SUBMISSION TO DRAFT DECISION

TasNetworks Tariff Structure Statement

December 2016

The Alternative Technology Association (ATA) welcomes the opportunity to respond to the AER's Draft Decision on TasNetworks' Tariff Structure Statement.[1]

Founded 36 years ago, the ATA is a national, not-for-profit organisation whose 6,000 members are (mostly residential) energy consumers.

Our extensive experience in energy policy and markets informs our advocacy and research which, amplified by our close collaboration with fellow members of the National Consumer Roundtable on Energy, makes the ATA an important voice for energy consumers Australia-wide.

ATA has a uniquely twofold perspective as a consumer advocate. With the continuing support of the Energy Consumers Australia (and formerly the Consumer Advocacy Panel) we represent all small energy consumers in advocacy that seeks to improve energy affordability and the structure and operation of the National Energy Market (NEM). Additionally, we speak with authority on behalf of the growing portion of the consumer base that has an interest in demand-side participation and innovative energy products and services.

This submission was written as part of a project funded by Energy Consumers Australia (www.energyconsumersaustralia.com.au) as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas. The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia.

Overview

The ATA is not supportive of the AER's decision on TasNetworks' Tariff Structure Statement. This is largely because of TasNetworks' failure to document their consideration of customer impact – especially with regard to the expected cost impacts on different types of consumers. The material in the TSS and accompanying documents on the bill impact on residential consumers is overly generalised and does not align with our own modelling.

Additionally, we consider that some of the issues identified as in need of improvement for future TSSes – in particular, with regard to demand measurement and the billing cycle – should rather be addressed in this one. This would ameliorate some expected customer impacts and enable a stronger transition path.

We recommend that the AER requires TasNetworks to address these issues.

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The residential demand tariff

The ATA is broadly supportive of the tariff design proposed by TasNetworks. In particular, the absence of a consumption charge from the network tariff is an appropriate reflection of the cost drivers of network services. We are less supportive of some of the implementation details, as described below.

In preparing this submission, we applied the flat, PAYG flat, time-of-use, and demand tariffs to a selection of seven households' twelve-month meter data taken from our collection of 48 x 365 interval data from Victorian and South Australian households. In modelling the demand tariff we applied a monthly demand measurement in addition to the quarterly one proposed by TasNetworks.

(Our modelling is imperfect because we had no Tasmanian interval data, and no separately metered heating/hot water loads. Nevertheless, it gives an indication of the impact of demand tariffs across different load profiles.)

Demand measurement and charging cycle

ATA does not support the proposal to measure demand quarterly. This approach unduly penalises one-off spikes in demand by charging for them over such a lengthy period. This is demonstrated in one of our modelled Victorian households, which had two consecutive January days with very high afternoon usage, resulting in high demand charges for three months. This household would have paid $366 extra in network charges than it would have if demand had been calculated and charged monthly – a 54% premium. It is self-evident that quarterly demand measurement leads to higher costs than monthly. Our modelling shows that the difference is significant: all but the lowest and highest volume users paid between 10 and 17 per cent more with quarterly rather than monthly demand measurements (with the exception of the aforementioned household, which paid 31 per cent more).

Because demand tariffs require interval meters, and TasNetworks has indicated[2] that the new meters installed for demand tariff customers will have remote communications, there is no impediment to measuring and charging for demand on a monthly rather than quarterly basis.

Even monthly demand measurement, when based on the maximum demand recorded, still applies a substantial penalty to one-off demand spikes. Except where there is a significant network congestion problem, we see little merit (and little cost-reflectivity) in using a single interval for demand measurement. A better approach would be to use an average of the three or four highest intervals for the month. (If there *is* a significant network congestion problem, a localised critical peak rebate or opt-in critical peak price would be appropriate.)

RECOMMENDATION: Maximum demand as a basis for billing should be measured monthly and reset each month.

Customer impacts

We disagree with the AER that TasNetworks has given sufficient consideration to customer impacts. We agree that their approach to the transition – applying demand tariffs on an opt-in basis only – helps to avoid a large-scale customer impact. However it's not clear how customers

[2] Personal communication, 30 November 2016.

will be informed about the nature of demand tariffs and any expected bill impacts. TasNetworks' explanation – "adjusting our tariffs in a single year so that each network tariff recovers the total efficient cost of delivering the services covered by that network tariff would likely result in significant price shocks, especially for those network tariffs that are currently heavily discounted"[3] – seems to cast doubts on its expectations, expressed elsewhere,[4] that 80 per cent of residential customers will experience lower network charges with the proposed demand tariff.

We recognise the difficulty for TasNetworks in assessing customer impact due to their lack of granular customer usage data. But we question the real-world applicability of the sample data they have used in their bill impact charts and tables[5] – including their assumption that an average customer's peak demand is 3.2 kW. Our analysis of Victorian and South Australian 48 x 365 interval data for seven different households shows that occasional demand peaks are the norm and that many typical households are likely to hit at least 5 kW demand a few times a year. In six of our seven households, the highest recorded peak and off-peak demand was between two and three times higher than the average of their daily maximum peak and off-peak demand.

For all but one of the households we modelled, the demand tariff led to a higher network cost than the flat tariff – especially when measured and applied quarterly instead of monthly. (For the quarterly demand tariff: 10 to 60 per cent higher for typical households; for a monthly demand tariff, two to 40 per cent higher.) For the highest-usage household, the quarterly demand tariff was marginally higher but a monthly one was materially (though not greatly) lower. We acknowledge that these figures are just broadly indicative because they do not include the uncontrolled or controlled heating tariffs, or separately metered heating or hot water interval data. In our estimation, the demand tariff is likely in most cases to lead to a slightly lower annual cost for these loads than the existing controlled and uncontrolled heating tariffs. But taken all together, this still suggests that the network cost outcome for residential customers is far from clear.

RECOMMENDATION: TasNetworks should undertake more detailed customer impact assessment.

Balancing cost-reflectivity with customer impact

All this is not to say that the tariffs are inappropriate. Rather, that quite some work needs to be done to assess cost impact on customers, and appropriate steps taken to manage the impact. The expected slow rollout of the new demand tariff provides a good opportunity to do this. TasNetworks should demonstrate more clearly how it will manage the impact of unforeseen cost increases on customers who opt in to demand tariffs. This should include:

- Clear information on how the tariffs work, including what demand is and how it can be managed;
- A strategy for facilitating assistance to customers in financial hardship due to cost increases from tariff choice; and

[3] TasNetworks tariff Structure Statement, p. 66

[4] TasNetworks Distribution Tariff Structure Statement Overview (Customer Overview) 1 July 2017 to 30 June 2019, p 20

[5] In TasNetworks *Response to the AER's Issues Paper: Tariff Structure Statement proposals - TasNetworks*, April 2016 submission pp. 28-31

- Consideration of 'ghost-pricing', where customers interested in opting in to demand tariffs are charged their existing tariff for a period but shown on the bill what their cost would have been if a demand tariff had applied.

Conclusion

Thank you for the opportunity to respond to the Draft Decision on TasNetworks' Tariff Structure Statement. If you wish to discuss anything raised in this submission further, please contact Dean Lombard. Senior Energy Analyst, at dean@ata.org.au or on (03) 9631 5418.