

Tariff Structure Statement - TasNetworks

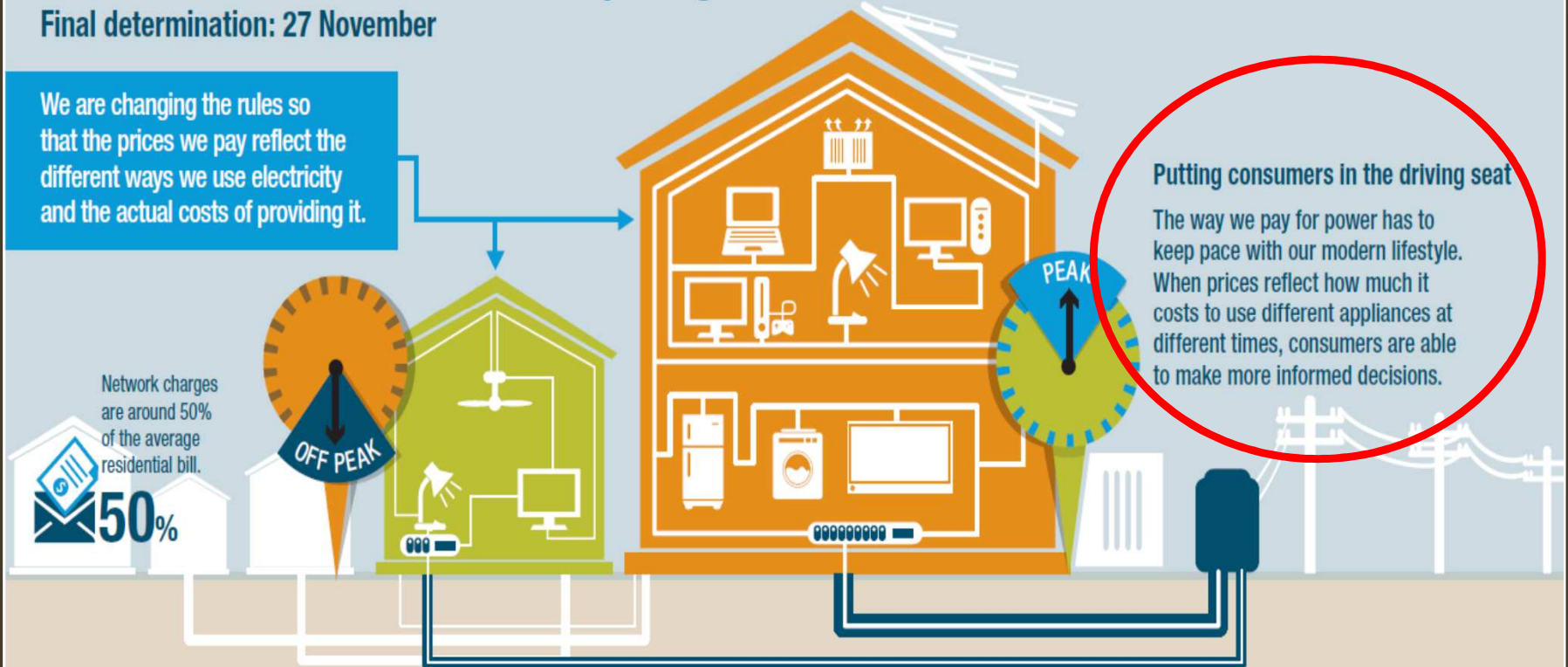
AER public forum



New rules for distribution network pricing

Final determination: 27 November

We are changing the rules so that the prices we pay reflect the different ways we use electricity and the actual costs of providing it.



OUR CHANGES

We want everyone, from heavy industry to small customers, to be able to make clearly informed decisions about how they use electricity. We want consumers to use electricity when the value of services to them is greater than the costs of supplying it.

Why: It means that the right information on costs will be available to help people choose the energy services that are right for them – no matter what the energy supply industry looks like in the future. Changing the way networks charge is the best way to reduce the risks involved in trying to guess the pattern of future demand.



More consumer consultation on how network prices are structured



Network prices that reflect each consumer's usage



Clear instructions for networks on the requirements to apply when determining how to structure network prices



Earlier notification of network prices to allow retailers and consumers to better prepare for price changes

HOW CONSUMERS WILL BENEFIT

We have set up the right rules for the future so:



The prices we pay reflect the decisions we make



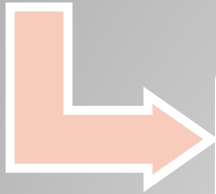
Everyone can make informed decisions on how and when they use electricity as new technologies evolve



Rules – defining & reflecting costs

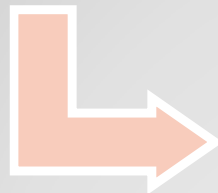
National Electricity Objective

- “...promote efficient **investment in**, and efficient operation and **use of**, electricity services for the long term interests of consumers with respect to...”



Network Pricing Objective

- “...tariffs a distributor charges in respect of its provision of direct control services should **reflect the distributor’s efficient costs** of providing those services to the retail customer”



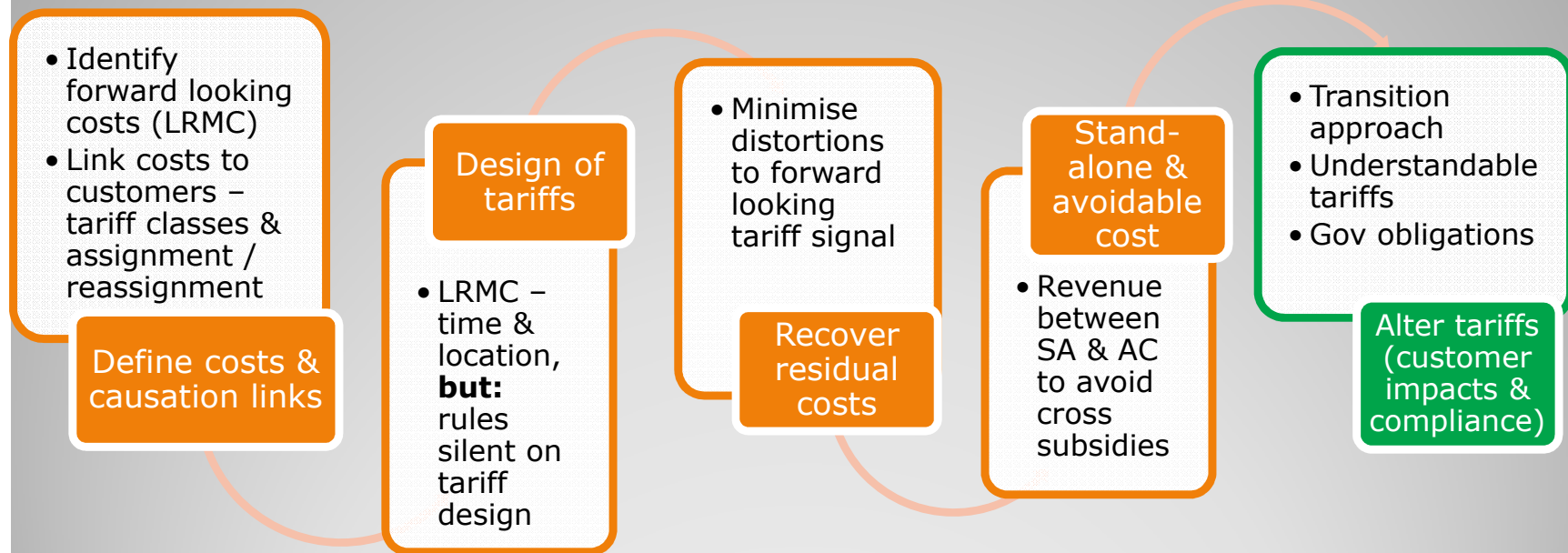
Distribution pricing rules – efficiency

- Pricing principles
- Tariff classes
- Tariff assignment / reassignment

Distribution pricing rules – customers & compliance

- Customer impacts
- Understandability of tariffs
- Jurisdictional gov’t obligations

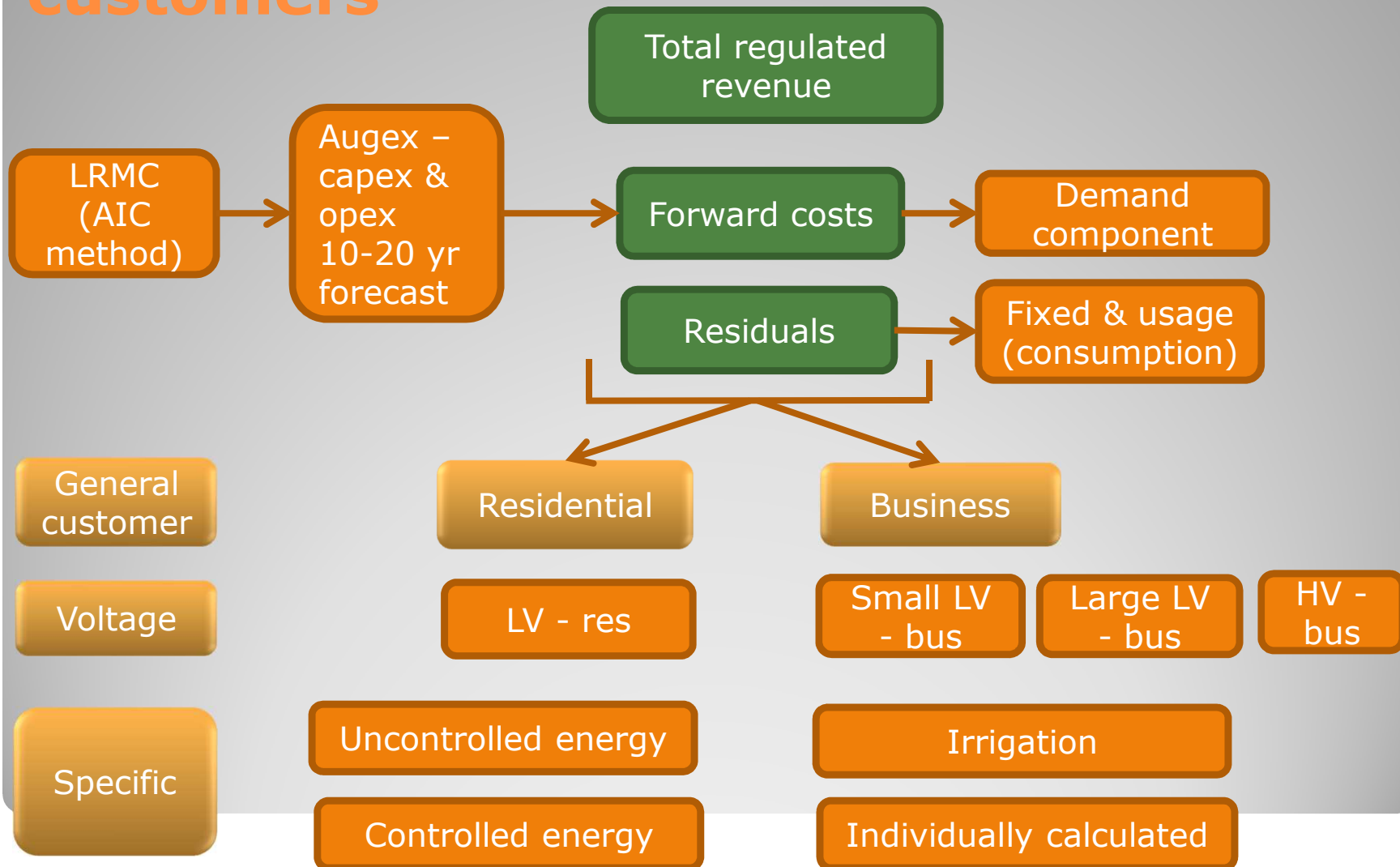
Rules – Defining & reflecting costs



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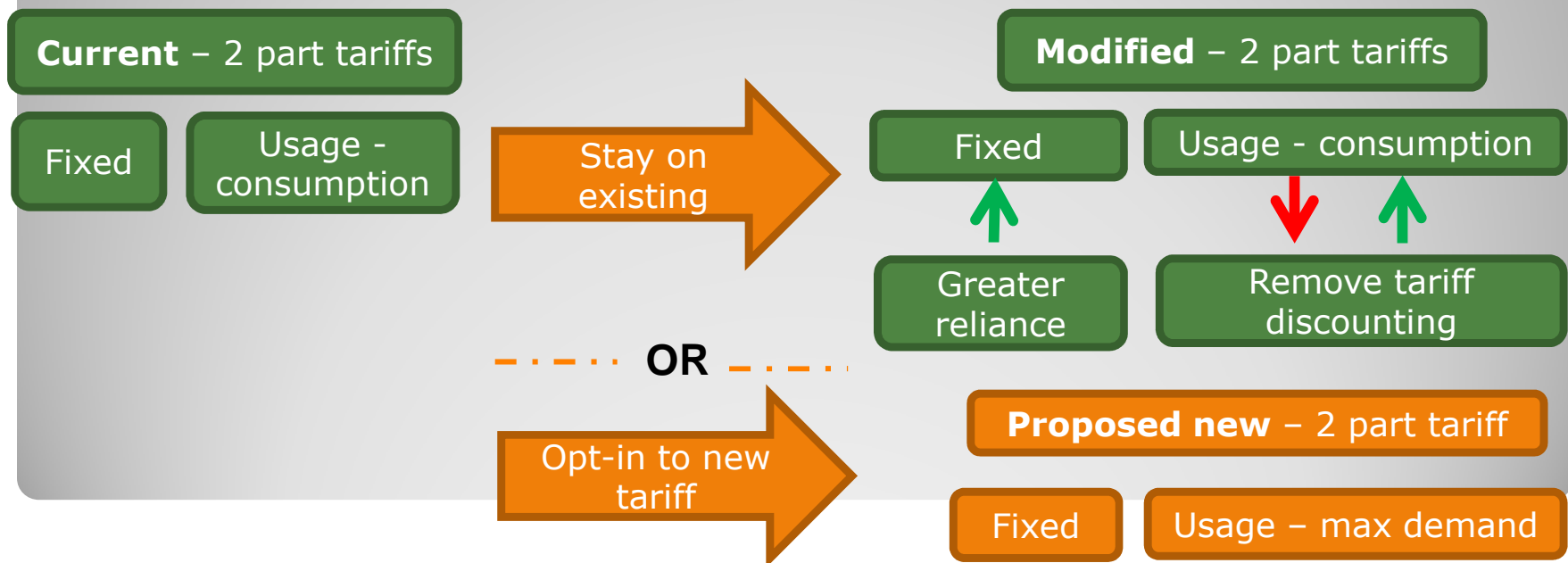
- Cost reflectivity = means to achieve efficient usage and investment (network & customer side)
- Spectrum of degrees of cost reflectivity:
 - Rules (NPO, LRMC) refer to prices reflecting costs of providing services to individuals
 - Cost = time & location specific
 - Technology, practicality, acceptability determine degree / speed of cost reflectivity progress for each distributor
 - Rules encourage progress over time along cost reflectivity spectrum
 - Iterative process to compliance – over time and by business

Proposal- Defining & linking costs to customers



Proposed residential & small bus' tariffs

- Maintain but modify existing tariffs
 - Removing discounts > improve efficiency but method / impact?
 - Increasing reliance on fixed charges > rationale / impact?
- Offer new tariffs (opt-in) > demand tariff
 - Step along cost reflectivity spectrum > consumption to actual cost drivers > signals costly periods (consider appliance use)



Proposed demand tariff – windows

- Link to cost drivers (network stress periods) **but:** sufficiently linked?
- Based on total network peak **but:** constraints instead?
- Simplified windows **but:** costs? Sends helpful message?

Calc'n

Highest 30mins per quarter

Time

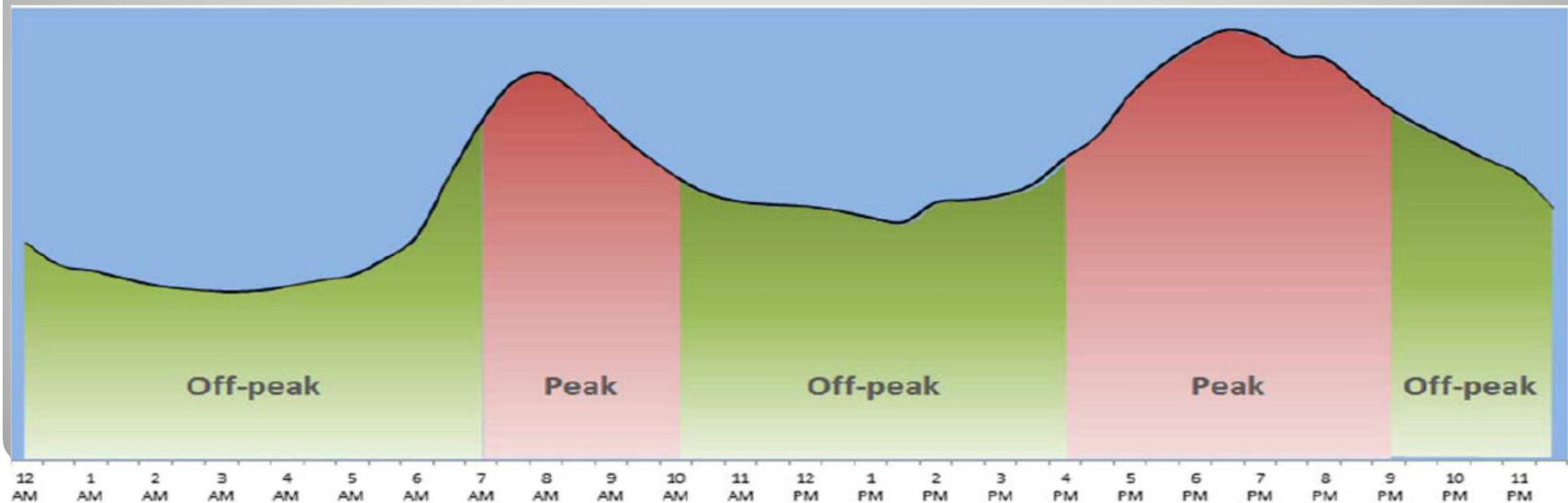
Peak: 7am-10am & 4pm-9pm
Off-peak: 9pm-7am & 10am-4pm

Day

Peak Monday-Friday only;
Off peak Mon-Fri; weekends (anytime)

Month

No variance



Price & non-price alternatives

- Price signals > part of suite of network management approaches

Constraints driven by
peak demand

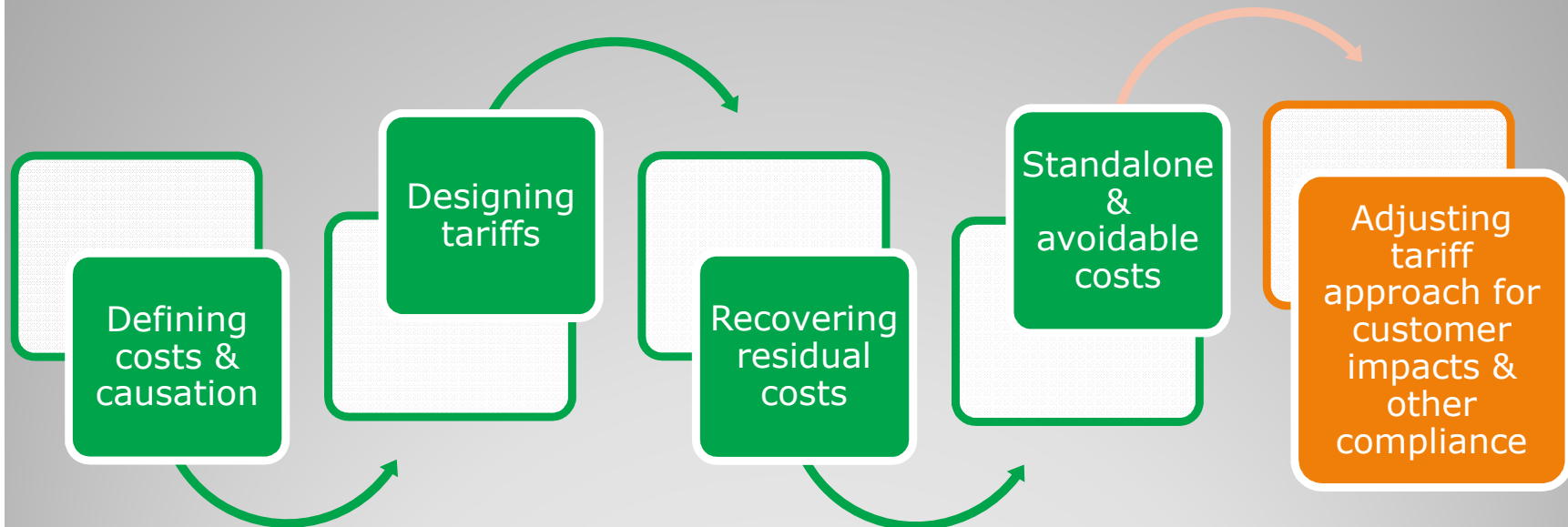
Signal price to
motivate response

Build more
network

Procure demand
management alternatives

- Interactions in approaches > network costs driven by asset condition at specific times & locations:
 - Locational $\$p$ = theoretical best but complex – future?
 - More averaged prices = more reliance on DM
- TSS needs more integrated considerations?
- Offer range > opt-in tariffs with more cost reflectivity?

Rule requirements – customer impacts



- Moving to more cost reflective tariffs but cognisant of impacts on customers > transition

Rule requirements

**Departures
from cost
reflectivity**

**Consider
impacts**

Need transition over time – may extend over multiple reg periods

Extent customers can choose tariff

Extent customers can mitigate impact through usage decisions

**Tariff structure
- reasonably
understandable**

Consider type & nature of customer

Consider info provided & consultation undertaken

**Jurisdictional
obligations**

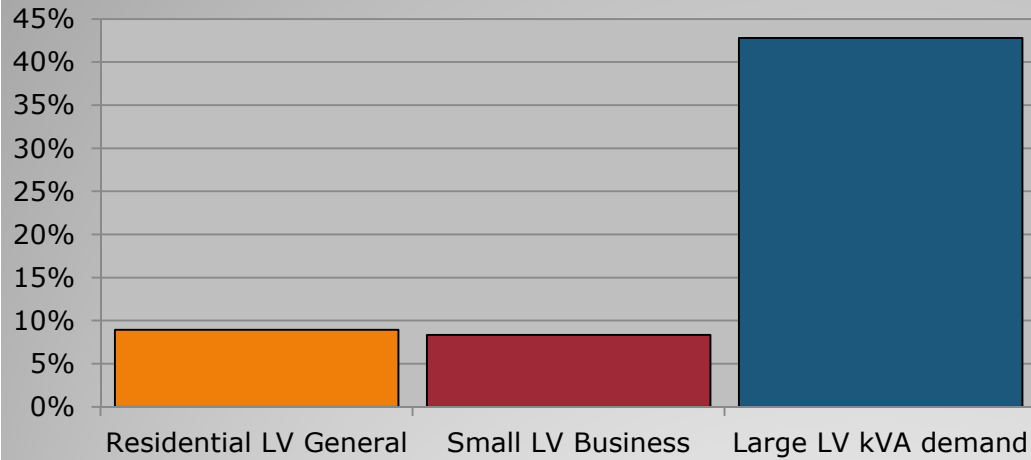
Tas – no locational pricing for small customers

Impacts & understandability

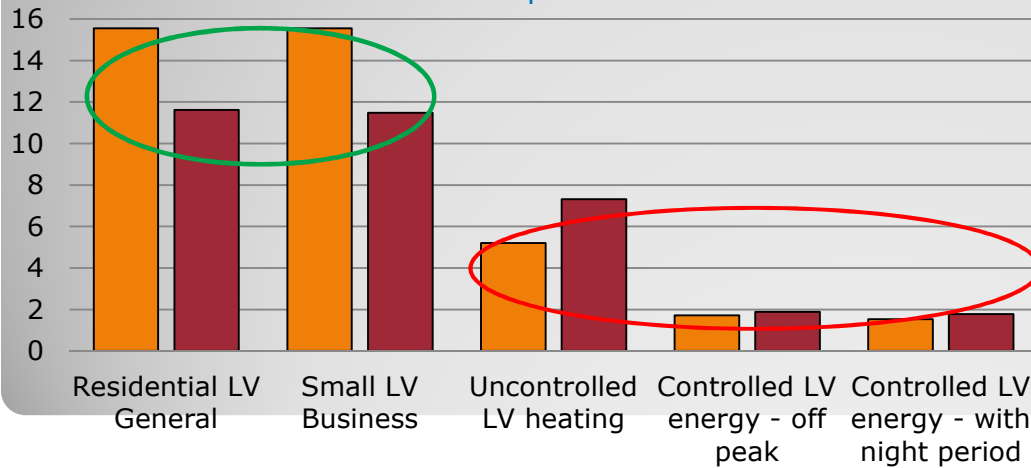
- Rules require impact consideration but difficult:
 - Retailer has direct contract with customers:
 - Retailer(s) be able to offer varied options (flat tariffs, peaky tariffs, critical peaks, mobile phone style cap plans?)
 - Varied retailer options in effect could manage impacts?
 - What constraints will retailer(s) face in offering various options?
 - If constraints likely – impacts of network tariffs more identifiable
 - Retailer incentive to make tariff info easy to understand?

Changes to existing tariffs

Percentage increase in fixed component
2015/16 - 2018/19

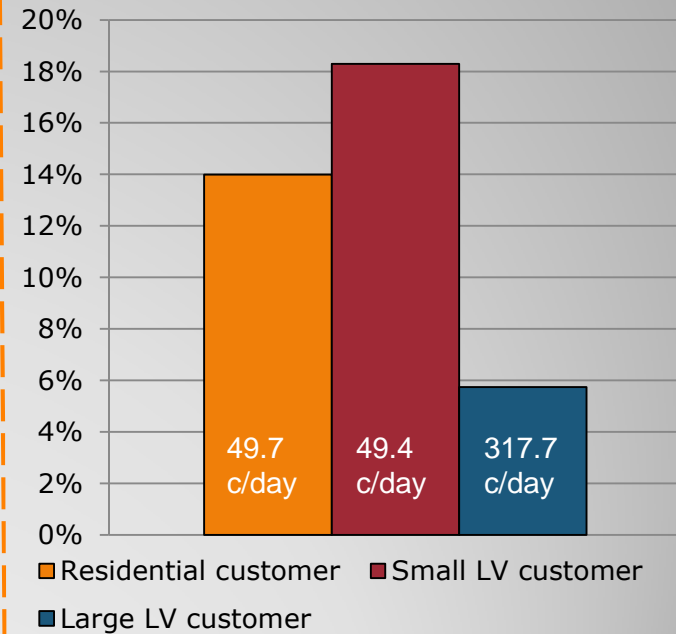


Change in consumption component 2015/16-2018-19
- cents per kWh



Opt-in demand tariff

% savings in network charges
- current vs 2028/29



Source: TasNetworks
indicative price schedule

Identifying impacts

- Need to identify relatable quantitative impacts:
 - Customer type – characteristics (e.g. load ratios, size)
 - Use of different appliances
- Helps retailers and customers > who worse or better off, how to respond
 - Stay on modified existing tariffs or opt-in to demand tariff; merit of opt in vs opt out.
 - Benefit from opting into even greater cost reflectivity?
 - Informs suitable length of transition > for changes to existing tariffs?

Managing impacts – transition methods

Approach	Proposal	AER observation
Cost ramp up > changes to existing tariffs	Gradual over 15 years	<ul style="list-style-type: none"> • Transition important as existing customers most affected • 15 years too long? Risks creating further problems?
Opt-in and opt-out of cost reflectivity	Opt-in for all customers	<ul style="list-style-type: none"> • Impact mitigation more important for existing customers? • 2 year TSS as a transition, reconsider opt-in / opt-out next time?
Tariff simplicity	Charging windows don't vary by customer type, no peak on weekends	<ul style="list-style-type: none"> • If opt-in mitigates customer concerns, why not more specific windows > more cost reflectivity?
Opting into greater levels of cost reflectivity	No options other than 1 demand tariff	<ul style="list-style-type: none"> • Offer menu of tariffs with more cost reflectivity – if customers / retailers willing?

Summary

- Iterative process
- First step along cost reflectivity spectrum made:
 - Demand tariff >
 - Questions on ideal design, implementation & possible additional options > now or in next TSS?
 - More info on switching benefits > relate impacts to characteristics
- In meantime > continue with existing non peak reflective tariffs:
 - Addressing inefficiencies worthwhile but more info helps: rationale/ method/ impact
- Tariff structure statement > better integration of network spend vs DM vs price signals.

End

Key discussion topics

- Demand tariff:
 - Opt in for all or more important for existing customers?
 - Choice of charging windows > refine or keep but offer additional options?
 - Benefits of switching clear? Who better or worse off?
- Changes to existing tariffs:
 - Rationale / method / impact clear?
 - 15 year or shorter transition?
- Interactions clear > network spend vs DM vs pricing?
- Other issues?

Key Dates

- Submissions due - issues paper 28 Apr 16
- AER draft determination 30 Sep 16
- TasNetworks revised proposal 2 Dec 16
- AER final determination 30 Apr 16
- TasNetworks pricing proposal *19 May 17
- New tariffs introduced 1 July 17
- Email submissions to [tastss2016@aer.gov.au](mailto:tastss2016@ aer.gov.au)

Managing impacts – transition methods

- Possible objectives > transition methods:
 1. Managing **price increases** for end consumers
 2. Minimise **inequitable customer treatment** during the transition
 3. Allow **time** for retailers – business integration
 4. Allow **time** for consumers – informing & considering response
 5. Allow **choice** of greater level of cost reflectivity – choice & innovation
- Other / different objectives?