

TasNetworks 2024-2029 Pricing Strategy Consultation Paper

June 2020

Abstract

Our vision is to be trusted by our customers to deliver today and create a better tomorrow. In accordance with our vision, we are committed to developing our pricing strategy in collaboration with our customers and stakeholders.



1. About the Consultation Paper

Since commencing operations on 1 July 2014, TasNetworks has embarked on a process of developing and delivering a pricing strategy that aligns with customer preferences, views and priorities. We have gradually moved towards more cost reflective pricing and each year transition the component charges for each tariff closer to meeting our strategy of cost reflectivity. In addition, since 1 July 2019, time of use consumption network tariffs have been the default for households and small business that have an advanced meter installed, on an opt out basis.

This consultation papers sets the scene for the next chapter of TasNetworks pricing strategy and we are once again inviting customers and stakeholders to join us on its progression. We recognise that a successful pricing strategy requires a shared vision, and cooperation and collaboration between us and the Tasmanian community.

We are inviting stakeholders, customers and interested parties to share their feedback and appreciate the answers to the questions raised throughout this paper. By providing a submission, you are ensuring our pricing strategy continues to reflect the needs and drivers of the Tasmanian community now, and into the future.

2. Introduction

TasNetworks owns, operates and maintains the electricity transmission and distribution network in Tasmania. We deliver a safe, cost-effective and reliable electricity supply to more than 285,000 residential, commercial and industrial customers.

As the electricity network provider in Tasmania, households and businesses rely on us to provide a safe, reliable and affordable supply of power.

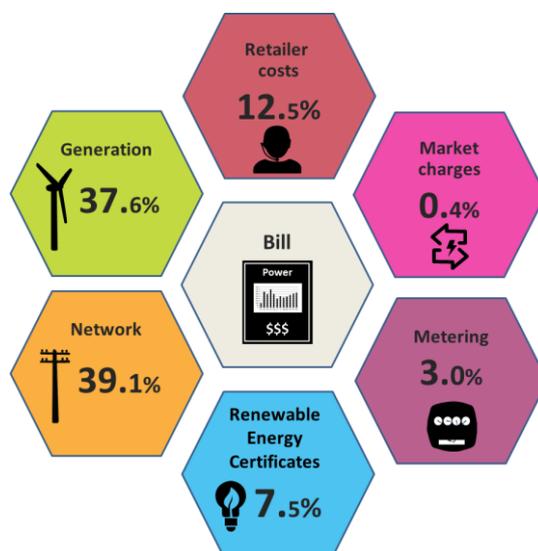


3. Background

TasNetworks is a natural monopoly of an essential service and as such, we are regulated by the Australian Energy Regulator (AER). Distribution network service providers (DNSPs), such as TasNetworks, develop and submit their revenue requirements to the AER, usually for a five year period. In line with this process, DNSPs also develop and propose what is called a ‘Tariff Structure Statement’ to the approval of the AER. The Tariff Structure Statement outlines the DNSP’s pricing strategy, including the network tariff classes, tariff structures and tariff assignment policy and approach to setting tariff levels.

Instead of billing households and businesses directly for using the network, we charge energy retailers, who then pass our network charges on to their customers through their power bills. As the chart below illustrates, the delivered cost of electricity makes up just under 40 per cent of the retail electricity bill for most households and small businesses in Tasmania. We recognise the important role we play in ensuring the Tasmanian community can access an affordable power supply.

Figure 1. Cost components of a typical residential or small business electricity bill (2019-20)¹



4. Future state

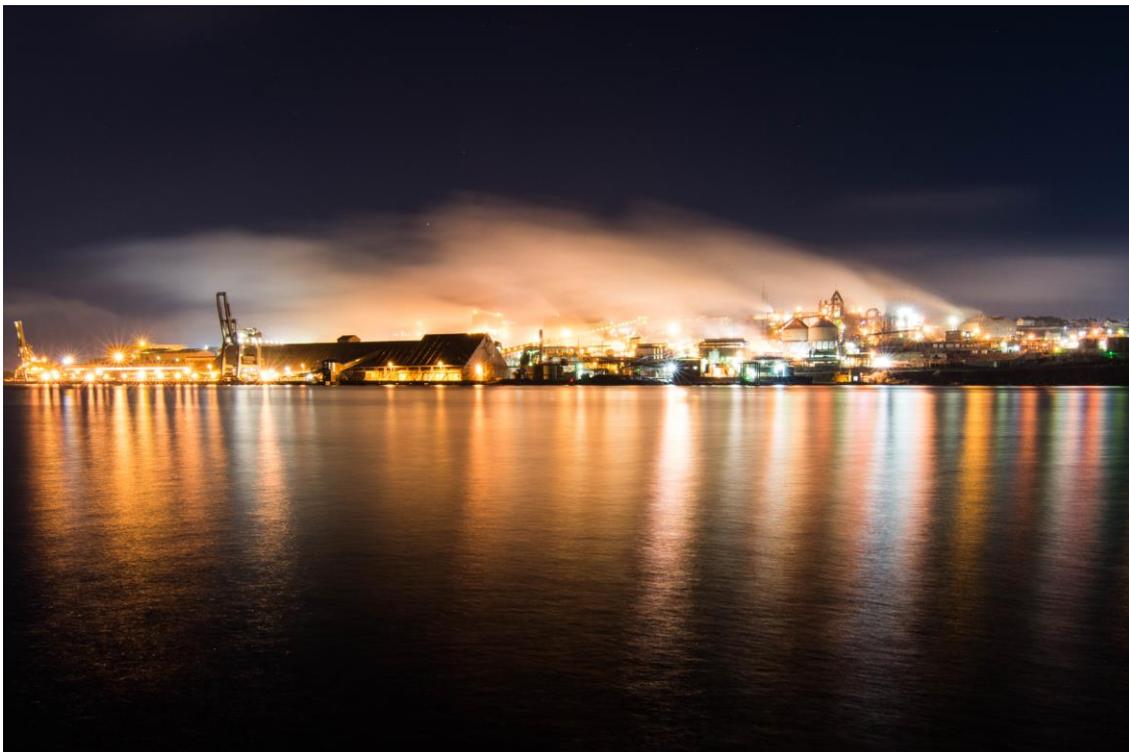
It is widely acknowledged that the electricity sector is undergoing a major transformation. The advent of new technology is shifting the way customers engage in the electricity market and changing their expectations of what it means to be a network service provider. In response, TasNetworks’ pricing strategy is evolving to keep pace with these changes to maximise the benefits to all customers.

Below are seven key drivers of network pricing change we foresee emerging:

1. **Widespread deployment of advanced meters** – the deployment of advanced meters is growing at a significant pace as all new, upgraded or modified residential and small business connections receive an advanced meter. Advanced meters allow customers to take advantage of emerging technology and products, and provides a greater collection of usage information.

¹ Based on Figure 1 – 2019-20 Notional Maximum Revenue, *Pricing Proposal for Period 4 of the 2016 Standing Offer Price Determination 1 July 2019 – 30 June 2020*, Aurora Energy

2. **Cost reflective network pricing** – from 1 July 2019, time of use consumption network tariffs became the default tariff for households and small businesses that have an advanced meter installed. Time of use tariffs give customers greater control over their electricity bill by allowing customers to reduce their power bill, potentially without loss of amenity.
3. **Growth in uptake of Distributed Energy Resources (DER)** – a significant number of Tasmanians have embraced DER and this number is expected to increase within 2024-2029. TasNetworks must ensure it is enabling customers with DER to maximise the value of their investment, while providing benefits to non-DER customers.
4. **Electrification of land transport** – the growth of DER is expected to continue with the uptake of Electric Vehicles (EVs). EVs provide a great opportunity to the network and as with other forms of DER, TasNetworks aims to ensure this new technology can add value to the network for the benefit of all customers.
5. **Emergence of micro-grids & neighbourhood power sharing** - Micro-grids are a departure from the traditional electricity supply chain and the idea of the shared network. This provides an opportunity for customers to change how they engage in the electricity market and marks a shift in how networks price their service.
6. **Increasing prevalence of embedded networks** – embedded networks are growing across Australia, with Tasmania not far behind. As they continue to grow, it is important that embedded network operators contribute fairly to the cost of the shared network.
7. **Distribution network as a trading platform** – emerging technology is allowing new market entrants to participate in the electricity sector. New markets, new services and new providers are growing and are seeking both customers and revenue.



Question One: What do you see are the key drivers in considering network pricing changes?

Question Two: Do you foresee any future developments that are specific to a Tasmanian context?

Question Three: What are the opportunities and/or benefits that changes in network pricing could bring?

Question Four: What are the key challenges associated with changing network pricing?

5. Principles

TasNetworks drafted six key principles to guide the development of our 2024-2029 pricing strategy. The purpose of these principles is to create a framework to shape and evaluate our pricing and ensure TasNetworks and the Tasmanian community share the same pricing objectives.

Pricing principles:

1. **Affordable** – electricity is essential and we will ensure that customers, particularly vulnerable customers, will not be exposed to hardship as a result of our pricing or network tariff reforms.
2. **Fair** – each customer should pay a fair amount for their use of the shared network, which reflects the demands they place on the network and the value of their connection to it.
3. **Simple** – our network pricing will be both cost reflective and easy for our customers to understand.
4. **Consistent** – we will avoid creating price shocks for customers and minimise upward pressure on the delivered cost of electricity.
5. **Innovative** – we will respond quickly through our pricing to the changing needs of our customers and changes in technology.
6. **Renewable** – our pricing will help customers who invest in distributed energy resources, such as solar generation and battery storage, to meet their energy needs and the needs of others.

Question Five: Does the above list represent the key inputs required to shape TasNetworks' pricing strategy?

Question Six: Are there any principles we have missed from the above list that should be there?

Question Seven: Are the pricing objective definitions clear and easily understood?

Question Eight: Do you think these pricing principles should be ranked in order of importance, or do you think they strike a balance between each other?

Question Eight(A): If you think the pricing principles should be ranked in order of importance, what do you see as the most important objective and why?

6. Consultation Process

In collaboration with customers and stakeholders, TasNetworks will develop, refine and test our pricing strategy over the next three years, leading to the submission of our Tariff Structure Statement in 2023. TasNetworks will utilise a variety of different channels to ensure a broad, cross-section of the Tasmanian community is represented.

In addition, TasNetworks holds quarterly workshops with the Policy and Regulatory Working Group, which consists of key industry stakeholders and representative bodies, to discuss our pricing strategy in detail and deep dive into key issues and opportunities. To find out more about the Policy and

Regulatory Working Group visit: <https://www.tasnetworks.com.au/Poles-and-wires/Pricing/Modernising-pricing>

Question Nine: What do you see are the key opportunities in engaging with the Tasmanian community?

Question Ten: What do you see are the key barriers for engaging with the Tasmanian community?

Question Eleven: Do you see an information gap TasNetworks needs to fill prior to engaging with the Tasmanian community? If so, what information could TasNetworks provide?

7. Invitation for submissions

The transformation of the electricity industry is enabling our customer base to utilise our network services in more diverse ways than ever before. By providing your feedback you are ensuring our pricing strategy continues to reflect the needs and drivers of the Tasmanian community now, and into the future.

Summary of questions

Question One: What do you see are the key drivers in considering network pricing changes?

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Question Eleven: Do you see an information gap TasNetworks needs to fill prior to engaging with the Tasmanian community? If so, what information could TasNetworks provide?

TasNetworks invites interested stakeholders to make submissions on this consultation paper by 17 July 2020.

Submissions on our draft consultation paper can be sent to regulation@tasnetworks.com.au

Alternatively, submissions can be sent to:

Leader Regulation
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Moonah TAS 7009
Phone 1300 127 777