Tasmanian Renewable Energy Alliance

www.tasrenew.org.au

221 Main Rd, Derwent Park TAS 7009

(0407) 486-651

TREA Response to AER Issues Paper for TasNetworks R24 Proposal

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By email: AERresets2024-29@aer.gov.au

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Responses to selected questions in the AER Issues paper

2.Do you think TasNetworks has engaged meaningfully with consumers on all key elements of its2024–29 proposal? Are there any key elements that require further engagement?

See the section below on Customer Engagement. The is a need for better targeting of customer engagement, rather than simply “further engagement”.

3.To what extent do you consider you were able to influence the topics engaged on by TasNetworks?

As per the previous section, it is not clear which topics are actually able to be influenced by consumer engagement.

Some fundamental issues in the regulation of network costs have not been explored sufficiently and would benefit from targeted consultation. Examples include:

- The issue of 'cross subsidy' is not sufficiently explored. For example it is treated as given that business customers subsidise residential customers and that customers without solar subsidise those with solar (and that this is a bad thing which should be addressed). However there is little evidence presented for this. Other more glaring examples of 'cross subsidy' for example 'postage stamp pricing' in which customers in urban areas are charged the same as customers in rural areas (where servicing them is far more expensive) are taken for granted.
- What is meant by 'cost reflective tariffs' and how should this be implemented. We seem to be half way between tariffs based on customer segments and tariffs based on underlying network costs. If tariffs were truly cost reflective it would not be necessary to have for example residential vs commercial tariffs (because if network tariffs actually reflected network costs it wouldn't matter what sort of customer it was and how they used electricity and when). Clearly there are technical, social equity, customer education and transition issues in moving to fully cost reflective tariffs but there should be more detailed consultation and education about these issues. The rapid rise of distributed energy resources, in which customers may be purchasing-in less energy but making use of the network for a variety of services makes addressing these issues a high priority.

8.Has TasNetworks clearly identified the need for its proposed contingent projects, and are the triggers well defined?

No. See the section below. Given the enormous impact of these projects on network costs, the triggers and the rationale for including these contingent projects in the asset base paid by all customers should be explored in more detail.

20.Do you consider TasNetworks has demonstrated reasonable progress on tariff reform considering its customer feedback and circumstances?

No, but the problem is wider than just TasNetworks. Retailers and state regulators also need be engaged in testing new tariff arrangements with customers. See the discussion below on the challenges of testing new tariffs.

23.Do you consider legacy metering cost recovery should be socialised at the network level, or be left to retailers?

In principle we support these costs being socialised at the network level. Moving to a wider implementation of advanced meters is a common good. It is unnecessarily confusing for individual customers to be charged differently based on historical circumstances over which they have little control. See comments below on our concerns about potential 'double dipping' on payment for new meters.

Earlier comments on the TasNetworks draft plan

The following sections have been taken directly from the TREA response of 19 August 2022 to the TasNetworks draft plan for 2024-2025.

Customer and stakeholder engagement

The regulatory process and the approach to setting revenue determinations is extremely complex and difficult for consumer representatives to engage with effectively.

We are very appreciative of the detail provided by TasNetworks in the various consultation documents. However comprehensive information alone does not maximise stakeholder engagement. One of the problems for consumer and industry representatives is knowing which areas to focus on.

The Draft Plan asks (p.vi) "Are there ways we could improve our proposed engagement process?"

More effective customer engagement would be facilitated by:

- Information on which costs have the biggest influence on customer prices.
- Information on areas in which customer input can be effective in changing outcomes (for example the weighted average cost of capital is one of the biggest determinants of overall costs, but there is effectively nothing that customer representatives can do about this at the level of individual network service provider).
- Identification of which policy decisions are most important in setting future directions for the business.

Approach to customer outcomes

The Draft Plan summarises customer outcomes as:

- Affordable for all
- Reliable and resilient infrastructure
- Transparent socially responsible approach
- Proactive long term investment … that increases Tasmania's capability and unlocks associated benefits.

Affordability

In relation to affordability, we believe it is important to focus on the total cost to customers and not just prices. While lower prices are always desirable, excessive focus on price can be short-sighted. What ultimately matters to customers is the total cost to achieve the outcomes they desire.

In many cases there are more effective ways to reduce customer costs than just lowering prices, for example:

- Matching customer behaviour to the most beneficial tariff.
- Increased energy efficiency.

Clearly a focus on prices is an important contribution that TasNetworks can make to reducing total cost for customers. However TasNetworks can also play an important role in educating customers in other ways to reduce their overall costs.

Reliability

A consistent finding of customer research is that customers are generally happy with the reliability of the network and do not wish to pay more for higher reliability.

Within this overall requirement, we fully support TasNetworks approach to focus on those locations with the lowest reliability.

Greater emphasis should be placed on the possibility for non-network solutions to meet reliability requirements. In particular, there needs to be more exploration of the role of local generation and storage in meeting reliability requirements.

Associated with this is a need to explore what reliability actually means for customers. Are there essential functions that are more important? This might include essential service locations (eg mobile phone towers, aged care facilities) or functions within premises (eg lights rather than heating). A more nuanced understanding of reliability may allow a bigger role for local generation and storage if these are not able to fully replace network services.

Investment to unlock customer benefits

As outlined on page 36-46 of the Draft Plan, the electricity network faces major transformation in the near future. In particular the 2024-2029 period takes us most of the way to 2030, a year in which many policy initiatives anticipate a 50% reduction in greenhouse gas emissions. Such a substantial reduction in emissions will require major changes to the electricity network.

Even in Tasmania where most of the electricity generation is currently renewable, a reduction in fossil fuels for transport and heating will require a larger and smarter electricity network. Customer owned distributed energy resources (DER) will be a crucial contribution to this transformation.

It is essential that TasNetworks planning for the coming regulatory period has sufficient flexibility to support and facilitate the integration of a rapid uptake of DER in ways which benefits customers and the network.

Contingent projects

The contingent projects identified on page 64 of the Draft Plan (along with the construction of Marinus Link) have the potential to substantially increase the regulated asset base of TasNetworks and hence to increase costs for all customers. We have several concerns about the process for approval of these projects:

- The trigger events need more detailed explanation. For example does "New hydrogen connections" mean that a connection application has been received, that the project has reached financial close, or that the project is completed and requires connection?
- There is a 'chicken and egg' problem with the relationship between project go-aheads and investment in supporting network infrastructure. Load and generation projects will want to know that the required network infrastructure is guaranteed before they commit, but the network infrastructure is only justified if the load or generation is definite.
- There is a mismatch between processes such as the RIT-T which decide whether a project provides overall market benefit, and the cost allocation process which assigns costs to Tasmanian customers. This is most acute in relation to Marinus Link but also applies to on-island transmission infrastructure which might provide benefit to load and generation proponents, or to consumer on the mainland, but at a cost to Tasmanian consumers.

Changes to small business time-of-use tariff

We welcome the decision to bring the charging bands on the commercial time-of-use consumption tariff (TAS94) into line with the residential (TAS93) tariff. This has a number of advantages:

- Simplicity of understanding for customers
- More accurately reflects peak demand times on the network
- A middle of the day off-peak time makes it more practical for commercial customers to move their consumption to time of lower network demand.

It is not clear from the Draft Plan whether the intention is to abolish the shoulder period in TAS94. We would support the TAS93 and TAS94 tariffs being as similar as possible.

Proposed amended DER Network Tariff

Note that this proposed amended tariff is not detailed in the Draft Plan but is spelt out in detail in the Policy and Regulatory Working Group Consultation Paper 6 of August 2022.

We support the intention and general design of this proposed tariff. We are in principle supportive of the trialling of new tariffs on an opt-in basis.

Effective testing of this tariff will require:

- The tariff being offered by retailers.
- Education of customers on the implications of a demand based (ATMD) component.

- Sufficient difference in the charge for different time periods to make it worth the effort and expense to implement the tariff to maximise customer (and network) benefit. Price differentials should ideally not be diluted by retailers when developing a retail tariff based on this network tariff.
- Integration of hardware and software for EV charging and residential battery management to make effective use of this tariff. This requires both moving consumption to times of lowest tariff and managing maximum demand.

Network tariff trials are the best way of testing and promoting the use of innovative tariffs. To be effective and realistic, trials will need to include the active engagement of customers, retailers, installers and equipment suppliers.

While the proposed DER network tariff is a valuable first step in introducing pricing that encourages and supports DER, in the medium-term further refinement will be necessary.

Further work will be necessary to identify workable arrangements when there is a high penetration of DER. For example to deal with:

- Avoiding sudden increases in demand at the beginning of a lower charge time period.
- Providing for two-way flows (for example as part of a VPP that responds to high wholesale prices by exporting stored energy).

TasNetworks should be making provision now for the possibility of high uptake of DER in the 2024-2029 period, including having the flexibility to trial and then implement new tariffs in this period.

Metering services

We are not opposed to the earlier recovery of the legacy investment in TasNetworks owned meters (Draft Plan, p.72). However we are concerned that there is not transparency about the total cost to consumers of metering. It appears that legacy meter costs are covered in network tariffs, but that all customers are also paying for the installation of new meters via an allowance in the Tasmanian Economic Regulator's determination of Aurora standing offer tariffs.