

TasNetworks Pricing Strategy

Pricing Reform Working Group meeting and interested parties
20 July 2018

Agenda

- Introduction
 - Where we are proposing to go
 - Consumer engagement spectrum – inform and engage/consult
- Pace of network tariff reform
 - Update since TasNetworks' submission – Australian Energy Regulator Feedback
 - Energy Networks Association - transition to cost reflective pricing
 - Lessons from other jurisdictions
- Australian Energy Regulator – preliminary views
- Aurora Energy – views of a Retailer
- Discussion / Questions from the floor
- **Break**
- emPOWERing You trial
 - early learnings and customer outcomes
- Feedback activity
- Question & Answer Panel
- Next steps
 - Summary of the day
- Lunch

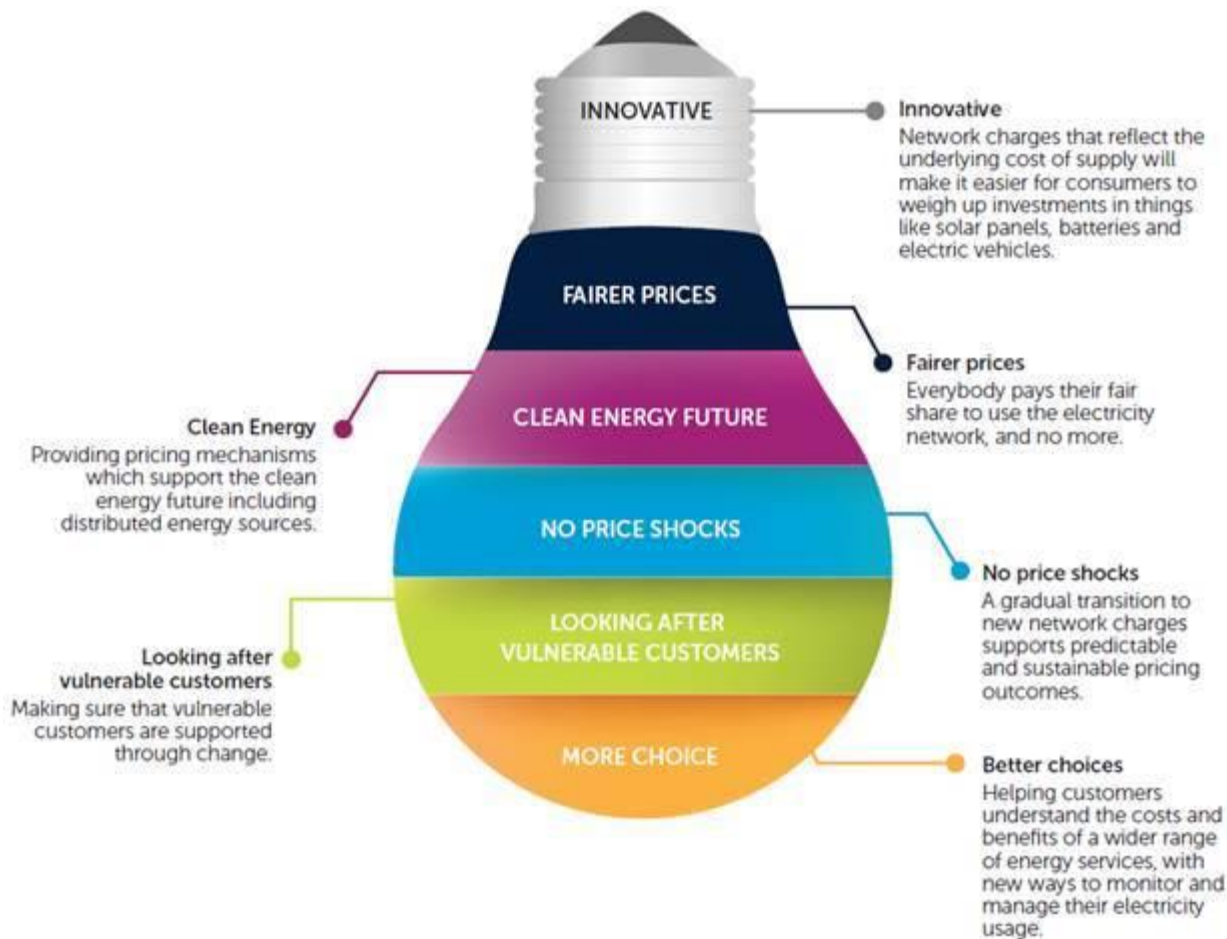


Introduction

- TasNetworks submitted its Tariff Structure Statement for the 2019-24 regulatory period in January 2018.
- TasNetworks has received initial feedback from the Australian Energy Regulator, Consumer Challenge Panel and other stakeholders on our Pricing Strategy and Tariff Structure Statement for 2019-24.
- This presentation outlines:
 - the tariff reforms underway in the current regulatory period;
 - our plans for tariff reform in the 2019-24 regulatory period;
 - the feedback received regarding those plans;
 - the experience in other regions of the National Electricity Market; and
 - our proposed response to that feedback and next steps.

Introduction

The key benefits for our customers of network tariff reform and the principles which guide our plans for reform.



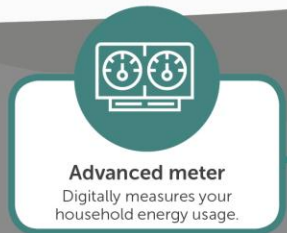


TasNetworks ENERGY EFFICIENT HOUSE



Heater controller

Automatically adjusts the power supplied to your heater to save on energy.



Advanced meter

Digitally measures your household energy usage.



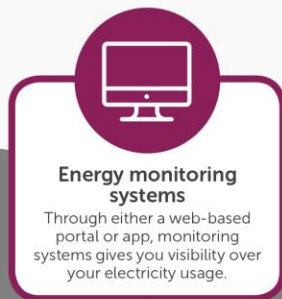
Smart inverter

Control how your solar energy is used.



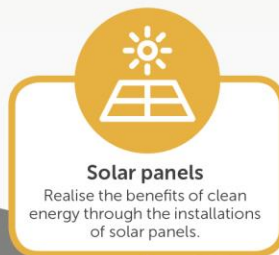
Home automation

Home automation allows you to control lighting, climate, music and even home security all automatically and remotely.



Energy monitoring systems

Through either a web-based portal or app, monitoring systems gives you visibility over your electricity usage.



Solar panels

Realise the benefits of clean energy through the installations of solar panels.



Solar hot water cylinder

Save on energy by taking advantage of your solar energy to provide your hot water needs.



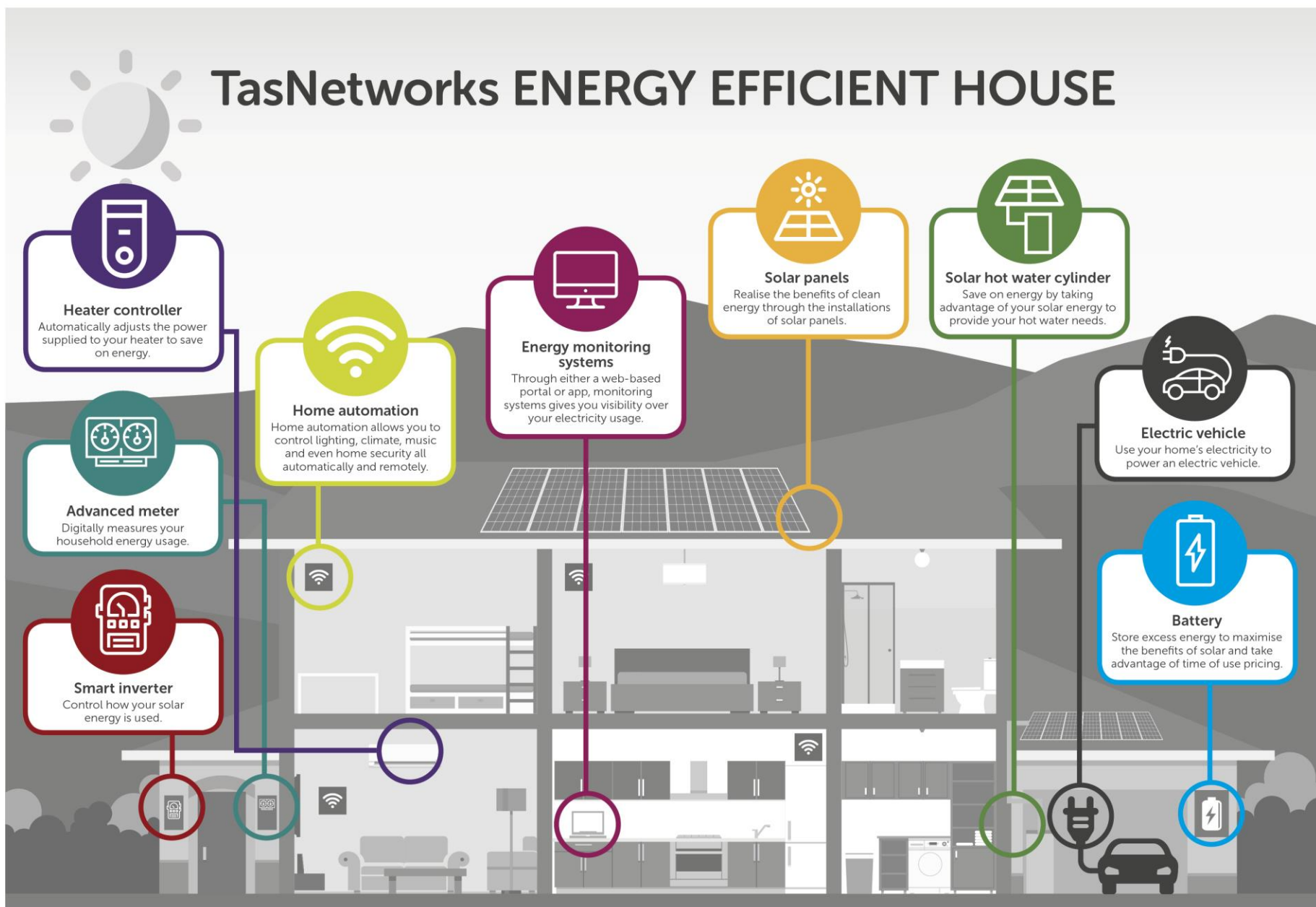
Electric vehicle

Use your home's electricity to power an electric vehicle.



Battery

Store excess energy to maximise the benefits of solar and take advantage of time of use pricing.



Pricing reform: 2019-24

We are proposing in the 2019-24 Tariff Structure Statement that we will:

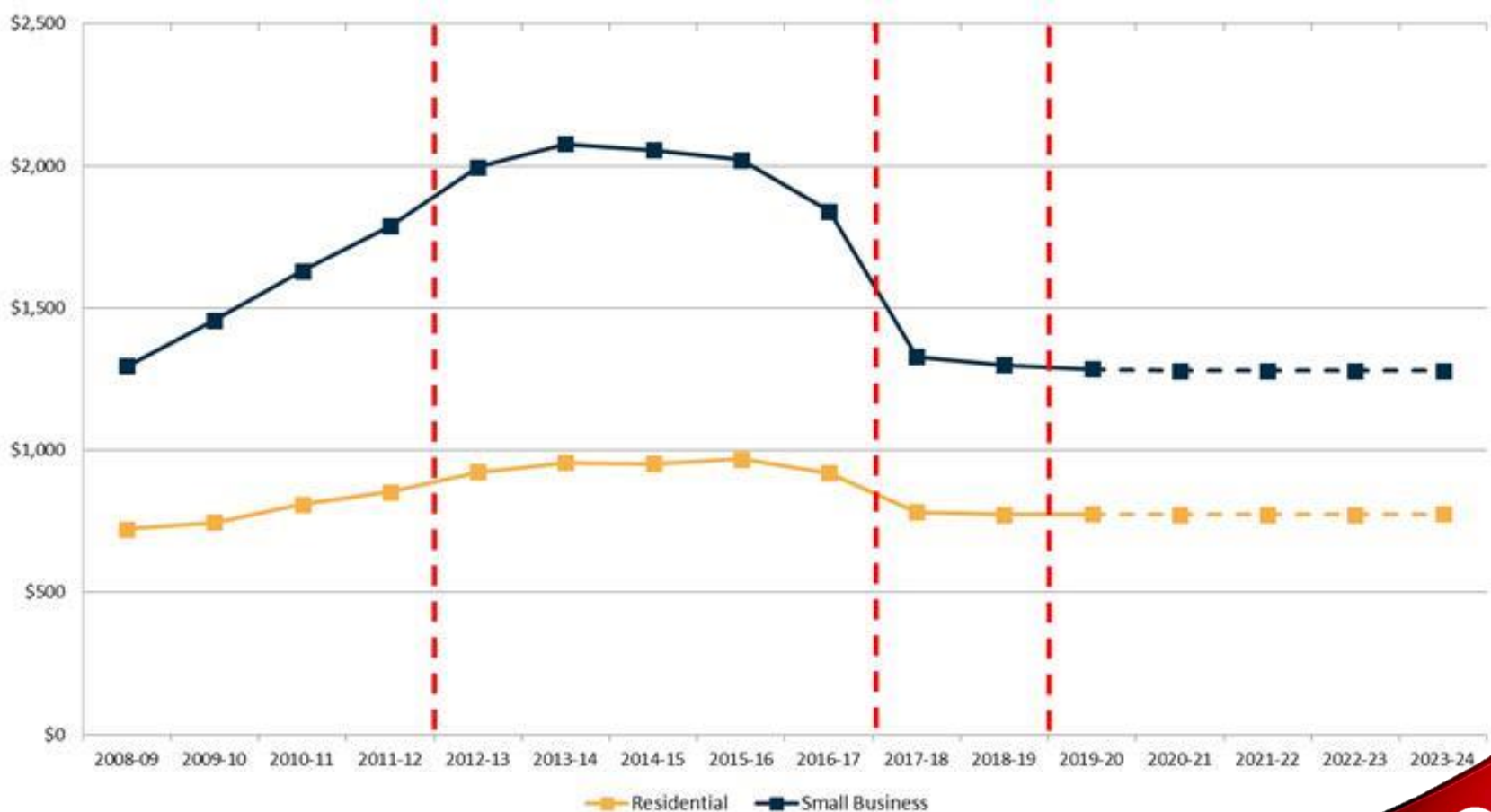
- Continue the realignment of the nursing home, curtilage and controlled off peak tariffs (which are no longer available to new customers).
- Introduce (from 1 December 2018) a second residential demand based tariff for customers that deploy Distributed Energy Resources such as batteries and solar panels, along with a similar tariff for small businesses.
- Incentivise residential and small business customers to take-up the new demand based ToU and DER tariffs through their retailer with ‘introductory’ discounts on the off-peak network charges included in those tariffs.
- Measuring peak demand – move from single peak each month to average of four highest peaks in the month.
- Prepare for transition from mid-2024 to applying cost reflective pricing to retailers for small business and residential customers.

Pricing reform: 2024-29

- Transitional discounting of off-peak demand charges discontinued from 1 July 2024.
- Post June-2024 we are proposing to apply cost reflective pricing to retailers (on an opt-out instead of opt-in basis).
- All discounted tariffs to be completely realigned (and the associated cross subsidies eliminated) by the end of the 2024 – 2029 regulatory period.
- The take-up of advanced metering technology underpins the progress of pricing reform.
- TasNetworks plans to begin billing retailers serving residential and small business customers on a cost reflective basis as the default during the 2029-34 regulatory period.

Forecast network charges

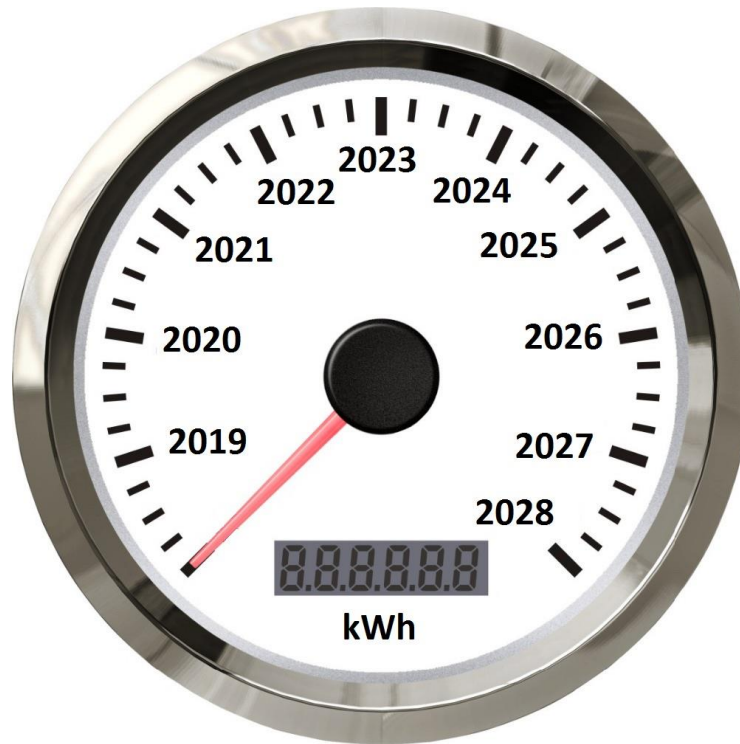
Indicative average annual network charges (June 2019 \$m)



Why are we considering a move to opt-out for residential customers?

- We have been focusing on building and improving data collection to understand network price outcomes for residential customers.
- We require further data collection and customer engagement for us to confidently understand the price outcomes of a move to opt-out arrangements mean for small business customers.
- Given the diverse nature of business customers, we encourage these customers to undertake tariff comparison research to make an informed tariff assignment decision.
- Nationally, the ACCC recommends that state and territory governments should fund small business organisations to provide tailored retail electricity market advice. The fund should total \$10 million over three years and be awarded on a competitive basis to small business representative organisations providing information, tools and advice to small businesses on retail electricity choices. The ACCC notes that this could help small businesses make better energy choices.

The pace of reform



TasNetworks comments re pace of reform

- There are divergent views about the pace of pricing reform.
- There are some stakeholders with an appetite for a faster rate of reform than we have proposed, while others – including our shareholders – have expressed a preference for a slower pace of pricing reform.
- TasNetworks' Pricing Reform Working Group (PRWG) has been particularly supportive of the proposal for an opt-in approach for demand based tariffs for the 2019-24 period.
- More engagement and feedback would be needed from retailers, customers and their advocates before TasNetworks could move to an approach other than that which has previously been canvassed and tested with stakeholders.

Electricity Network Transformation Roadmap



Experience from other NEM regions

- EvoEnergy offered ToU consumption tariffs for residential customers on an opt-in basis from 2007-2010.
- At the end of 2010, 30 residential customers had opted in to a ToU consumption based tariff.
- From 2010, EvoEnergy's assignment principles changed from opt-in to opt-out. Since moving to opt-out approx. 20% of customers residential customers are on the ToU consumption tariff. Analysis is showing a responsiveness to the ToU price signals.
- Jemena also offered a ToU consumption tariff on an opt-in basis for 7 years, approach 150 customers moved onto the tariff, despite analysis which demonstrated many customers would be better off if they switched.

Retail Electricity Pricing Report

- ACCC has recently released their Retail Electricity Pricing report which makes recommendations to significantly improve electricity affordability for Australian consumers and businesses.
- There are two relevant recommendations in the report which relate to what we are discussing today:
 - **Recommendation 14:** The ACCC considers that steps should be taken to accelerate the take up of cost reflective network pricing. Governments should agree to mandatory assignment of cost reflective network pricing on retailers, ending existing opt-in and opt-out arrangements.
 - **Recommendation 15:** The ACCC considers that steps should be take up smart meters, and ensure customers receive the benefits of this technology.



AUSTRALIAN
ENERGY
REGULATOR

TasNetworks Revenue determination 2019-24

Tariff Structures Statements

Preliminary AER staff views for consultation

20 July 2018

aer.gov.au

About this process

The AER must make two separate determinations for TasNetworks' distribution and transmission networks. These determinations:

1. Will set the revenues TasNetworks can recover from customers for the provision of electricity network services
2. Will approve pricing structures for these services, that set out how that revenue is spread across its customer base. This is the Tariff Structure Statement or TSS.

The AER's draft decision is due to be published in September 2018

Tariff assignment is a key issue

TasNetworks current proposal relies on an opt-in based approach to tariff assignment:

- allows customers to opt-in to a cost-reflective tariff through their retailer if
 - ✓ they are a new connection
 - ✓ initiate a change to the connection
 - ✓ or have a smart meter installed
- the design of this cost reflective tariff TasNetworks is proposing is time of use demand

Opt-in approach

Opt-in approach to tariff reform relies on retailers proactively choosing to face cost-reflective network tariff structures on behalf of their customers

AER staff consider opt-in approaches have not worked in Tasmania or other jurisdictions so far, with low levels of reported uptakes

Opt-out approach

- Opt-out approach motivates retailer to respond to network tariff, they must have regard to cost-reflective tariffs
- An opt-out approach maintains a gradual approach to reform as the triggers for tariff re-assignment are met such as smart meter installation
- Vital that cost-reflective tariffs are in place so customers can make informed decisions. For example, when considering future distributed energy resources investments

Aurora Energy's views on TasNetworks' Regulatory Proposal

20 JULY 2018

Aurora Energy's view on TasNetworks Regulatory Proposal



Cost-reflective pricing

In its 2013 Price Determination, Aurora Energy supported a move towards tariff cost-reflectivity, provided that move was implemented in a way that considered customer impacts.

In 2018, the Tasmanian Government has implemented a policy to cap all annual retail price increases to CPI until 2021. This has resulted in positive affordability outcomes for Tasmanian customers.

However, it also means that Aurora Energy is unable to pass-through movements in underlying costs on a tariff-by-tariff basis.

Therefore, Aurora Energy does not support the continued transition to cost reflectivity for network prices.

Further, Aurora Energy also does not support the introduction of an 'opt-out' approach to retailers taking up demand-based network tariffs in Tasmania. Aurora Energy considers that sufficient customer willingness for demand-based tariffs would have to be demonstrated before it would support implementation in Tasmania.

Aurora Energy's view on TasNetworks Regulatory Proposal



Advanced Metering

Since December 2017, advanced meters have been installed in new and replacement circumstances in Tasmania (and across the National Electricity Market). Under the new market rules, Aurora Energy is now responsible for the meter roll-out. The current focus is to ensure meter installation processes are as efficient as possible under the new arrangements.

In 2018-19, Aurora Energy will extend the advanced meter roll-out to replace legacy APAYG meters. Aurora Energy is also in the process of developing a replacement for the APAYG product which will leverage advanced meter data and allow customers to better control their electricity use.

With respect to TasNetworks' proposal, Aurora Energy does not support the acceleration of depreciation for metering capital costs and considers that this will result in an unnecessary cost increase for customers with no commensurate benefit. Aurora Energy does not consider there to be any economic justification for TasNetworks' proposed approach.

Aurora Energy proposes that TasNetworks recovers the existing metering capital cost consistent with the forecast decline in the physical metering assets.

Discussion and Questions

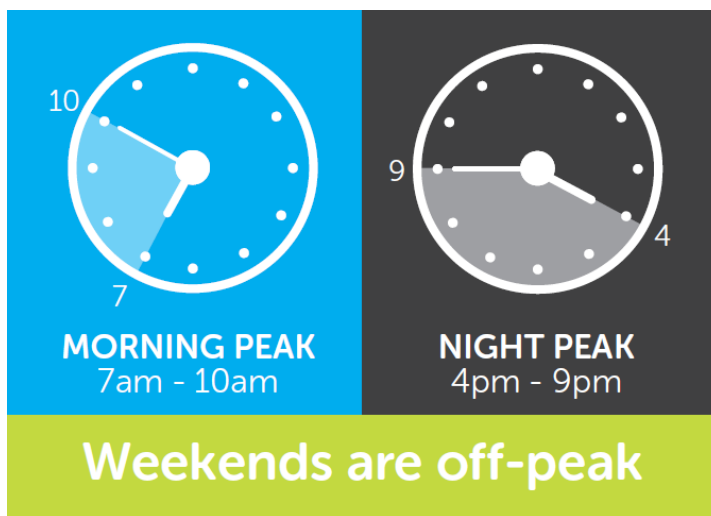
Time of use awareness & understanding

Most emPOWERing You participants are aware of Time of Use and conceptually understand it.

Price is going to be high when the demand is high and lower when the demand is low.

You get reduced tariffs after 9pm.

It's [Time of Use] designed to spread the load of activity so that there is less strain on the system."



You've got the set times where the power usage is a bit lower.

I do my washing at night because it's cheaper.

I now feel like I have the peak/off peak thing going well, so yesterday I focused on staggering and feel very proud to say I kept it up all day!

Tariff reform and vulnerable customers

Four things TasNetworks is doing to protect vulnerable customers:

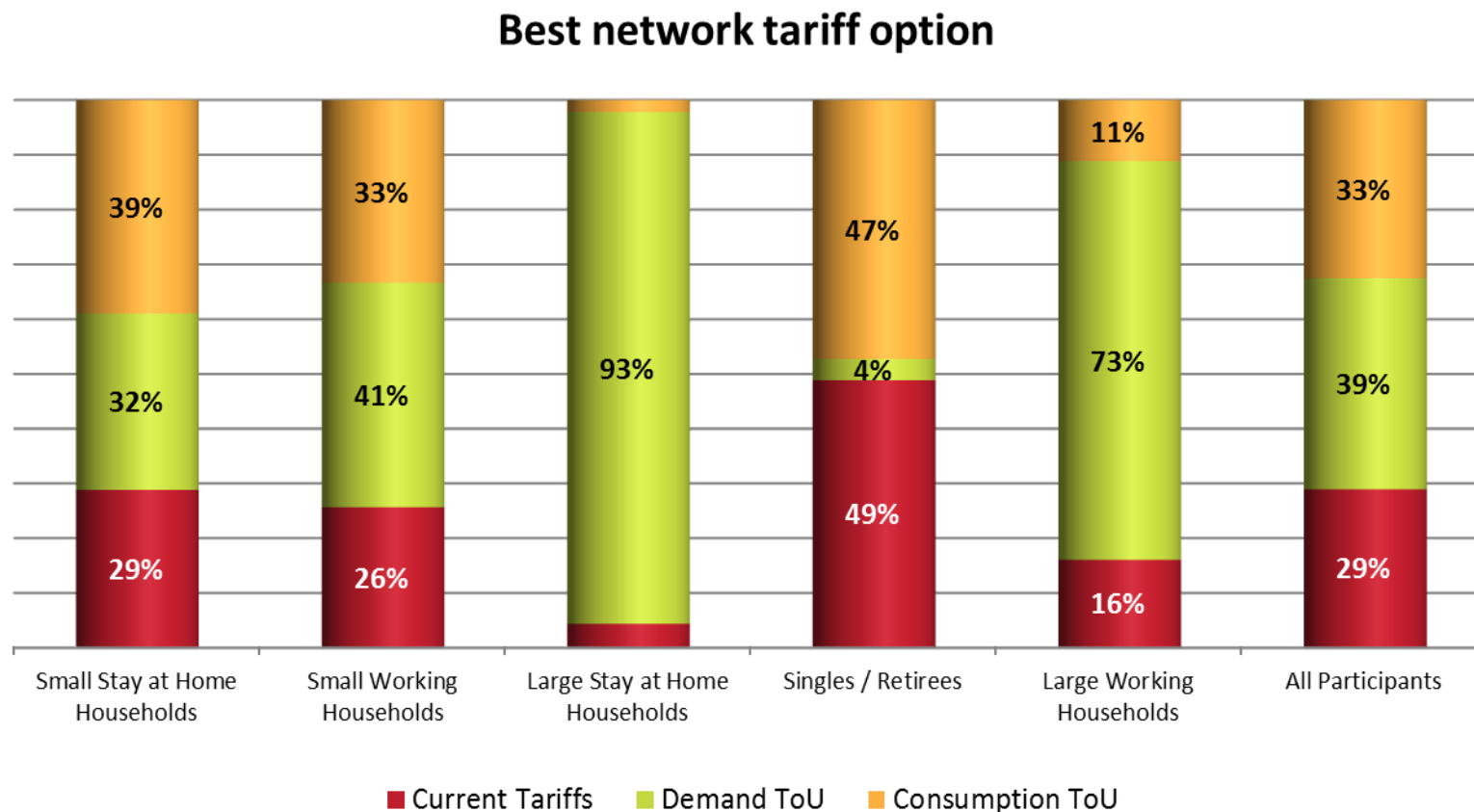
- i. **ongoing cost savings** to put downward pressure on the delivered cost of electricity for all customers, including vulnerable customers;
- ii. **cost reflective network pricing**, so that all customers make a contribution to the cost of the network that reflect the demands they place on the network, without cost shifting;
- iii. **influence the State Government's concession framework** to better support pricing reform in general ,and vulnerable customers in particular;
- iv. **advocate for a fair and reasonable FiT**, so that customers without solar PV no longer subsidise customers with solar PV.

The emPOWERing You tariff trial covers a wide cross section of the Tasmanian community, including participants that could be considered to be 'vulnerable'.

emPOWERing You tariff trial

- deployed off-market advanced meters and collected demand and consumption data in 30 minute intervals for some 600 households
- participants provided with a web-based interface (or app) displaying their household consumption and demand
- engaged with customers through surveys, focus groups and interviews
- To date, 18 months of interval data, including 12 months of base-line data – eventually 24 months of data

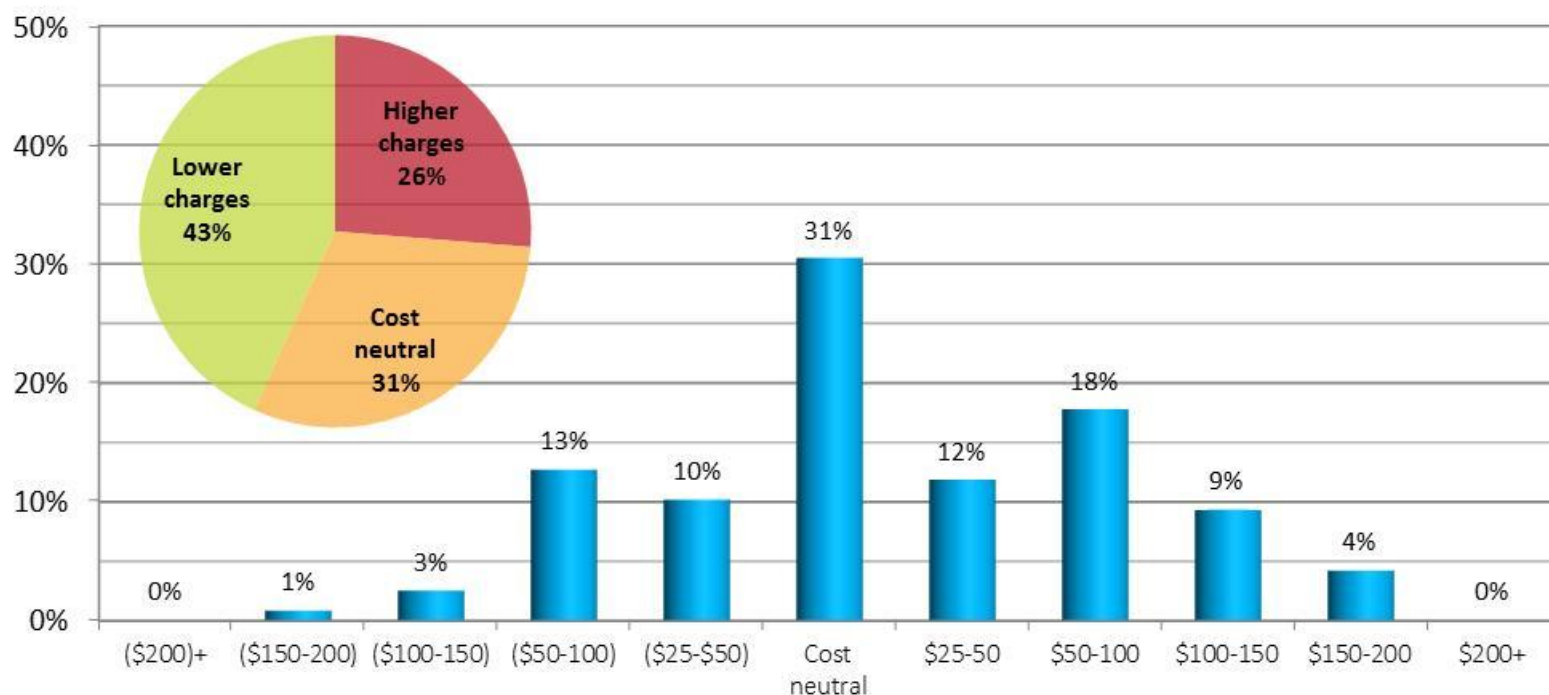
What we are learning from our trial



Note: The above analysis is based on data sourced from our tariff trial and assumes no behaviour change in response to price signals

What we are learning from our trial

Small Stay at Home Households



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Feedback activity – customer outcomes

Network price outcome

Assignment options for Tasmania – feedback sought

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

Opt-in assignment to a *demand* based ToU 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 ToU *consumption* based network tariffs for new and replacement residential customers on an opt-out basis.

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

3. Apply ToU *demand* 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 ToU consumption network tariffs on an opt-in basis through their retailer, as well as ToU demand based network tariffs.

4. New and replacement residential customers receiving advanced meters retain their existing tariff for 12 months, followed by reassignment to a ToU *consumption* based network tariff on an opt-out basis, plus active choice for all residential customers through their retailer.

What do we mean by ‘new and replacement’?

- Since 1 December 2017, advanced meters have been deployed by retailers whenever new or replacement meters are required for a residence or small business, including in circumstances where a customer is seeking access to services and products that only an advanced meter can provide/enable.
- When a new or replacement advanced meter is supplied, it provides a ‘trigger point’ for network tariff assignment / reassignment.
- The circumstances which trigger an opportunity to assign a customer to a cost-reflective network tariff, whether on an opt-out or opt-in basis, include:
 - **connection to the network** for the first time (i.e. a new connection)
 - **changes to a customer’s connection** arrangements (e.g. a customer upgrades their connection from a single phase supply to three-phases, installs solar PV, or relocates their point of supply)
 - **failure of an existing Type 6 accumulation meter** and its mandated replacement with an advanced meter
 - **installation of an advanced meter** (whether instigated by the customer or their retailer, with no other changes to the customer’s connection)

Feedback activity – Network tariff assignment options

Panel discussion

Panel members:

TasNetworks

Australian Energy Regulator

Consumer Challenge Panel

Aurora Energy

Next Steps

- Summary of the day
- Continue engagement - next meeting planned for August with additional meetings/consultations as required
- Collate and reflect on today's feedback
- AER draft decision (anticipated September 2018) on our pricing strategy
- We will take into consideration feedback to develop our revised Tariff Structure Statement, which is our 5 year pricing strategy (due end November 2018)
- Follow up actions



TasNetworks

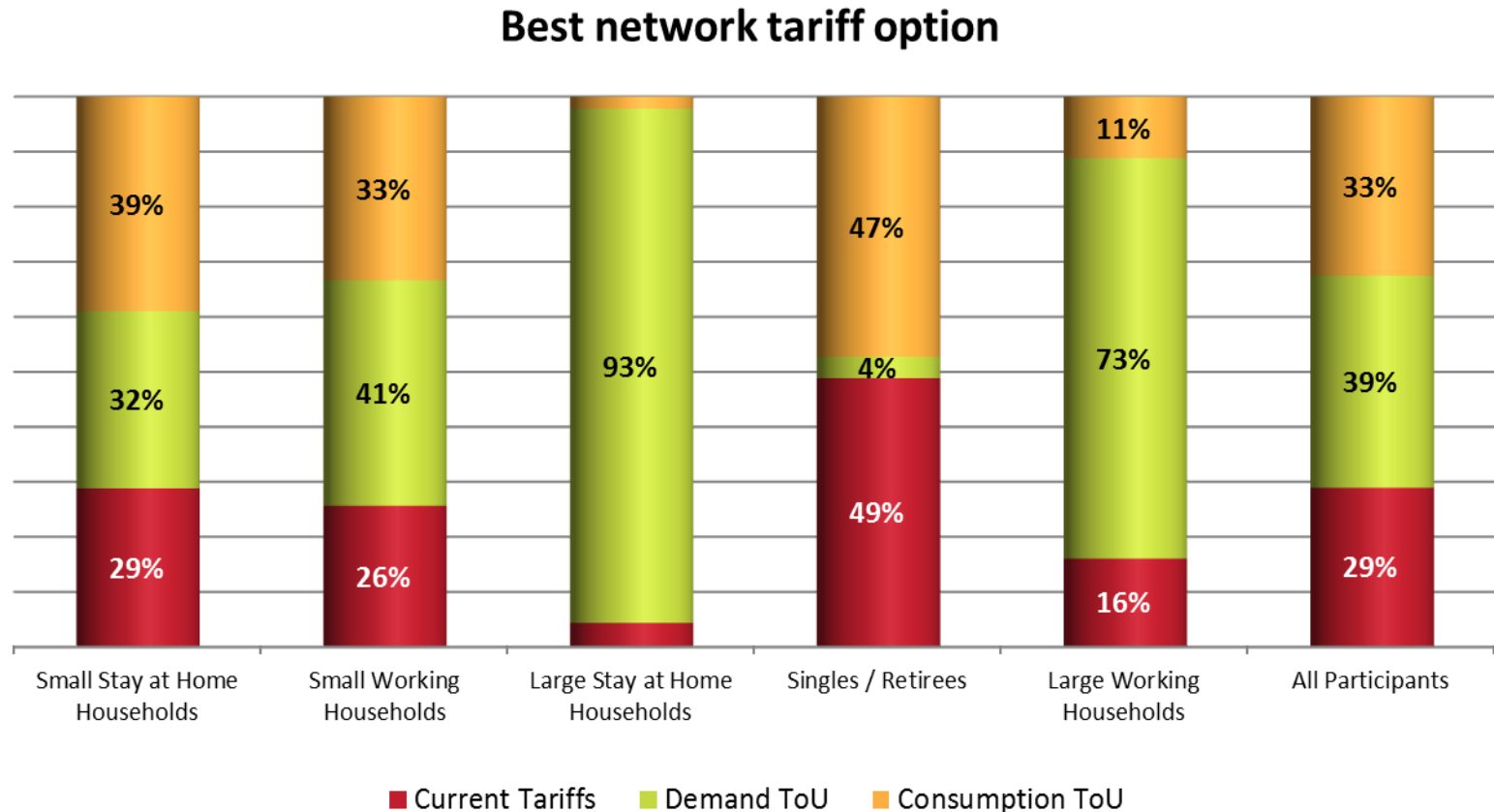
Delivering your power

For further information:
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TasNetworks Pricing Strategy Stakeholder Information Pack

Pricing Reform Working Group
20 July 2018

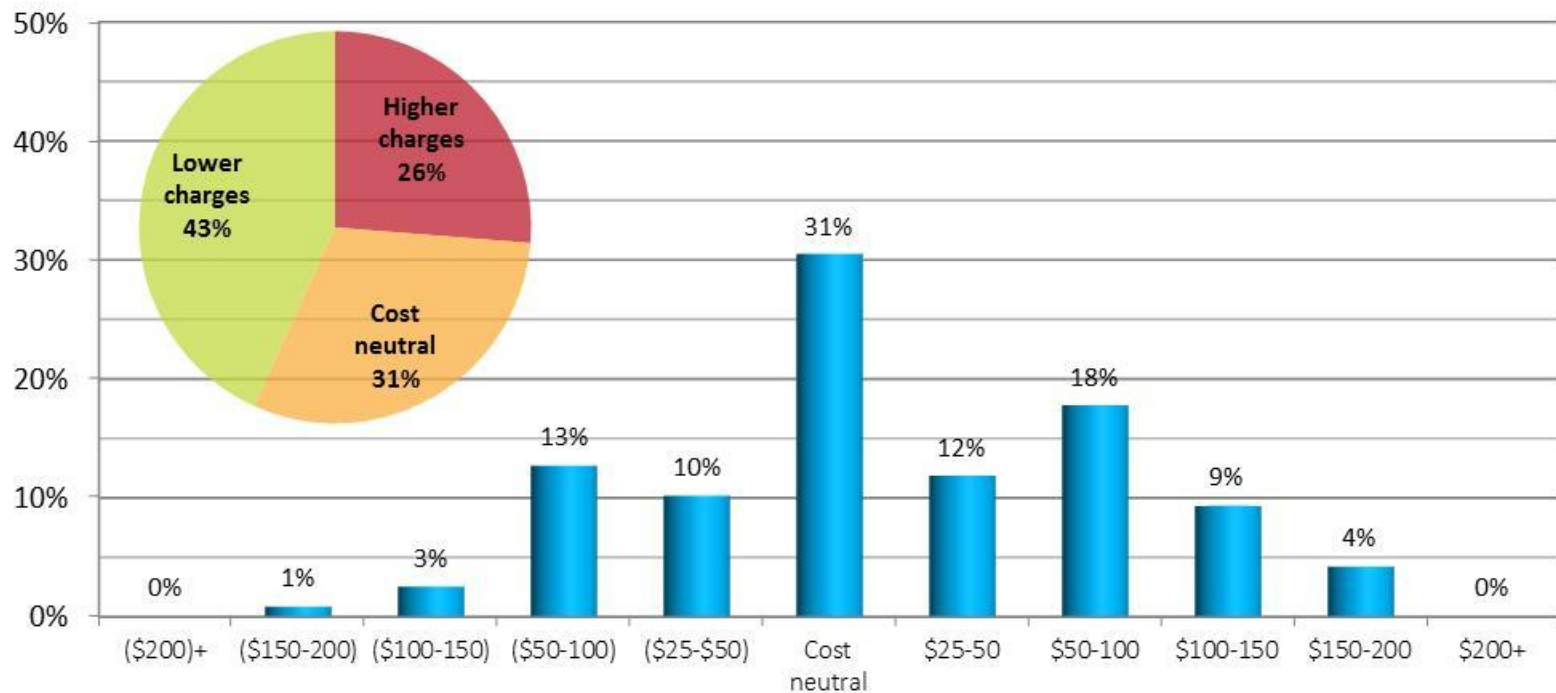
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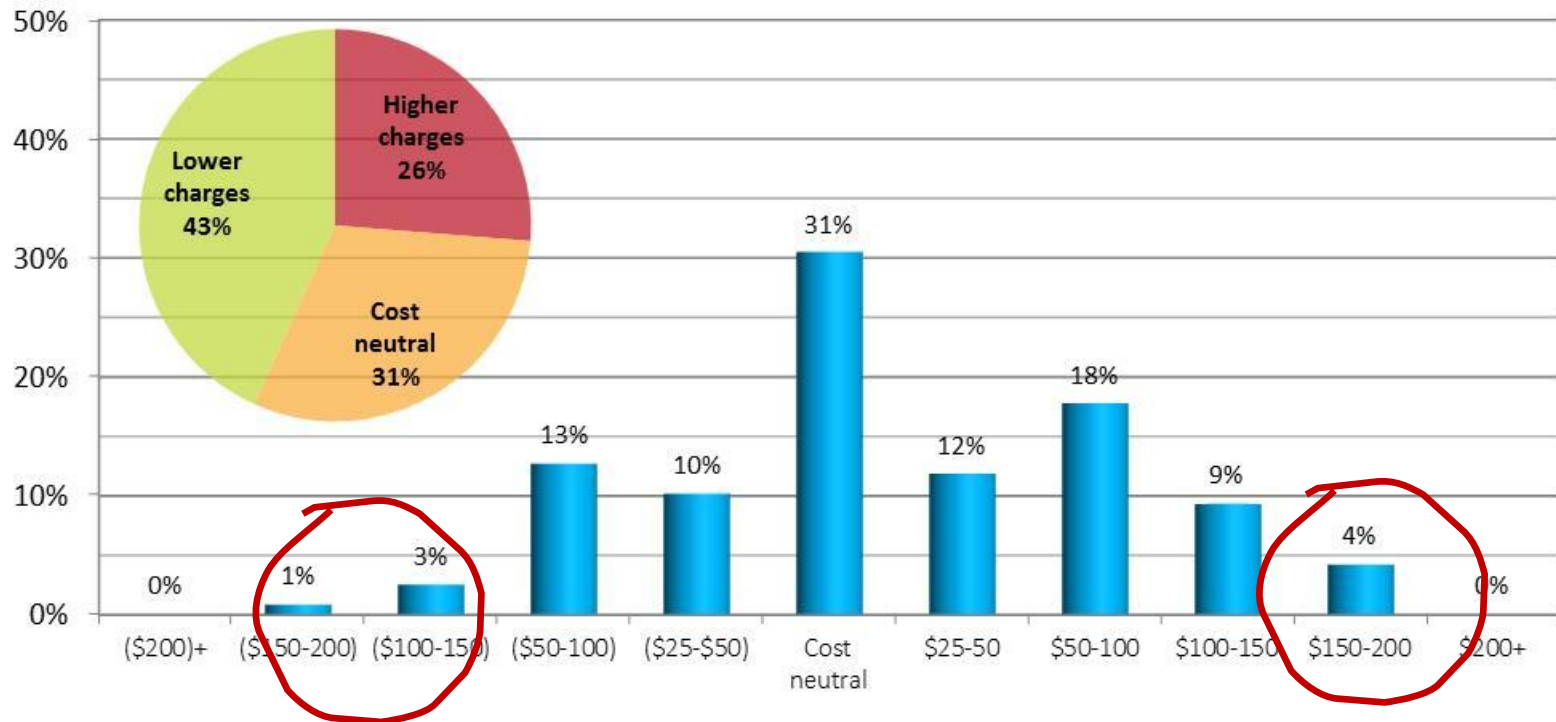
Small Stay at Home Households



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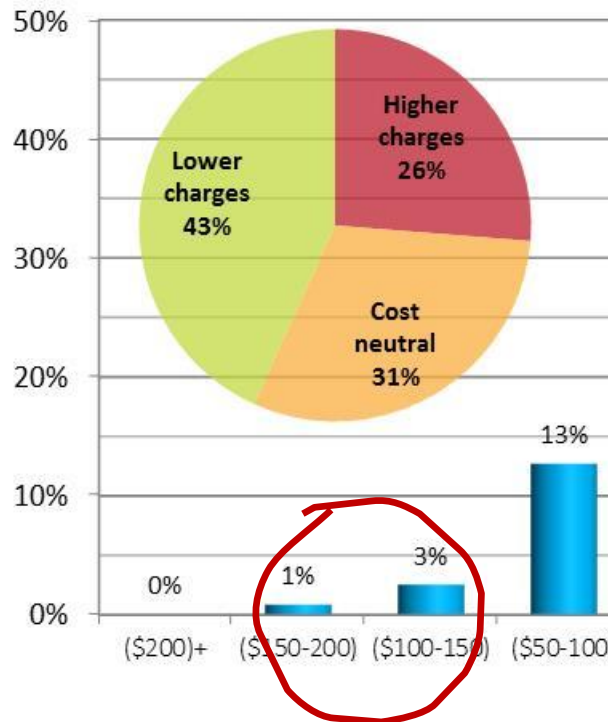
Small Stay at Home Households



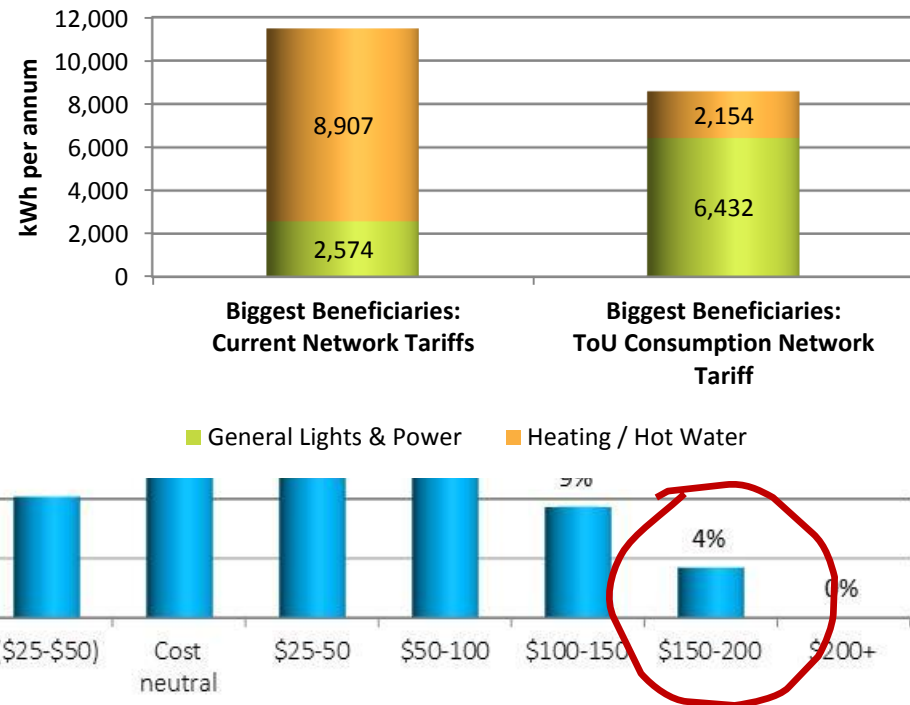
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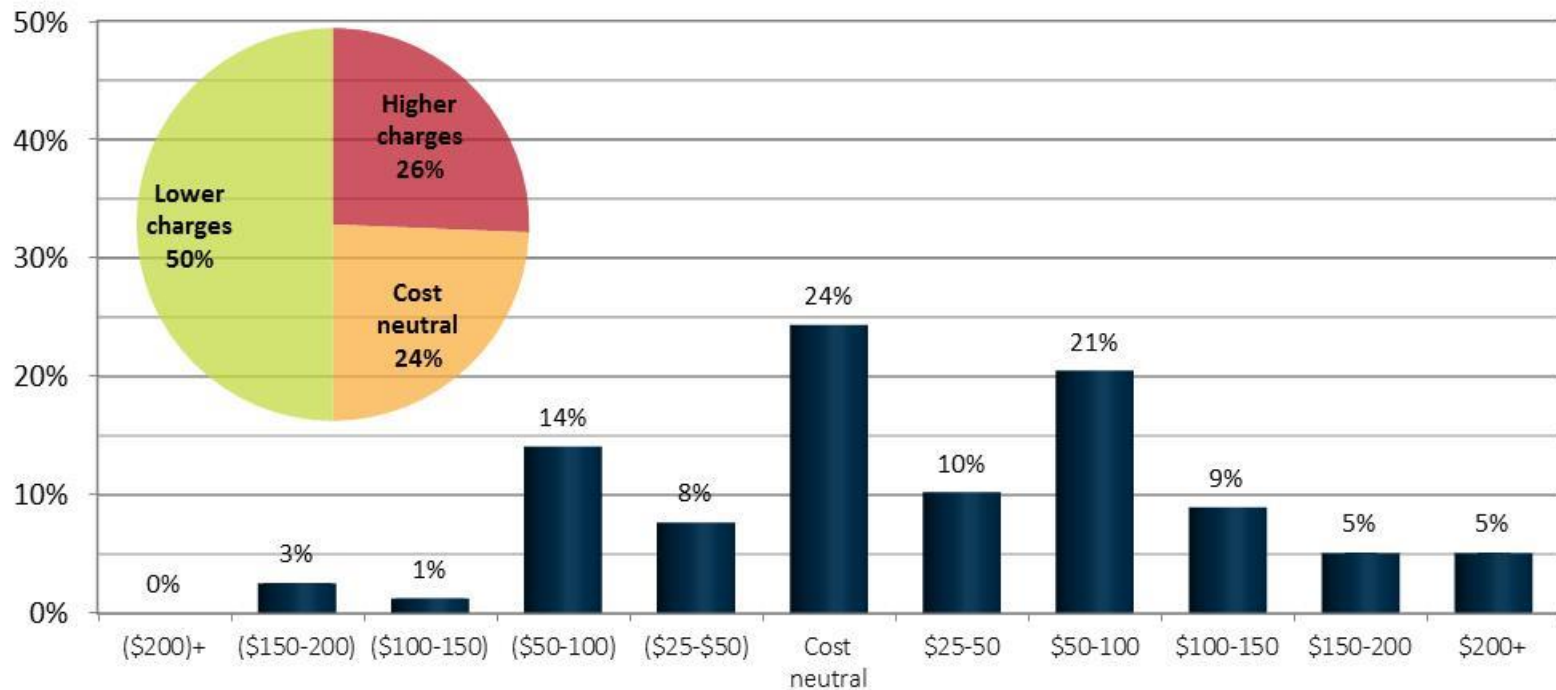
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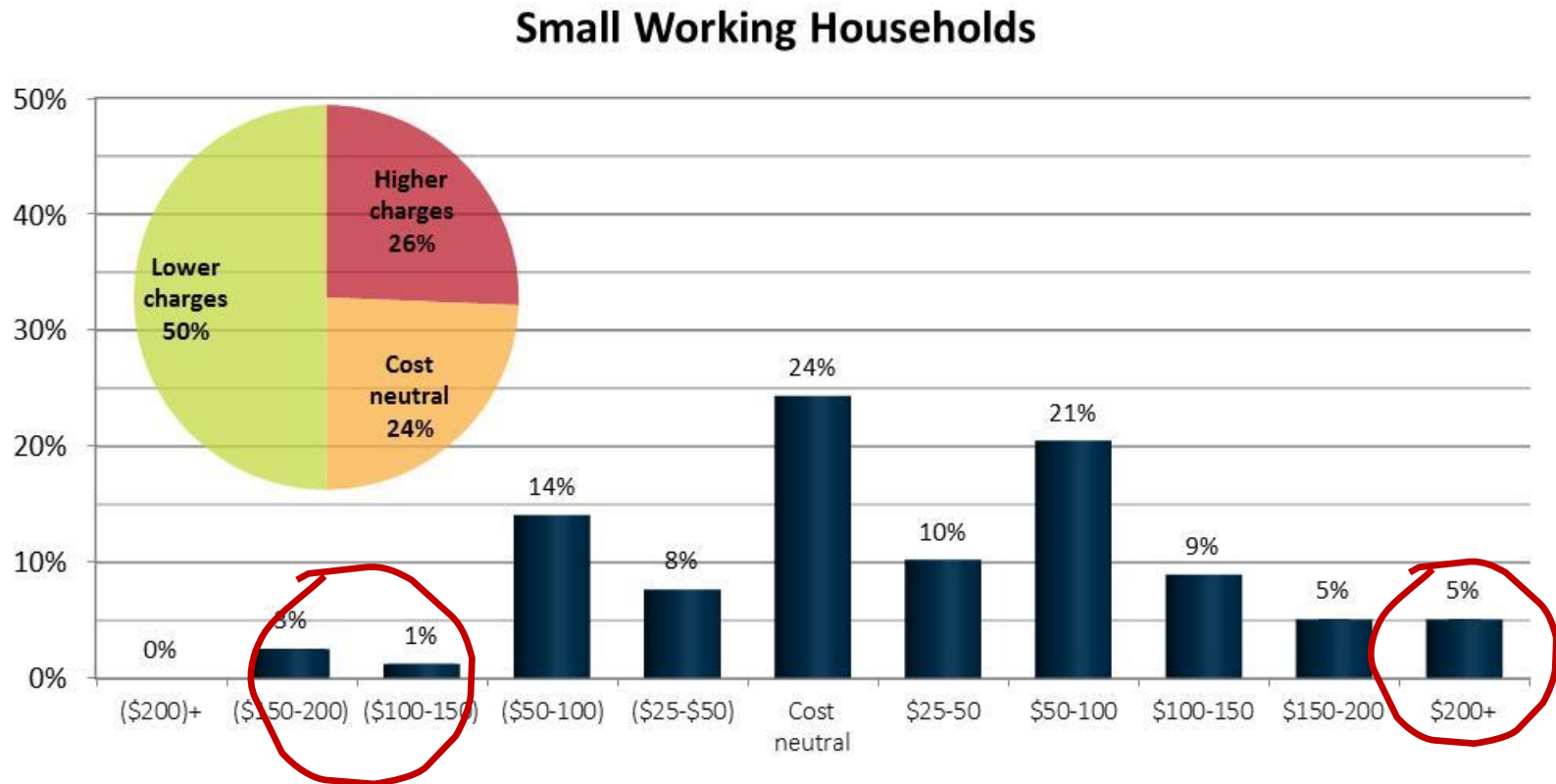
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Small Working Households



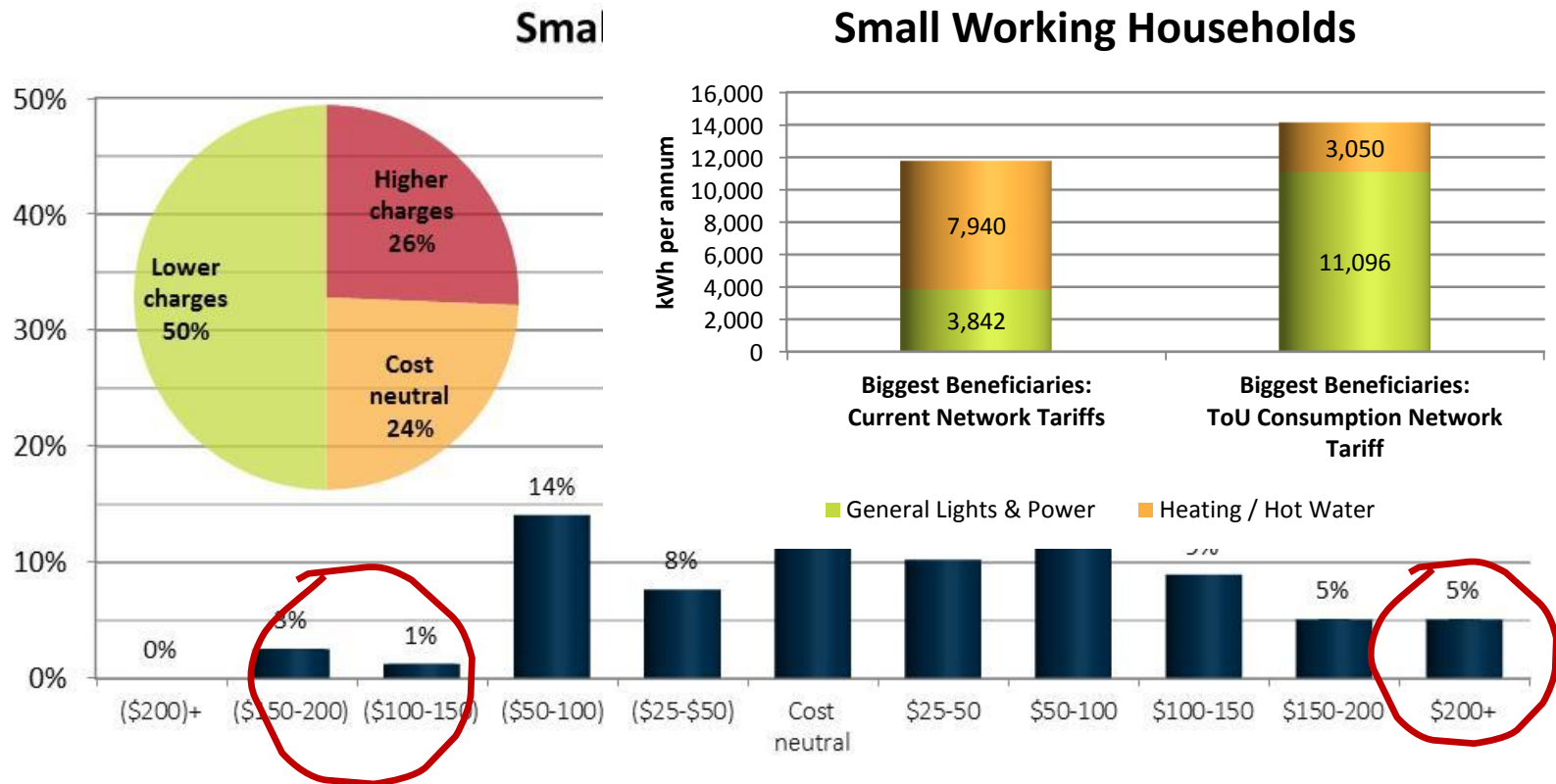
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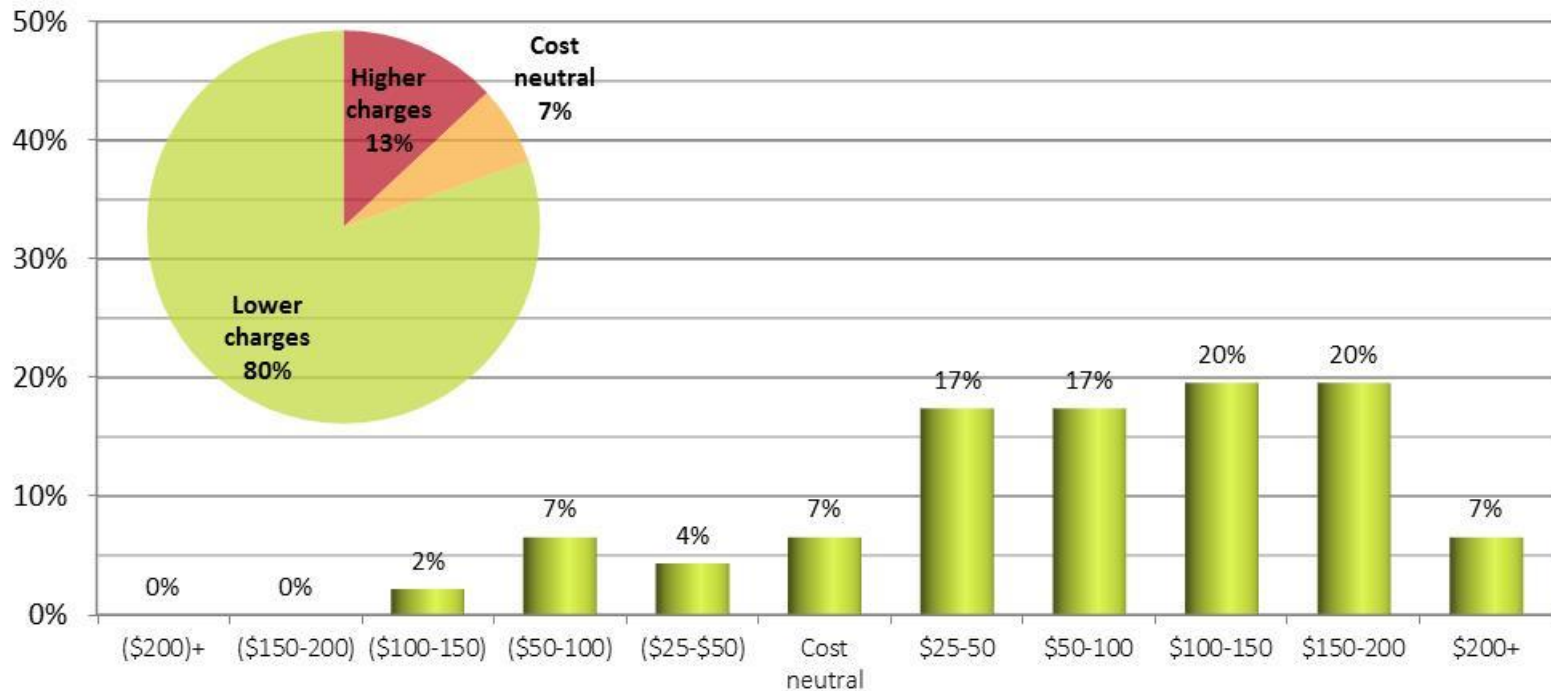
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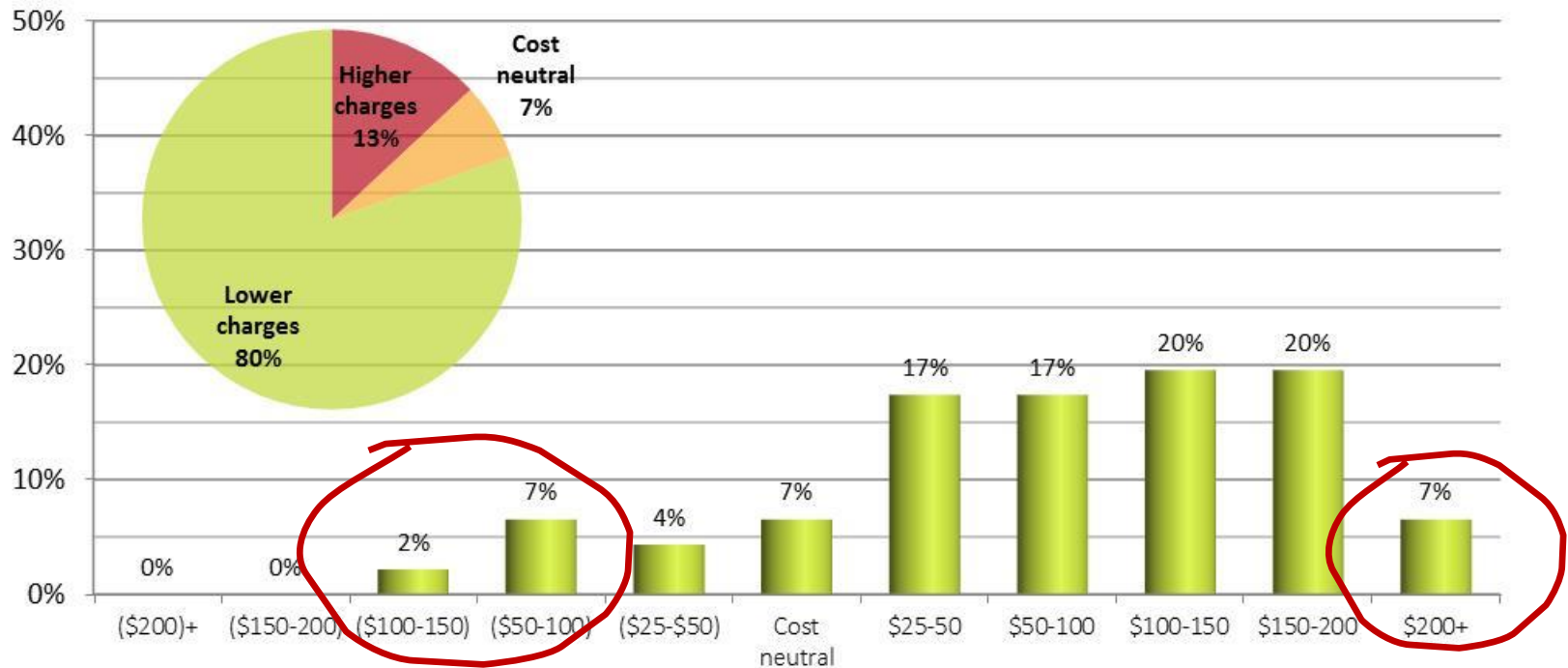
Large Stay at Home Households



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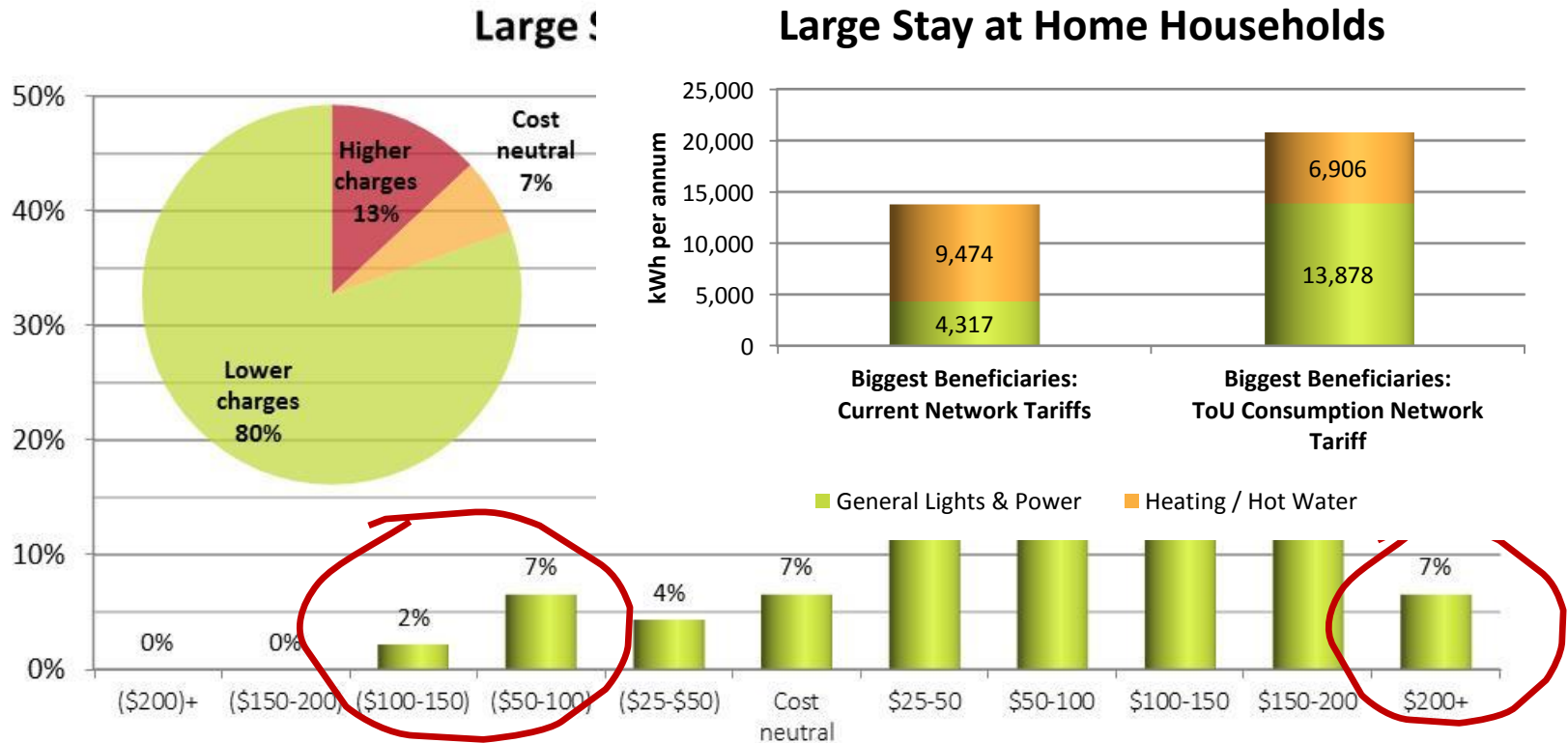
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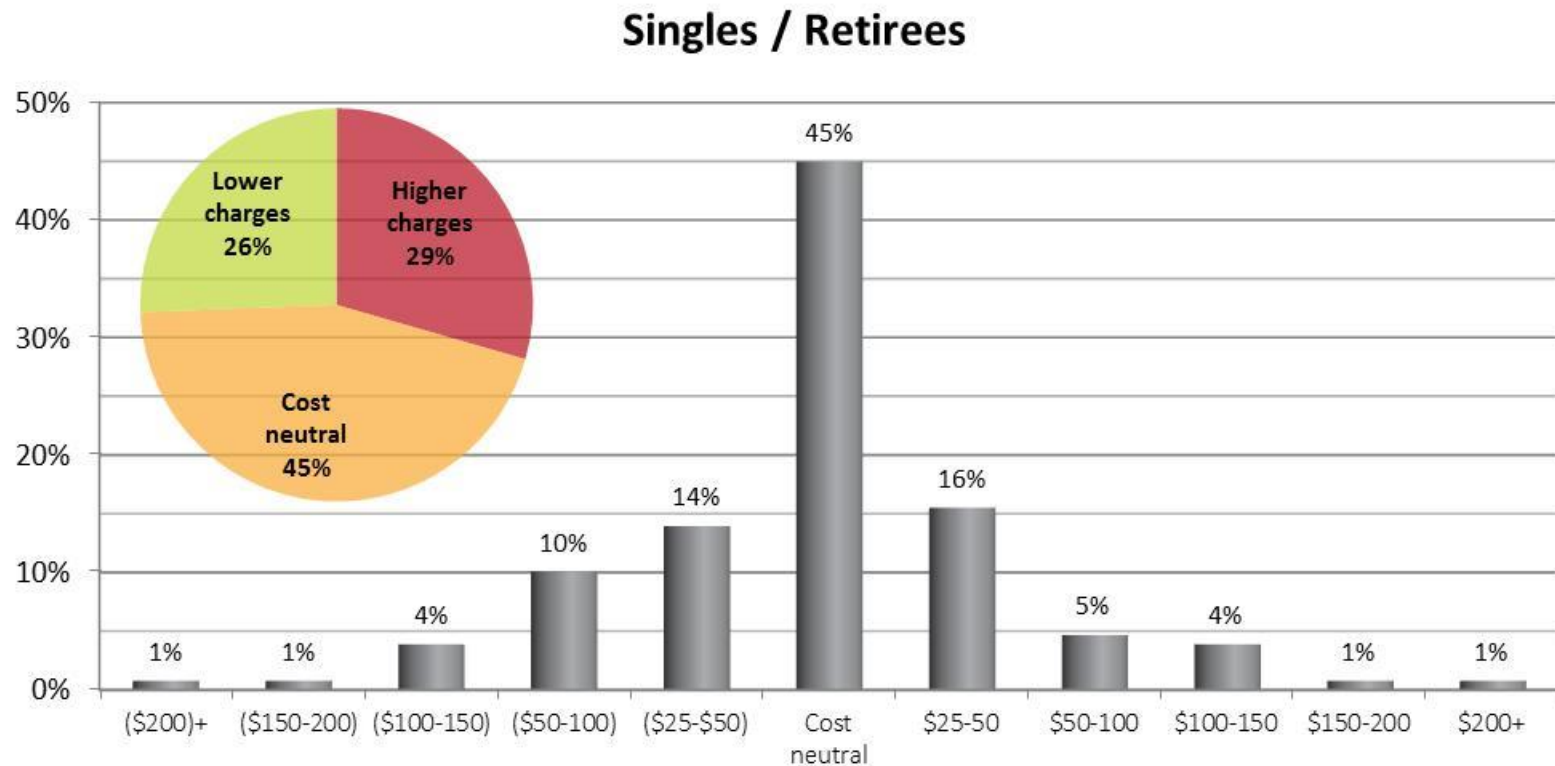
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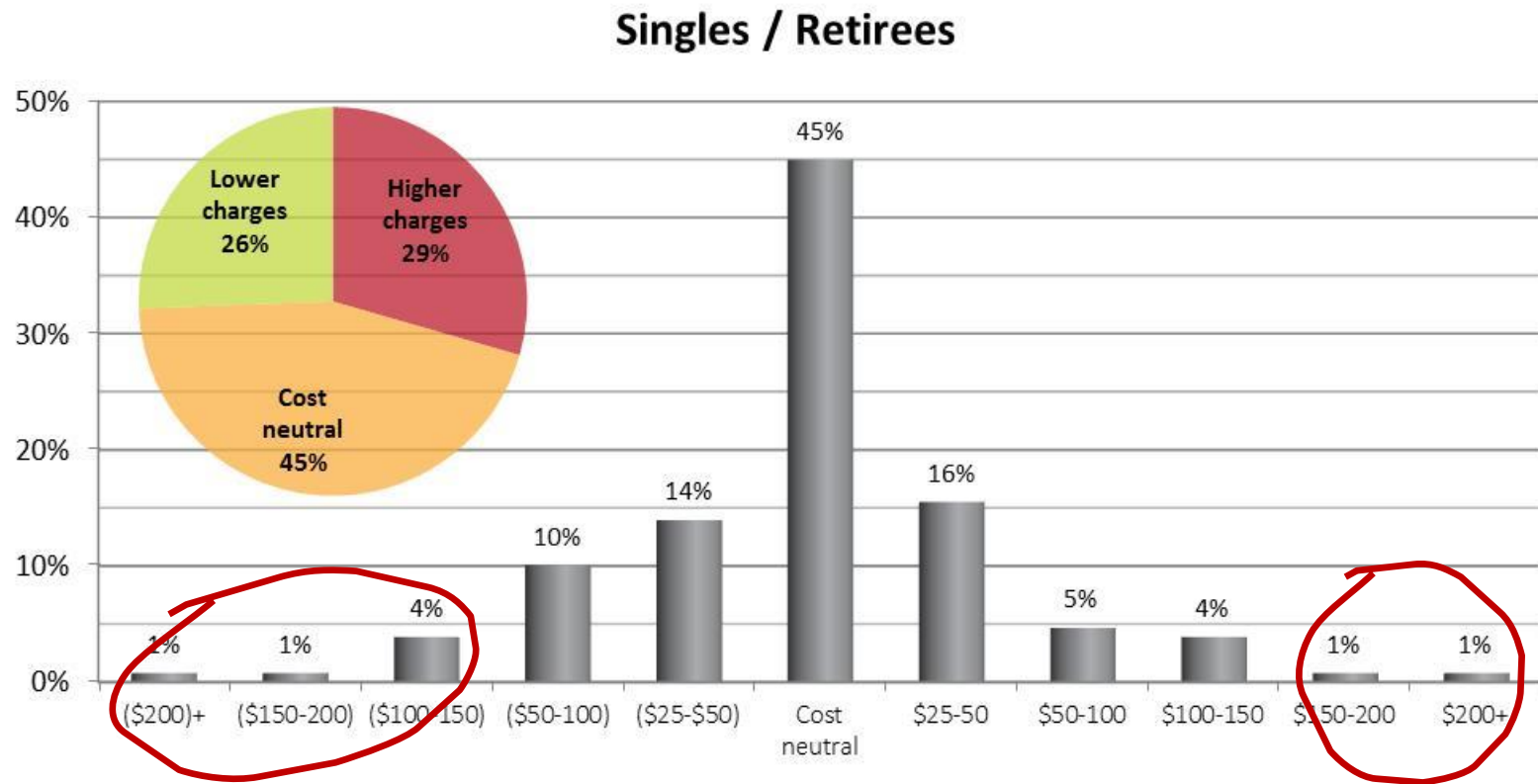
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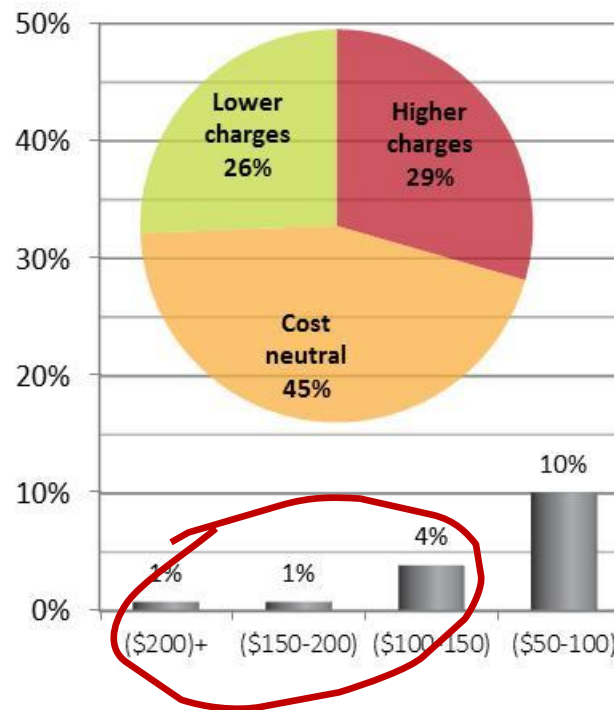
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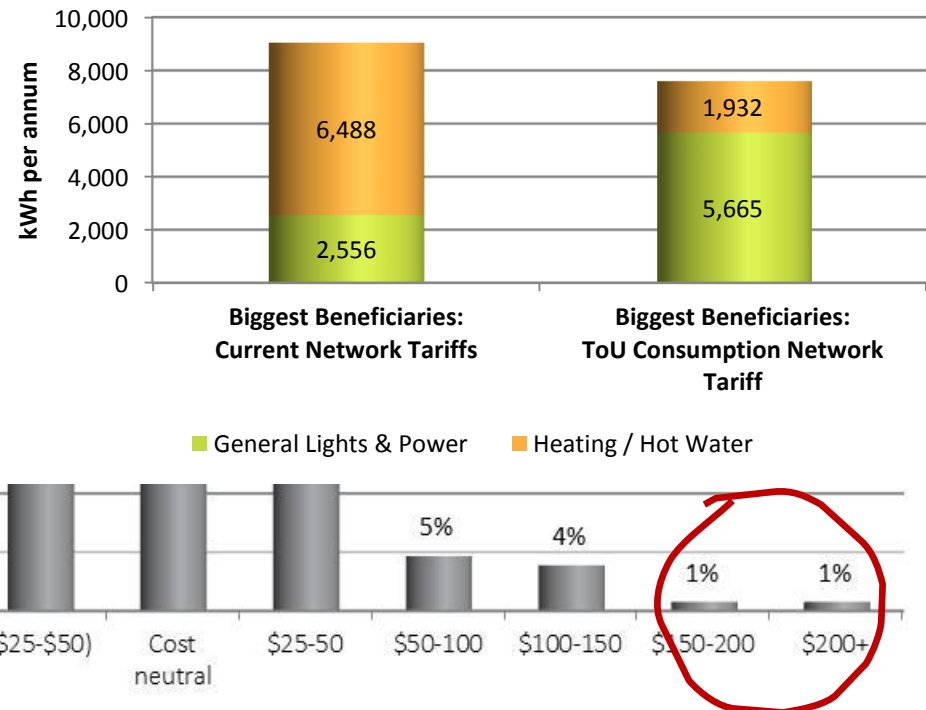


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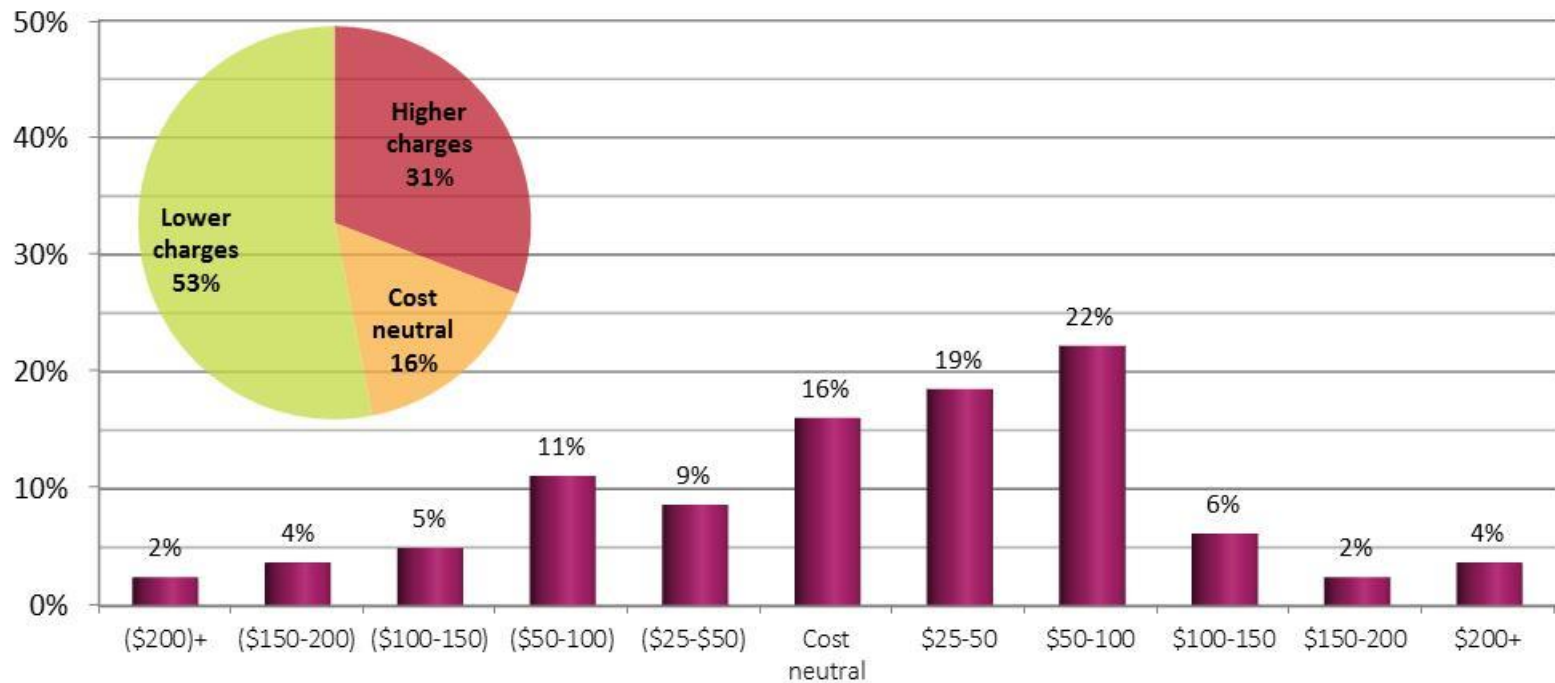
Singles / Retirees



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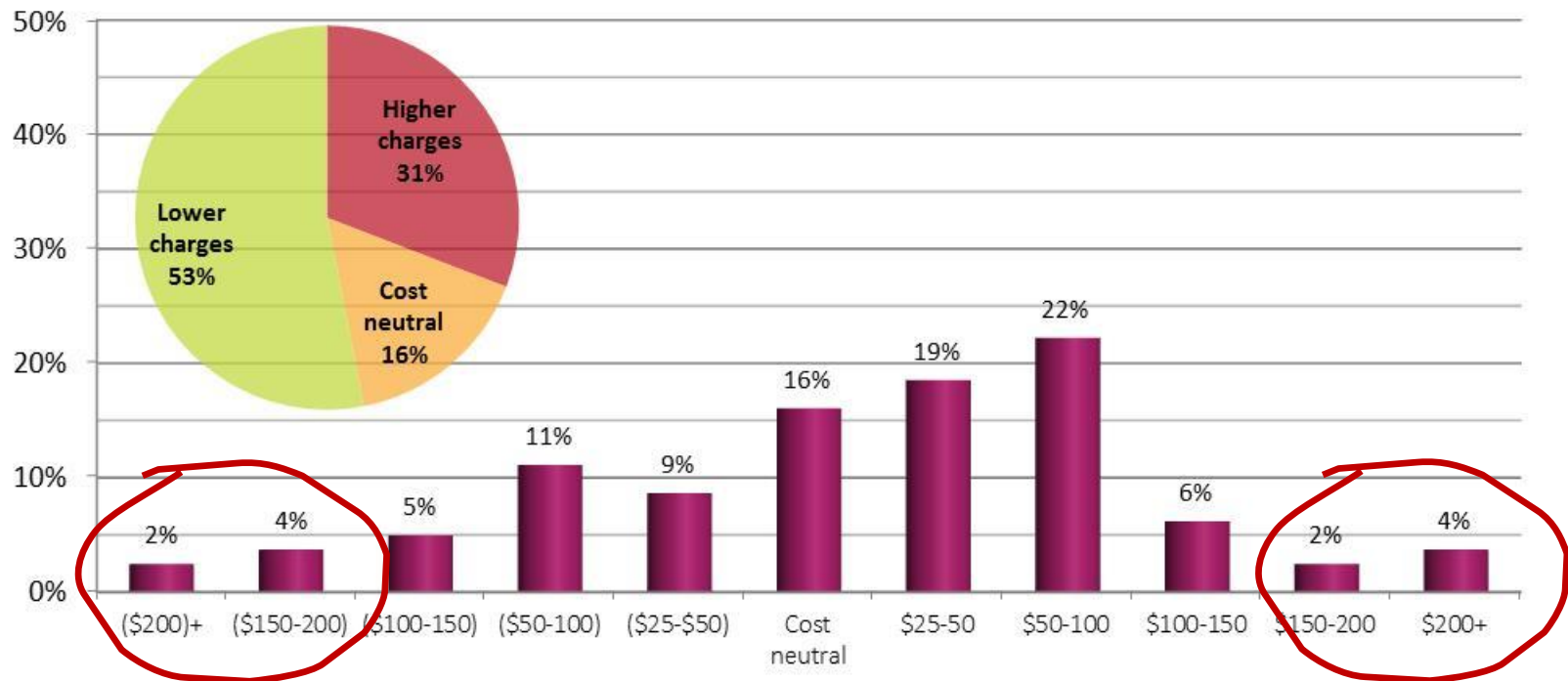
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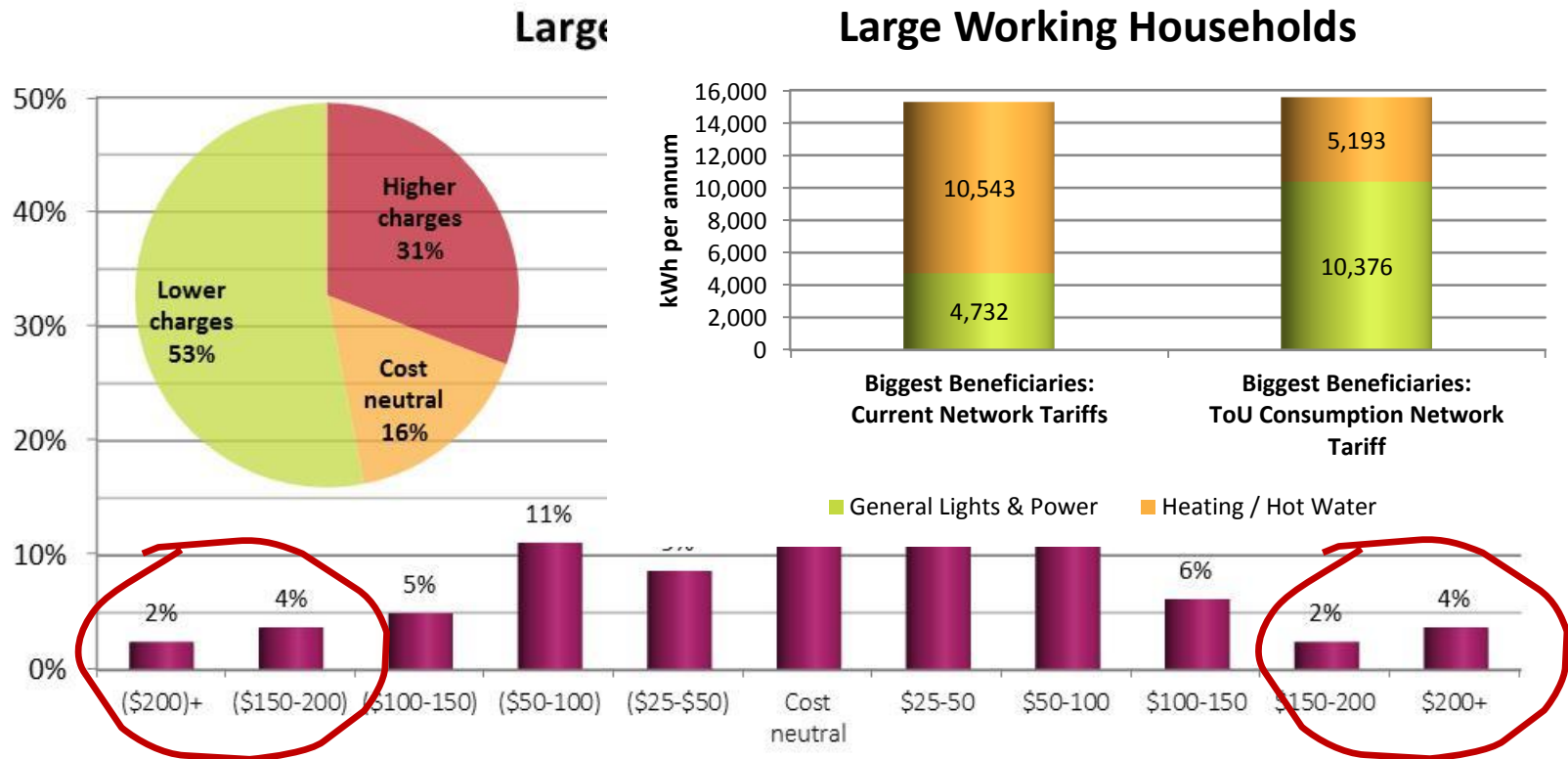
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Options for Tasmania – feedback sought

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