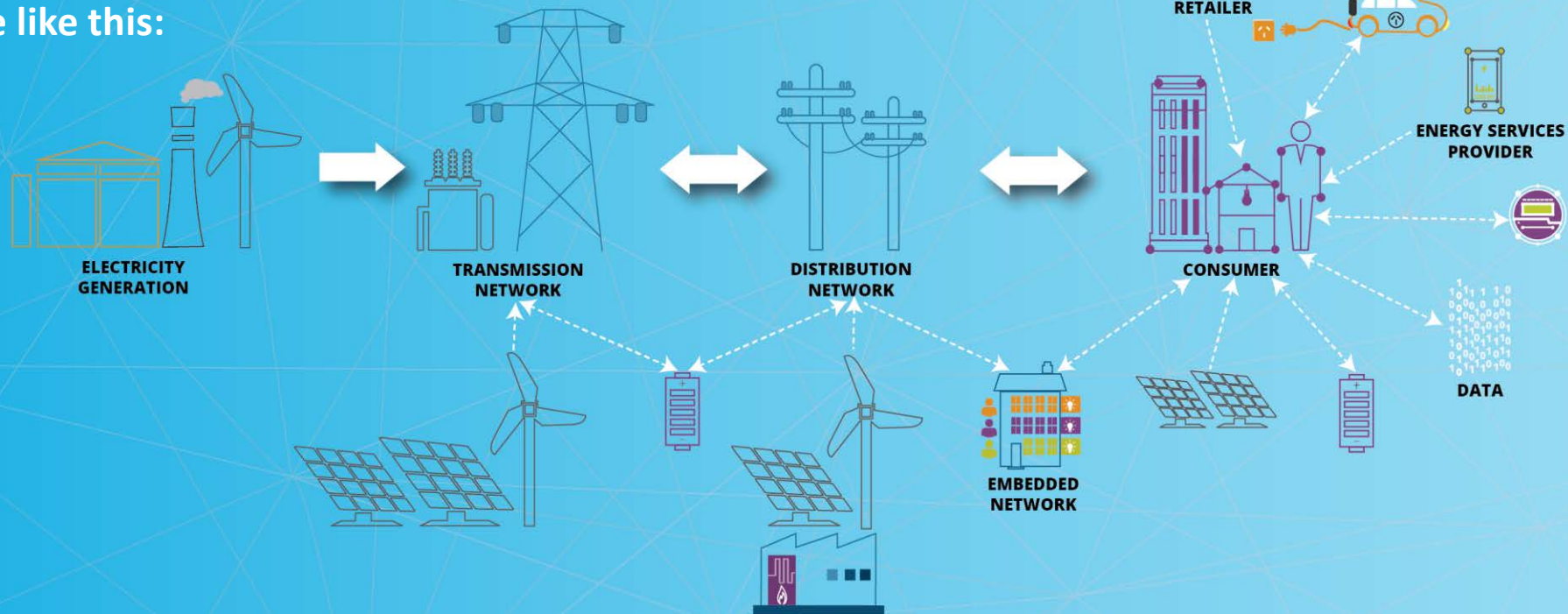


Transformation of the electricity market

Our regulatory and pricing arrangements were originally designed for an industry like this:



Our arrangements are evolving to regulate and price an industry more like this:

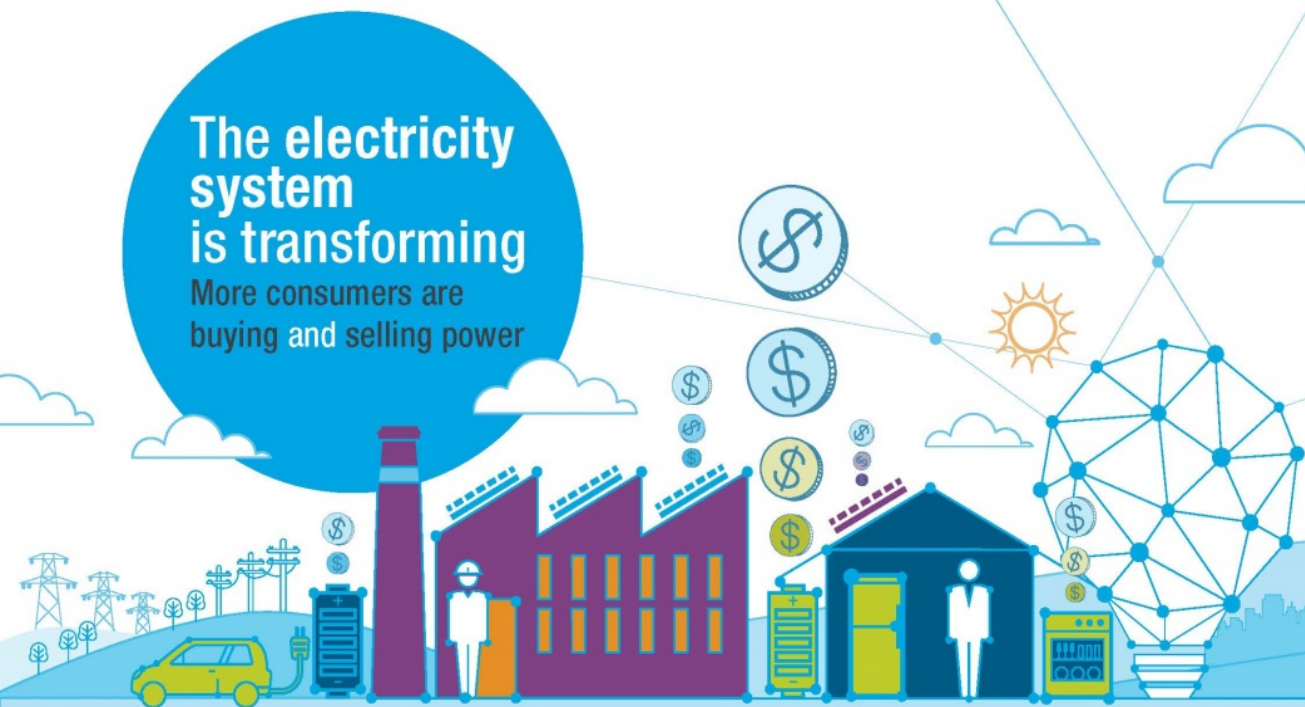


SUPPORTING A COMPETITIVE MARKET FOR DISTRIBUTED ENERGY RESOURCES

Distribution market model project – draft report 6 June 2017

The electricity system is transforming

More consumers are buying and selling power



We are exploring options to put consumers and their energy service providers in the driving seat – giving them more control over how their batteries or other distributed energy resources are used.

The draft report outlines the need to buy and sell energy and related services at the distribution level in a more dynamic way, in response to price signals.

For consumers this means that if you want to use the electricity from your solar panels or batteries, you can.

And if you don't need it, you can sell it to whoever values it the most at a particular point in time, for example the local network business or the wholesale market.

Distributed energy resources are integrated systems of smart energy equipment connected to the electricity network. They include battery storage, electric vehicles, rooftop solar or household appliances such as fridges and dishwashers that respond to changes in price. They can:

help consumers reduce their electricity bills

help electricity networks manage peaks in demand

compete in the wholesale electricity market by exporting electricity

provide services that help make the system secure, such as frequency control

What's needed to transform the electricity grid?

The draft report describes how an independent 'optimising' function would help consumers with distributed energy resources decide how best to use them. The optimising function should be undertaken by parties other than regulated network businesses. This will allow consumers to maximise the full value of distributed energy resources – that is, their value to networks, wholesale markets and consumers themselves.

The draft report identifies key market and technical arrangements that may be needed in the future to underpin a competitive distribution market.



Implement and refine cost reflective network tariffs, so consumers have more accurate price signals on investing in, and using, distributed energy resources



Invest in smart IT and communication infrastructure so network businesses can better assess the technical impacts of distributed energy resources on networks, and other market participants can have information so they are able to make better decisions on how to invest in, and operate, distributed energy resources



Consider the appropriate access model for distributed energy resources to use the network, if networks become congested as more resources connect



Allow for more transparent and standardised technical assessments for connecting distributed energy resources, to avoid onerous requirements which can increase costs, or loose requirements which can create technical issues



Evolve Australian Standards for distributed energy resources so they remain fit-for-purpose

Why a market?

A well-functioning, competitive distribution market would provide incentives for companies to innovate by providing new and improved services, technologies and business models that are driven by consumer demand.

There would still be a role for regulation to ensure the safety, security and reliability of electricity supply and to maintain consumer protections. Network businesses would also likely continue to own and operate the grid – which is regulated under energy market rules.

AUSTRALIAN ENERGY MARKET COMMISSION ANNUAL RETAIL COMPETITION REVIEW CONSUMER RESEARCH FINDINGS: 25 JULY 2017

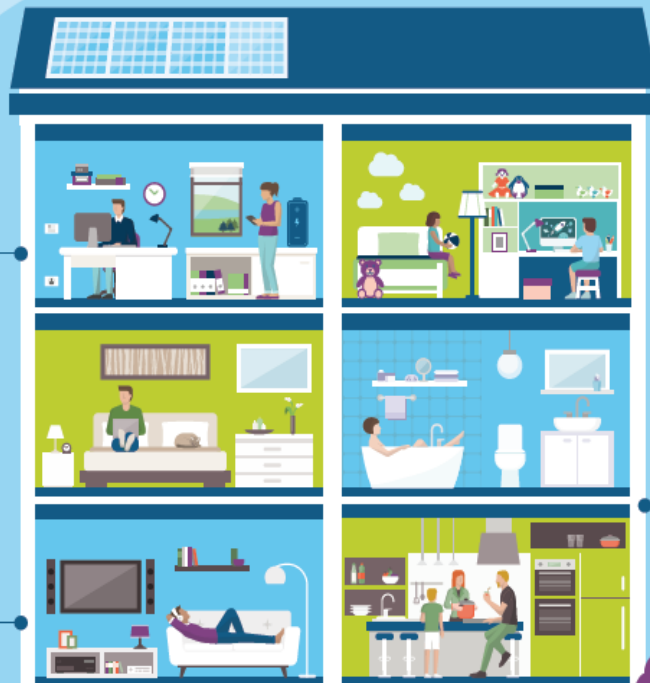
How competition is evolving and what it's delivering for consumers and small businesses

CONSUMER INTEREST IN UPTAKE OF NEW TECHNOLOGIES IS INCREASING

- 20%** have solar panels
- 21%** are likely to adopt battery storage in the next two years
- 18%** are likely to take up a home energy management system in the next two years

CONSUMERS ARE MORE AWARE OF THEIR CHOICES

- 94%** Awareness of choice has improved – now at around 94% for electricity and 92% for gas
- 80%** Around 80% of residential consumers actively chose their current energy offer
- 54%** 54% of residential consumers switched energy retailer or plan in the past five years



BUT... THERE ARE OPPORTUNITIES TO IMPROVE

- 30%** of consumers can't identify the type of plan or offer they're on
- Consumers who investigated their energy options during the year remains at 33%
- Consumers find it harder to compare energy offers than they do in banking, insurance and telecommunications
- Only 9% are aware of independent government energy compare website Energy Made Easy
- Embedded networks represent a new way of providing retail energy products and services to consumers. But consumers in embedded networks may have limited access to competitive retail offers and consumer protections

KEY RETAIL MARKET INDICATORS CONTINUE TO IMPROVE



Retail market concentration has fallen with smaller retailers increasing their market share



Retailers and new energy service providers are giving consumers more options to control their energy use



Larger discounts and savings available – up to 38% for electricity and 30% for gas – and more consumers are receiving discounts



The average price paid by customers of the big three retailers is moving closer to the best available market offer in some states



Increasing number of innovative pricing structures and options available for consumers



RECOMMENDATIONS

Programs needed to improve:

- information on cost savings, expiry of benefits on contracts, pricing that applies to offers
- awareness of independent energy offer comparison tools
- awareness of concession and hardship schemes available

Retailers, consumer advocates and jurisdictions to help vulnerable consumers move away from higher priced standing offers or market offers with expired fixed benefit periods

COAG and the states and territories to improve application and awareness of energy concession schemes

Distributors and retailers to streamline arrangements for consumers or their authorised representatives to obtain consumption data so better pricing options and services can be provided

COAG to continue to consider how energy customer protection frameworks need to evolve given diversity of new retailers and energy service providers in the market

Jurisdictions to harmonise their regulatory arrangements to reduce costs for retailers who operate nationally

Industry to develop a survey on availability of electricity trading hedging products

1. Newgate Research – Consumer research for the AEMC 2017 Retail Energy Competition Review, April 2017. Research method: quantitative survey of 2,147 residential and 550 small business customers across the national electricity market

Planning for 2019-24 + Tariff Structure Statement



- **2017-19 continuing our reforms by:**

- developing cost reflective (time of use consumption and demand) tariffs for existing customer types, where our customers can choose to opt in
- gradual rebalancing of our tariffs and revenues
- trialing incentives to encourage all customers to consider demand based tariff options – 1 Dec 2018 start (end of grandfathered feed in tariff)
- new Distributed Energy Resources tariffs targeted to new customer types with emerging energy technologies, so all customers can benefit from lower costs



- **We are proposing the 2019-24 TSS will:**

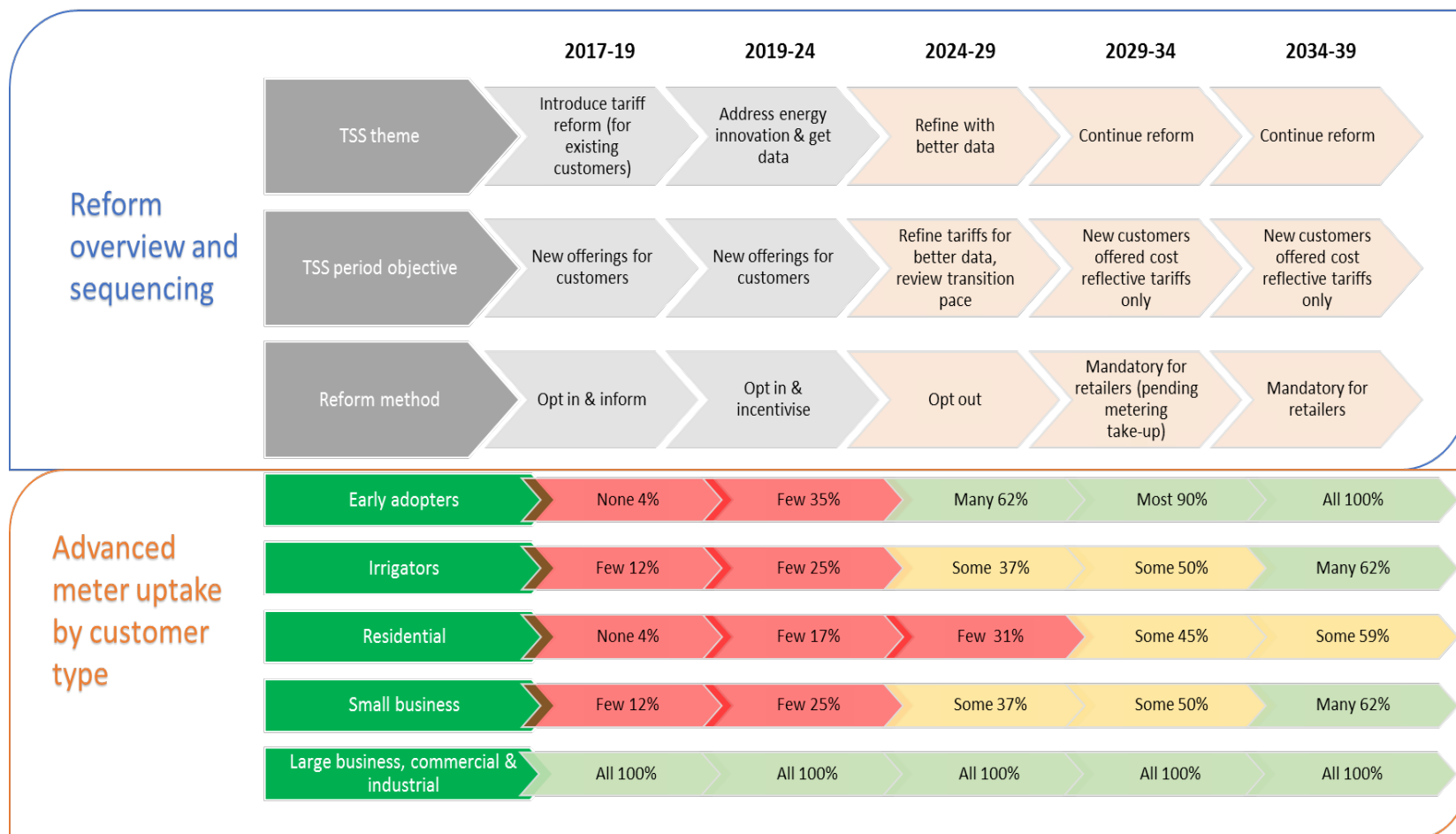
- continue gradual reforms
- gather data to refine our tariff suite and transition plan
- prepare for transition from mid-2024 to cost reflective pricing to retailers

- **Post June-2024 we are proposing:**

- cost reflective pricing to retailers (opt-out instead of opt-in)

We are seeking feedback on our priorities and options

Our long term pricing strategy - a multi period approach



Note: Our strategy for subsequent regulatory control periods will be refined and currently reflects a desired rather than finalised approach.

Encouraging the take-up of cost reflective tariffs

- We want to facilitate a customer led transition to cost reflective tariffs
- We will do this through a simple approach by offering an attractive demand based time of use network tariff to all our residential and small business customers
- In providing our customers this option, we are:
 1. **Incentivising a customer led transition to cost reflective tariffs**
 2. We want to **transition the attractiveness in the tariff offering** (by reducing the incentive over the 2019-2024 regulatory control period to be cost reflective)
 3. From the start - we will be clear about the transition period and assignment rules

Planning for 2019-24 Tariff Structure Statement

The priority for our strategy is to encourage the take up of cost reflective demand based tariffs by creating new choices for customers - aiming to accelerate the pace of reform.

In the 2019-24 TSS period we are:

Offering stronger incentives to encourage all customers to take-up a demand based tariff

In response to feedback - we explored incentive options in more detail to better understand the risks and the value for our customers.

Pricing Reform Working Group - feedback

- The majority of PRWG members are supportive of a network tariff specifically targeted at DER customers and discounted for the 2019-24 regulatory period.
- There is value in targeting early adopters of DER now so that we can provide price signals before customers make new investments.
- The discount transition should be clearly defined upfront. Business customers, in particular, make long term investments and require certainty. TasNetworks should consider the opportunity to discount beyond a single regulatory period.
- 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.
- The discount needs to be large enough to make a difference to people, this is an instance where consideration of the impact of long-term network investments is required (for example, average 40 year assets and replacement cycles).
- Recovering the costs of the discount from other users is fine in principle because of the long term benefits case, however the implications of recovery need to be carefully considered.

Incentive option development process

- At the last Pricing Reform Working Group meeting we discussed incentive approaches and sought feedback from members
- We further developed four options and targeted feedback
- We have landed on an approach that commits to drive valuable customer outcomes by encouraging the take-up of demand based tariffs with the aim of accelerating reform and benefit realisation

Incentive options we have considered

To support our strategy for the 2019-24 period we have analysed a number of incentive options including:



Advanced meter at no charge

Customers opting-in to a cost reflective tariff receive an advanced meter (no charge)



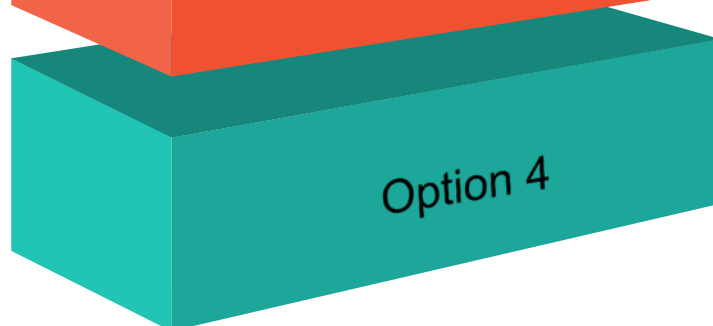
Reduced connection charge

Dedicated (reduced) DER Connection Charge – recognising the long term value of maintaining grid connected DER customers



Tariff reassignment rebate

Dedicated Tariff Reassignment Rebate – customers opting-in to a cost reflective tariff receive a once off rebate



Preferred option – Tariff based pricing incentives

A discounted off-peak demand charge for customers opting to try a cost reflective tariff

Tariff based pricing incentives for customers opting to try a cost reflective tariff (our preferred approach)

We are considering adopting:

Same structure as our existing demand based tariff, and discounting the off-peak demand price/charge



- The incentive arrangement makes the new offer attractive and enables choice by providing all customers (including DER) to choose a cost reflective tariff and embrace a new way of thinking about energy use.
- This approach: responds to an evolving market, balances the diversity in our customers' interests, supports clean energy future and creates more choice.
- **We will not seek to recover the cost associated with the provision of the incentive from other customers, rather we will offset the cost through business benefits/efficiencies.**

Benefit Realisation

Our distribution pricing strategy supports the realisation of the following benefits:

- Facilitates the transformation of the energy industry by encouraging the take-up of cost reflective tariffs
- Increases the take-up of cost reflective tariffs by targeting customers most likely to embrace a new way of thinking about electricity network pricing
- Improving customer service outcomes through improved data
- Exploring how the broader community will respond to pricing reform through the emPOWERing You Trial and other trials
- Positioning the network as a platform to move into the new energy future

Planning for 2019-24 Tariff Structure Statement

The priority for our strategy is to encourage the take up of cost reflective demand based tariffs by creating new choices for customers and aiming to accelerate the pace of reform.

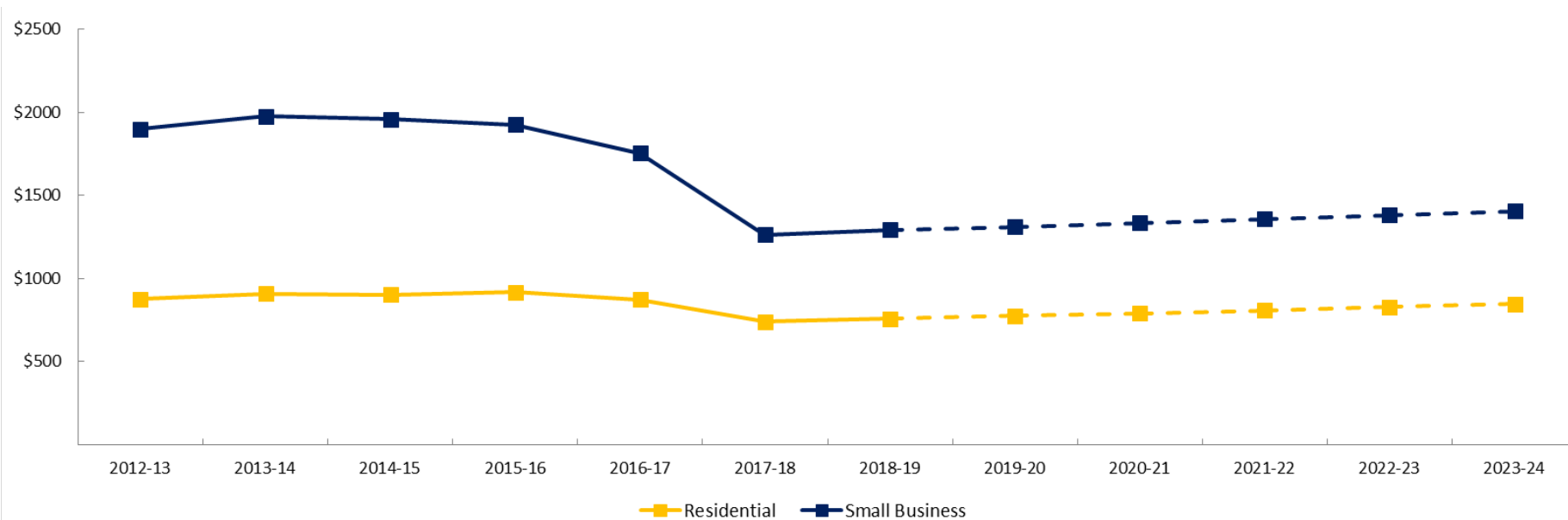
In the 2019-24 TSS period we are:

- Offering stronger incentives to encourage all customers to take-up a demand based tariff by:
 - introducing a new DER demand based tariff, aiming to better identify DER customers
 - offering a discount on the off-peak rate for the existing demand based tariff, and for the new DER demand based tariff
 - all small customers on demand based tariffs will start with the same price point
 - aiming to have the new discounted tariffs ready for the end of the grandfathered FiT , we will work with retailers to achieve this

We will monitor whether our discount strategy is working as intended and can modify the discount rates for new customers if required

Indicative network charge

(\$2016/17 – real dollars)



emPOWERing You Trial

- Tasmanian first – inspired by our community
- learning for us and our customers, such as:
 - smarter decisions on investments
 - better products and services to suit our customers needs
- help our customers make more informed choices so they can understand and manage their electricity usage

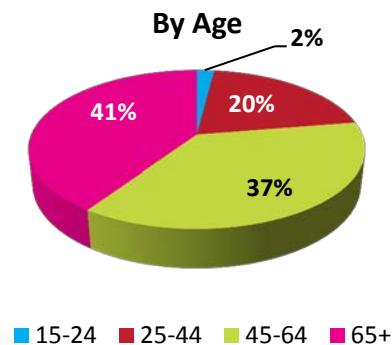
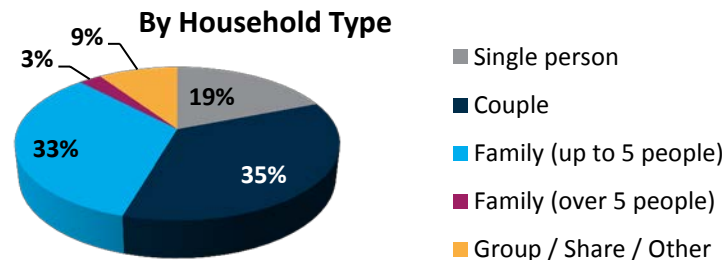
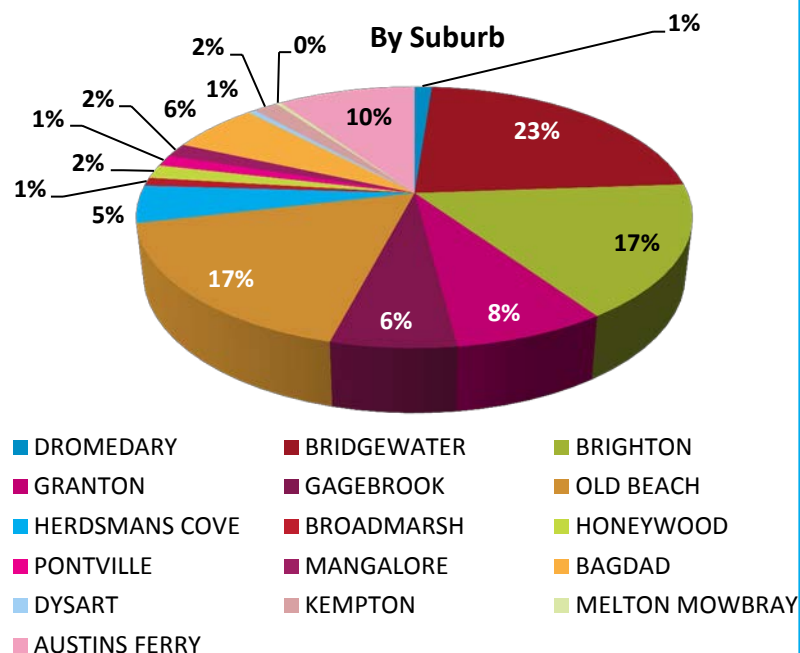


It all starts



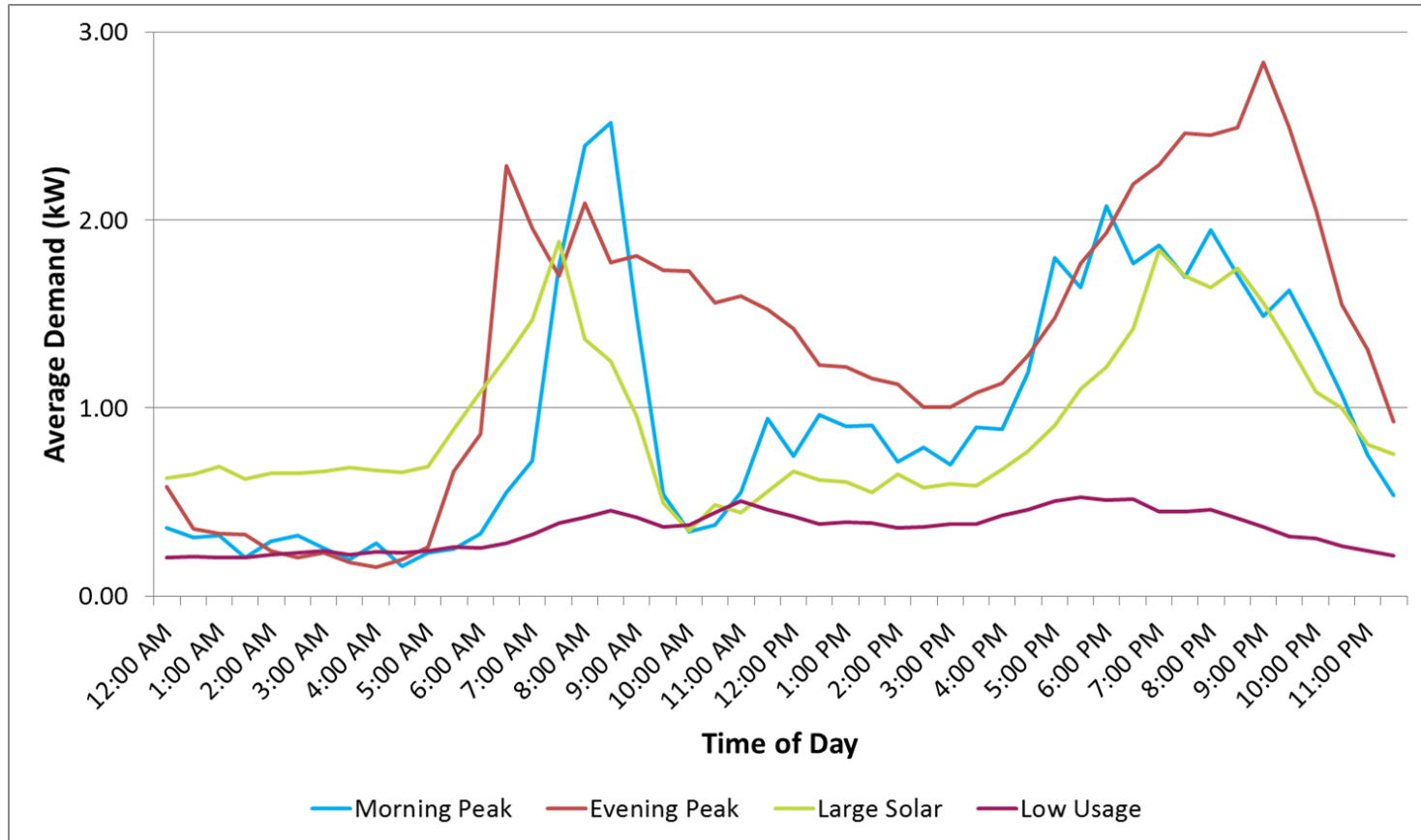
with you.

Who are our emPOWERing You Trial participants?



It all starts
with you.

What we are learning from our Trial



MORNING PEAK

- 10% of participants
- Morning peak larger than evening peak
- High household income
- **Indicative annual demand based network charge \$757 (\$2016-17)**

EVENING PEAK

- 33% of participants
- High overall usage
- Evening peak larger than morning peak
- **Indicative annual demand based network charge \$1,115 (\$2016-17)**

LARGE SOLAR

- 12% of participants
- Large dip in demand between 9am-5pm
- Average PV size is 3.8kW
- **Indicative annual demand based network charge \$704 (\$2016-17)**

LOW USAGE

- 45% of participants
- Small household size
- Low household income
- **Indicative annual demand based network charge \$409 (\$2016-17)**

- Through our initial clustering analysis we have identified four groups.
- Chart shows the differences in usage patterns between the groups.
- Trial data allows us to estimate annual network charges under different tariff combinations.

Feedback:

Question: The clusters have similar characteristics - with the changing energy market, how do you see the clusters evolving?

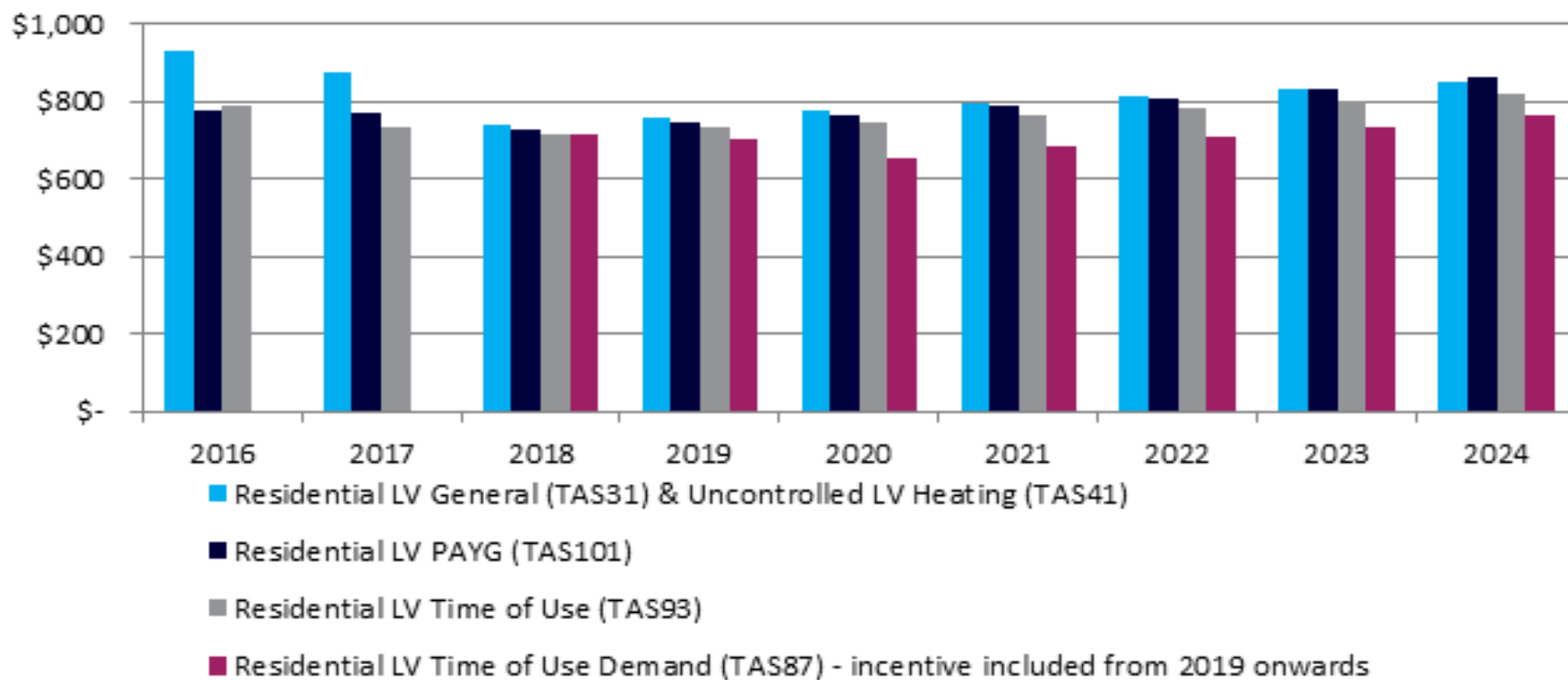
Indicative network charge

(\$2016/17 – real dollars)



Residential - Medium Usage Customer

\$ real 16/17



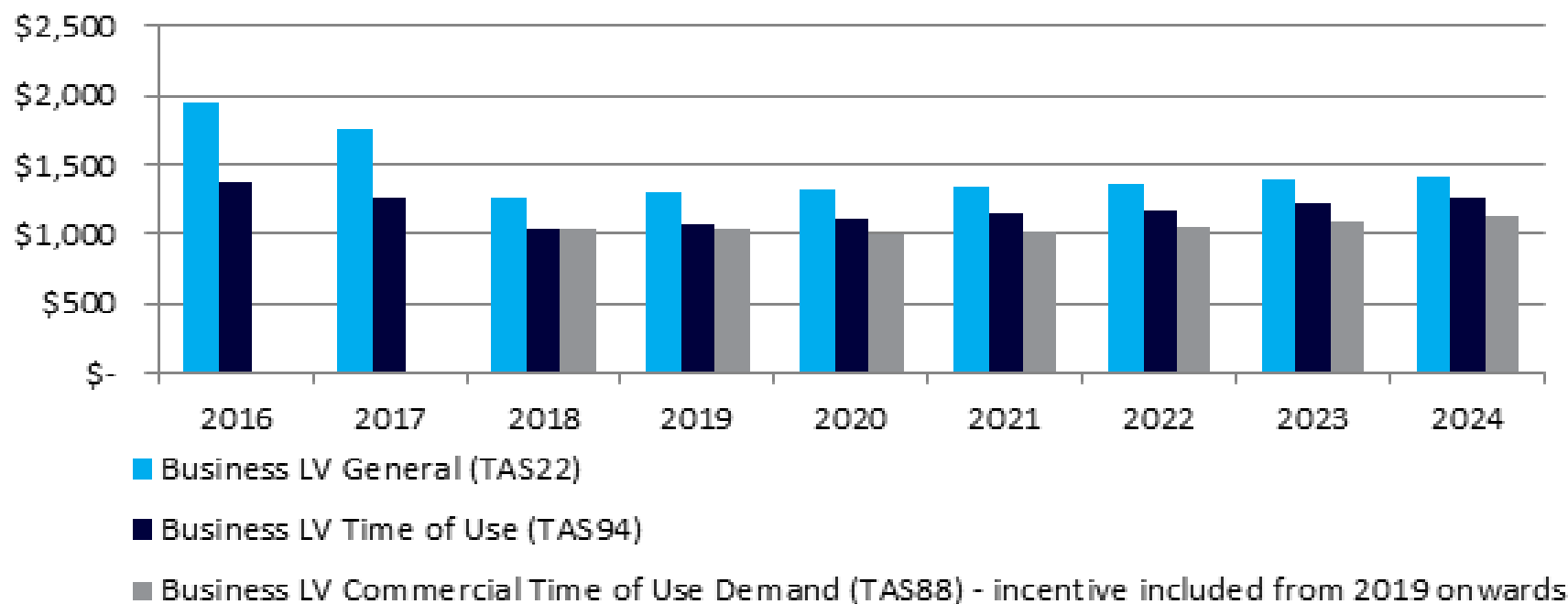
Indicative network charge

(\$2016/17 – real dollars)



Small Business LV - Medium Usage Customer

\$ real 16/17



Feedback:

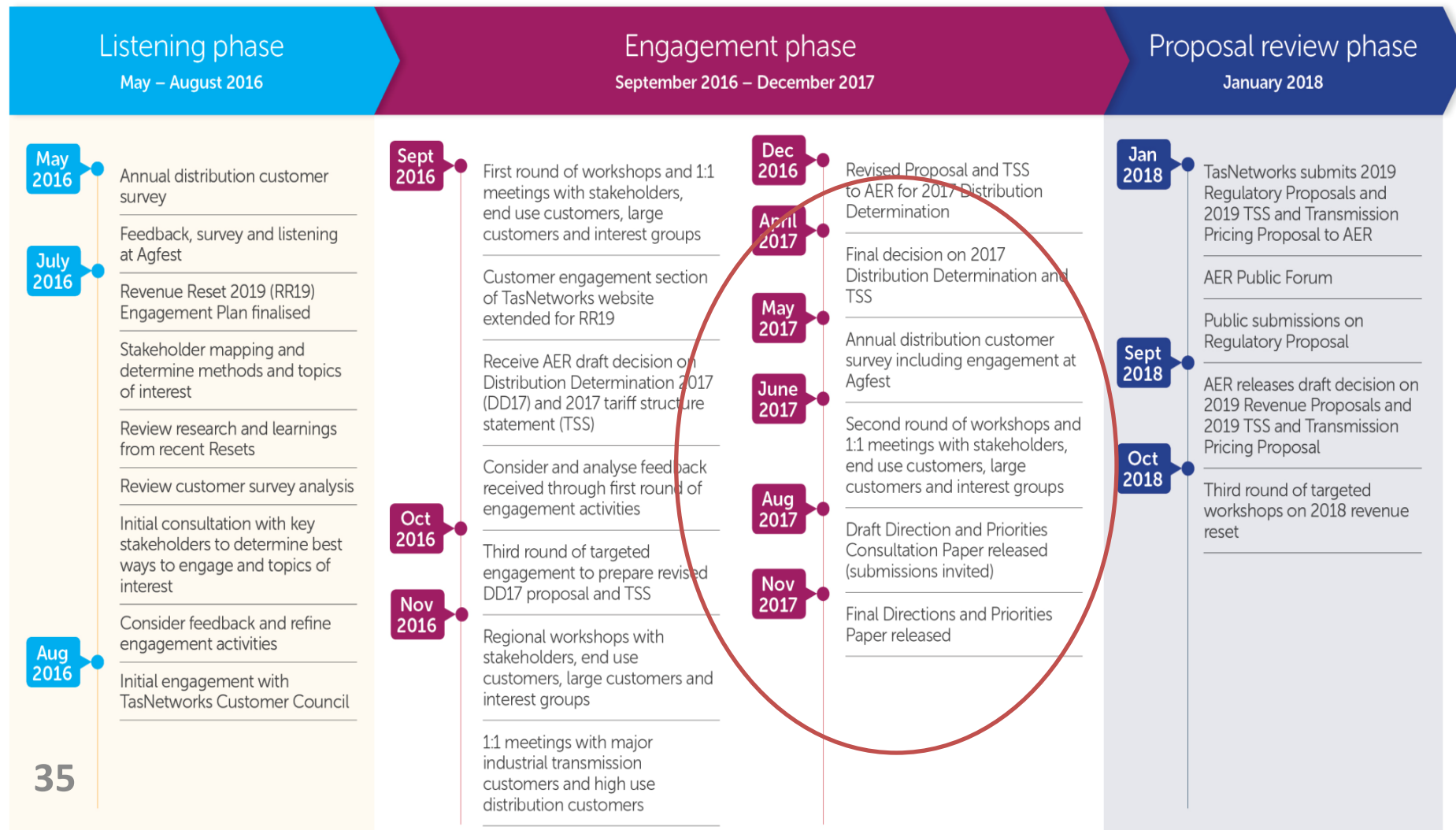
Question: Analysis undertaken in other jurisdictions indicates that many customers would be better off following a move to a cost reflective tariff, however take-up rates remain low. Do you think our strategy and pricing outcomes will encourage customers to try a more cost reflective tariff?

Feedback:

- Q1. How do we support the transition to cost-reflective pricing so we don't create or exacerbate further vulnerabilities?
- Q2. We are a platform for energy services to customers. Do you see that our proposed tariffs may limit opportunities for the future? Are there particular things we should move quickly on?
- Q3. Government policy settings in Tasmania – what should the role of Government be in supporting the transition to cost reflective pricing?
- Q4. Moving forward, is it ok to have cross subsidies in tariffs? We have particular challenges with the heating tariffs – how do you think we should deal with that?

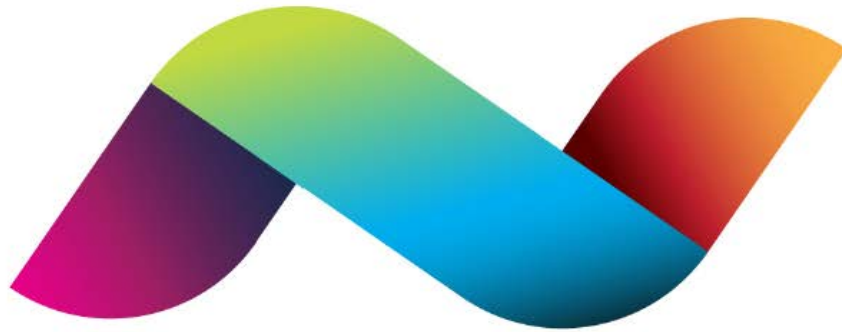
What's next?

2019 Revenue Reset Engagement timeline



What's next?

- Feedback on today 31 August 2017
- Draft Direction and Priorities consultation paper released in August
- Final Directions and Priorities consultation paper released in November
- Pricing Reform Working Group meeting in November?
 - Tariff Structure Statement 2019-24, our initial thoughts around structure and making our plans accessible to customers



TasNetworks

Delivering your power

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