

# Tariff Reform Working Group Meeting #2

28 January 2015



# Agenda

## Meeting objectives

- Inform and seek feedback

## Recap

- Tariff reform principles
- Network pricing arrangements - rule change
- Revenue cap
- What makes up the end bill?
- Distribution customers
- Current TasNetworks network tariffs
- Why new tariffs?

## Tariff strategy

- Tariff design overview
- Objectives
- Approach
- Design options – pros and cons
- Timeframes
- Customer segment transition strategy
- Summary of proposed tariffs

## Next steps

- Engagement activities

## Meeting objectives

***Inform and seek feedback on our draft tariff strategy,  
transition approach & timeframes***

## TasNetworks tariff reform - principles

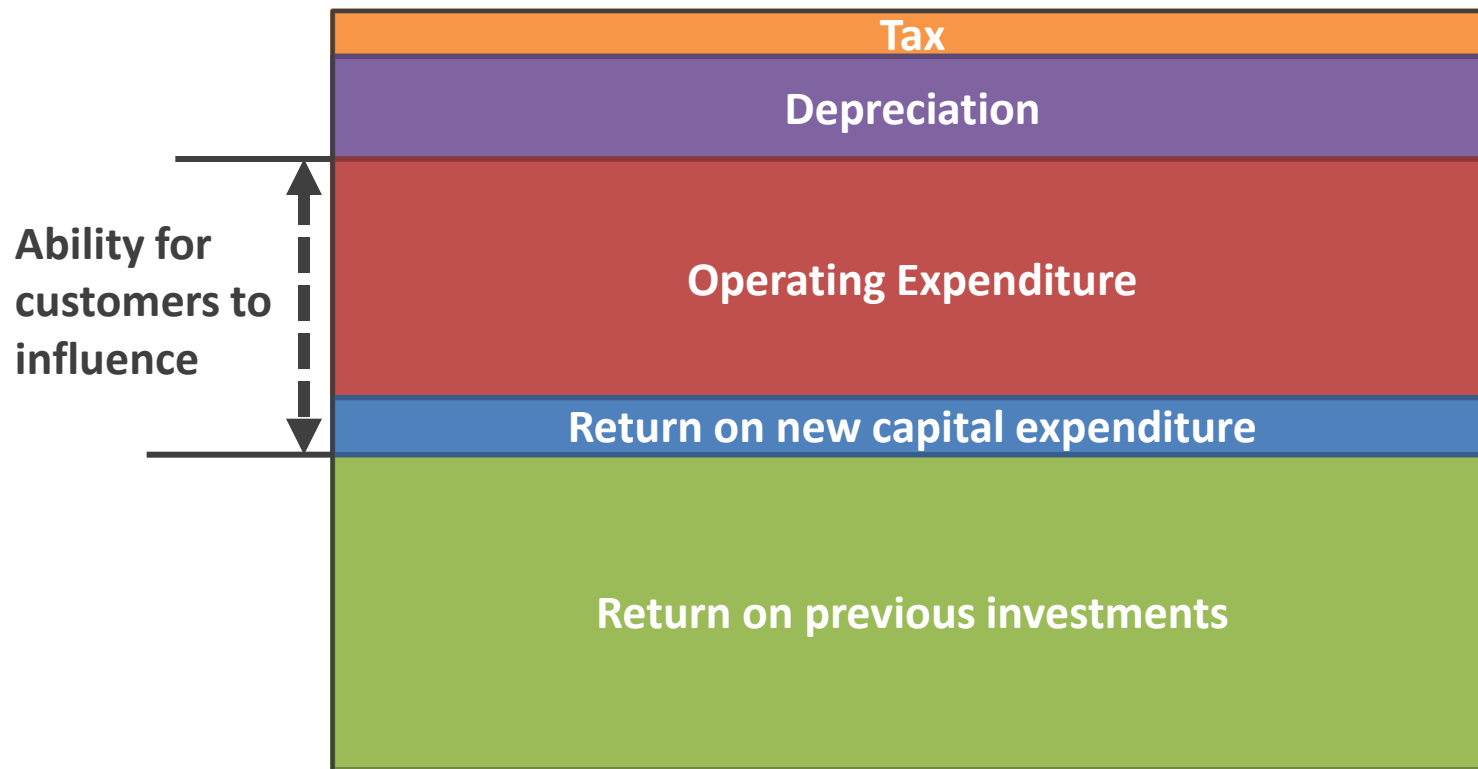
- **Principles to underpin a predictable & sustainable pricing strategy**
  - Tariffs should be as simple as possible and developed in consultation with stakeholders
  - Tariffs should signal the economic costs of service provision for all customers
  - Tariffs should be based on a well-defined and clearly explained methodology
  - Tariffs should consider customer impacts where proposed tariffs would impose significant adjustment costs on users
  - Tariffs will be compliant with the rules and meet local pricing obligations

## Network pricing arrangements

- **Rule change was approved in December 2014**
  - Amended distribution pricing principles to increase guidance for tariff development
  - Establish pricing structures that are more cost reflective and better support demand side participation
  - Tariffs must take account of the long run marginal cost of providing distribution services
  - Improved consumer consultation obligations on pricing structures and price paths
  - Earlier provision of more detailed network pricing information to retailers and consumers
  - New rule will apply in Tasmania from 1 July 2017

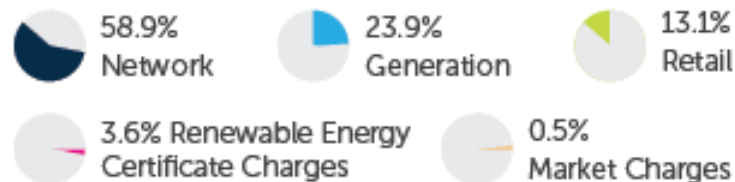
# Revenue cap

- AER determines our regulated revenue for each regulatory period
- Tariffs are set annually to recover revenue cap
- Revenue cap is derived from “building blocks”



## What makes up the end bill?

This is the component that is reflected in the design of network tariffs



## Distribution customers

Customer Segments	Customer Numbers (NMIs)	% Customer Numbers (NMIs)	2014-15 GWh	% GWh
Residential	236,584	47%	919	23%
Small business	38,058	8%	783	19%
Controlled energy	24,558	5%	55	1%
Uncontrolled energy	191,540	38%	785	20%
Large business (LV)	864	0.17%	499	12%
Large business (HV)	130	0.03%	792	20%
Irrigation	3,248	1%	155	4%
Unmetered supply	3,585	1%	31	1%



## Current TasNetworks network tariffs

Tariff components	Residential	Small business	Controlled	Uncontrolled	Large business (LV)	Large business (HV)	Irrigation	Unmetered supply
Demand					✓	✓		✓
Time of use (consumption)	✓	✓				✓	✓	
Consumption	✓	✓	✓	✓	✓			
Fixed	✓	✓	✓	✓	✓	✓	✓	

Time of use has three time periods:

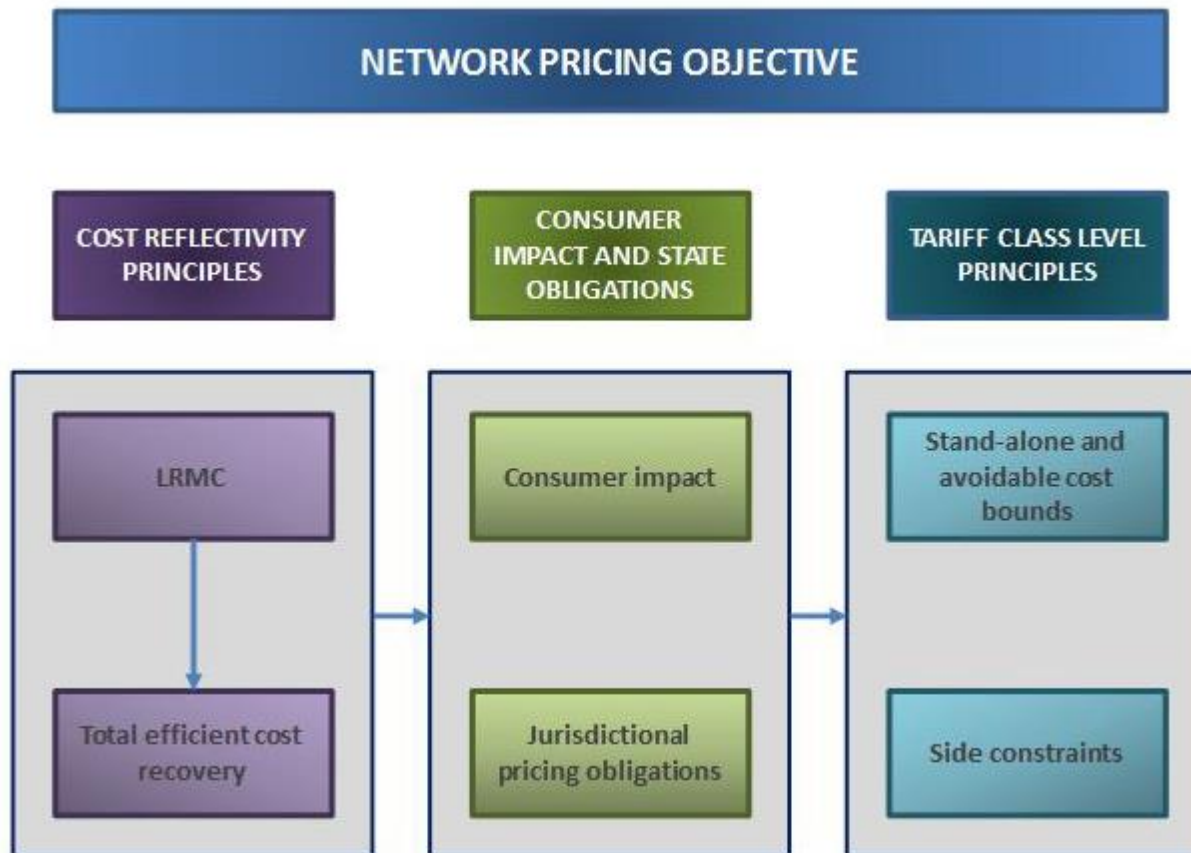
1. Peak
2. Shoulder
3. Off-peak

## Why new tariffs?

- Current distribution tariffs do not fully reflect the true cost of supply.
- Cost of supply driven by:
  - Largely fixed costs of existing TasNetworks' business, assets & operating costs
  - Future variable costs driven by peak demand growth and asset replacements
- Current tariffs encourage reduced energy consumption, but this will generally not reduce future distribution costs.
- The way that energy is used at a particular time is more important than how much energy is used over a billing period.
- Large numbers of customers are responding to this energy price signal by doing things like installing solar which does not necessarily reduce their use of energy at peak times & therefore future network costs.
- This simply pushes their costs onto other customers & is not sustainable in the long term.

## Why new tariffs?

- Need to satisfy the requirements of the pricing rule change



**Tariff strategy**

**Consultation – seeking your feedback**

## Tariff design overview

- Has involved a review of existing tariffs whilst considering new options
- Is required to meet both rule and tariff reform principles
  - To do so it is assumed there will be more cost reflective tariffs
- Changes will require transitional arrangements
  - Minimise price and bill shocks to impacted customers
- New tariffs will need support from:
  - Customers
  - Retailers
  - TasNetworks leadership

## Objectives of tariff strategy

- Encourage customers to:
  - Understand network cost drivers (via price signals)
  - Invest efficiently in new technologies e.g. solar, batteries and electric vehicles
  - Respond to price signals that may lead to an increase use of energy at times when the network is less loaded (off-peak)
- Unwind cross-subsidies
  - Historic discounts are currently included in some tariffs
  - Cross-subsidies don't send the correct pricing signals
- Be mindful that what is developed:
  - Is simple and easy to understand
  - Minimises bill and revenue volatility
  - Considers vulnerable customers
  - Minimises costs to industry participants
  - Is Rule compliant

## Approach to tariff analysis



- Investigation of current trends in policy, tariff design, customer class and customer behaviours
- Internal stakeholder engagement to collaboratively define key requirement for tariffs to meet TasNetworks strategy and agreed principles
- External stakeholder engagement in the development of tariffs that are implementable and easily understood through-out electricity supply chain
- Multi-criteria analysis of tariff options:

Simplicity  
Flexibility

Cost reflectivity  
Implementation cost

Revenue stability  
Consultation

## Tariff design options – pros and cons

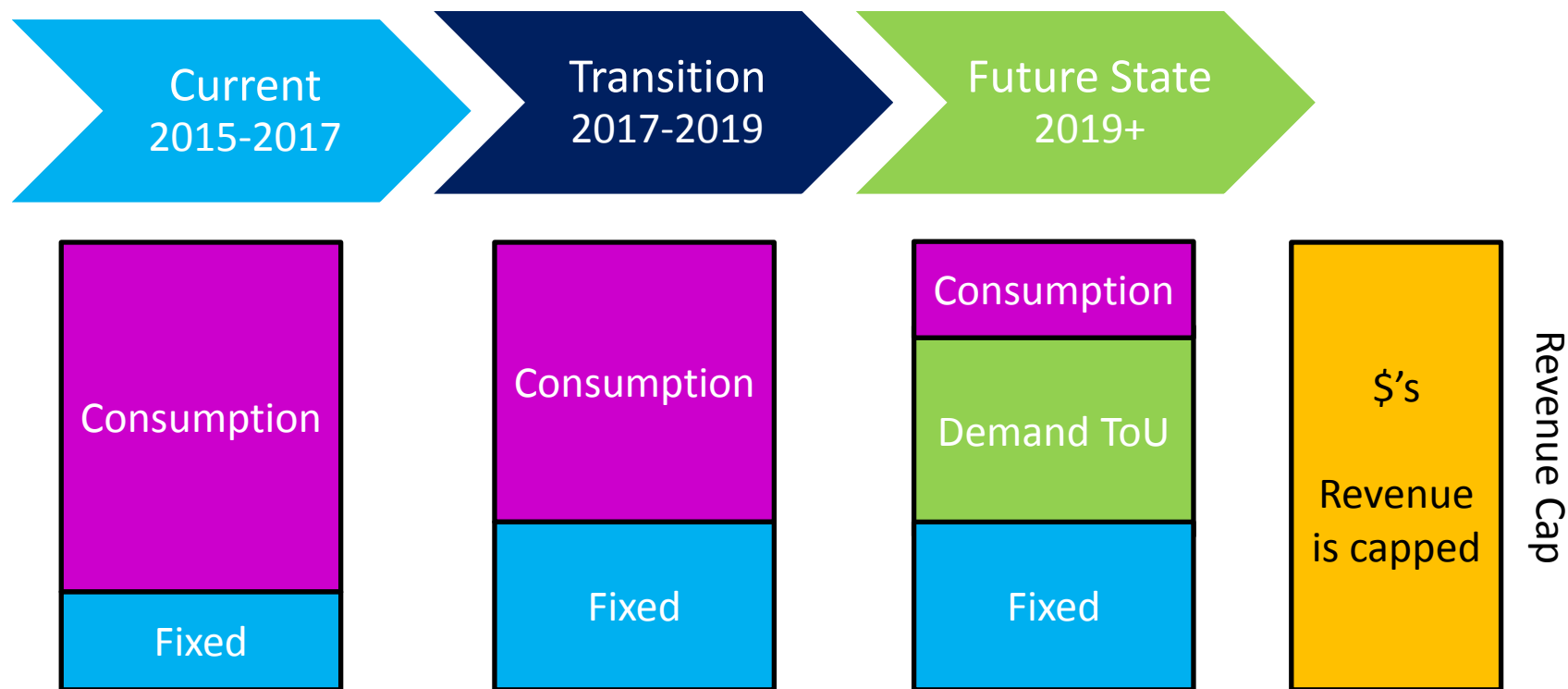
- Existing Tariffs
  - ✗ Inadequacies already noted. Might be used by existing customers
- Time of Use Consumption
  - Cost premium for energy use at peak times
    - ✗ Not linked to investment drivers (i.e. peak demand)
- Critical Peak Pricing
  - Very high price for 6 to 12 periods per year
    - ✗ More complex
    - ✗ May encourage vulnerable customers to turn off
    - ✗ Increased revenue/bill volatility – ‘weather lotto’
    - ✗ Tasmania does not have same critical peak events as other jurisdictions
- Demand
  - ✓ Highly reflective of underlying costs
  - ✓ Bill/revenue stability similar to existing tariffs
  - ✓ Provides incentives to use **more energy** when efficient
  - ✓ Aligns with direction of other jurisdictions, increases likelihood of retailer pass through
  - ✓ Maximises value of previous investments for consumers



## Timeframes



## Residential and small business



NB: Diagrams are not to scale

## Transition strategy for residential and small business



Majority on two part tariffs (small fixed component)

ToU tariffs are offered (but with minimal take up)

Reassess fixed/variable mix

Maintain current tariff structures

Adjust ToU time bands to be more cost reflective

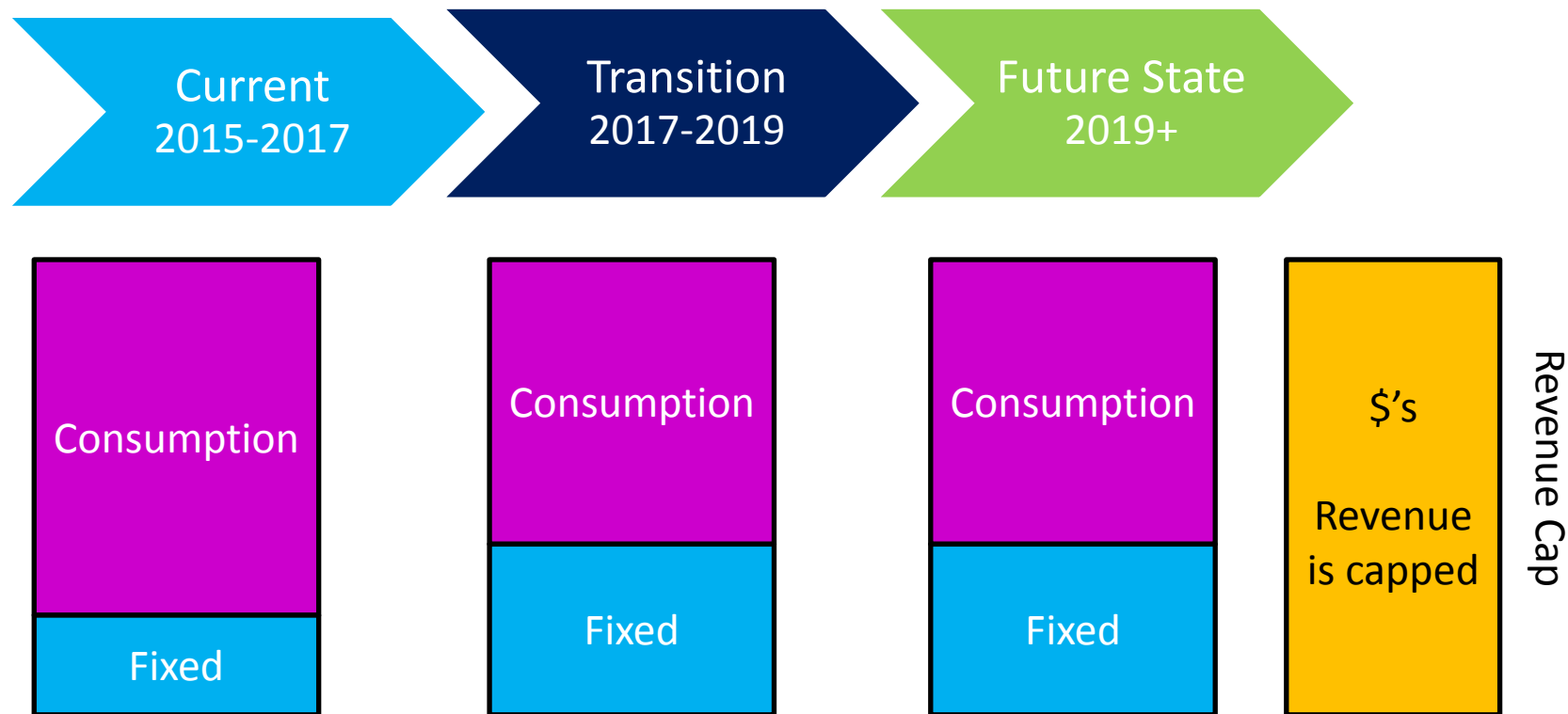
Realign fixed/variable tariff components

Transition residential and small business customers to three part ToU demand tariffs

## Controlled and uncontrolled energy

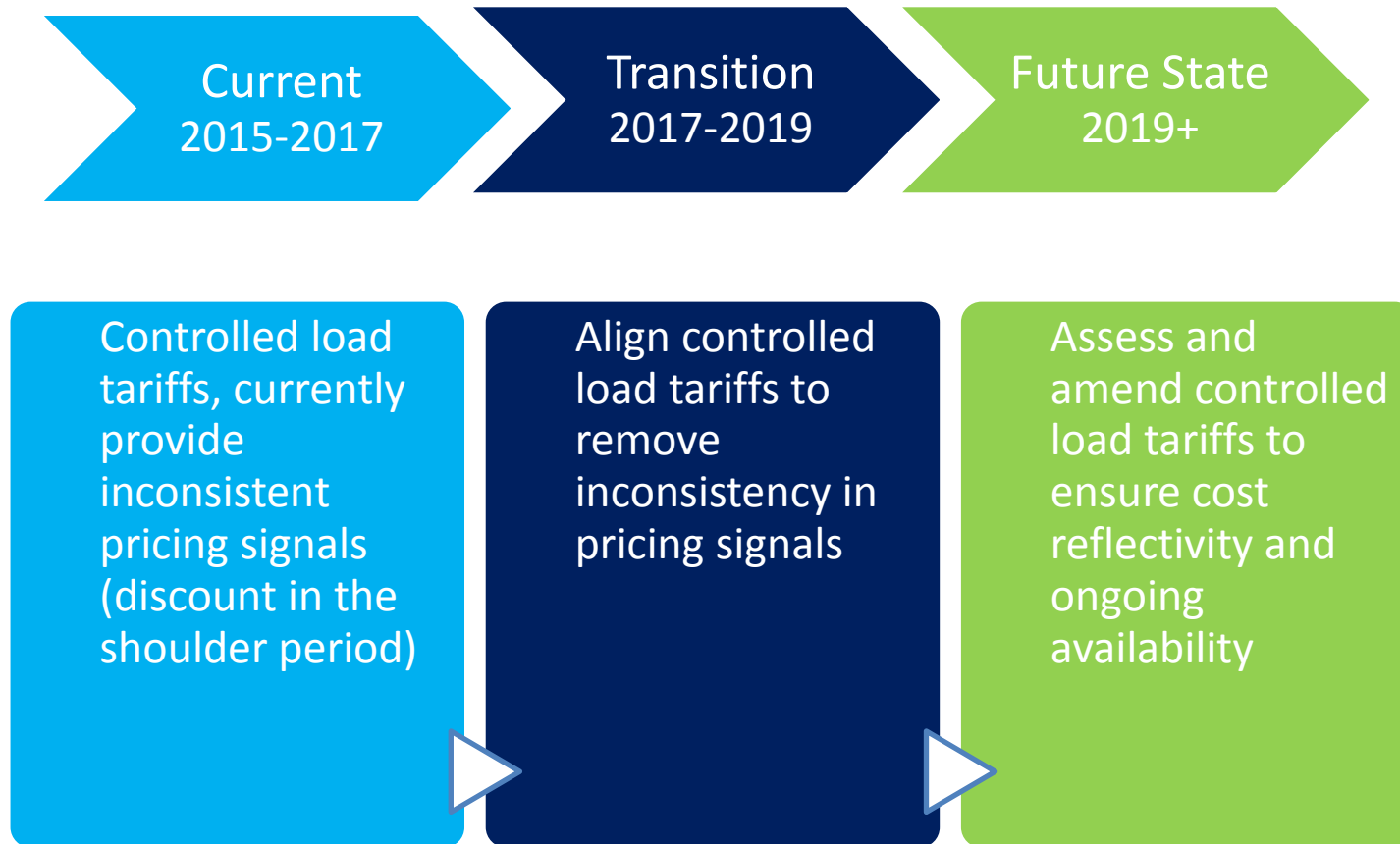
- Controlled – Off-peak (time clock)
- Uncontrolled – Hot water and heating
- These tariffs are available to both small business and residential customers

## Controlled energy

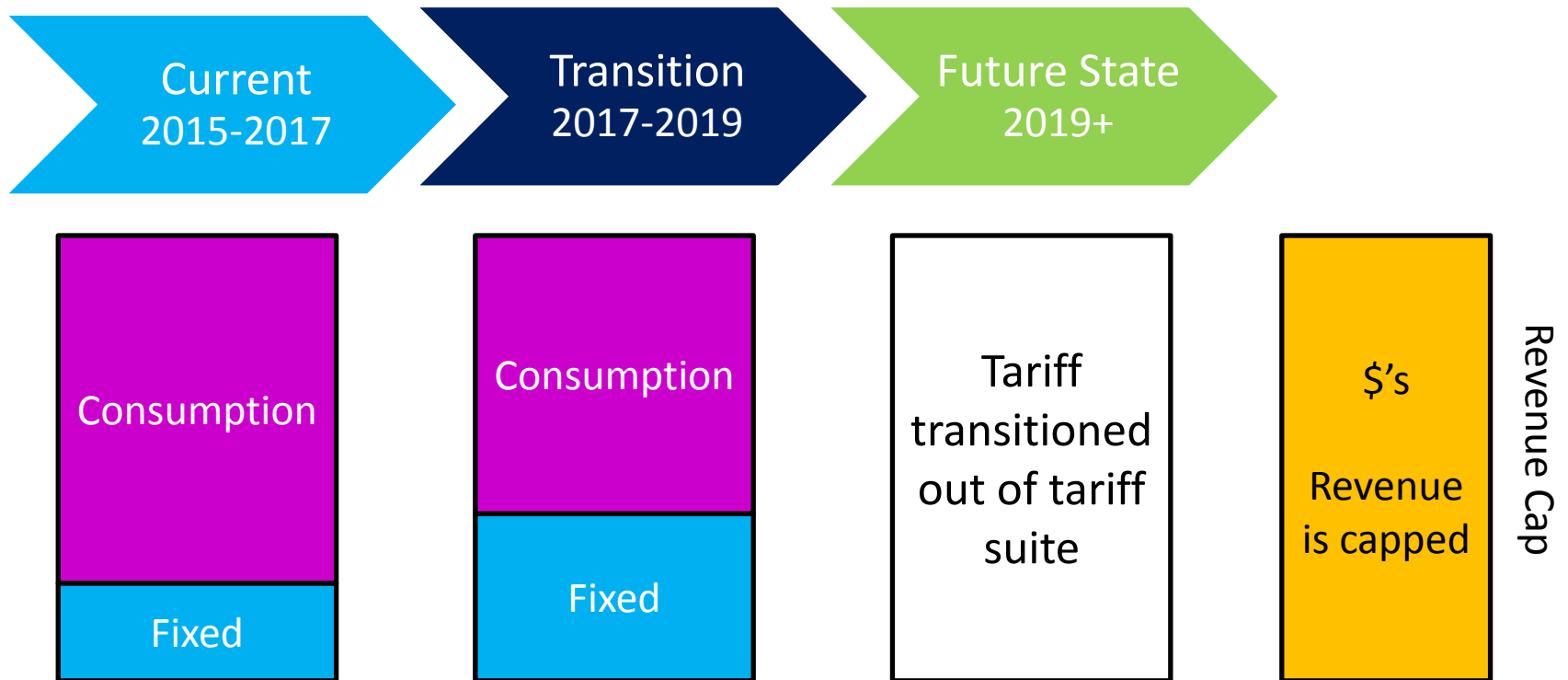


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## Transition strategy for controlled energy

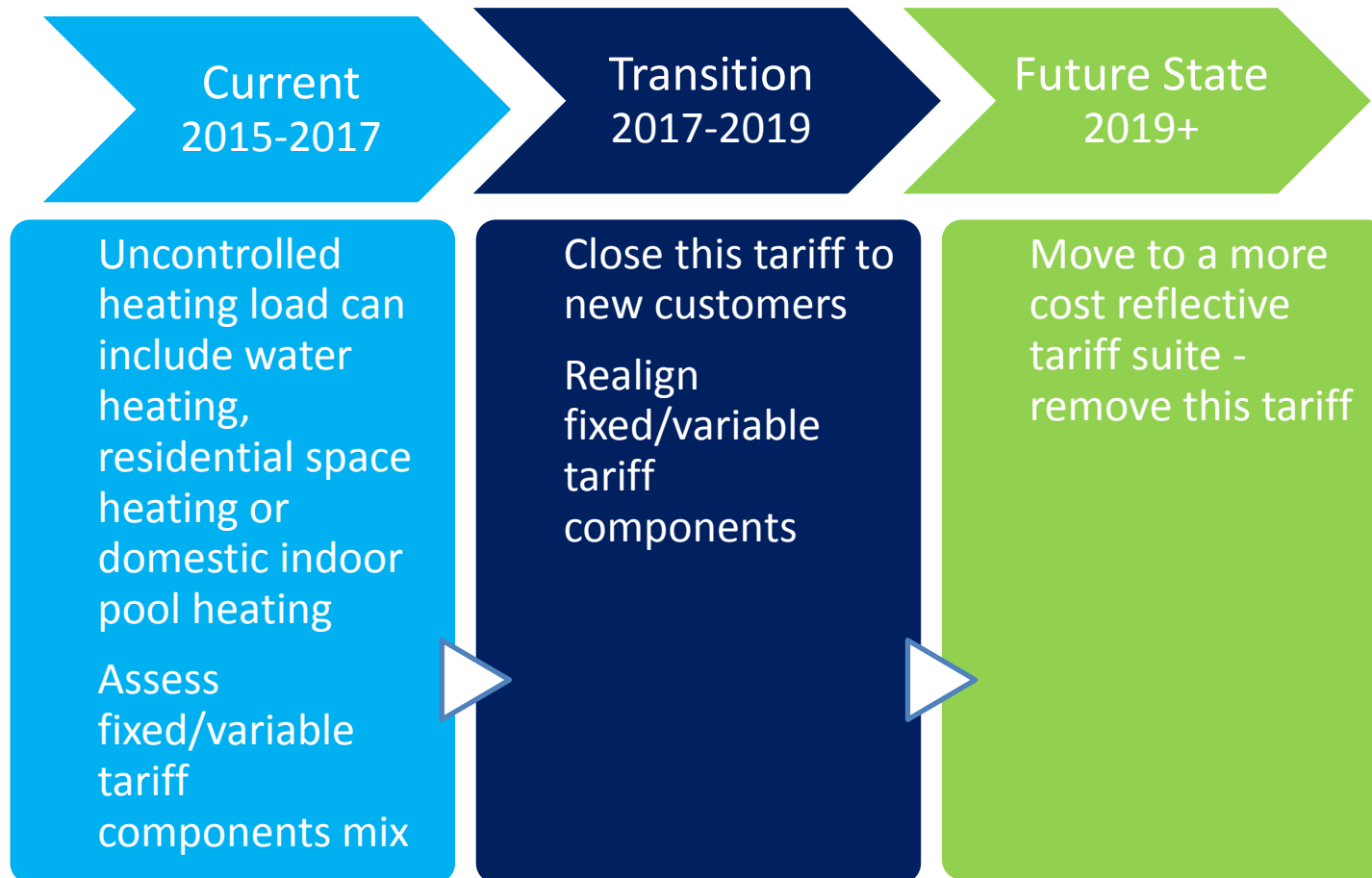


# Uncontrolled energy



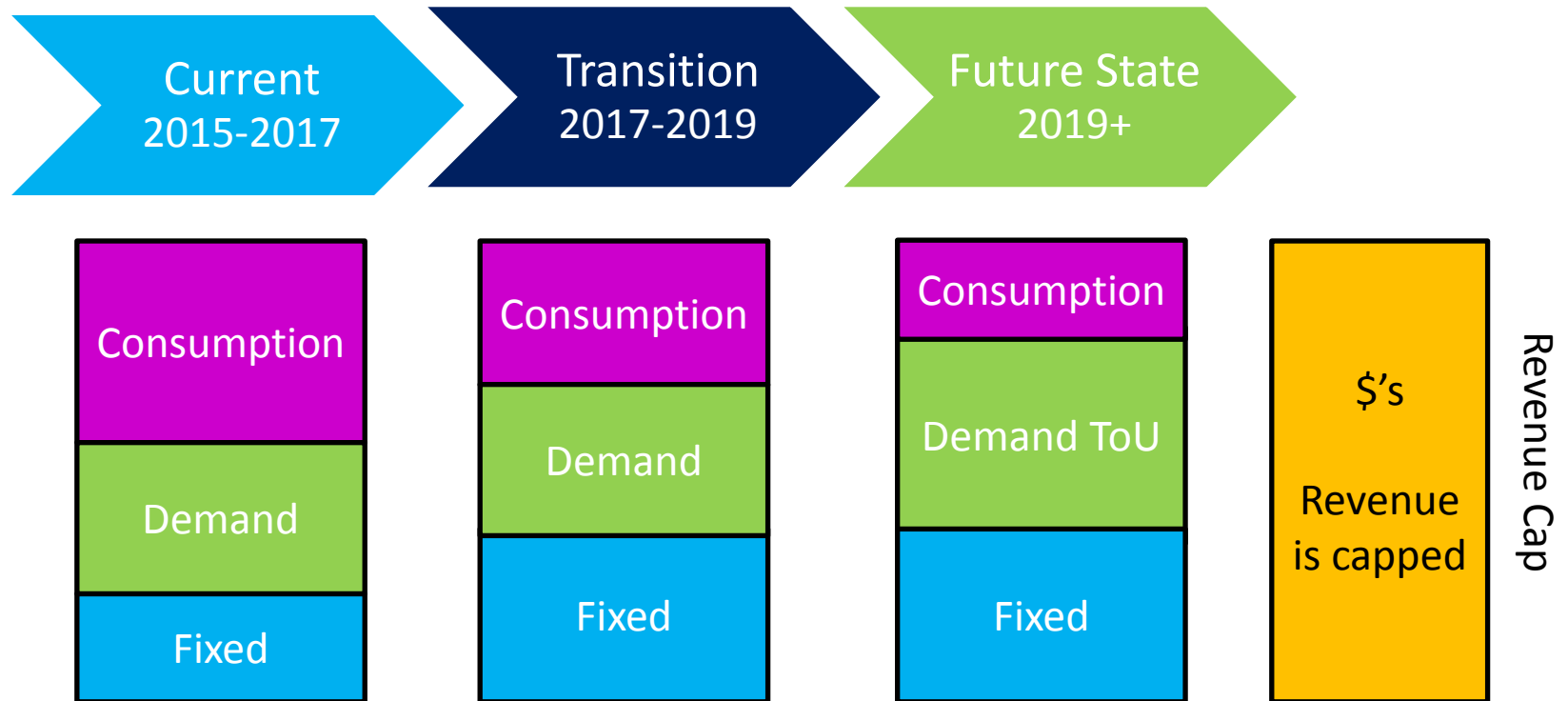
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## Transition strategy for uncontrolled energy



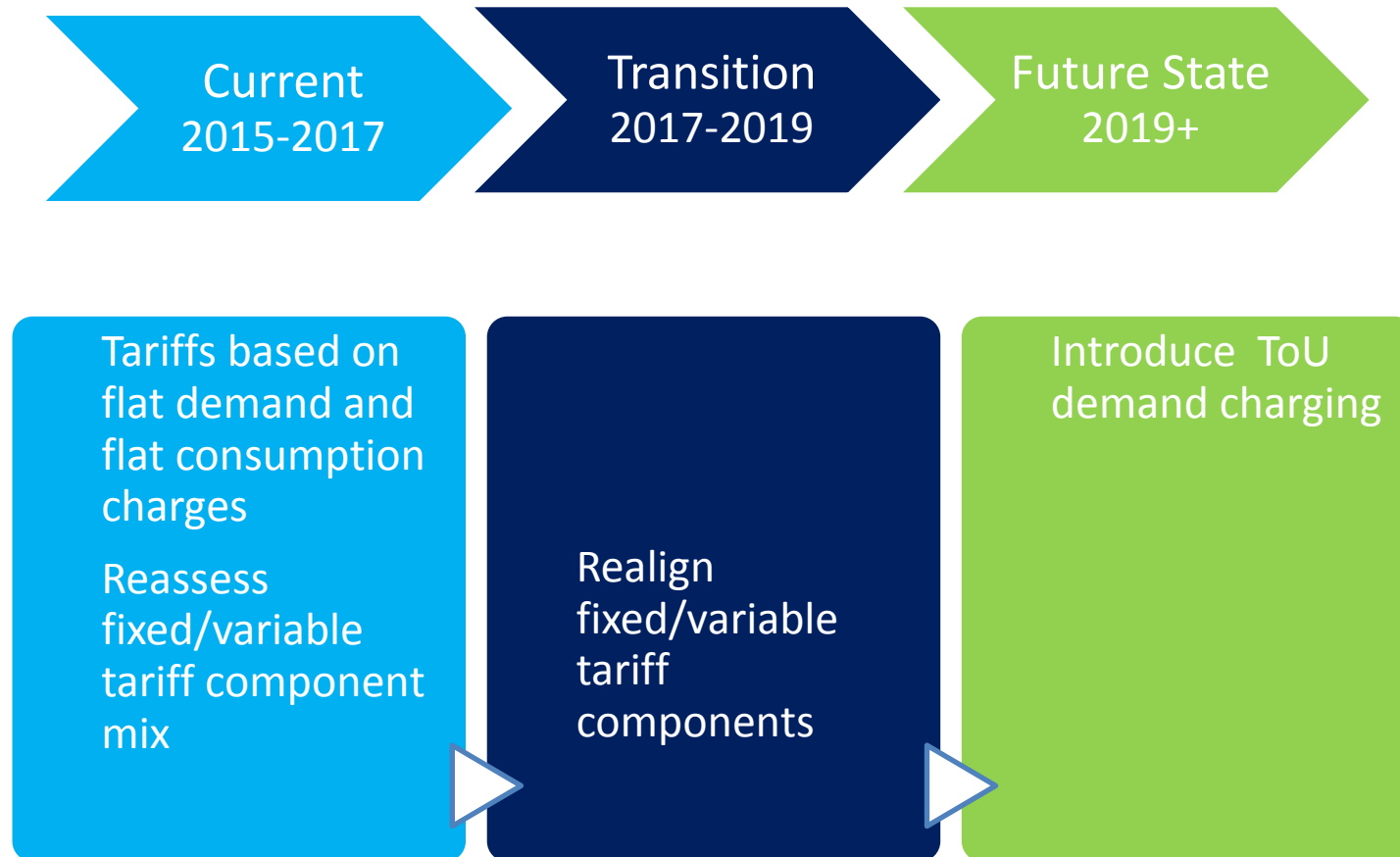


## Large business (LV)

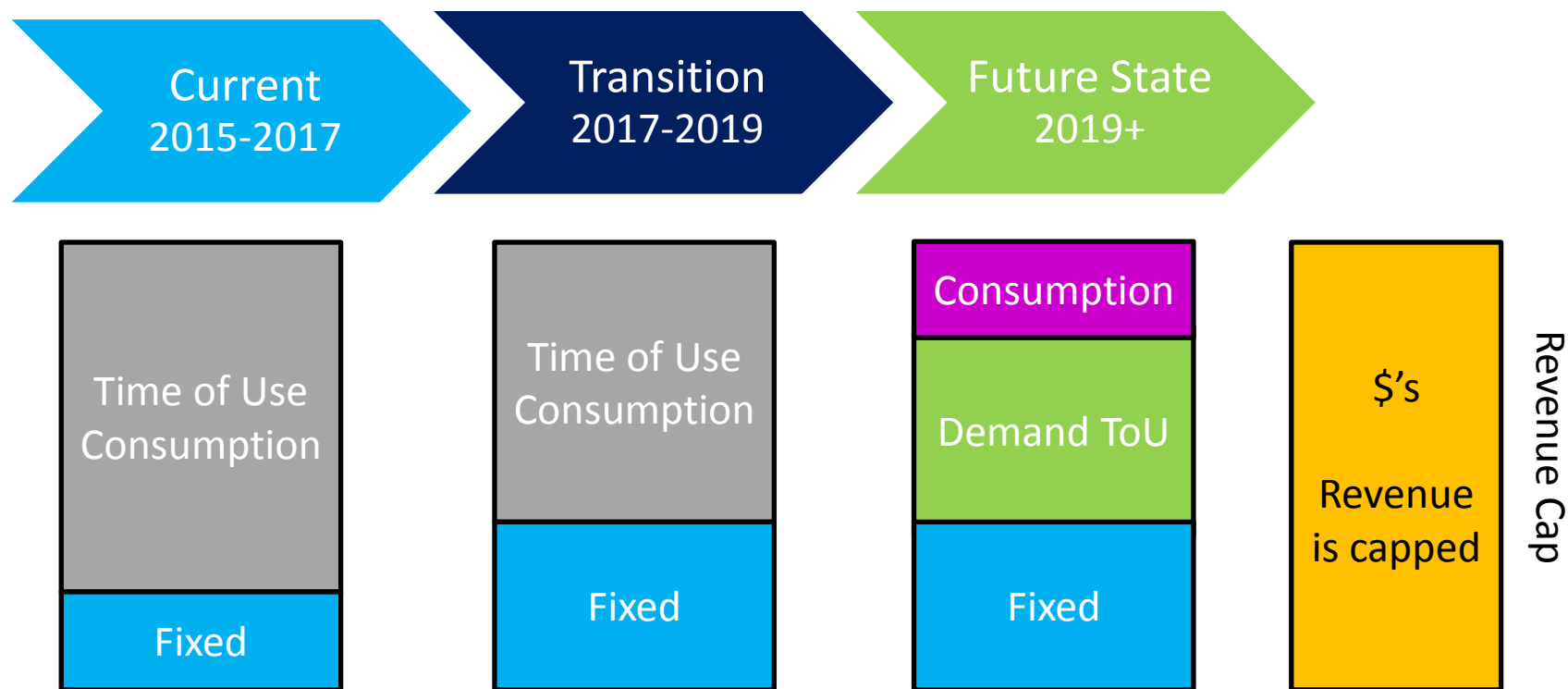


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## Transition strategy for large business (LV)

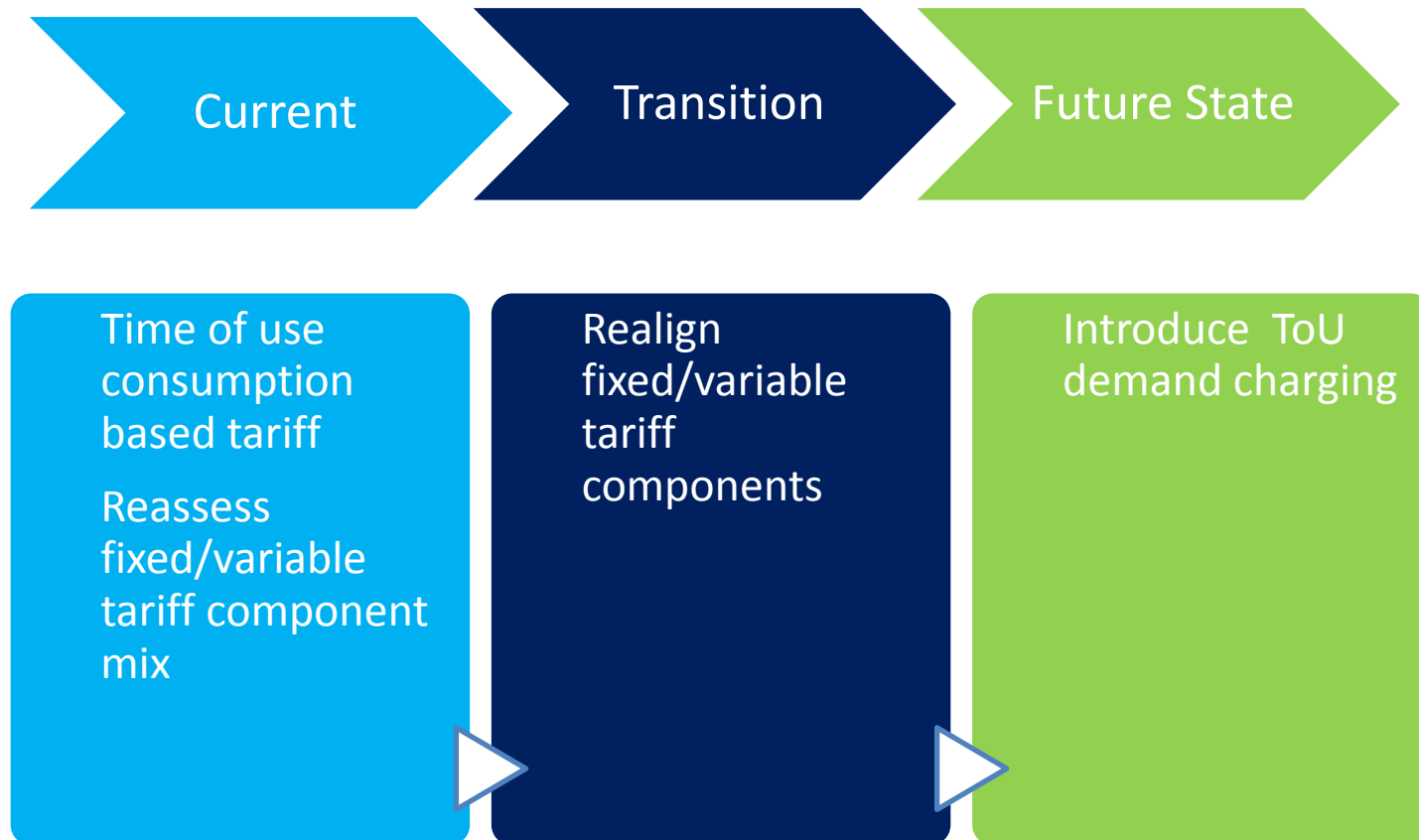


# Irrigation



NB: Diagrams are not to scale

## Transition irrigation



# Summary of proposed tariffs

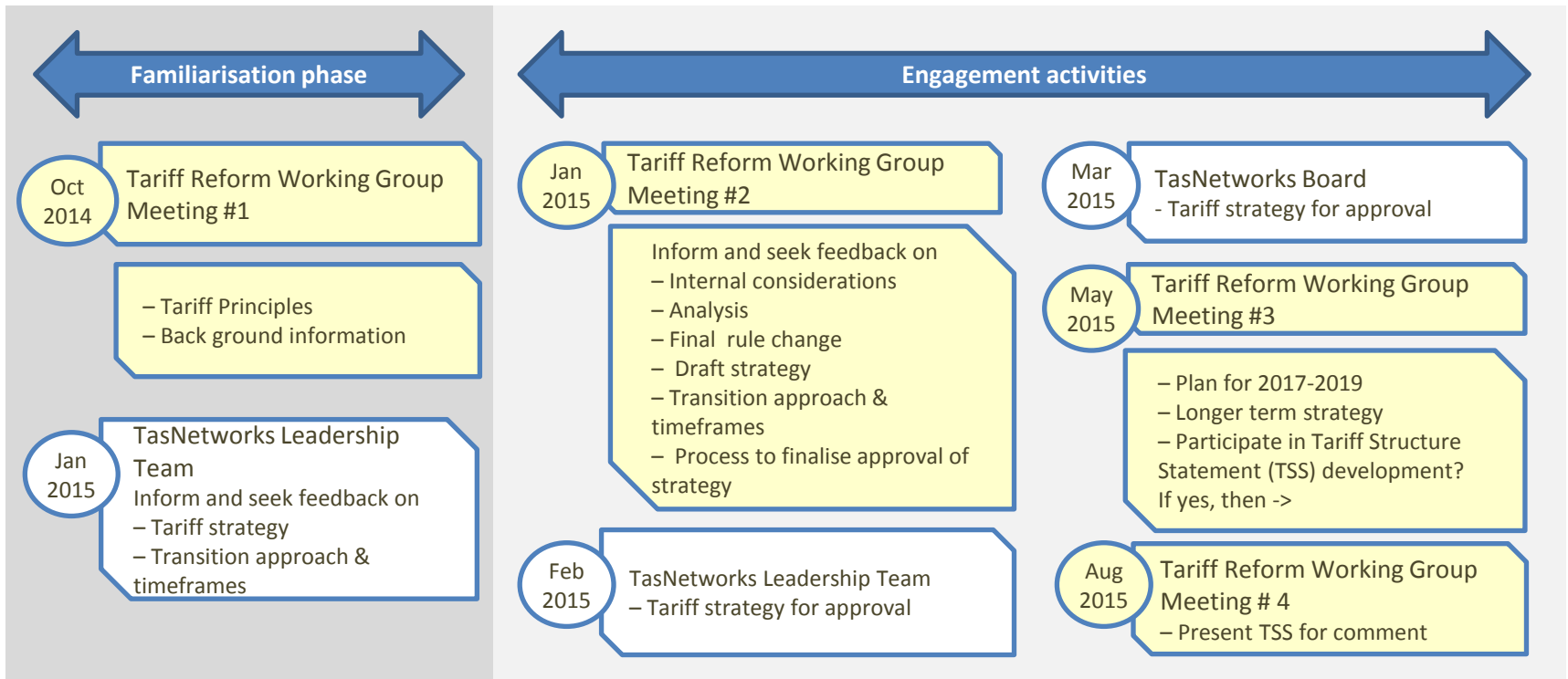
## Current state

Tariff components	Residential	Small business	Controlled	Uncontrolled	Large business (LV)	Large business (HV)	Irrigation	Unmetered supply
Demand					✓	✓		✓
Time of use (consumption)	✓	✓				✓	✓	
Consumption	✓	✓	✓	✓	✓			
Fixed	✓	✓	✓	✓	✓	✓	✓	

## Future state

Tariff components	Residential	Small business	Controlled	Uncontrolled	Large business (LV)	Large business (HV)	Irrigation	Unmetered supply
Demand (Time of Use)	✓	✓			✓	✓	✓	
Demand								✓
Time of use (consumption)								
Consumption	✓	✓	✓	✓	✓	✓	✓	
Fixed	✓	✓	✓	✓	✓	✓	✓	

## Next steps



### Key engagement topics

- AER rule change
- Tariff principles
- Cost reflective pricing
- Current tariff – pros and cons
- Demand versus consumption based tariffs
- Tariff options
- Transition strategies – approaches, risk identification

External engagement

Internal engagement