FACT SHEET: SMALL BUSINESS NETWORK TARIFFS

Business as usual is changing

Small businesses power Tasmania's economy and a reliable supply of electricity powers small business. There are about 38,000 small businesses in all parts of the State that rely on the electricity delivered by our distribution network to energise their operations.

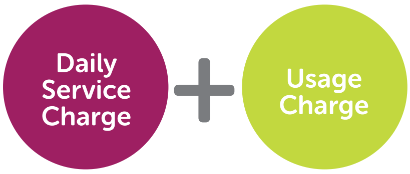
The electricity market in Australia is changing rapidly. The uptake of solar panels, and now battery storage, continues to grow. Businesses aren't just consuming electricity anymore – they're generating it, and selling it back to the grid. After decades of continuous growth, the demand for electricity has plateaued in recent years. And small businesses are concerned about their electricity bills.

There have also been changes to the National Electricity Rules that require us to apply a more cost reflective approach to setting our network tariffs and other regulated charges. As a result, we are changing the way we price our services to better reflect the demands that our customers' use of electricity place on the network and to give customers more control over their energy costs.

What are we changing?

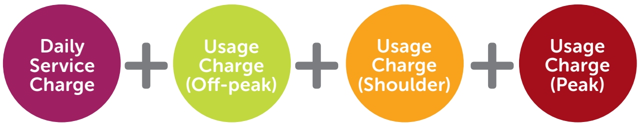
Over 80 per cent of small businesses in Tasmania are currently assigned to the *Business Low Voltage General* network tariff (TAS22), which features a daily service charge and a charge for each unit (kWh) of electricity consumed during the billing period. It's a simple, longstanding arrangement which we won't be changing. Figure 1 illustrates the charging components of TAS22.

Figure 1 – Components of the small business consumption based network tariff (TAS22)



Most of the remaining small businesses in the State are assigned to another consumption based network tariff, which differs from TAS22 in that it factors in time of use. The *Business Low Voltage Time of Use* network tariff (TAS94) differs from TAS22 by applying different charges to each kWh of electricity used by a business, depending on whether it's used in pre-determined peak, shoulder or off-peak periods.

Figure 2 – Components of the small business time of use, consumption based network tariff (TAS94)



TAS94 only became available as part of a retail standing offer in July 2016, but already there are around 4,500 small businesses who have made the switch. For small businesses that operate around the clock, on weekends or in the early hours of the morning, or which have the scope to shift some of their energy consumption away from peak periods, TAS94 may offer greater control over their electricity costs than TAS22, potentially without having to reduce their consumption. No changes will be made to the structure of TAS94 over the 2019 – 2024 regulatory period.

While TAS94 and TAS22 aren't changing we are introducing a new network tariff for small businesses which, instead of charging for customers' use of our network based on the amount of electricity they use, is based on the concepts of demand and time of use.

While we've been offering a demand based time of use network tariff called TAS88 to small businesses, via their retailer, since 1 July 2017, the new tariff is designed for small businesses which invest in Distributed Energy Resources (DER), like solar panels and battery storage.

With or without the use of DER, demand based time of use tariffs allow businesses to benefit from their ability to control not just how much but when they use electricity, by reducing their network charges. But the use of solar panels, particularly in conjunction with batteries, can mean that demand can be controlled by a business without necessarily shifting or reducing consumption.

Over time, the intention is that demand based time of use network tariffs will lead to more efficient network utilisation. This will be achieved through price signals that make customers aware of the impact that their use of electricity at different times of the day has on network costs. This will encourage customers, including small businesses, to use electricity outside of peak times when possible.

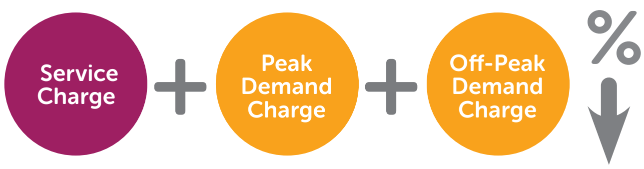
This will lessen the need to upgrade our network in the future to cater for growth in peak demand, which has been the main driver of rising network costs. Placing less stress on the network can may also extend the service lives of some of our assets, deferring their replacement. Together with the reduction in the need to upgrade our network's capacity, a decrease in expenditure on asset replacement has the potential to reduce average network charges for all customers in the longer term.

What are the new network tariffs like?

On 1 July 2017, we introduced a new demand based time of use network tariff as an opt-in choice for small businesses, via their retailer. That tariff features a daily service charge and two demand charges that reflect the business' maximum demand for electricity recorded during each monthly billing period. One demand charge applies to the maximum demand recorded during peak periods on weekdays, the other to off-peak periods (including weekends).

So, instead of paying a flat rate for the delivery of their electricity all day, as was previously the case, businesses on the pricing arrangements are charged different rates depending on when and how they use electricity.

Figure 3 – Demand based time of use tariff structure for small business customers (TAS88)



The new demand based tariff for small businesses that deploy energy management technologies, such as battery storage and solar PV, which we'll be introducing from 1 December 2018 has exactly the same structure as TAS88. The introduction of this tariff corresponds with the end of the transitional feed-in-tariff arrangements, thereby offering customers an alternative arrangement to consider. This new network tariff compliments the investment made by customers in energy management technology by rewarding them for using their own electricity at times when our network is under the most stress.

In response to customer feedback, we're also adjusting how we measure small business' maximum demand. In the 2017-19 period, customers on the new small business demand tariff (TAS88) were charged for their highest peak and off-peak demands recorded over the course of their monthly billing cycle. But from 1 July 2019, the demand charges will be based on the average of the four highest demand readings recorded in both peak and off-peak periods. It's a little more complicated, but we're doing this so that businesses are not charged more because of a one off abnormal event that results in unusually high usage.

Both of these new tariffs encourage businesses to use electricity during periods of low demand on the network by providing a lower price for the demand charge in off-peak periods. Businesses that want to change their electricity usage and switch to the new tariffs can be rewarded for doing so through lower network charges. And the new tariffs are great news for small businesses that operate around the clock, on weekends or in the early hours of the morning.

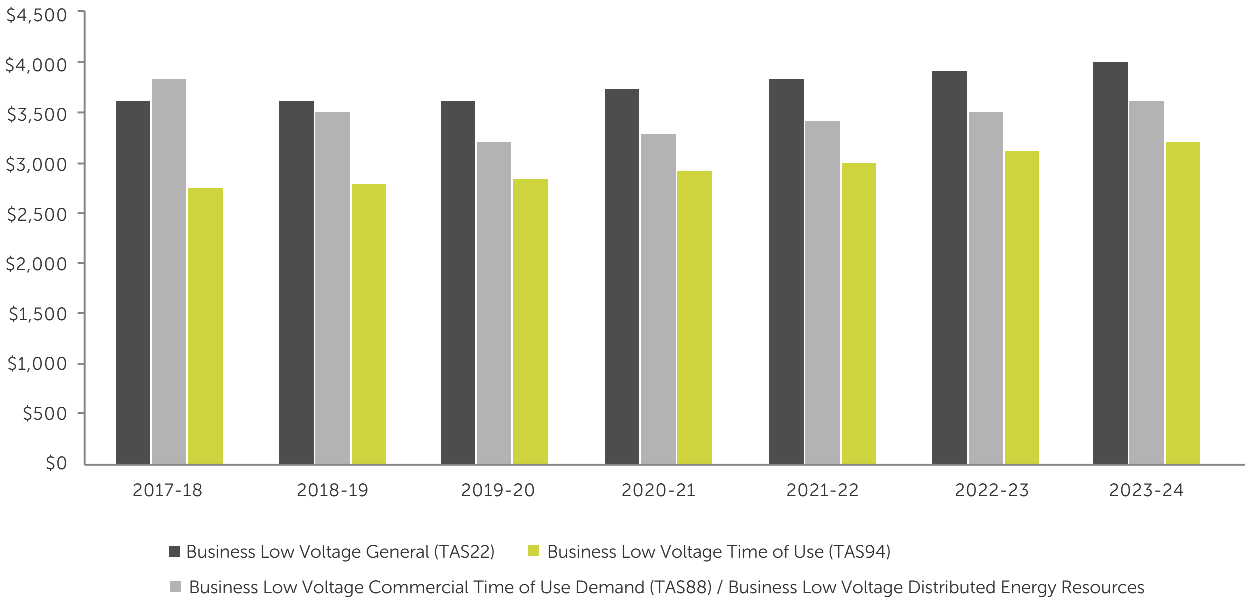
These new tariffs will also be discounted during the 2019-24 regulatory period, to encourage businesses to switch. Our aim is to incentivise a customer led shift to demand based network tariffs, with businesses understanding and recognising the value offered by the new network tariffs.

What would my charges look like on a demand based time of use network tariff?

The following chart shows the forecast changes in network costs on a number of different tariffs for a small business using around 34,300 kWh per annum.

For a relatively high usage small business like this, even without any reduction in their use of electricity during peak times of the day when higher network charges apply, TAS94 is potentially more economical than the flat consumption based TAS22 tariff which most small businesses are assigned to. But, if a small business can reduce its demand in peak periods, TAS88 may offer greater control over their electricity costs than even TAS94, potentially without having to reduce overall consumption.

Figure 3 – Indicative network costs for a high usage small business



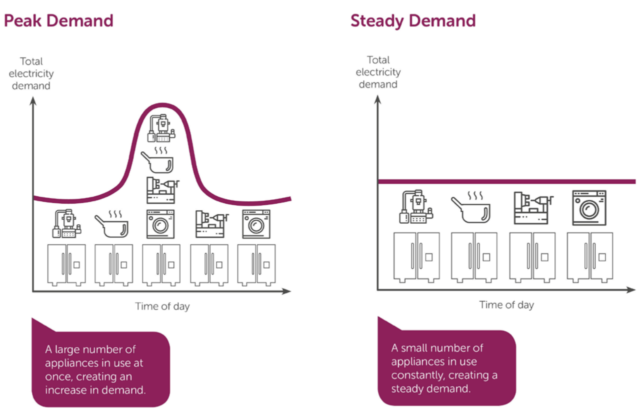
The new demand tariffs will be discounted during the 2019-24 regulatory period, to encourage businesses to try the new network tariffs.

How can I reduce my demand and save?

As Figure 4 shows, small businesses on a demand based time of use tariffs may be able to save by reducing their demand in peak times in two ways:

1. Moving electricity usage outside of peak times by using appliances and equipment in off-peak periods.
2. Reducing demand within peak times by avoiding running lots of appliances/equipment at once.

Figure 4 – Steady versus peaky demand



Small businesses with battery storage can also draw on those batteries at times of peak demand for the network, and charge them from the grid during off-peak periods, in order to reduce the demand they place on the network at peak times.

What does the future look like?

We realise that demand charges are a new concept for many small businesses and that a lot of businesses will not be aware of what their typical demand is. We also realise that many small business operators won't know which appliances to switch off or turn down to reduce their demand.

Throughout the development of our new network tariffs for small businesses, we have engaged with advocates for small business like the Tasmanian Small Business Council, which has been a constant member of our Pricing Reform Working Group.

The insights provided by businesses and their advocates will assist us in helping small businesses to transition to demand based tariffs, by teaching us how best to explain demand based tariffs and aiding the development of tools that small businesses can use to compare network tariffs and understand what a switch to a demand based tariff might mean for them.

How do you make the change?

We know that it can take time to adjust to tariff changes which is why we are offering demand based time of use tariffs as a choice for small businesses via retailers (opt-in). That's why, when a small business switches to a retail tariff which incorporates one of our new demand tariffs, we'll provide an opportunity for that business to revert to its previous tariff arrangements, should the business decide that the new tariff isn't cost effective.

If you are interested in finding out more we encourage you to contact your retailer and discuss your tariff choices with them directly.

For more information

To find out more visit our website **www.tasnetworks.com.au/customer-engagement/tariff-reform**.

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