

Tariff Reform Working Group – meeting 3

2 June 2015

Agenda

Item		Presenter
1. Introductions	New chair and member	Kirstan Wilding
2. Trade practices act	Standing item – verbal recap	Kirstan Wilding
3. Recap	Presentation	Chantal Hopwood
4. Tariff strategy summary	Presentation. Collect feedback.	Chantal Hopwood
5. 2015—16 pricing proposal	Presentation	Shaun Leaman
6. Tariff structure options	Presentation. Collect feedback.	Chantal Hopwood
7. Tariff trial	Presentation. Collect feedback.	Chantal Hopwood
8. Supporting vulnerable customers	Presentation. Collect feedback.	Kirstan Wilding
9. TasNetworks engagement program	Presentation. Collect feedback.	Chantal Hopwood
10. Next steps	Verbal update	Kirstan Wilding

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Recap



Tariff Strategy Principles

Principles:

- developed in consultation with stakeholders
- underpin the tariff strategy

Network tariffs:

- should allow for recovery of efficient costs
- should be as simple as possible and developed in consultation with stakeholders
- should signal the economic costs of service provision for all customers (the right people pay the right price for service provision)
- should be based on a well-defined and clearly explained methodology
- should consider customer impacts where proposed tariffs would impose significant adjustment costs on users
- must be compliant with the Rules and meet local pricing obligations

Tariff Strategy

- Provide customers with a pricing signal linked to the cost of providing the network (rather than the cost of generating energy)
 - Network demand is not static and varies considerably over the day as well as throughout the year
 - Network costs are largely driven by the assets to support peak demand
 - Signal to customers that their network charges are a function of the total demand they place on the network
 - Signal that reducing peak demand will reduce augmentation and replacement costs in the longer term
 - Provide the right price signals for customers considering investment in embedded generation

Feedback

- The increase in fixed tariff components will impact customer classes differently and there is particular concern in reference to vulnerable customers
- There was a high level of interest in Tariff Trial and attendees would like to be kept informed of its progress
- The amount of consumer education which will be required in a move to demand based tariffs should not be underestimated
- It will be important to work with retailers in developing the tariff strategy
- Transition period will take time and consumer impact will need to be closely monitored through the process

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Tariff Strategy Summary



Transition Plan Summary



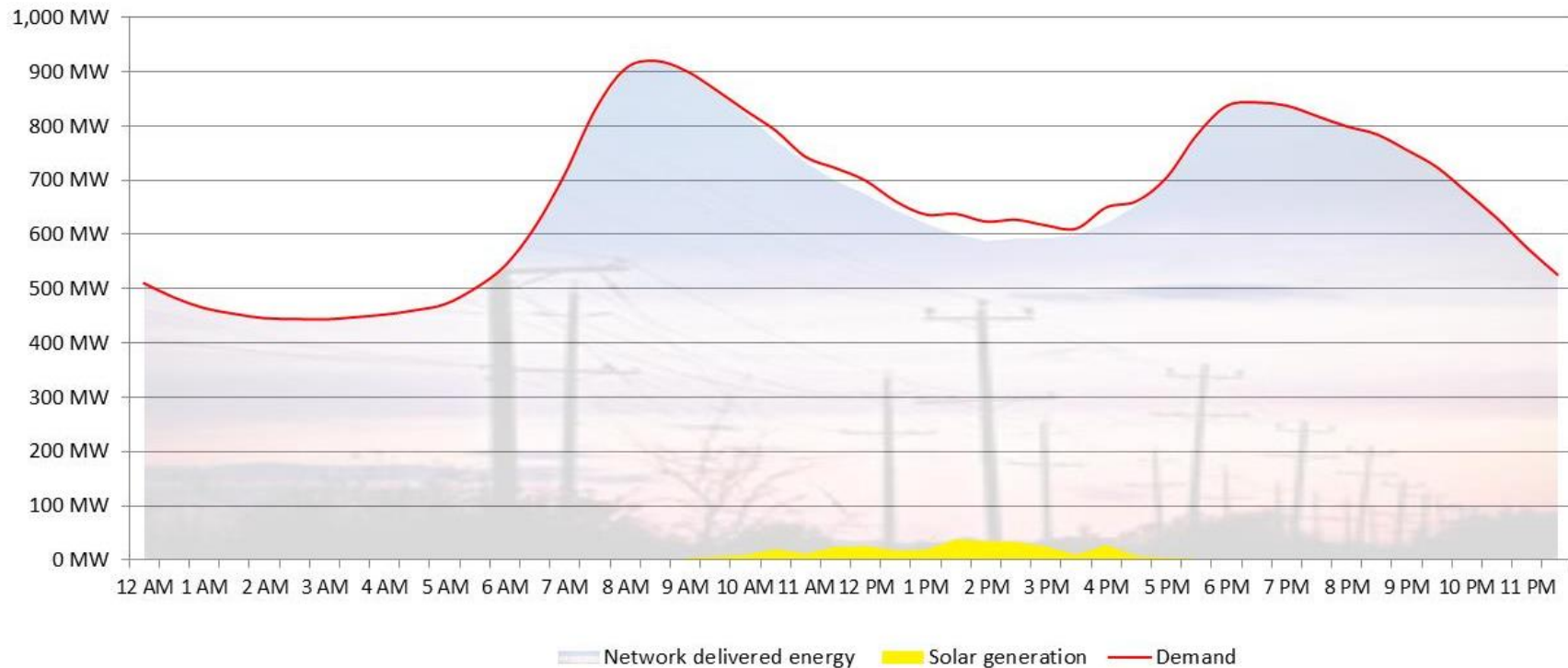
Strategy Timing – Why Now?

- Cost reflective pricing will reduce cross subsidies and improve economic efficiency
- Send price signals which provides the correct incentive for customer investment in embedded generation
- In the long term tariff reform to result in reduced costs for all customers
- TasNetworks to lead tariff reform rather than have it ‘imposed’
 - Rule compliance – applies from 1 July 2017
- Transition plan to minimise customer impacts – start from 1 July 2015 to minimise price impact

Removal of cross subsidisation

Solar generation is an example that highlights the current issue of cross subsidisation

- solar generation reduces the amount of energy delivered via the network
- this reduction in generation does not reduce the peak demand on the network



Grattan Institute recently published a report *Sundown, Sunrise*

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2015-16 Pricing Proposal



2015-16 Customer Impact

- As part of the transition, heavily cross-subsidised tariffs will be realigned
- Tariff realignment impacts customer classes differently
- Indicative customer impacts for 2015-16 below

Typical Customer (Median)	2014-15 Typical Bill	Percentage Increase	Annual Bill Impact (\$)
Residential (low user)	472	3.9	19
Residential	903	2.9	26
Small Business – Low Voltage	731	0.9	7
Low Voltage Business – (ToU)	13,195	2.5	336
Low Voltage Business – Demand	28,731	-0.5	-138
High Voltage Large Business	96,666	0.6	576
Irrigation	7,256	0.8	58
PAYG	686	2.9	20
Weighted average all customers		1.31%	23

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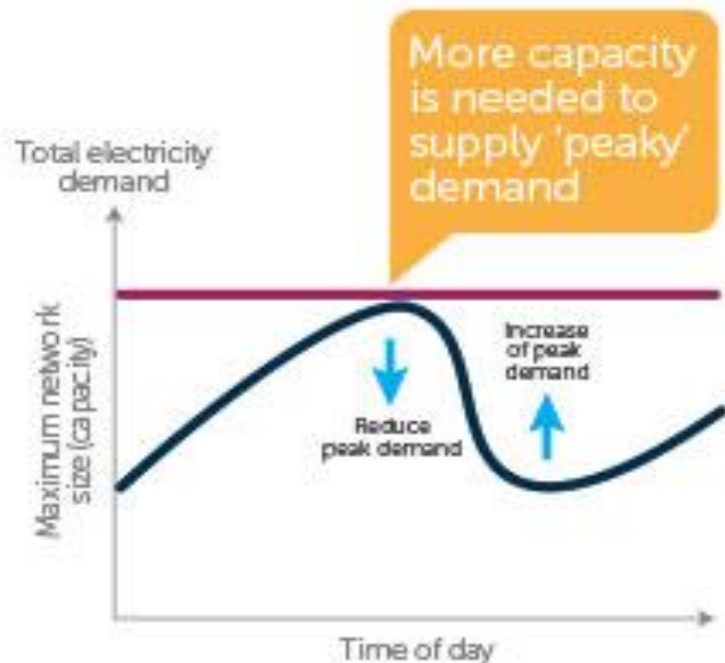
Tariff Structure Options



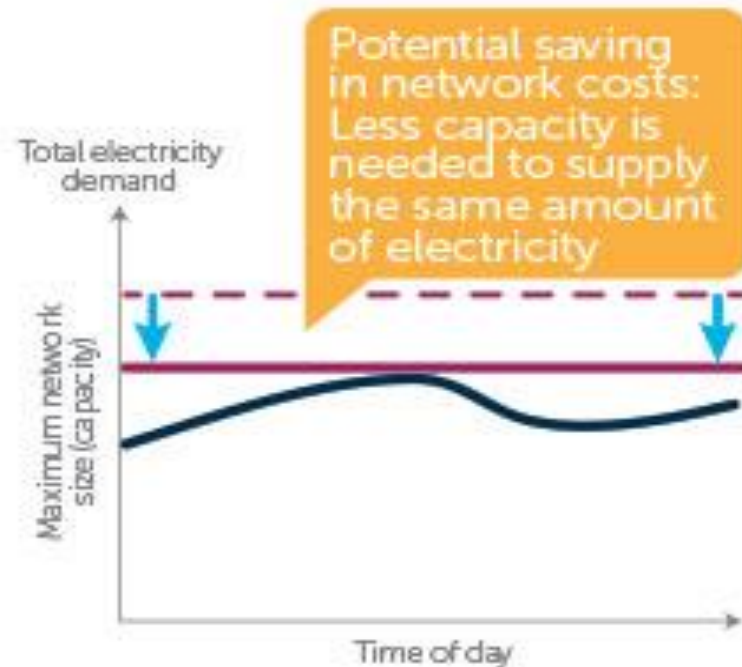
Demand Based Charging

- Provides a link between assets, demand and prices
- Can provide a time of use distinction for all customers – supporting ‘flatter’ demand
- Provides a mechanism and incentive to reduce demand that postpones future network investment
- Customers pay for their network peak usage – the network that supports their demand

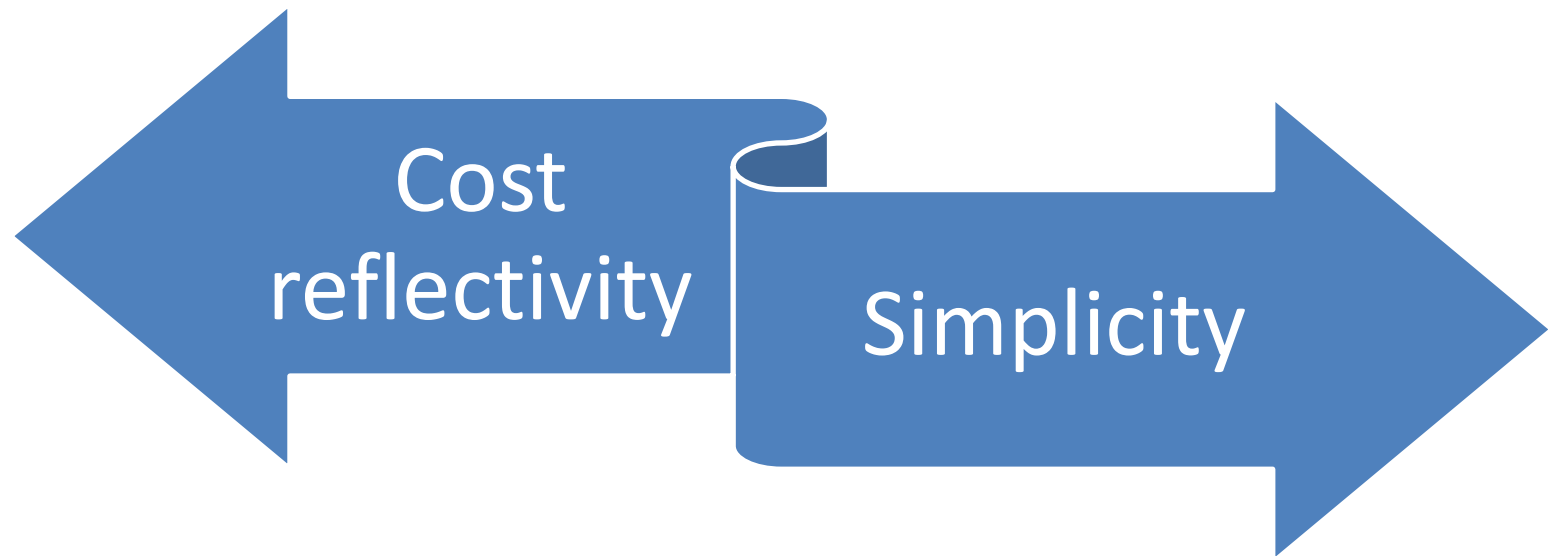
More capacity is needed to supply ‘peaky’ demand



If demand is less ‘peaky’, in the long term less capacity is needed to supply the same amount of electricity over a period.



Demand Based Tariff Options - Residential & Small Business



Questions for discussion

- How quickly can customers pick up the demand concept?
- Which balance of cost reflectivity and simplicity achieves the best outcome?
- What role should TasNetworks play in educating customers about demand? Should retailers or networks lead this?

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Tariff Trial



Trial Overview

- Project preparation/planning – until September 2015
 - Education program development
 - Meter program development
 - Participant selection
 - Tariff development
- Implementation – until December 2015
 - Meter installation
- Trial Goes Live - until September 2016
 - 2 quarter trial anticipated (off-market)
- Review – December 2016
 - Data review and customer impact assessment
 - Result communication

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Supporting vulnerable customers



Vulnerable Customers

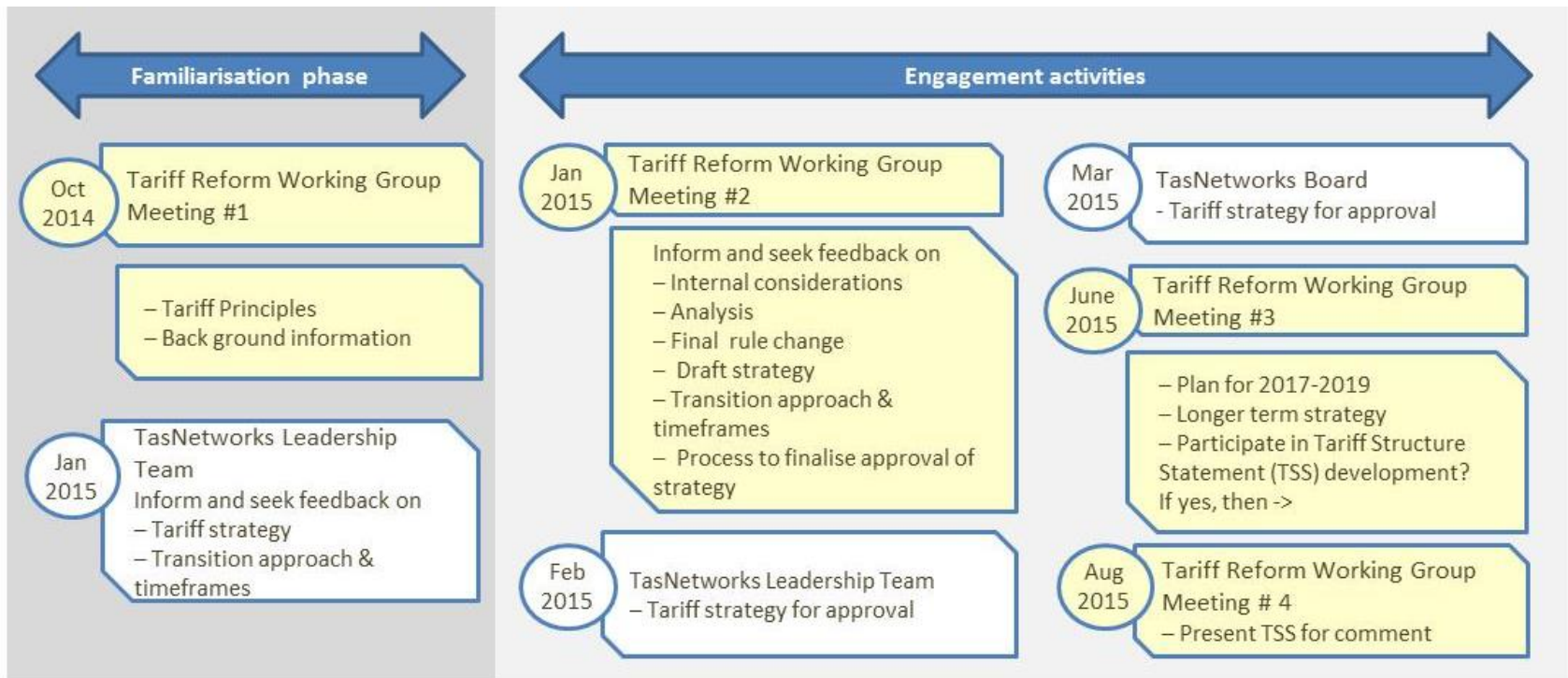
- Feedback
 - Our role in assisting vulnerable customers
 - advocate for a comprehensive and coordinated stakeholder approach to vulnerable customer assistance
 - communicate information so it can be understood by customers (and potential customers) from diverse language and educational backgrounds
 - Consider how concession frameworks can support transition
 - Continue to work with customer advocates and customers to ensure we're on the right track
- ENA roundtable

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TasNetworks engagement program



Tariff Reform Working Group - engagement



Key engagement topics

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

External engagement

Internal engagement

Revenue Reset Engagement Plan



Ongoing feedback provided to stakeholders – How are we incorporating your feedback?

Key engagement topics/requirements

- Forecast expenditure programs (operating and capital expenditure – including key strategies and projects)
- Proposed Connection Pricing Policy
- Tariff principles, strategy and tariff structure statement



Closing slide