



Tasmanian Renewable Energy Alliance

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Fair and effective tariff reform for Tasmania:

TREA Submission in response to AER Draft Decision, TasNetworks distribution determination 2017-2019

1 December 2016

Overview

TREA has actively engaged with TasNetworks through both the TasNetworks Tariff Reform Working Group and the TasNetworks Customer Council. Through this process we made a number of submissions, particularly in relation to tariff reforms.

TREA also provided a detailed response on 5 May 2016 to the AER's March 2016 Issues Paper on the TasNetworks Tariff Structure Statement proposals. That document provides links to our earlier submissions to TasNetworks.

In this submission we are responding specifically to Attachment 19 of the Draft Decision which addresses the TasNetworks Tariff structure statement.

In summary our position is that:

- Moves to higher fixed charges and demand (rather than consumption) based time of use tariffs will discourage both energy efficiency and a desirable move to increased distributed generation. These concerns have been well documented in our past submissions but are not addressed in the Draft Decision.
- The AER should require TasNetworks to provide more information on the customer impact of higher fixed charges and a move to demand based tariffs. TREA and TasCOSS have provided TasNetworks, Aurora and the AER with a detailed proposal on how this could be done using existing data but this suggestion has not been followed up.
- Much more needs to be done to assess customer impacts and to gather information from the newly introduced consumption based time of use tariffs and the proposed demand time of use tariffs during the 2017-2019 period before assuming that moving all customers to demand based tariffs is the most appropriate path to cost reflective tariffs in the 2019-2024 determination period.

Customer impact

We are extremely disappointed that Attachment 19 of the Draft Decision takes only a very superficial approach to assessing customer impacts, based only on TasNetworks estimates of the average change in network tariffs for whole classes of customers.

This is not sufficient to assess the impact of changes because:

- There is no modelling of the impact on particular customer segments such as rural consumers, vulnerable customers or solar owners.
- These are only network tariff costs and the impact will depend on how these are passed through by retailers.
- Rebalancing the charge for tariff 41/42 will increase seasonal variation for customers with high heating usage but this has not been modelled. This may lead to bill-shock and payment difficulties.

TREA worked with TasCOSS to define research that would assess customer impact in more detail. The proposed research, using de-identified existing Aurora customer data, would address customer impact based on customer location, concession status and quarterly consumption data. This proposal has been supplied to TasNetworks, Aurora Energy, the Office of the Tasmanian Economic Regulator, the Minister for Energy and the AER (as an attachment to our 5 May response) but has not been pursued by any of these bodies.

TasNetworks is currently developing a tariff trial in the Bridgewater area which will provide detailed and valuable information, however this is a two year project which is just getting underway and our understanding is that the first year will be collecting baseline data with little incentive for participants to change their consumption patterns.

The Draft Decision acknowledges the importance of customer impacts:

“We do wish to see movement towards more cost reflective tariffs, taking into account customer impacts.” Draft Decision, p.19-8.

It also acknowledges that the distribution pricing principles make provision for taking customer impact into account:

“distributors must consider the impact on customers of tariff changes and may vary from efficient tariffs, having regard to:

- ...
- the extent to which customers can mitigate tariff impacts by their consumption” Draft Decision, p.19-19

Despite this acknowledgment, it appears that the AER is encouraging the forced introduction of demand based tariffs in future without requiring a more rigorous approach to customer impact assessment:

“We anticipate the TasNetworks will move towards more prescriptive approaches in its future tariff statements.” Draft Decision, p.19-23

Implementation of the opt-in demand based tariff

We note the AER’s support for averaging the four highest 30 minute demand periods in a billing period as the basis for demand based tariffs (p.19-29) and support this proposal as it mitigates the impact of single exceptional events on a customer’s bill.

We are pleased that TasNetworks have indicated that they intend to implement monthly billing for demand tariff customers as this will also reduce the impact of exceptional events and will give customers more timely feedback on which to base changes in their behaviour.

Future reliance on demand based tariffs

It is clear that both the AER and TasNetworks are actively supporting a move to compulsory demand based tariffs to the exclusion of other approaches to more cost reflective tariffs.

The Draft Decision (p.19-52) quotes TasNetworks as saying “In time, we expect that all small business and residential customers will move over to demand based network tariffs rather than the current consumption based network tariffs.”

While we have supported the introduction of opt-in demand based tariffs for the 2017-2019 period we have documented on a number of occasions our concerns about demand based tariffs. In summary these are:

- It is a totally new way of charging and many customers will find it difficult and confusing.
- It is not clear that the end result will be a clear price signal that will result in changed customer behaviour.
- Demand based tariffs reduce the incentive for customers to invest in energy efficiency and distributed generation.
- Demand based tariffs limit the ability for customers to “mitigate tariff impacts by their consumption” as required by the distribution pricing principles (compared for example with a consumption based time of use tariff).

We urge the AER to use the 2017-2019 determination period to collect data and explore the options for moving to a more efficient and cost reflective energy system for Tasmania while minimising adverse customer impacts. We should not be simply assuming that higher fixed charges and demand based tariffs are the answer and that the only question is how quickly we move to making them compulsory.

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