Draft Decision

TasNetworks Electricity Distribution Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 19
Tariff structure statement

September 2023

AUSTRALIAN ENERGY REGULATOR

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19 Tariff structure statement

This attachment sets out our draft decision on TasNetworks' tariff structure statement to apply for the 2024–29 regulatory control period.

A tariff structure statement applies to a distributor's tariffs for the duration of the regulatory control period providing consumers and retailers with certainty and transparency in relation to their distribution charges. This allows consumers to make more informed decisions about their energy use. A tariff structure statement informs customer choices by:

- providing better price signals— network tariffs which reflect what it costs to use electricity at different times can allow customers to make informed decisions to better manage their bills
- transitioning tariffs to greater cost reflectivity—with the requirement that distributors explicitly consider the impacts of network tariff changes on retail customers, by engaging with customers, customer representatives and retailers in developing network tariff proposals
- managing future expectations—providing guidance for retailers, customers and suppliers of services such as local generation, batteries and demand management by setting out the distributor's tariff approaches for a set period of time.

In this round of tariff structure statements, all 6 participating distributors[1] have continued to move towards more cost reflective tariff structures. In particular, the tariff structure statements respond to the trend of increased consumer energy resources (CER) and the role network tariffs can play in assisting their integration into the grid by signalling how and when the use of those resources drives costs and benefits to the network. For example:

- the number of solar photo voltaic (PV) installations continues to increase, requiring distributors to manage minimum demand on their networks when solar generation is at its highest
- the uptake of electric vehicles (EVs) is ramping up in all jurisdictions, requiring distributors to consider how to encourage charging of electric vehicles in ways that minimise their contribution to existing demand peaks, avoid the creation of new peaks, and maximise their contribution to efficient use of the network
- there is increasing interest in residential, community and grid-scale batteries and several national and state level government programs encouraging their uptake.

Further supporting their path towards more cost reflective tariffs, distributors have been able to propose export reward tariffs for the first time in this round of tariff structure statements. It follows the Australian Energy Market Commission (AEMC) 2021 rule change, *Final determination - Access, pricing and incentive arrangements for distributed energy resources* to allow the introduction of two-way pricing (i.e. rewards and charges for exporting energy as well as consuming energy).

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[1] Ausgrid, Endeavour Energy, Essential Energy (NSW), Evoenergy (ACT), TasNetworks (Tas) and Power and Water Corporation (NT).

Smart meters are essential for the application of most cost-reflective network tariffs. The percentage of residential customers with smart meters on TasNetworks' network has increased from 1% in 2018 to 46% in its latest reported data for 2022.[2] It will accelerate further over the 2024–29 period given the Tasmanian Government's commitment to achieve 100% smart meter penetration by 2026. This level of smart meter penetration will see increased numbers of customers whose retailer is facing a cost reflective network tariff, moderated by TasNetworks assignment policies which are discussed further in following sections. We anticipate this will encourage retail competition and innovation in retail tariffs and service products for consumers.

The AEMC's report for its *Review of the regulatory framework for metering services* recommends a target of 100% smart meter roll out by 2030. This won't impact TasNetworks since Tasmania will be ahead of AEMC's timeframe. However, in its report, the AEMC also recommended safeguards to support customers through the transition to an energy system that features smart meters that are applicable to all NEM jurisdictions. These safeguards are focussed on retailer decisions, including a decision around providing sufficient notification and information of changes to a customer's retail pricing structure. While the recommended safeguards focused on managing customer risks associated with retailer decisions, we also considered the distributor's arrangements for transitioning retailers to cost reflective network tariffs on customer receipt of a smart meter.

Retail pricing interactions with network tariffs

The network tariff price signals we approve may not be directly passed on to end-use customers (i.e. the retail customer). This is because distributors charge the relevant retailers for the transport of electricity to serve end-use customers connected to their networks. Network costs and price signals are charged directly to retailers who then pass these costs on to end-use customers in their retail offers. A retailer may choose to pass on the network price signals exactly or repackage them into their retail offers (including in insurance style flat rate retail offers).

Cost reflective network tariffs provide signals to retailers of the costs of using the network at different times and encourage retailers to design retail tariff offers that reflect network costs and signal to end-use customers when it is more or less costly to use the network. Ultimately cost reflective network tariffs encourage retailer competition and innovation in how they reflect these network costs in diverse retail offers. Importantly, customers can then choose the retail tariff structure that best suits their needs and preferences.

Our discussion in this report may talk about (retail) customers being assigned to a network tariff and these customers having choice in tariffs or the ability (or inability) to opt-in to or out of particular tariffs. We also talk about customer impacts under the distributor's assignment policies. These customer impacts assume the network price signals are directly passed on to the end-use customer by the retailer. We acknowledge that it is the retailer who may seek reassignment where choice is provided through network tariff opt-in or opt-out provisions, rather than the customer. Actual customer outcomes as a result of our approval of the proposed tariff structure statements, and the incentive for any customer behavioural change associated with our approval of these tariffs, will also depend on the retailer, the retail tariff

[2] TasNetworks 2021-22 Annual Reporting RIN.

the customer chooses, and how the retailer chose to package or pass on the network tariff costs.

For ease of communicating particular issues, our language may not always accurately reflect the indirectness of the relationship between a customer and their network tariff. We occasionally refer explicitly to retail tariffs but any reference to tariffs generally refers to network tariffs.

The distributors' consumer consultation processes have improved over successive resets and the AER's Better Resets Handbook published in 2021supports this improvement. The handbook encourages network businesses to better engage with stakeholders and to have consumer preferences drive the development of their regulatory proposals.

The distributors have generally engaged well with stakeholders in developing their 2024–29 tariff structure statements. Customer input is important in developing tariffs since their ultimate objective is to influence consumer behaviour. We acknowledge it is challenging for distributors to engage consumers on network tariffs they will not see directly and that may be complex and not structured for consumer understanding.[3] When it comes to consumers' real experience, it is the retailer's role to develop and communicate retail tariffs that are appealing and understandable to consumers, appropriate to their customers' circumstances and incentivise customer behaviour to support efficient use of the network (i.e. to reduce the network bill that the retailer is charged for their customers' use of the network).

Retail offers cover the costs of providing energy services, which include wholesale costs, the costs of transporting energy through the networks, their retail costs and margin, and any costs associated with jurisdictional environmental schemes. The network component of a customer's retail bill makes up approximately 45% of the final bill.

The Office of the Tasmanian Economic Regulator regulates the standard retail offer that Aurora Energy sets by setting the maximum price it can charge its regulated retail customers. Regulations apply to small customers who use less than 150 MWh per annum.[4] This standing offer aims to protect customers from the risk of higher market prices. These small customers can still access market offers if they choose to.

19.1 Draft decision

Our draft decision is to approve TasNetworks' proposed tariff structure statement as we are satisfied it complies with the pricing principles for direct control services in the National Electricity Rules (NER) and other applicable requirements of the NER.

We consider the following elements of TasNetworks' tariff structure statement proposal comply with the pricing principles and contribute to the achievement of the network pricing objective:

- streamlined network tariff classes

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3 The NER allows for tariffs that may not be understood by retail customers, if the tariffs instead are capable of being understood and incorporated by retailers in retail tariffs, NER, cl. 6.18.5(i).

4 MWh = megawatt hours per annum.

- flat rate network tariffs becoming obsolete
- better alignment of its small business time-of-use charging windows with network usage
- restructured CER tariffs
- policies for assigning existing customers to its cost reflective tariffs
- introduction of six embedded network tariffs
- continued reduction of cross subsidies between the 'low voltage heating and hot water' tariff and the 'general light and power' tariff
- proposed export tariff transition strategy
- revised long-run marginal cost (LRMC) methodology.

We encourage TasNetworks to consider including the following with its revised proposal to make further improvements to its tariff structure statement:

- in recognition of the potential rapid uptake in EV load, further tariff options targeting flexible load, for example an opt-in controlled load tariff for flexible load
- grid-scale battery tariff trials for the upcoming period to support to development of a grid-scale battery tariff for introduction during the 2029–34 period
- further enhancement of its LRMC estimation methodology.

19.2 TasNetworks' proposal

TasNetworks' 2024–29 tariff structure statement seeks to continue the pricing reform it commenced in 2017 by:

- maintaining time-of-use tariffs as the default tariff assignment
- making the general light and power and heating and hot water network tariffs unavailable to new customers and customers who install an EV fast charger
- largely maintaining its existing tariffs and tariff assignment policies. Under this approach:
  - small customers with old accumulation meters are assigned to flat network tariffs
  - small customers with smart meters are default assigned to a tariff with time-of-use charging but may opt-out to a tariff based on a demand charge or to a CER tariff with both time-of-use and demand charging
  - existing customers assigned to the default tariff retain the ability to opt-out to flat tariffs for 12 months.
- refining its 2 CER tariffs by:
  - changing the structure from a demand tariff with time-varying charges to a time-of-use tariff with a demand charge applying only if peak demand exceeds 8.5 kW[5]
  - including a 'super off-peak' (very low priced) period between midnight and 4am

[5] kW = kilowatt.

- refining the charging windows for the small business time-of-use tariff to better align with network usage by:
  - removing the shoulder period from weekends and instead applying off-peak charges
  - shortening the peak period on weekdays
  - adding a shoulder period between the morning and evening peaks on weekdays
- introducing 6 embedded network tariffs for its large business customers which will be compulsory for new customers and opt-in for existing customers
  - embedded networks are assigned to one of the 6 tariffs on the basis of their capacity and whether the embedded network is on the low-voltage or high-voltage network
  - the tariffs consist of a daily charge, a demand charge and a consumption charge
- maintaining its current tariff assignment policy and tariff structures for all other large business customers.

TasNetworks is not proposing to introduce two-way tariffs in the 2024–29 period but our decision on its Export Tariff Transition Strategy is explained in the section labelled Two-way tariffs.

19.3 Assessment approach

This section outlines our approach to assessing tariff structure statements.

The NER set out elements that an approved tariff structure statement must contain.[6] A tariff structure statement must also comply with the distribution pricing principles.[7]

19.3.1 What must a tariff structure statement contain?

The NER require a tariff structure statement to include:

- the tariff classes into which retail customers for direct control services will be divided
- the policies and procedures the distributor will apply for assigning retail customers to tariffs or reassigning retail customers from one tariff to another
- a description of the strategy or strategies the distributor has adopted, taking into account the pricing principle in clause 6.18.5(h), for the introduction of export tariffs including where relevant the period of transition (export tariff transition strategy)
- structures for each proposed tariff
- charging parameters for each proposed tariff
- a description of the approach that the distributor will take in setting each tariff in each pricing proposal.[8]

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6 NER, cl. 6.18.1A(a).

7 NER, cl. 6.8.2 (d2) and cl. 6.18.1A(b).

8 NER, cl. 6.18.1A(a).

A distributor's tariff structure statement must be accompanied by an indicative pricing schedule.[9]

19.3.2 What must a tariff structure statement comply with?

The NER require distributors to demonstrate how their proposed tariff structure statement complies with the distribution pricing principles.[10]

Broadly the pricing principles require:

- for each tariff class, the revenue expected to be recovered must lie between the avoidable cost of not serving those customers and the standalone cost of serving those customers
- tariffs to be based on the LRMC of providing the service
- revenue collected from each tariff to reflect the total efficient costs of customers assigned to the tariff
- distortions to price signals to be minimised
- consideration of the impact of proposed changes to tariffs on customers
- each tariff to be reasonably capable of being understood by retail customers or incorporated into retail tariffs.

19.3.3 How we will assess tariff structure statement proposals

In reviewing tariff structure statement proposals we will assess compliance with the distribution pricing principles and other applicable requirements of the NER.

In line with our Better Resets Handbook (Handbook), our expectation is that distributors have demonstrated the following elements in their proposed tariff structure statements:

- progression of tariff reform
- incorporation of their tariff strategy in their overall business plans
- significant stakeholder engagement and broad stakeholder support for their proposed tariff structures
- insight into and management of any adverse customer impacts.

For the 2024–29 period our engagement with TasNetworks to develop its tariff structure statement commenced 18 months prior to its formal submission. This included observing stakeholder engagement sessions and working closely with TasNetworks to support its development of a compliant tariff structure statement.

Due to our significant pre-lodgement engagement with TasNetworks, we will more closely examine those issues not addressed during our engagement and issues we have concerns about than issues on which we already significantly engaged.

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9 NER, cl. 6.8.2(d1) and cl. 6.18.1A(e).

10 NER, cl. 6.18.5 and cl. 6.8.2(c)(7).

The AEMC's *Access, pricing and incentive arrangements for distributed energy resources* rule change in August 2021 allows for the introduction of two-way pricing for the first time.[11],[12] We will assess two-way pricing proposals with regard to the guidance provided in our *Export Tariff Guidelines*.[13]

19.3.4 How tariff structure statements relate to broader pricing process

The tariff structure statement is the first stage of a two-stage network pricing process. The second stage is for distributors to develop and submit an annual pricing proposal to the AER. The annual pricing proposals apply pricing levels to each of the tariff structures outlined in the approved tariff structure statement. Distributor's proposed pricing levels must be consistent with the corresponding indicative pricing levels for the relevant regulatory year as set out in the relevant indicative pricing schedule, or the distributor must explain any material differences between them.[14]

19.4 Reasons for draft decision

Our draft decision is to approve TasNetworks' proposed tariff structure statement, as we consider it complies with the distribution pricing principles in the NER and contributes to the achievement of the network pricing objective.[15]

In line with our Handbook, we consider TasNetworks demonstrated:

- progress on tariff reform consistent with the network pricing objective and pricing principles through adjustments to its assignment policy for residential and small business customers and by continuing to remove cross-subsidies
- incorporation of its tariff strategy in its overall business plan by considering how its pricing strategy should be designed to limit potential future network expenditure
- significant stakeholder engagement and broad stakeholder support through an extensive stakeholder engagement program and use of stakeholder feedback (through its Policy and Regulatory Working Group) to inform development of its proposed tariff reforms
- insight into customer impacts through modelling of customer impacts, including for customers experiencing vulnerability and customers who have invested in CER, and

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11 Distributed energy resources (DER) / consumer energy resources (CER) are renewable energy units or systems that are commonly located at houses or businesses to provide them with power. This also includes energy storage and energy management assets. This can also be referred to as 'behind the meter' because the electricity is generated or managed 'behind' the electricity meter in the home or business. Common examples include rooftop solar units, battery storage, thermal energy storage, electric vehicles and chargers, smart meters and home energy management technologies.

12 Previously under the NER, distribution services involved one-way flows of electricity imported from the grid for consumption. The AEMC's rule change updated the NER to clarify that distribution services can be two-way. That is, they include both the 'import' of energy from the grid for consumption and 'export' of energy, such as rooftop solar, to the grid.

13 AER, *Export Tariff Guidelines,* May 2022.

14 NER, cl. 6.18.2(b)(7A).

15 NER, cll. 6.18.5(b) and (d).

managing adverse impacts with a 12-month lag in reassignment and a concurrent 12-month opt-out period for customers who have had their meter upgraded or replaced.

Below we outline the reasoning for our decision for each customer group as well as discussing our assessment of some specific tariff issues. It is structured as follows:

- Residential and small business customer tariffs
- Medium and large business customer tariffs
- Grid-scale battery tariffs
- LRMC methodology.

19.4.1 Residential and small business customer tariffs

We are satisfied that TasNetworks' proposal for residential and small business customers contributes to the achievement of compliance with the distribution pricing principles for direct control services because:

- the tariffs are structured to reflect network constraints and the efficient costs of providing services
- the tariff structures are reasonably capable of being understood by retail customers or being directly or indirectly incorporated by retailers
- the CER tariff sends price signals to retailers to discourage the development of new demand peaks from flexible load
- assignment policies increase exposure of retailers to cost reflective tariffs while managing adverse impacts to customers and maintaining broad stakeholder support.

TasNetworks' tariff structure statement progress tariff reform and has stakeholder support

We consider that TasNetworks' tariff strategy for residential and small business customers balances progress in tariff reform, the expected impacts of an accelerated smart meter rollout, and protecting customers in vulnerable situations. TasNetworks worked with its Policy and Regulatory Working Group (PRWG) to design customer protections in order to balance these different considerations.

Customer engagement in tariff structure statement development is an important consideration for our assessment. The Tasmanian Government's acceleration of smart meter rollout means that increasing numbers of customers will be reassigned to cost reflective tariffs.[16] TasNetworks' engagement is key to successful tariff reforms. Distributors should demonstrate significant customer engagement and, where possible, broad stakeholder support for its plans.

Over the past two years we have observed TasNetworks' pricing engagement with its customers, vulnerability advocates, businesses, and retailers through its Policy and Regulatory Working Group. These sessions were interactive, well-informed and it was clear that while there were a range of views, stakeholders in the PRWG broadly supported this tariff structure statement proposal and separately Aurora Energy and ENTATAS supported

16 AEMC, *Review of the regulatory framework for metering services*, November 2022.

the proposed pace of tariff reform.[17] On the other hand, the Tasmanian Small Business Council and the Tasmanian Renewable Energy Alliance considered that TasNetworks' pace of tariff reform was too slow.[18] We accept that the pace of tariff reform in Tasmania will be somewhat slower than for other jurisdictions, largely because TasNetworks is experiencing less network congestion than other distributors, but also because most Tasmanian stakeholders have expressed support for a slower pace of change.

To progress tariff reform, TasNetworks made obsolete its general light and power and heating and hot water network tariffs (both controlled and uncontrolled). The time-of-use tariffs remain the default. Customers may also opt-in to a secondary controlled load tariff. Over time this means that the proportion of small retail customers on cost reflective tariffs will increase gradually as new customers can no longer access the obsolete tariffs.

TasNetworks considered that customer protections were required to protect customers experiencing vulnerability from automatic assignment to a cost reflective tariff. It proposed to continue a 12-month lag in reassignment and a 12-month opt-out period for customers whose reassignment was triggered by a meter replacement. This allows retailers to use customer usage profiles to make informed decisions about the most appropriate network tariff on behalf of their customers.

In response to AER staff feedback, TasNetworks proposed not allowing customers with EV fast chargers to opt-out to the obsolete flat tariffs. We consider this to be appropriate as these customers are most likely to respond to price signals which can provide significant benefits to the network and all customers by reducing future augex.

By the end of the 2024–29 period, TasNetworks will also be concluding its more than a decade long program of rebalancing tariffs to unwind legacy cross-subsidies across its residential tariffs.[19] We accept this approach.

In a discussion with AER staff, the AEMC requested that tariff structure statements' assignment policies for transitioning customers to cost reflective tariffs where the customer's meter is upgraded due to age, are also applicable where meters are upgraded due to an acceleration rule change. The request was intended to ensure customers receiving smart meters under AEMC's recommended accelerated smart meter rollout, can access the same transitional mechanisms applying to any other customer receiving a smart meter not initiated by the customer (i.e. mechanisms intended to manage impacts to customers from assignment to cost reflective network tariffs). The AER advised distributors of this request. TasNetworks' tariff structure statement already provides for all customers with meter

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17 TasNetworks, *Combined Proposal Attachment 22 - Tariff Structure Explanatory Statement - January 2023*, pp. 99–112; Aurora Energy, *Submission - 2024–29 Combined Regulatory Proposal - TasNetworks - May 2023*, p. 12; ENTATAS, *Submission - 2024–29 Combined Regulatory Proposal - TasNetworks - May 2023*, p. 7.

18 Tasmanian Small Business Council, *Submission - 2024–29 Combined Regulatory Proposal - TasNetworks - May 2023*, pp. 24–25; Tasmanian Renewable Energy Alliance, *Submission - 2024–29 Combined Regulatory Proposal - TasNetworks - May 2023*, p.2.

19 TasNetworks, *Combined Proposal Attachment 22 - Tariff Structure Explanatory Statement - January 2023*, pp. 33–34.

replacements to access its 12-month opt-out period, including any customers to whose meters may be upgraded due to an acceleration rule change.

TasNetworks' modelling shows most customers benefit from cost reflective tariffs

We commend TasNetworks for performing additional analysis to consider potential impacts to vulnerable customers. The analysis showed that customers experiencing vulnerability are more likely to make greater savings than non-vulnerable customers.

TasNetworks analysed the customer impacts of the default time-of-use tariff in comparison to the flat tariff by comparing customers experiencing vulnerability with the wider customer base. This analysis helped to address stakeholder concerns about the impacts on customers who were more likely to not respond to network tariffs.

The analysis found that:

- the load profile of customers in communities with higher levels of vulnerability was generally flatter than the general customer base. These customers were more likely to benefit from time-of-use tariffs even without behavioural change because a higher portion of their energy use fell into the off-peak period
- 79% of customers experiencing vulnerability were likely to benefit switching to the time-of-use tariff (with average savings of $42 per annum), compared to 65% of all customers (with average savings of $21 per annum).[20, 21]

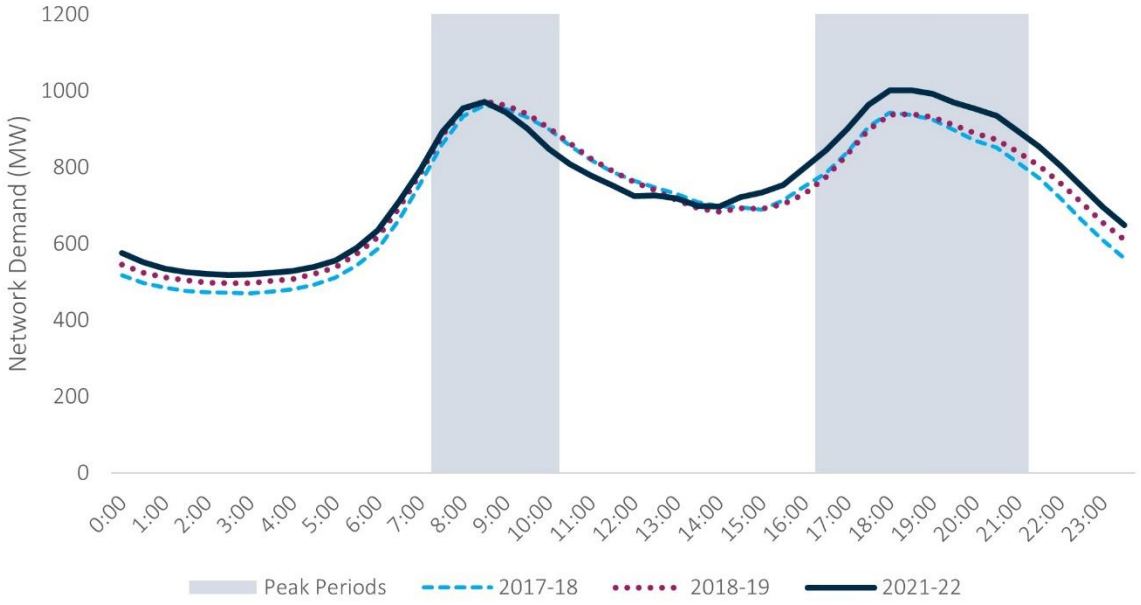
TasNetworks' tariff structures are cost reflective and facilitate retail tariffs that encourage behavioural change

The structure of the default residential time-of-use tariff is unchanged and remains aligned with residential load. This can be seen in Figure 19.1 which shows TasNetworks' overall network peak, overlain with its tariff peak periods.

[20] TasNetworks, *Combined Proposal Attachment 22 - Tariff Structure Explanatory Statement - January 2023*, p. 75.

[21] TasNetworks, *Combined Proposal Attachment 22 - Tariff Structure Explanatory Statement - January 2023*, p. 76.

Figure 19.1: Comparison of TasNetworks' overall network peak and tariff peak periods



Source: TasNetworks, Combined Proposal Attachment 22 – Tariff Structure Explanatory Statement – January 2023, p. 37.

However, TasNetworks refined its default small business time-of-use tariff. TasNetworks found that the current tariff structure did not encourage usage during the middle of the day.[22] Figure 19.2 shows TasNetworks' small business load profiles and how a substantial amount of load falls outside the morning and evening peaks. Additional TasNetworks analysis indicated that on weekends, small businesses' utilisation was lower and fluctuated within a small range.

As a result, TasNetworks proposed a new tariff structure. The small business time-of-use tariff currently features a peak period during 7am - 10pm on weekdays and a shoulder period between 7am - 10pm on weekends. In the proposal the peak times were reduced to 7am - 10am and 4pm - 9pm weekdays. It also introduced a shoulder period from 10am - 4pm weekdays to encourage consumption during those hours while reducing the likelihood of localised midday peaks in areas with a higher proportion of small business.[23] Weekends are now off-peak only as small business utilisation is lower during these times.

The new peak period windows are shown in Figure 19.2 as an overlay on small business load profiles. TasNetworks' modelling indicates that the new structure is likely to reduce distribution charges for 76% of its current small business time-of-use customers.[24]

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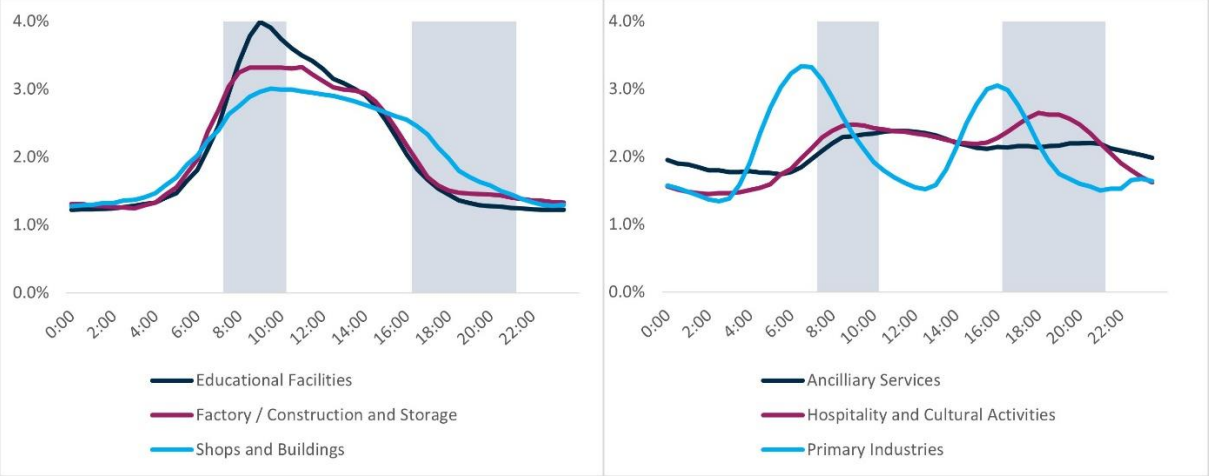
22 TasNetworks, *Combined Proposal Attachment 22 - Tariff Structure Explanatory Statement - January 2023*, pp. 37–39.

23 TasNetworks, *Combined Proposal Attachment 22 - Tariff Structure Explanatory Statement - January 2023*, p. 39.

24 TasNetworks, *Combined Proposal Attachment 22 - Tariff Structure Explanatory Statement - January 2023*, p. 40.

Figure 19.2: Comparison of TasNetworks' small business load profiles and tariff peak periods



Source: TasNetworks, Combined Proposal Attachment 22 – Tariff Structure Explanatory Statement – January 2023, p. 39.

TasNetworks also proposed to adjust its opt-in CER tariffs. The proposed tariffs have strong price signals to facilitate retail tariffs that incentivise customer use of CER in ways that reduce network costs and increase network benefits. Analysis from TasNetworks showed that customers with CER who do respond to price signals were most likely to benefit from the newly restructured CER tariff, achieving network bill savings of approximately $100 yearly. [25]

The current CER network tariffs are demand-based tariffs with time-varying charges. TasNetworks offers a residential CER tariff and a small business CER tariff. TasNetworks' proposed its revised tariff as a largely time-of-use tariff with an anytime demand charge applying only if peak demand is above 8.5 kW. Of note is that the tariff will include a new super off-peak charging period between midnight and 4am daily. The new tariff structure balances encouraging take-up through simplicity and preventing the development of EV-driven peaks through application of the anytime demand charge.

The Tasmanian Renewable Energy Alliance submitted that the CER tariff should have greater price differentials to incentivise customer take-up and network benefit.[26] We encourage TasNetworks to consider this recommendation when formulating its revised proposal.

Tariff structures respond to energy sector developments: tariffs and residential EV owners

The accelerating uptake of EVs and consequential need to manage EV charging on the grid is becoming integral to the design of network tariff structures and to the AER's decision-making. TasNetworks anticipates EV uptake will start to rise in 2030, significantly increasing by 2050. Forecast take up of EVs in TasNetworks' network is slower than for most of the

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25 TasNetworks, *Combined Proposal Attachment 22 - Tariff Structure Explanatory Statement - January 2023*, pp. 77–79.

26 Tasmanian Renewable Energy Alliance, *Submission - 2024–29 Combined Regulatory Proposal - TasNetworks - May 2023*, pp. 4–5.

other distributors, which anticipate accelerating EV uptake towards the end of the 2024–29 period.[27]

We consider that TasNetworks' suite of tariffs adequately consider EV charging load at the residential and small business level for the 2024–29 period and our draft decision is to accept its tariffs. In recognition of the uncertainty surrounding forecast EV load we also encourage TasNetworks to explore an opt-in controlled load tariff to introduce in the 2029–34 period, as a further option to accommodate EV load growth.

TasNetworks is managing the anticipated increase in EV load by progressing its tariff reform program broadly rather than by establishing EV specific tariffs for EV owners or EV charge point operators. We support this approach and consider it aligns with the NER principle that customers with a similar connection and usage profile be treated equally.[28] It also recognises that distributors currently do not have visibility of customers with EVs. Consistent with the AER's decisions for the Victorian electricity distributors' 2021–26 tariff structure statements, we do not support the introduction of discounted tariffs for EV owners or EV charge point operators).[29] Rather, we support the continued implementation of cost-reflective electric vehicle strategies.

EV owners with smart meters will continue to have access to a choice of network tariffs, including the default time-of-use tariff, demand tariff and CER tariff. Notably, its residential and small business opt-in CER tariffs will now have super off-peak charges over night and off-peak prices during the day, which will encourage EV owners to charge their vehicles overnight or during the day, when prices are low.

TasNetworks also proposed to assign customers with EV fast chargers to its default time-of-use tariff.[30] Further, these customers (via their retailer) will not be able to opt out of cost reflective tariffs but will be able to opt into an alternative cost reflective tariff. TasNetworks' assignment policy and the anticipated acceleration of the smart meter roll out in Tasmania will see more EV owners face cost reflective tariffs in the 2024–29 period. We consider the combination of cost reflective tariffs, assignment policy and higher prevalence of smart meters will allow and encourage more customers to shift their EV charging outside of the evening peak demand period and drive costs down for all customers.

Tariff structures respond to energy sector developments: Other tariffs to manage flexible load

Noting that our draft decision is to accept TasNetworks' proposed residential tariffs, we also encourage TasNetworks to continue to explore tariff mechanisms to prepare for accelerated EV growth from 2030. This includes exploring a new opt-in controlled load tariff targeting flexible load for inclusion in its revised proposal.

Controlled load tariffs have traditionally been used for large regular loads such as hot water and pool pumps. We recognise the development of dynamic operating envelope capabilities

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27 Evoenergy is the exception and will see EV uptake rise even earlier since the ACT is leading other States on EV uptake rates.

28 NER, cl. 6.18.4(a)(2).

29 AER, *Final Decision – CitiPower distribution determination 2021-26 – Attachment 19 Tariff structure Statement – Appendix C*, p. 40.

30 Pending visibility of customers with EVs.

will increase the range of options available to distributors for flexible load. Nonetheless, we encourage TasNetworks to explore the feasibility and benefits of developing and trialling a controlled load tariff in the 2024–29 period with targeted windows and sharp price signals, aimed at flexible load like EVs. We consider such tariffs may be of benefit in assisting distributors to maximise network utilisation in the 2029–34 period.

Our encouragement reflects our concern that the existing tariff structure statement framework lacks flexibility to respond to potential rapid growth in EV uptake during the upcoming 5-year regulatory period and its potential contribution to peak demand periods. Without these additional tariff considerations, the only option distributors have to respond to unexpectedly high demand from EV charging is to seek a tariff structure statement amendment under NER cl. 6.18.1B.[31] While the risk of unanticipated EV growth is lower in Tasmania than in some other states, TasNetworks has an opportunity to get ahead of any surge in EV demand by exploring such tariff structures now.

19.4.2 Two-way pricing

A long running and broad collaborative policy development process was led by the Australian Renewable Energy Agency (ARENA), as part of the Distributed Energy Integration Program with market bodies, Energy Consumers Australia and consumer advocates. This preceded consideration of a rule change by the Australian Energy Market Commission (AEMC).[32] On 12 August 2021, the AEMC published its *Access, pricing and incentive arrangements for distributed energy resources* final determination. Amongst other things, the rule change removed the historical prohibition on export tariffs and allowed distributors to propose two-way pricing to match two-way energy flows on electricity networks.

Our draft decision is to accept the Export Tariff Transition Strategy included in TasNetworks' tariff structure statement, which proposed to not introduce two-way pricing for the 2024–29 period.[33] We consider this approach is reasonable for the 2024–29 period because, unlike the NSW and ACT networks, TasNetworks is not experiencing, or expecting to experience constraints from excess solar exports during this period.

The AEMC's rule change followed requests from SA Power Networks (SAPN), St Vincent de Paul Society Victoria, and the Total Environmental Centre jointly with the Australian Council of Social Services to make changes to the NER to integrate CER into the electricity grid in a way that benefits all electricity users. These groups sought for the costs associated with supporting the energy transition and the growth of CER to be distributed equitably.

Through the joint operation of the rule change and our *Export Tariff Guidelines* distributors may now introduce price signals which, if passed through to customers by retailers, encourage exporting customers to self-consume or store their own solar energy during the middle of the day when the costs to host excess solar on the grid are high, and to export to the grid, or self-consume, during the evening consumption peak. As with any network tariff,

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31 The AER will only approve a request by a distributor to amendment its tariff structure statement if an event has occurred that is beyond the reasonable control of the distributor and could not have been foreseen by the distributor at the time the tariff structure statement was approved. NER, cl. 6.18.1B(d)(1).

32 https://arena.gov.au/knowledge-innovation/distributed-energy-integration-program/access-and-pricing-workstream/.

33 NER, cl. 6.18.1A(2A).

retailers may or may not reflect network price signals, including export rewards, in their retail offer to customers.

TasNetworks submitted that it has not yet established that solar photo voltaic (PV) exports are currently, or expected to drive network expenditure and is therefore not able to justify the introduction of two-way pricing for the 2024–29 period. TasNetworks also noted that Tasmanian customers' sentiments regarding export tariffs, particularly two-way pricing, is a key consideration and it will continue to test these considerations with its stakeholders.[34]

TasNetworks proposed that should export hosting capacity near exhaustion in Tasmania, it will consider undertaking two-way tariff trials over the 2024–29 period with a view to formally introducing two-way pricing in the 2029—34 period.[35] We consider this an acceptable strategy for the introduction of any two-way pricing, should it be required.

TasNetworks recognised there are likely to be benefits in reducing long term costs if customers can store excess CER generation and consume it later (peak times). But it considered that price signals that contribute towards this outcome could be achieved through its proposed time-of-use tariffs.[36] We accept TasNetworks proposal that its proposed time-of-use tariffs signal when there is excess solar in the middle of the day and the cost to use electricity is lower, particularly as this excess solar is currently not driving additional costs to host exports.

We consider TasNetworks' proposed short to medium term strategy to engage with stakeholders and undertake tariff trials prior to introducing two-way pricing, is consistent with the AEMC's rule and our *Export Tariff Guidelines*.[37]

19.4.3 Medium and large business tariffs

We are satisfied that TasNetworks' proposal for medium and large business customers contributes to the achievement of compliance with the distribution pricing principles for direct control services because:

- the introduction of embedded network tariffs (discussed under the sub-section titled Embedded network tariffs) for new embedded networks reduces an existing implicit cross subsidy that would benefit those customers
- the remaining tariff structures are unchanged and continue to be cost reflective

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34 TasNetworks - *Combined Proposal Attachment 22 - Tariff structure Explanatory Statement* - January 2023, p 106.

35 TasNetworks - *Combined Proposal Attachment 22 - Tariff structure Explanatory Statement* - January 2023, p 106.

36 TasNetworks - *Combined Proposal Attachment 22 - Tariff structure Explanatory Statement* - January 2023, p 106.

37 AER, *Export Tariff Guidelines*, May 2022 p. 2. For distributors not proposing two-way pricing the export tariff transition strategy should include:

- An explanation of the medium to longer-term strategy for introducing two-way pricing, should it prove necessary, including any planned export tariff trials
- A description of present or intended future stakeholder engagement related to two-way pricing.

- tariff assignment policies are also unchanged and appropriately assign customers to cost reflective tariffs while considering their connection and usage profiles
- customers on the obsolete individual tariff calculation tariff class will be reassigned into the high voltage large business tariff class. We consider these customers have similar characteristics.

TasNetworks proposed 10 tariffs for its medium and large customers with tariffs assignment based on whether the premises is connected to the low voltage or high voltage network. These are:

- TAS89 – a demand tariff with time-varying charges (low voltage)
- TAS82 – a tariff with an anytime demand charge and an anytime consumption charge (low voltage)
- TAS15 – a tariff with seasonal time-of-use consumption charges and an excess demand charge for customers above 2 MVA[38] (high voltage)
- TASSDM – a tariff with seasonal time-of-use consumption charges and an excess demand charge for customers below 2 MVA (high voltage)
- 6 embedded network tariffs (4 low voltage tariffs, 2 high voltage tariffs).

Certain customers also have access to the individual tariffs with different distribution charges based on connection point requirements. These typically apply for customers with an electrical demand in excess of 2.0 MVA or where a customer's circumstances result in the averaged shared network charge being meaningless or distorted.[39]

19.4.3.1 Tariffs for EV charge point operators

For charge point operators, we accept that TasNetworks' large business tariffs would send appropriate signals to retailers without treating EV charge point operators differently to other large businesses. EV charge point operators with demand greater than 70 kVA per annum will continue to have access to time-of-use demand or demand tariffs.[40] We encourage TasNetworks to consider tariff trials in the 2024–29 period aimed at sending more targeted, cost-reflective price signals such as locational pricing to large businesses.

19.4.3.2 Grid-scale battery tariffs

At this stage TasNetworks is not proposing to introduce grid-scale battery tariffs. However, it has committed to monitoring the impacts of CER on its distribution network over the 2024–29 period, including the impact of any grid-scale batteries.[41] In July 2021, along with its PRWG, TasNetworks identified community and reliability battery trials as a potential option during the

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38 MVA = mega volt ampere.

39 TasNetworks, *Combined Proposal Attachment 21 - Tariff Structure Statement - January 2023*, p. 22.

40 kVA = kilo volt ampere.

41 TasNetworks, *Combined Proposal Attachment 22 - Tariff Structure Explanatory Statement - January 2023*, p. 68.

2024–29 period. In particular PRWG noted the potential for these batteries to increase distribution network reliability.[42]

Grid-scale batteries have come into focus for the 2024–29 period in response to the Australian Government program to fund the deployment of 400 community batteries across the country. With the right network price signals to indicate when battery operation drives costs or benefits to the network, grid-scale batteries have the potential to reduce LRMC for all customers by improving network utilisation. Conversely, without such price signals, battery owners may not factor network costs into their decisions on battery operation and may operate batteries in ways that trigger network investment, increasing future network costs to all consumers. Therefore, there is benefit for distributors (and ultimately all consumers) in developing network tariffs to facilitate retail tariffs that encourage battery operators to import energy during periods of low network demand and export energy during periods of peak demand.

The NSW distributors and Evoenergy proposed to introduce grid-scale battery tariffs for the 2024–29 period as a response to the anticipated increase in grid-scale batteries. These proposed tariffs are the first to be offered by NEM distributors that are tailored to large-scale storage. We observe the three NSW distributors and Evoenergy have been preparing for these grid-scale battery tariff proposals with tariff trials conducted between 2021–22 and 2022–23.

We encourage TasNetworks to perform research, as well as use learnings from other distributors' grid-scale battery tariffs, with a view to proposing tariff trials for the upcoming period and grid-scale battery tariffs for the subsequent regulatory period.

19.4.3.3 Embedded network tariffs

Ausgrid, Endeavour Energy and TasNetworks proposed embedded network tariffs to recover residual costs that would have been recovered had an embedded network not existed. Embedded networks are private electricity networks that serve multiple premises, such as in apartment blocks, caravan parks and shopping centres.

Embedded network operators pay a single network tariff but bill each customer within the embedded network a tariff closer, or equal, to a network tariff paid by a stand-alone customer. An implicit cross subsidy arises because the distributor recovers residual costs in the form of daily, or "fixed", charges from only one customer (i.e. the embedded network operator), rather than all customers within the embedded network. A second consideration is that there is opportunity for the embedded network operator to arbitrage between the network tariff it pays and the tariffs it charges its customers, earning a margin for itself.

Our decision is to accept TasNetworks' proposed embedded network tariffs as they balance efficient cost recovery and bill impacts on existing embedded networks. TasNetworks proposed 6 tiers of embedded network tariffs (4 for the low voltage network, 2 for the high voltage network), where embedded networks are assigned to a tier depending on their energy capacity allowance.[43] Embedded networks will face higher fixed charges if they have

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42 TasNetworks, *Combined Proposal Attachment 22 - Tariff Structure Explanatory Statement - January 2023*, p. 69.

43 Capacity allowances are determined by each embedded network when the network connection is installed.

a higher capacity allowance. On average, the proposed embedded network tariffs reduce the implied cross subsidy by approximately $17,400 per embedded network.[44] We consider improved cost recovery from embedded network operators is appropriate given the anticipated growth in the number of embedded networks across the grid and the resultant growing implicit cross subsidy funded by non-embedded network customers.

TasNetworks' proposed embedded networks tariffs are different from those proposed by Ausgrid and Endeavour Energy (tariffs with the same structure as associated large businesses tariffs but with higher capacity/demand charges). TasNetworks' 6 embedded network tariffs have higher fixed charges, which are based on the businesses' capacity allowance at connection (the higher the capacity allowance, the higher the fixed charge), as well as consumption and peak demand charges based on connection to LV or HV network.

The effect of these tariffs, to recover residual costs more equitably, is the same between all three distributors which proposed embedded network tariffs. However, because TasNetworks has fewer embedded networks in its network, its tariffs are aimed at new embedded networks rather than recovering residual costs from existing embedded network tariffs. Because of TasNetworks' focus on new embedded networks, we do not have the same concerns we have for Ausgrid and Endeavour Energy's embedded network tariffs, namely:

- TasNetworks' tariffs will only apply to new embedded networks. There are therefore no negative bill impacts from existing customers being mandatorily assigned to these tariffs. Retailers for existing embedded networks may opt into this tariff.
  - We consider this assignment policy is appropriate at this time, when TasNetworks has limited visibility over its existing embedded networks. TasNetworks may consider assigning existing embedded networks to its embedded network tariffs in future regulatory periods, or consider a dedicated embedded network tariff class if there is evidence to support this.[45]
- Six tiers of tariffs recognise that embedded networks vary in size and type (residential, mixed use and commercial only), such that smaller embedded networks such as caravan parks, will not have large fixed charges, and there may be fewer unintended consequences for customers within these embedded networks.
- While the fixed charges are higher than for the associated large business tariffs, the peak demand charges are lower for LV embedded networks than other LV large businesses. For HV embedded networks, they will only have one peak demand charge rather than specified demand and excess demand charges like other HV customers. We consider these tariffs target the implicit cost subsidy through higher fixed charges, but also recognise the benefits embedded networks can provide through the lower demand charges (compared to the equivalent non-embedded network large business demand charges).

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44 TasNetworks - *Responses to information request #024 embedded network tariffs (customer impacts),* May 2023.

45 TasNetworks, *Combined Proposal Attachment 22 - Tariff Structure Explanatory Statement - January 2023*, p. 57.

- Benefits of embedded networks can include providing distributed (consumer) energy resources like solar PV or aggregating diversified demand for lower demand peaks compared to a similar sized non-embedded network business customer.

19.4.4 Long-run marginal cost methodology

The NER requires network tariffs to be based on LRMC.[46] For consumption services this means a tariff for the import of electricity must be based on the LRMC of providing additional capacity to support the import of electricity from grid to customers assigned to the tariff. For export capacity, this means export charges must be based on the LRMC of providing additional capacity to support / host exports to the grid by the customers assigned to the tariff.

However, not all distributor's costs are forward-looking and responsive to changes in demand for its service. If tariffs only reflected LRMC, a distributor would not recover all of its total efficient costs. Costs not covered by a distributor's LRMC are called 'residual costs'. The NER requires network tariffs to recover a distributor's total efficient costs (i.e., both LRMC and residual costs) in a way that minimises distortions to price signals for efficient usage that would result from tariffs reflecting LRMC.[47]

19.4.4.1 Assessment approach

Our assessment approach is focused on looking at TasNetworks' overall approach and estimation for LRMC, including the justification of its estimation method and how its method changed compared to the previous tariff structure statement.

An important input into LRMC calculation is the distributor's forecast of long-run expenditure associated with incremental demand in the case of consumption services. For these services forecasts comprise estimates of:

- augmentation expenditure (augex) on new network assets to increase the capacity for import and/or export distribution services
- operating expenditure (opex) dedicated to providing additional capacity for distribution services
- replacement expenditure (repex) to replace existing network assets. Distributors may estimate a proportion of repex which occurs due to incremental demand or estimate avoided repex in areas of the network with declining demand (in these areas, distributors may opt to use assets with lower capacity which reduces repex).

19.4.4.2 Import LRMC

We consider the methods that TasNetworks used to estimate its import LRMC comply with the pricing principles.

TasNetworks continued to implement the average incremental cost approach over a ten-year period to estimate LRMC. We consider this to be appropriate at this stage of tariff reform

46 NER, cl. 6.18.5(f).

47 NER, cl. 6.18.5(g)(3).

given its low cost of implementation and the continuation of postage stamp pricing across its network.

TasNetworks enhanced the accuracy of its methodology in comparison to the previous regulatory period by including additional program capacities in its calculation.[48] Furthermore, it identified replacement expenditure in its program of works that aligned with the definition of marginal costs caused by an incremental increase in demand on the network. It did not include avoided repex due to TasNetworks' asset management approach where it does not commonly replace assets with lower-rated equivalents. We consider TasNetworks' changes were reasonable and addressed the concern we raised in our previous draft decision that it did not include repex in its LRMC estimates.

However, we encourage TasNetworks to continue to improve its approach by adding location-based elements in its modelling to enhance the accuracy of its LRMC estimates.

19.5 Assignment to tariff classes

Our draft decision is to accept TasNetworks' policies and procedures governing assignment or reassignment of retail customers for direct control services.[49] The table below summarises how TasNetworks assigns installations to its respective tariff classes:

Tariff class	Assignment
Low voltage residential	For low voltage installations located on premises wholly or principally used as private residential dwellings. Includes installations on the old 'Uncontrolled energy' and 'Controlled energy' tariff classes.
Low voltage small business	For low voltage installations located on premises that are not used wholly or principally as private residential dwellings. Demand is equal to or less than 70 kVA.
Irrigation	For primary producers' business installations that are used solely for irrigation of crops (including pasture) and classified as ANZSIC 01.
Low voltage large business	For low voltage multi-phase installations that are not used wholly or principally as private residential dwellings. Demand is greater than 70 kVA.
High voltage large business	Network tariffs in this class are for installations that take supply from the high voltage distribution network, with no assets owned by TasNetworks beyond the connection point. Includes installations on the old 'Individual tariff calculation' tariff class.
Unmetered supplies	Unmetered installations, intended for small, low voltage, low demand installations with a relatively constant load profile. Includes installations on the old 'Street lighting' tariff class.

48 TasNetworks, *Distribution pricing methodology - December 2022*, pp. 15–17.

49 Linked to NER requirement: cl. 6.12.1(17).

19.6 Statement structure and completeness

TasNetworks must include the following elements within its tariff structure statements:

- the tariff classes into which retail customers for direct control services will be divided
- the policies and procedures the distributor will apply for assigning retail customers to tariffs or reassigning retail customers from one tariff to another
- a description of the strategy or strategies the distributor has adopted, taking into account the pricing principle in clause 6.18.5(h), for the introduction of export tariffs including where relevant the period of transition (export tariff transition strategy)
- structures for each proposed tariff
- charging parameters for each proposed tariff
- a description of the approach that the distributor will take in setting each tariff in each pricing proposal.[50]

A distributor's tariff structure statement must be accompanied by an indicative pricing schedule.[51]

TasNetworks' proposed tariff structure statements incorporates each of the elements required under the NER. The key focus of our assessment for this draft decision is on whether these elements satisfy the pricing principles for direct control services in the NER. That assessment is covered in the sections above.

TasNetworks has adopted our preferred two document approach, intended to improve the clarity for the retailers, customers, and the AER:

- the first document should include only include the aspects of the tariff structure statement that will bind it over the 2024–29 period
- the second document should explain the reasons for what it has proposed.[52]

50 NER, cl. 6.18.1A(a).

51 NER, cl. 6.8.2(d1).

52 NER, cl. 6.18.5(i).

Shortened forms

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CER	consumer energy resources
CPI	consumer price index
HV	high voltage
LRMC	long-run marginal cost
LV	low voltage
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PV	photovoltaic
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RIN	regulatory information notice