# AusNet Electricity Services Pty Ltd

## Tariff Structure Statement 2017-20
## Overview Paper

Submitted: 26 October 2015

## About AusNet Services

AusNet Services is a major energy network business that owns and operates key regulated electricity transmission and electricity and gas distribution assets located in Victoria, Australia. These assets include:

- A 6,574 kilometre electricity transmission network that services all electricity consumers across Victoria;
- An electricity distribution network delivering electricity to approximately 680,000 customer connection points in an area of more than 80,000 square kilometres of eastern Victoria; and
- A gas distribution network delivering gas to approximately 572,000 customer supply points in an area of more than 60,000 square kilometres in central and western Victoria.

AusNet Services' purpose is 'to provide our customers with superior network and energy solutions.'

For more information visit: www.ausnetservices.com.au.


## Contact

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# 1 Executive Summary

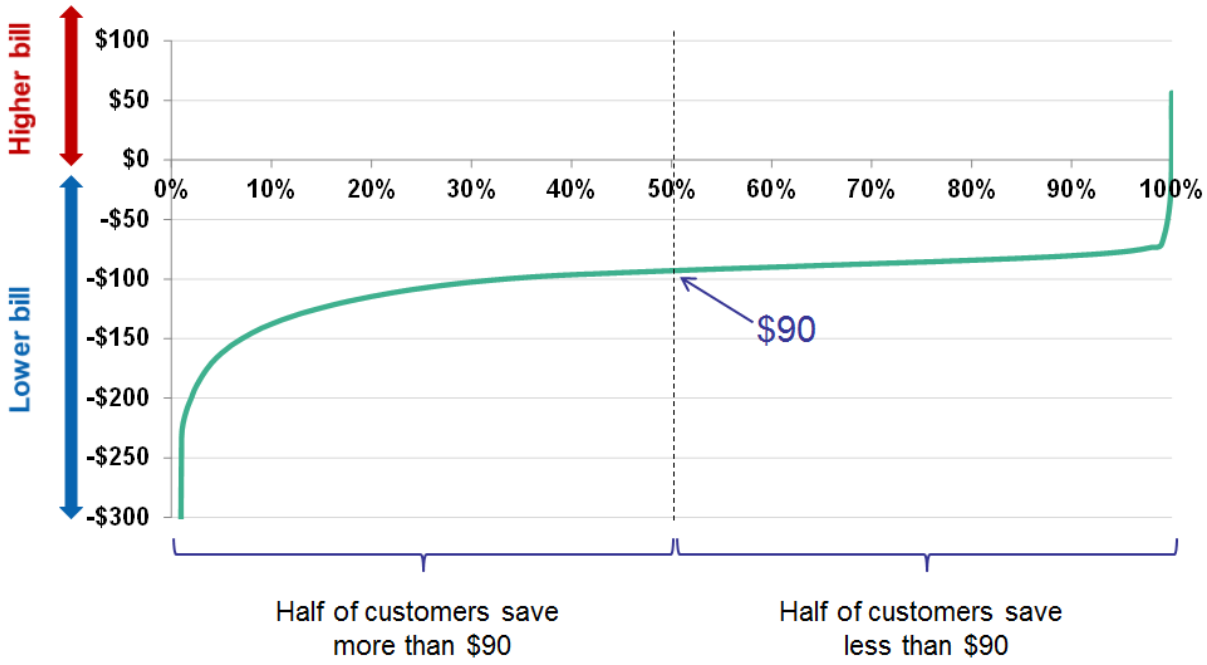
AusNet Services' Tariff Structure Statement (TSS) for the period 2017 to 2020 proposes a new tariff structure for residential, small business and medium size commercial and industrial customers. This new tariff structure is sometimes called a cost reflective tariff or cost reflective pricing.

Maximum demand is the main driver of our future network augmentation costs. In 2014, over a quarter of our network's capacity was used less than one percent of the time. To make our tariffs more cost reflective we are proposing to introduce a demand charge. This new tariff structure for residential customers is consistent with those proposed by the other Victorian distributors.

Importantly, the introduction of a demand charge will not affect how much overall revenue we collect (as this is capped at a level by the Australian Energy Regulator). It will only change the amount individual customers may pay depending on how much electricity they use and when they use their electricity.

We plan to implement the demand charge from 2018 and gradually increase its level to be more cost reflective over a 5 year period. Our analysis indicates that, by 2020, close to 100% of customers (excluding some outliers) will have a lower network charge overall than they have today.

**Figure 1.1: Size of change in network charge by share of residential customer base, 2018**




The introduction of cost reflective tariffs is a key step in the transformation of the electricity network and will enable consumers to individually and collectively benefit from new technological development, product innovation and behavioural changes.

The most important potential benefit from the introduction of cost reflective pricing is reduced long term costs for all consumers. Over the longer term all consumers are expected to benefit through lower network investment that arises due to the better alignment of consumer price signals with future network augmentation costs. This price signal provides a stronger incentive for consumers to manage demand and energy usage for the benefit of all consumers.

However, there are potential equity and affordability challenges in the move toward a more cost reflective or user-pays model for network tariffs, and it will be important to ensure vulnerable customers are adequately protected.

Electricity bills and energy affordability, in particular for vulnerable customers, are one of the key issues of concern for us, our customers and our key stakeholders. We have consulted widely in

order to understand customer and other stakeholder attitudes and concerns regarding our TSS including how customers are charged for their use of the electricity network. This stakeholder feedback has informed and influenced our proposal.

The original timeframe for the lodgement of our TSS was the end of September 2015, however, given the complexities and sensitivities identified through our engagement we took an extra month to develop our proposal. We believe it was more important to spend this additional time to further engage with specific stakeholders, and to understand alternative options and their impacts on our customers than to lodge our TSS as originally planned.

Whilst our phased approach will assist in smoothing customer impacts it is important for our new tariff structures to be accompanied with targeted assistance or protection for vulnerable customers. There are a number of options including a social tariff, rebate, other assistance packages or variations in elements our tariff design such as reducing the fixed charge component. Of the tariff options AusNet Services' has examined, maintenance of the existing 'inclining block' tariff structure would appear the best for minimising customer impacts, including for vulnerable customers, as it is most similar to the current tariff structure.

However, we do not consider ourselves to be in a position to propose exactly what form of targeted assistance is most appropriate. The choice of option is a question for the industry and community as a whole, and should be informed by government and organisations with expertise in the needs of vulnerable customers and the practical implications of various options.

For this reason, this TSS proposal should be viewed as a starting point for further engagement. We are committed to continuing to work with stakeholders to ensure that our future tariffs are set in a manner that protects vulnerable customers and best meets the long term interests of all our customers.

# 2 Introduction

This document provides an overview of AusNet Services' Tariff Structure Statement (TSS) proposal for 2017 to 2020.

The TSS sets out the proposed *form* of AusNet Services' tariffs, such as whether the tariffs include a fixed charge, whether the tariffs are based on the level of energy consumed, maximum demand, or some other factor, and whether the tariff rates are constant or vary by time of day, or season.

For the first time, AusNet Services is proposing a new type of tariff that better matches the price each customer pays with the costs which that customer imposes as a result of future augmentation requirements of the network. These new types of tariffs are sometimes referred to as 'cost reflective tariffs' or 'cost reflective pricing'.

This proposal, which is similar to the proposals of the other Victorian electricity distribution networks, is part of a national reform process to make electricity tariffs more cost reflective, which as a result should make future investments in Australia's electricity networks more efficient, and lower customers' bills in the longer term.

Importantly, the proposal for our new tariff structures does not affect how much revenue AusNet Services collects, rather it is about the distribution of who pays across the customer base. The introduction of cost reflective tariffs is a key step to achieve the electricity network transformation that will enable consumers to individually and collectively benefit from technological development, product innovation and behavioural changes. Section 3 outlines the reasons why cost reflective tariffs are important and an overview of potential benefits.

The types of considerations such as how we determined what is cost reflective and how we achieved the appropriate balance between factors such as economic efficiency, effectiveness and customer impacts are included in Sections 4 and 6. Details of the proposed tariff structure that we believe balances these objectives are provided in Section 5.

Electricity bills and energy affordability, in particular for vulnerable customers, are one of the key issues of concern for us, our customers and our key stakeholders. AusNet Services has consulted widely in order to understand customer attitudes and concerns regarding how they are charged for their use of the electricity network. A detailed description of AusNet Services' engagement activity, what we heard from customers and other stakeholder groups, and how our proposal has been shaped by that feedback, is provided as an attachment to this Overview Paper and is summarised in Section 7.

The TSS does not propose tariff *levels*, including aspects such as the transition path (the weighting between tariff components such as the energy rate or the fixed charge). Tariff levels are set through the annual pricing submission process once factors such as the annual revenue allowance are finalised. However, the TSS proposal includes indicative tariffs, which allow customer impacts to be analysed and understood.

Impacts on individual customer's electricity bills may vary depending on how much electricity they use and when they use their electricity. A summary of the findings of this analysis are set out in Section 8.

The engagement and analysis that has been undertaken to date underline both the complexity and sensitivity of tariff reform. The original timeframe for the lodgement of our TSS was the end of September 2015, however, given the complexities and sensitivities we took an extra month to develop our proposal. We believe it was more important to spend this additional time to further engage with specific stakeholders, and to understand alternative options and their impacts on our customers. Fortunately, as outlined in Section 9, the process by which AusNet Services' tariffs for 2017 to 2020 will be finalised still has a long way to run, with final structures due to be approved by the Australian Energy Regulator (AER) in July 2016, and final tariff levels and transition path approved on an annual basis each November from 2016.

Along with our proposal, this TSS presents information on alternative tariff structures and their impacts on customers. On matters relating to the relative amount different customers should pay for

electricity distribution services, including protections for vulnerable customers, community attitudes to fairness and equity are important. The information presented in this TSS should assist stakeholders and the AER to assess whether there is an option that improves upon our proposal.

For this reason, AusNet Services' TSS should be viewed as the starting point for further engagement. AusNet Services is committed to continuing to work with stakeholders to ensure that its future tariffs are set in a manner that best meets the long term interests of its customers.

# 3 Why are cost reflective tariffs important?

## 3.1 The introduction of cost reflective tariffs are a key step for network transformation

In November 2014, the Australian Energy Market Commission (AEMC) introduced a Rule change requiring electricity networks to develop prices that better reflect the cost of providing services to consumers. This section outlines the reasons for introducing cost reflective tariffs, beyond meeting this regulatory requirement, and the potential benefits for consumers.

In a project completed for the Energy Networks Association (ENA), Energeia identified benefits of $17.7 billion across the NEM in savings in avoided future augmentation of capacity over the next 20 years as a result of introducing cost reflective pricing[1].

Technological change is driving increased consumer deployment of new technologies, while behavioural change in the last decade saw a shift in the role and use of electricity distribution networks. This trend is expected to accelerate as more consumers deploy new technology and change the way they use electricity and the network.

**Figure 3.1: Network transformation – snapshot**

**Historically**

- Electricity was supplied centrally and transported to consumers through distribution and transmission networks.
- Consumers had basic accumulation meters with limited ability to measure usage at granular time periods
- Network tariffs were primarily charged on energy consumption with at times basic differentiation for peak and off peak usage.
- Peak demand and overall usage were increasing due to factors such as connection and load growth (e.g. further deployment of air conditioners and other energy intensive appliances).
- Augmentation costs were relatively high to address growing demand and usage.
- Consumers were generally disengaged and unaware of their energy usage or energy bills.
- Material cross subsidies existed between consumers and consumer groups with little transparency of the extent of the cross subsidy and limited ability for consumers to address it.

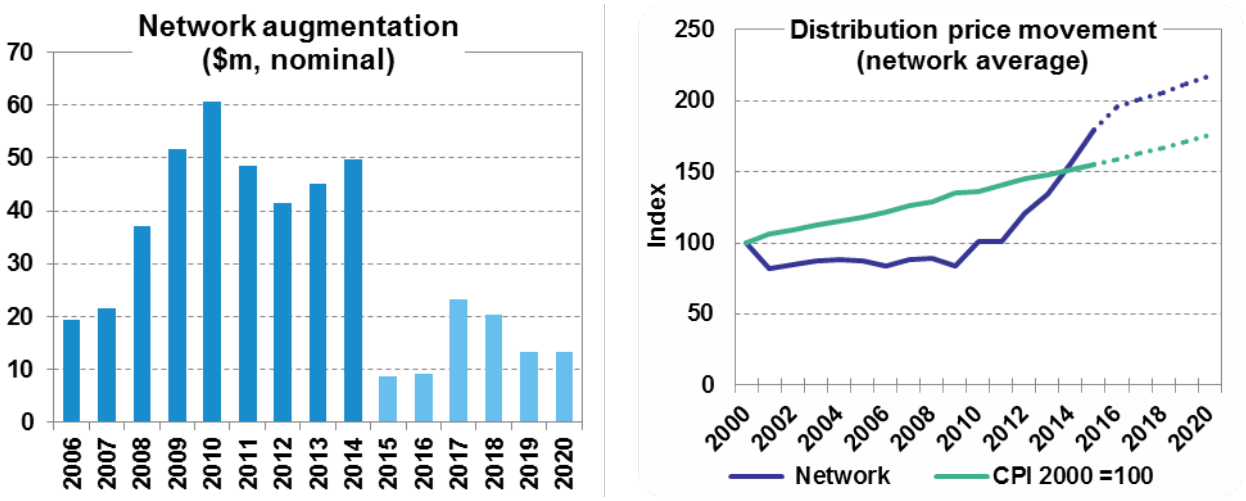
**More recently**

- Increased consumer led deployment of solar PV and other distributed technologies have changed the way electricity is supplied and the way consumers use the electricity network.
- Smart meters have provided an ability to measure consumption at a more granular period and therefore introduce better, more cost reflective pricing structures
- While overall usage has been relatively stable, energy usage per customer has been decreasing reflecting a greater focus on energy efficiency but peak demand has been growing.
- Expected future augmentation costs are lower however this could change depending on consumer behaviours and technologies (e.g. increased penetration of electric vehicles with no incentive to charge at the right time would increase augmentation requirements and costs)
- Consumers are more engaged with a greater focus on energy costs, usage and investments.
- Increased societal focus and incidence of 'energy poverty' and the implications of high electricity bills on consumers.
- There is a greater recognition from policy makers, regulators and the market that the cost of distributing electricity is not related to usage but rather peak demand and that the basis for pricing should change.

Large network augmentation requirements over the last decade (driven by surging use of air conditioners, and earlier, plasma televisions) have contributed to recent surges in our network prices.

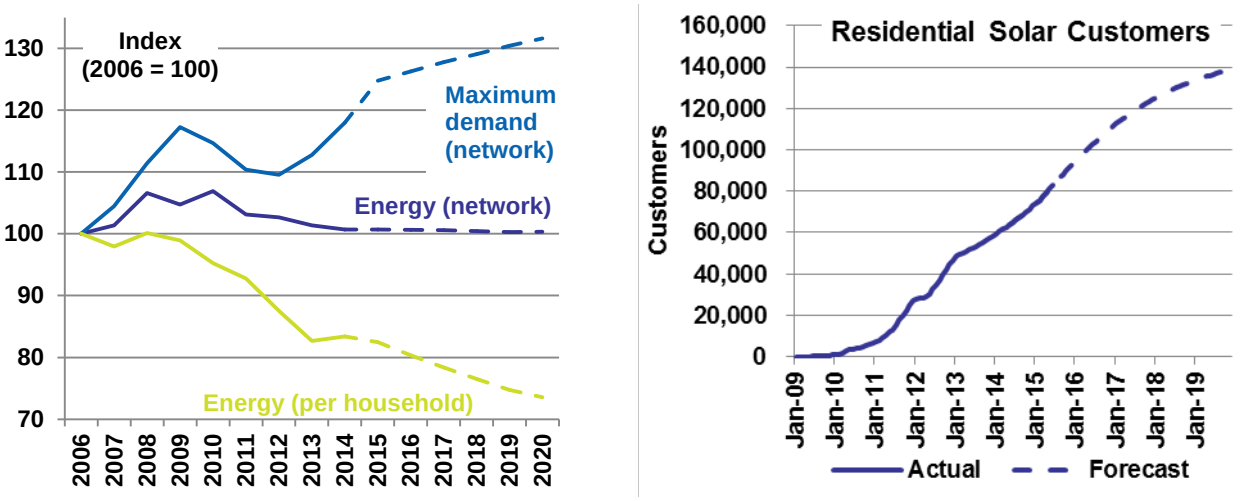
[1] 2014, Energeia, *Network Pricing and Enabling Metering Analysis, prepared for the Energy Networks Association*.

**Figure 3.2: Trends in network augmentation and price of network services**




The way customers are using distribution networks is changing. Customers are using less energy per household, and more customers are installing solar PV.

**Figure 3.3: Trends in energy use, maximum demand and solar penetration**




Yet, while demand growth has slowed recently, it has continued to grow faster than energy consumption. Demand growth and augmentation requirements could quickly return to previous levels if customers are not provided continuous incentives to adopt new appliances efficiently.

Historic tariff structures for residential and commercial customers have not reflected the costs of using electricity at peak times. This has distorted investment decisions that individual customers face around new technology and appliances. For example, customers with storage batteries currently receive no additional benefit for using their stored energy during peak times, even though it would help prevent the need for future network investment. Conversely, as electric vehicles become more popular, without tariffs that make it cheaper to charge outside of the peak, significant unnecessary cost increases through network augmentation may be triggered. Thus, current tariffs are hindering rational market responses and potentially limiting innovation.

The introduction of cost reflective tariffs will be an important complement to AusNet Services' toolkit of existing and planned projects focused on demand management and network transformation. These include, an annual demand management program of $12 million, the Grid Energy Storage System trial, the residential solar and battery storage trial, and planned trials for direct load control and of a community mini grid.

## 3.2 Cost reflective pricing will enable consumers to individually and collectively benefit from technological development, product innovation and behavioural changes

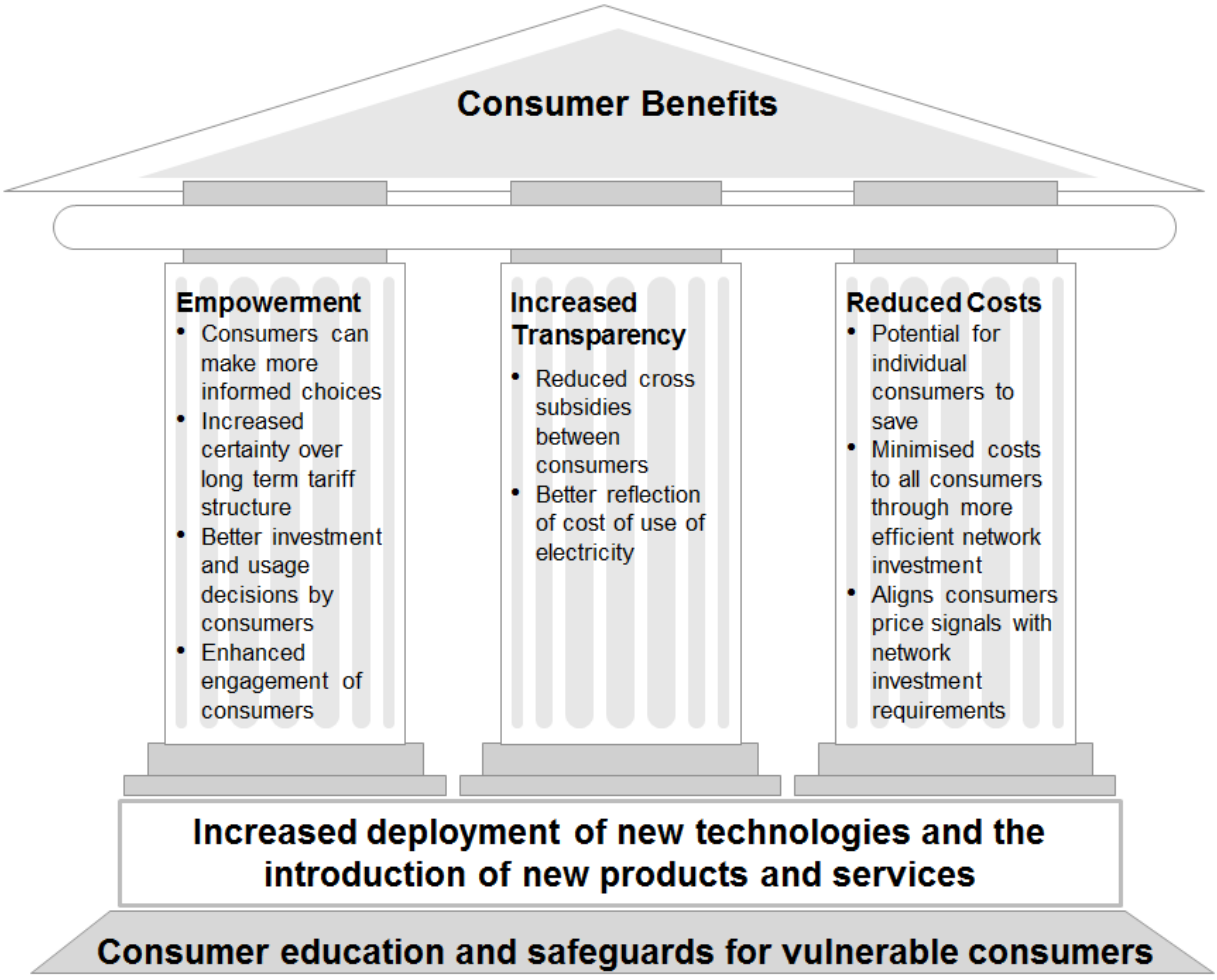
Cost reflective pricing is not a new concept for AusNet Services and many of our customers. Tariffs for large commercial and industrial customers have been cost reflective since 2011. The use of these tariff structures has created incentives for customers in this segment to change their electricity usage where it has been feasible and beneficial to do so. Many large customers have responded and benefited financially through reduced electricity costs. This individual benefit has also resulted in reduced augmentation costs and broader benefits for all consumers.

The critical peak pricing that we have applied to all large customers has achieved a peak reduction of 3.7%. We estimate that this has delivered savings of $6 million in terms of deferred capital investment over 10 years.

The diagram below summarises the key reasons for the introduction of cost reflective tariffs for the rest of our customer base. Introducing cost reflective tariffs for smaller electricity users will enable them to make similarly informed decisions on electricity usage and investments in new technologies that better relate to the actual cost of delivery.

This will result in increased empowerment, improved transparency and reduced costs, which will ultimately lead to a more efficient transition to a transformed electricity supply chain. However, if these reforms are to succeed, they must be introduced with a broad education campaign and a clear appreciation of the impacts to vulnerable consumers. Reforms must include appropriate complementary mechanisms to address any material adverse impacts.

**Figure 3.4: Customer Benefits**



### Support for new technologies and product innovation

Cost reflective tariffs have the potential to support new technologies and product innovation to deliver combined consumer and network benefits, primarily by reducing network augmentation.

Energy retailers and other service providers will play a critical role in ensuring cost reflective tariffs are structured in a way that incentivises the development of products and services that can respond to cost reflective price signal, and drive more efficient use of the electricity network.

Following are some examples of the new technologies and innovations that could be better enabled by cost reflective tariffs, which will provide combined consumer and network benefits:

- **Storage** – cost reflective tariffs will provide increased incentives to use stored electricity at times of peak demand and, therefore, improve the economics of investment in this technology.
- **Electric vehicles** – ensuring tariffs better reflect the cost of distributing electricity is key to an efficient uptake of electric vehicles. Firstly, it will provide increased incentives through cost savings to consumers that charge vehicles at off-peak times. For example, charging vehicles overnight or during times of lower demand, as opposed to charging immediately after commuting home, which is most likely during peak demand times. These incentives will also help avoid augmentation costs that maybe incurred if electric vehicles (in particular those with rapid charging capabilities) were charged during peak times. Significant uptake of electric vehicles without cost reflective tariffs has the potential to drive augmentations in the distribution system to unprecedented levels, raising the cost to everyone.

  For example, based on the new Tesla electric vehicle data, the daily average commute of about 30km per day requires about 5-7kWh of charging with a 10kW charger. This is equivalent to approximately 4 split air-conditioning units, which would make it significantly larger than any other household appliance, and equivalent to about a 50% increase in average household energy use. The charger would deliver enough energy for the daily commute in less than an hour. However, if a number of these devices were to operate simultaneously in a suburban street, the current distribution network could not deliver the energy required without significant augmentation.
- **Solar PV** - whilst solar PV primarily benefits consumers through reduced energy usage, the introduction of cost reflective tariffs may incentivise alternative installation arrangements of solar PV. For example, varying the orientation of solar panels may maximise energy production during peak periods, as opposed to maximising energy production across the day. It may also assist some consumers with different roof orientations to capture additional value from their investment.
- **Consumer information portals and tools** – there is likely to be an increased demand for better, more granular and more timely consumer information. This could be delivered through mechanisms such as online portals, mobile phone applications, in home energy orbs or in home displays.
- **Home energy management systems** – beyond just information provision described above cost reflective tariffs will further enable the development of systems and new technologies to assist consumers to actively or in an automated fashion better manage their energy usage. This goes beyond just energy efficiency into areas such as demand management and load shifting. These could be in the form of smarter mobile phone based applications, direct load control or smart integrated storage / solar PV systems.
- **Facilitation of localised energy sharing amongst consumers** – the development of cost reflective tariffs may also benefit consumers seeking to share the capital costs and benefits of storage and / or localised distributed electricity with their neighbours. This may be also provide a benefit through the better management of localised peak demand and potentially reduced peak demand charges. There are recent examples and some interest from local communities or precincts investigating these types of initiatives.

### Empowerment of consumers

Empowerment of consumers is a key expected benefit from the introduction of cost reflective tariffs. The AEMC recognised this in their 'Power of Choice' review as well as the rule change requiring the introduction of cost reflective tariffs. The AEMC's desire was to 'put consumers in the driving seat'.

New tariff structures should assist in achieving this desire and provide benefits to consumers through empowerment via:

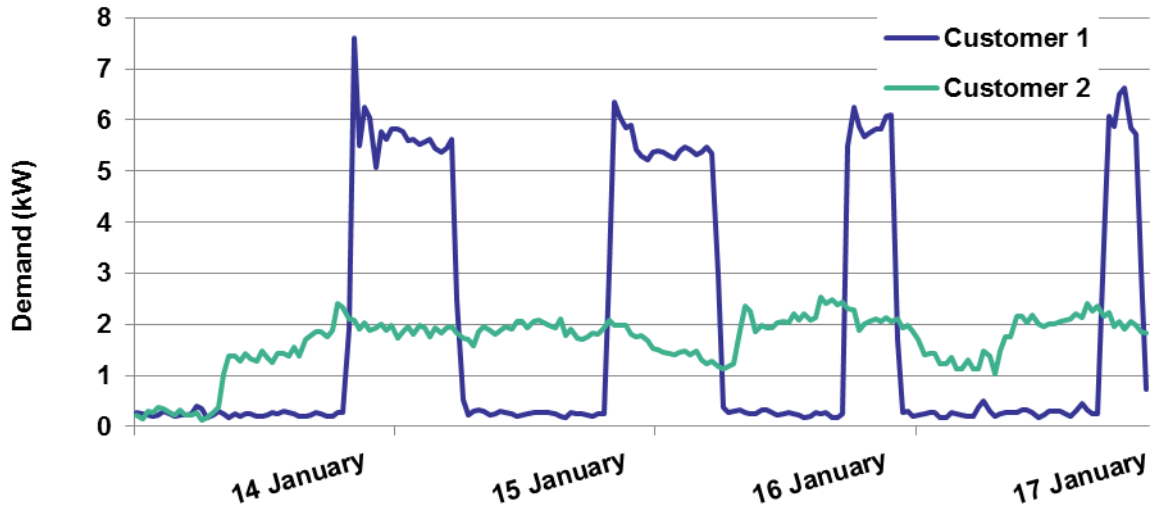
- **Encouragement to make better and more informed choices** – cost reflective tariffs combined with complementary reforms as envisaged in the Power of Choice review should increase consumer flexibility and their ability to respond to new products and price signals. In part, this is also facilitated by the roll out of smart meters and increased penetration of internet enabled devices, mobile phone applications and greater consumer information.
- **Better investment decisions –** the alignment of consumer price signals through cost reflective tariffs and the cost of future augmentation will assist consumers in making better investment decisions, to reduce future as well a current energy costs. This supports customers whose investment decisions on new appliances and technologies such as solar PV and batteries will be affected by the payoffs over a period of many years. This should reduce the risk of materially changed investment outcomes from unexpected network price changes, as demand charges present a stable basis for charging.
- **Improved engagement -** the empowerment of consumers will also lead to better engagement and decision making with respect to their specific energy supply decisions and broader energy usage requirements. If consumers see benefit and empowerment from these reforms it will increase engagement, which will in turn provide additional benefits to all consumers.

### Improved transparency amongst consumers

The current tariff structure embeds a cross subsidy between individual consumers as well as between groups of consumers. For example consumers with a flatter load profile are cross subsidising consumers with a peakier load profile.

The below chart illustrates an example of the cross subsidies that exist under the current tariff structures. It shows two customers' half-hourly energy consumption over a few days during the heatwave in January 2014. These two customers consumed identical energy over the whole of 2014 (~ 4.5MWh each) and had an identical 'underlying' energy usage as evidenced by the very left of the chart on 14 January 2014 when the two lines are virtually overlapping.

**Figure 3.5: Customers cooling solutions place differing loads on network**




The figure shows that as the heatwave progressed the two customers usage patterns diverged. This was because they used different cooling solutions. The red customer has multiple air conditioners all

running at the same times. The blue customer has a single smaller air conditioner that is running continuously.

In this example, the customer in red is placing a substantially higher burden on the network at peak times (they require greater network capacity to support them), but under current tariffs it is likely that the two customers are incurring very similar network charges.

The introduction of cost reflective pricing should assist in firstly, identifying the extent of the cross subsidies that exist, but also in assisting to reduce the cross subsidy and ensure that customers' electricity costs are more aligned to the cost of their use of the network.

However, there are also significant equity and affordability challenges in the move toward a more user-pays model for electricity tariffs, and it will be important to ensure vulnerable customers are protected.

**Reduced costs (for all consumers)**

The most important potential benefit from the introduction of cost reflective pricing is reduced costs for all consumers.

In 2014, over a quarter of the network's capacity was used less than one percent of the time.

All consumers are expected to benefit through more efficient network investment that arises due to the better alignment of consumer price signals with future network augmentation costs. This price signal provides a stronger incentive for consumers to manage peak demand and energy usage for the benefit of all consumers.

- As previously discussed, Energeia identified benefits of $17.7 billion across the NEM in savings in avoided future augmentation over the next twenty years. This translated into an annual saving of $250 per annum on average energy bills. Over the same period, growth in distributed energy resources capacity averaged 11 per cent annually.

In addition, individual consumers responding with appropriate investments or behavioural change could benefit from reduced costs in the following ways:

- There are savings or financial benefits for some consumers purely through the unwinding of cross subsidies.
- There are also potential savings for some consumers in their current and future electricity costs based on specific behavioural changes. For example, those consumers who load shift or better utilise the network through spreading usage more evenly across the day could save with little or no investment.
- Consumers can also save through making appropriate investment decisions in some of the new technologies, products or services previously discussed.

# 4 What is cost reflective?

The previous section has set out the benefits of introducing tariffs that are more cost reflective. This section explains: what the costs of AusNet Services' network are; why existing tariffs do not reflect those costs; and what types of tariff structures are needed to improve cost reflectivity.

## 4.1 Drivers of distribution network costs

### Maximum demand

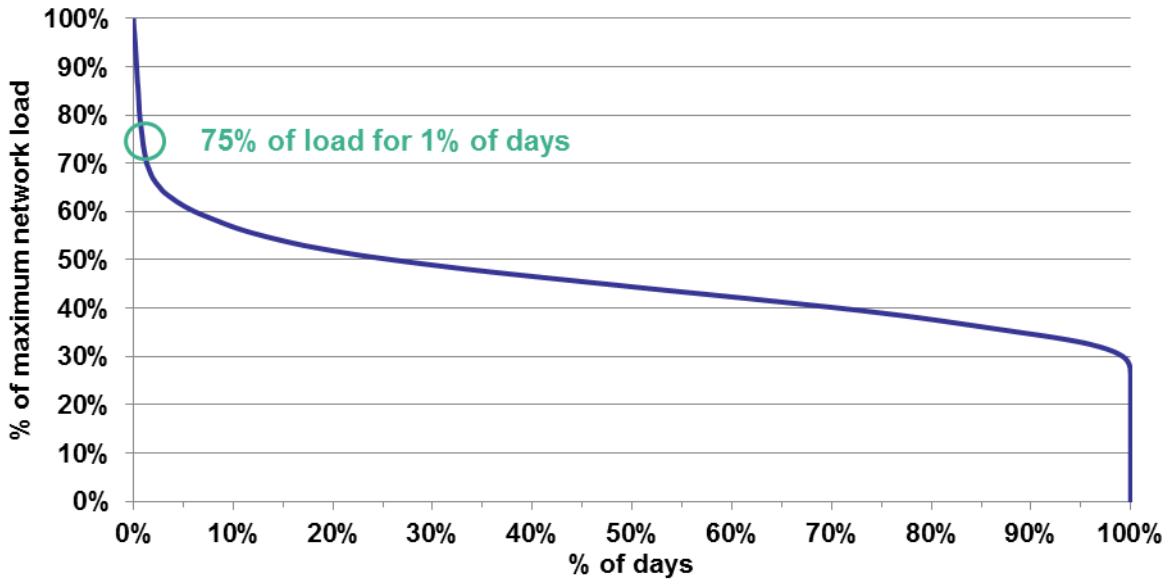
The major network cost affected by customer behaviour is the amount of investment in capacity required to meet the maximum demand period. The distribution network needs to be built so that it can continue to function at the period when most customers want to use the most energy, such as hot summer evenings. If there is not enough network capacity (e.g. in the transformers and powerlines), parts of the network will fail to operate and customers will experience black outs.

System maximum demand, which is the highest amount of energy that is consumed in total from the network over a 30 minute interval, determines the capacity built and, therefore, the cost of network. In Victoria, these peaks are generally times of extreme air-conditioning load on very hot summer weekdays. AusNet Services' network normally peaks between 3:00pm and 6:30pm in summer.

A useful analogy to understand peak demand and costs is the Melbourne Cricket Ground (MCG). The stadium was built to be large enough to handle the demand for seats for the AFL finals series (the peak period). Therefore, the overall capital costs are likely to be largely determined by the need to seat 100,000 people safely, not by the average number of people who use the stadium throughout the year. For example, when a grand final replay has to be held and a further 100,000 spectators attend, there are no additional capital costs to build further capacity. Conversely, when only 20,000 people attend a home and away match the costs of having already built the capacity to seat 100,000 are not reduced.

The figure below illustrates that, for AusNet Services' distribution network in aggregate, the network is only operating at the highest capacities for a small portion of the year. Only 1% of days required more than 75% of maximum capacity. Thus, a quarter of the network exists only to service 3 days of the year.

**Figure 4.1: Network load by duration, 2014**




Individual customers' demand can contribute to the maximum demand for their section of the network and for the network as a whole.

### Other cost drivers

Although maximum demand is the major cost driver that is influenced by customer behaviour, there are other costs that must be recovered. Only a small proportion of AusNet Services' costs are driven by its demand and energy forecasts, hence these 'other costs' are significant.

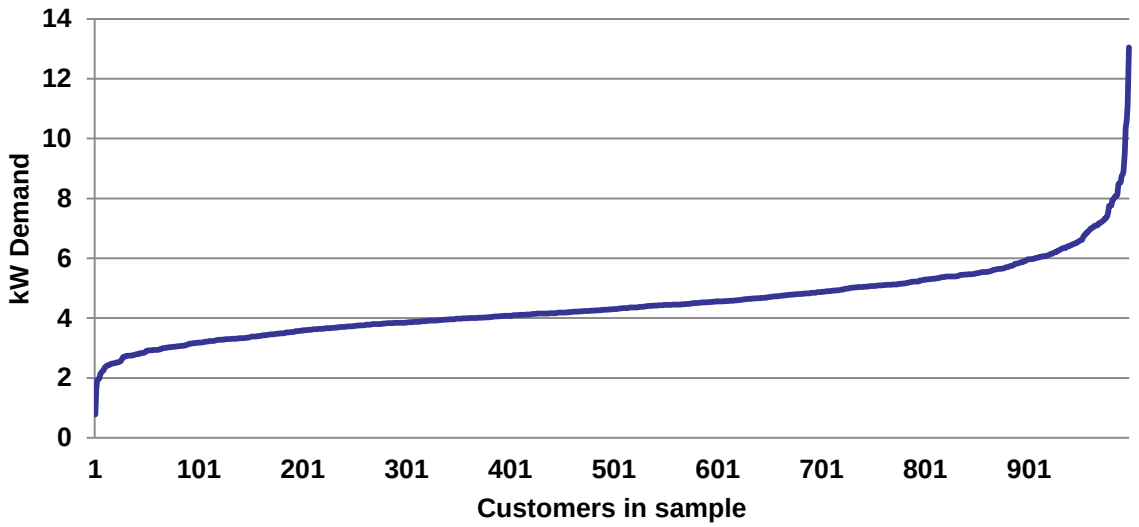
What determines the costs of AusNet Services' electricity distribution network?

- many costs are relatively fixed – assets have already been built and will last a long period of time;
- costs of maintaining assets are largely fixed – the costs do not vary with the amount of energy being consumed from the network outside of the peak period.
    - e.g. if electric coffee machines became more popular, so that customers were using more electricity in the mornings, this would not increase the costs of operating the network, so long as the morning demand on the network did not overtake the maximum demand which currently occurs in the evening. This is because the assets required to meet the morning peak are already in place.
- changes in obligations (such as around bushfire safety) can drive increases (or decreases) in expenditure.

## 4.2 How tariffs are cost reflective

Existing tariffs are based on a combination of fixed charges and energy charges (rates that apply to the amount of electricity that is consumed). As discussed above, a major driver of costs is maximum demand and not energy usage, however, as illustrated in the following example, energy use is not a good indicator of a customer's demand. The figure below shows the maximum demand for a sample of customers each of whom use around 4.3MWh per year. It can be seen that there is significant variation in how much these customers contribute to network costs. Based on a sample of 1,000 customers, the range of peak demand was 0.8kW at the low end to 13kW at the high end.

**Figure 4.2: Maximum demand (kW) range for 1,000 customers using ~4.3MWh p.a.**




To understand the variation in demand, it is helpful to think about what these customers might look like. For example, two customers may use different types of cooling as shown in the example is Section 3. Another example might be differences due to working hours or lifestyle, such as a shift worker who is not home during the period when maximum demand occurs.

As maximum demand is the main driver of costs, AusNet Services is proposing to introduce a demand charge into our tariff structures. This means that in the above sample, the customers with

the highest demand will pay the highest network tariffs, while the customers with low demand, who place very little cost on the network, will have lower network tariffs.

To further ensure cost reflectivity, the proposed demand tariffs will recover more costs at peak times when everyone wants to use the network (i.e. the network's 'grand final'), rather than at off peak times when there is lots of spare capacity.

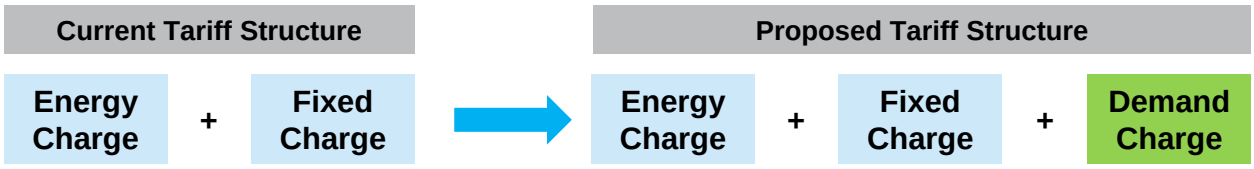
# 5 What is our proposal?

This section outlines our proposed tariff structure for residential and small to medium industrial and commercial customers. The tariff structure for large industrial customers will remain unchanged.

The relative amount of revenue collected from each tariff class will *not* change under this proposal.

As highlighted in the diagram below, the proposed tariff structure introduces a demand charge alongside an energy and fixed charge components. The demand charge will commence from 2018 and its level will gradually increase over a 5 year period. A phased approach of raising the demand charge to a cost reflective level assists in mitigating potential transitional issues. Our proposed structure is consistent with the other Victorian distributors.

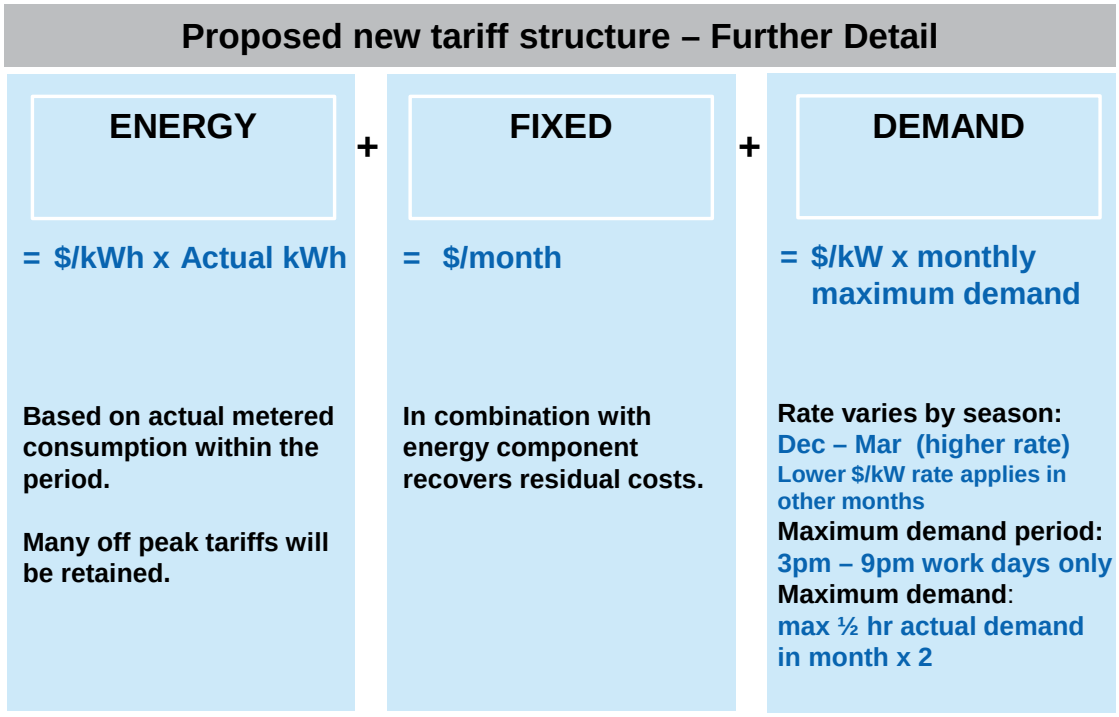
**Figure 5.1: Proposed changes to tariff structure**




The new structure ensures that there is no different pricing or treatment of customers based on any technology related investments they may have made such as batteries or solar panels. The proposed structure is designed to achieve an outcome where customers with lower demand in the maximum demand period, pay less than customers with the same energy consumption and higher demand.

The diagram below provides further detail on the key elements of the new tariff structure including the features of the demand charge.

**Figure 5.2: Proposed new tariff structure – further detail**




### Other tariffs

AusNet Services has a large number of existing tariffs such as for off-peak hot water. As noted in the diagram above many of these will be retained and one key reason is that they are already cost reflective. Specific details of what we are proposing for each tariff are included in the full TSS document.

# 6 What else needs to be considered?

Tariff reform is targeted at making prices more cost reflective. However, in implementing change, there are other important considerations beyond simply whether cost reflectivity is being achieved. These are the practical issues of reform.

This section outlines the key matters considered in developing new tariff structures, such as economic efficiency, effectiveness and customer impacts, and describes AusNet Services' approach to balancing these considerations. Finally, this section provides a summary of information to assist stakeholders to contribute their own assessment of how the best balance may be achieved.

## 6.1 Factors for consideration

AusNet Services' approached the development of our new tariffs with the following considerations in mind:

- *Cost reflectivity* – what is cost reflective for our network;
- *Customer impact* – how much will customers' bills change by? Will customers be able to respond? Do some customers need assistance?
- *Implementation issues* – can networks and retailers implement the new tariffs and at what cost? Will the new tariffs be well communicated to customers? Will they be able to be understood?
- *Stakeholder views* – what do customers, government, retailers and other stakeholders think of proposed changes?
- *Coordination* and consistency – what are other Victorian distribution businesses doing?
- *Rules compliance* – does the proposal meet requirements of the National Electricity Rules?

## 6.2 Approach to setting new tariff structures

Taking the factors for consideration described above, we have used these to inform and adopt three broad guiding principles in our proposed approach to applying cost reflective pricing:

1. Aim for consistency across Victorian distributors;
2. Balance efficiency with effectiveness in transitioning to new tariffs;
3. Meaningfully consult with customer and stakeholder groups to ensure our final proposed tariff structures and transition arrangements take into account not only desired economic outcomes, but also our understanding of social and public policy outcomes.

A key message that came through in the early stages of consultation around developing new tariff structures was the need for consistency across Victoria, so that when the new tariff structures are introduced, the changes can be clearly communicated and understood. Customers are used to being charged principally based on their total electricity consumption. Therefore, the concept of demand charges will need to be explained, and this will be easier if there is consistency across Victoria.

Throughout 2015, AusNet Services worked with other Distribution Businesses (DBs) to reach a common tariff structure that was cost reflective for the Victorian network as a whole. This was described in Section 5 above.

The table below summarises how our proposal meets each guiding principle.

**Table 6.1: Attributes of proposed tariff structure shaped by guiding principles**

| Guiding principle | High-level summary |
|---|---|
| **Consistency** | • Common tariff structure – Demand, Energy, Fixed<br>• Introduced off-season demand charge<br>• Common definition and calculation of peak demand<br>• No locational pricing<br>• No separate solar tariff |
| **Balance** | • Planning a 5 year phase in of the demand charge, but customer views remain a key consideration<br>• Demand component must be '0' until 2018 due to metering constraints<br>• Introduced an off-peak season maximum demand period<br>• Retention of off-peak energy rates including dedicated circuits<br>• Planning for a smoother transition to a cost reflective structure by making 2016 tariffs more cost reflective (through an increase in the fixed charge) |
| **Consultation** | • Adjusted weightings between peak and off-peak demand components of tariff structure to mitigate customer impacts and smooth volatility<br>• Conflicting views on pace of transition. Final transition period will depend on balancing customer impacts with effective communication of change. |

The balance achieved with the tariff proposal as described in the previous section, represents a series of compromises. This is particularly the case with regards to reflecting customer and stakeholder feedback. On many aspects of tariff reform, we heard disagreement from stakeholders over the preferred approach. For example, some argued the tariff should send a stronger demand signal, aimed at a narrower maximum demand window. Others were concerned this would hurt vulnerable customers.

In late September, AusNet Services took the decision to delay submission of our TSS proposal in order to better understand the issues of concern to customers with the proposed tariff structure, to explore options for addressing the concerns and to consult with customer representatives (and other stakeholders) regarding the best way to address concerns.

Specifically, the extra time has been used to focus on two areas of particular concern:

- **identifying impacts for specific customer groups:** the inability to identify vulnerable customers and how they are affected; and more broadly, the limited information available on how certain groups of customers would be affected: and
- **redistribution of who pays for network services:** while almost all customers are expected to face lower bills for the network component of their electricity than they do today, some types of customers will save significantly more than others. Specifically, customers who consume large amounts of electricity currently pay a large share of total distribution networks costs, and under the new tariff structure will pay a smaller share.

## 6.3 Identifying impacts for specific customer groups

AusNet Services, like other electricity distribution networks, holds limited information about who our customers are. The data we hold relates only to energy consumption and electricity demand. However since September, AusNet Services has been able to gather additional information that has helped us understand the impact of proposed tariff changes for different groups among our customers based on their financial status. For other customer attributes (for example demographics about life stage), we are still seeking to improve our capacity to identify these groups so that we can determine the impacts of tariff changes.

There are a large number of disadvantaged or vulnerable customers in AusNet Services' network area, relative to in Victoria as a whole. This statement is supported by a variety of data sources:

- Around 30% of AusNet Services' customers currently receive Victorian government energy concessions; and
- 47% of customers categorised as 'low' or 'very low' net worth, including 30% 'very low' net worth (unpublished Deloitte analysis based on census and other data sets).

From the Deloitte data set on financial status (net worth), which is matched to individual energy and demand profiles, we have developed the graphs below and been able to identify that:

- Financial status is not a major driver of either energy or demand profiles, although there is some differences for the highest net worth customers who use more energy and have higher demand overall.
- Within all financial status cohorts there is significant variation in energy consumption and demand.

The energy and demand profiles for AusNet Services' customers is shown in the following charts, with the customer base broken into the four 'net worth' cohorts (high; average; low; and, very low) from the Deloitte data set.

**Figure 6.1: Energy distribution (kWh) by financial status**

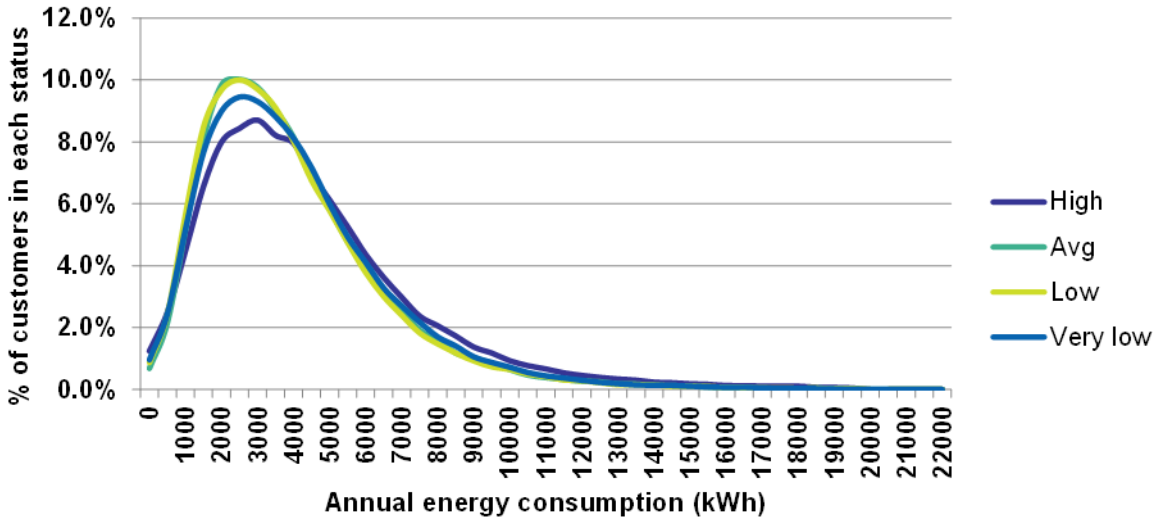
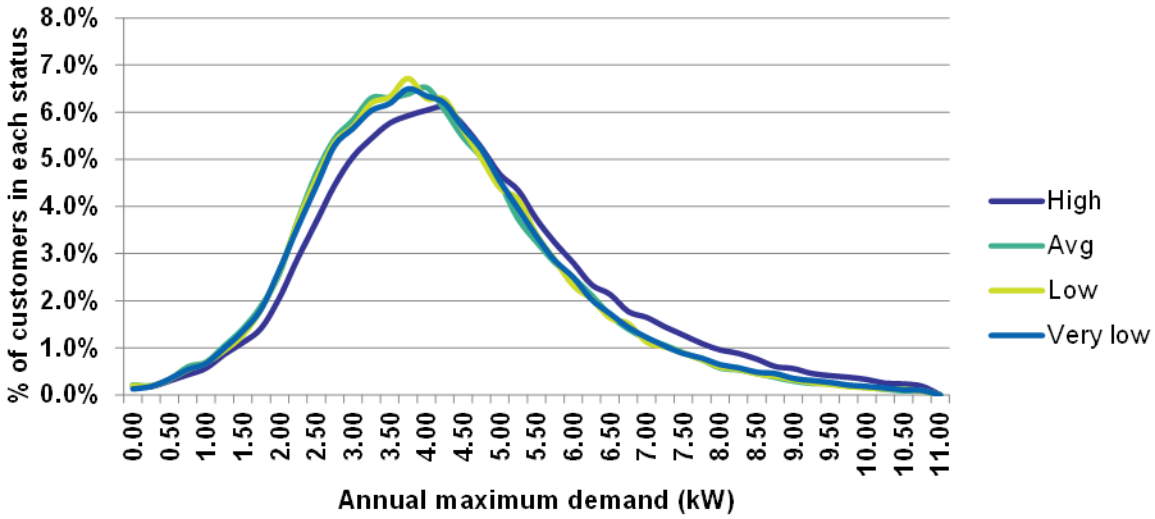


**Figure 6.2: Demand distribution (kW) by financial status**




Net worth is only one of many possible indicators of financial status or disadvantage. However, it is the best available information source. AusNet Services would welcome further consultation with stakeholders (retailers, customer advocates, etc.) who may be able to provide de-identified data that would assist in the analysis of impacts on vulnerable customers. AusNet Services is already in negotiations with one major retailer to obtain such data, which to be clear, would not enable AusNet Services to identify individual customers.

## Implications

Based on the additional analysis undertaken in the last month, it is clear that vulnerable customers are likely to have a broad range of energy consumption and demand profiles. As such, any change to tariff structures to introduce a demand charge and maintain AusNet Services' overall revenue unchanged is likely to result in some vulnerable customers facing higher bills. One possible way to protect vulnerable customers will be with a solution that targets those customers directly.

Therefore, AusNet Services believes that it will be important for tariff reform to be accompanied with targeted assistance or protection for vulnerable customers. This is particularly the case in AusNet Services' network area. Our analysis suggests that as a whole, this group will face an increased share of the network costs we collect from residential customers, although due to falling charges, the network component of electricity bills are expected to be lower.

AusNet Services does not consider itself to be in a position to propose what form of targeted assistance is most appropriate. This is a question for the industry and community as a whole, and should be informed by government and organisations with expertise in the needs of vulnerable customers and the practical implications of various options.

Nonetheless, AusNet Services can model outcomes of the options policy maker may consider. For example, for targeted assistance to vulnerable customers, either through a social tariff, rebate, or some other type of assistance package.

AusNet Services has estimated the cost of providing such assistance, so as to keep vulnerable customers' share of total costs flat, at around $8 million per annum. If the assistance was provided via a social tariff, the impact on remaining customers would be to forego future savings of around $16 each, based on an increase in the energy rate of around 0.35 cents/kWh.

## 6.4 Redistribution of who pays for network services

### Assessing options

In response to the issues identified by stakeholders, AusNet Services' reviewed whether the impacts could be altered via a change within the agreed common Victorian tariff structure.

The specific changes to AusNet Services' proposed tariff structure that were reviewed included:

1. removing the fixed charge;
2. introducing a demand threshold of 2kW below which the demand charge does not apply; and
3. retaining the inclining block energy components so that the block 2 rate (the rate that applies to higher volumes of energy consumption) is set at the current rate.

We did not consider completely new structures, reflecting our understanding that consistency across Victoria remains a priority.

In assessing whether these alternatives represented a preferable outcome, AusNet Services looked at a combination of the:

- Impact on the distribution of costs and in particular how the costs are shared amongst specific customer consumption and demand categories; and
- Other considerations (such as cost reflectivity, simplicity etc).

The tables below summarise the findings of the options analysis, with the first table summarising the impact on distribution of costs and the second table summarising the other considerations.

We have identified three quantitative measures to analyse the distributional impacts of the tariff structure options.

1. **Median bill impact**: This is a measure of redistribution because a small median saving indicates that a small group of customers are receiving most of the benefits. (1 represents largest saving; 4 represents smallest saving).
2. **Large energy users' proportion**: this shows the share of revenue that is paid by the group of customers with the highest energy use. We have taken a cut off as the top 15% of our customers by energy usage or ≥7 MWh per annum. This is approximately one standard deviation higher than the average annual energy consumed by a residential customer.
3. **High demand customers' proportion**: this shows the share of revenue that is paid by the group with the highest demand. We have taken a cut off as the top 15% of our customers by maximum demand or ≥6.25 kW per annum. This is approximately one standard deviation higher than the average annual maximum demand for a residential customer.

**Table 6.2: Options assessment – impact on distribution of costs**

| Option | Median bill impact (index: 1 = largest saving) | Large energy users % of network costs (15% of customers) | High demand customers % of network costs (15% of customers) |
|---|---|---|---|
| **Current TSS Proposal** | 4 | 26% | 24% |
| **Zero fixed charge** | 2 | 29% | 26% |
| **Demand threshold** | 3 | 27% | 25% |
| **Maintain inclining block** | 1 | 34% | 29% |

From the table above it is clear that the maintaining the inclining block tariff structure results in smallest change to distribution of revenue across customers (i.e. it is closest to current tariffs); followed by cutting the fixed charge, imposing a demand threshold, then the initial proposal.

**Table 6.3: Options assessment – other considerations**

| Option | Industry Administrative costs | Cost reflectivity | Simplicity |
|---|---|---|---|
| **Zero fixed charge** | No added cost | Moves away from cost reflectivity | No added complexity |
| **Demand threshold** | High cost | Moves away from cost reflectivity | Complex |
| **Maintain inclining block** | Higher cost | Consistent with Ramsey pricing principles (i.e. non-distortionary) | Added complexity due to more tariff components |

Based on the analysis outlined above, AusNet Services believes that it is possible to rule out the introduction of a demand threshold because it has limited impact on the distribution of costs, yet would be difficult and costly to implement both in retailers systems and it would create confusion for customers who could move above or below the threshold from one bill to the next.

AusNet Services also notes reducing the fixed charge moves tariffs away from cost reflectivity while not effectively protecting vulnerable customers.

However, maintaining the inclining block energy component of our tariffs remains a realistic option to mitigate impacts on smaller energy users.

As previously mentioned, AusNet Services does not consider itself to be in a position to propose what form of targeted assistance is most appropriate. We therefore look forward to continued discussion with key stakeholders to collectively design and implement an approach.

# 7 What we heard from stakeholders and how it informed our proposal

This section provides a brief overview of our approach to customer engagement, the key messages we have heard from our stakeholders and how these messages have informed our proposal. Attachment A provides further detail on our engagement process and our progress to date.

Customer engagement is not only critical to successfully implement tariff reform but also a key component of our broader corporate strategy. We are continuing to develop our customer strategy and specific capabilities / functions within our business to better manage customer engagement. Customer engagement will continue through this entire implementation process and beyond.

Our approach to engagement has been designed not only to inform customers of our analysis and tariff design considerations as we progressed but more importantly to gather feedback, assist in getting the balance right with key trade-offs and ultimately shape our thinking. This assists in developing a more considered proposal, minimising surprises and obtaining stakeholder buy in.

Our engagement process has involved a mixture of one-on-one or bilateral meetings, workshops and customer focus groups. Throughout this process we have engaged with retailers, retail customers, other distributors, customer advocates / representatives, Victorian Government representatives and AER representatives.

## 7.1 Key messages to date

Our engagement process identified three broad areas of feedback:

- Tariff design – we received feedback on the proposed structure of tariffs including the definition of peak demand and the inclusion of a peak demand charge.
- Customer impacts – a key area of focus for all stakeholders was the potential impact of varying tariff structures and options on customers. This analysis and feedback has been critical in shaping our thoughts and tariff proposals.
- Transition issues – related to customer impacts there were views expressed on the merits and issues of various approaches to transitioning to the new tariff structures.

The table below provides a summary of the key messages and examples of how we have incorporated those messages into our approach and proposed tariff structure.

**Table 7.1: Messages from stakeholder engagement and AusNet Services' response**

| Area | Key messages | Examples of what we have done |
|---|---|---|
| **Tariff design** | • A desire for consistency and simplicity in tariff design, language and terminology between distributors.<br>• Preference for peak demand charge to apply to business days only. | • We have developed a common tariff structure across distributors including a common definition of peak demand which applies only business days.<br>• We have confirmed that there will be no preferential treatment of technologies or customers (e.g. there will not be a separate alpine or solar tariff). |

| Area | Key messages | Examples of what we have done |
|---|---|---|
| **Customer impacts** | Some concerns on impact:<br>• of one off events on customer bills, for example one high peak demand event could increase a customer's bill.<br>• on low energy consumption customers and / or vulnerable customers<br>• on volatility in customer bills | • We have undertaken and will continue to undertake analysis to understand the impacts to customers and concerns such as those highlighted.<br>• Recognising the trade-offs involved in tariff design and to achieve an appropriate balance we have adjusted the weightings in our tariff components. e.g. the level of peak season demand charge vs. off-peak season demand charge.<br>• Modelled alternative tariff options to inform stakeholder assessment of 'best' tariff outcome. |
| **Transition Issues** | • Preferences on speed of transition is related to views on potential customer impacts<br>• Mixed views on whether customers should be able to exercise choice in cost reflective tariffs<br>• Educating and communicating concepts of new tariff structures to customers will be challenging but not impossible.<br>• Industry collaboration with Government is key to successful customer communication and education. | • To smooth the impacts, we are proposing a straight line transition over 5 years with a zero demand charge in 2017.<br>• For simplicity and effective implementation we are proposing all tariffs will incorporate a demand component.<br>• We will continue to work with industry and government to ensure a collaborative approach to education and customer communication. Our focus groups provided some useful empirical data and insights that can help shape future education campaigns. |

# 8 How will our customers be affected?

This section sets out the expected customer impact of AusNet Services' proposed changes to its tariff structures. This includes a comparison of indicative changes in customer bills between from 2018 (the first year of our tariffs with a demand charge) to 2015 (current costs). For simplicity our analysis is necessarily developed on the assumption that a retailer fully 'passes through' the network price change. In practice this decision is up to each individual retailer. We also separately identify the potential for customer savings through behavioural responses such as changing their energy consumption or usage patterns.

## 8.1 Indicative customer impacts – assuming no response from customers

The analysis presented in this section assumes no change in customer behaviour.

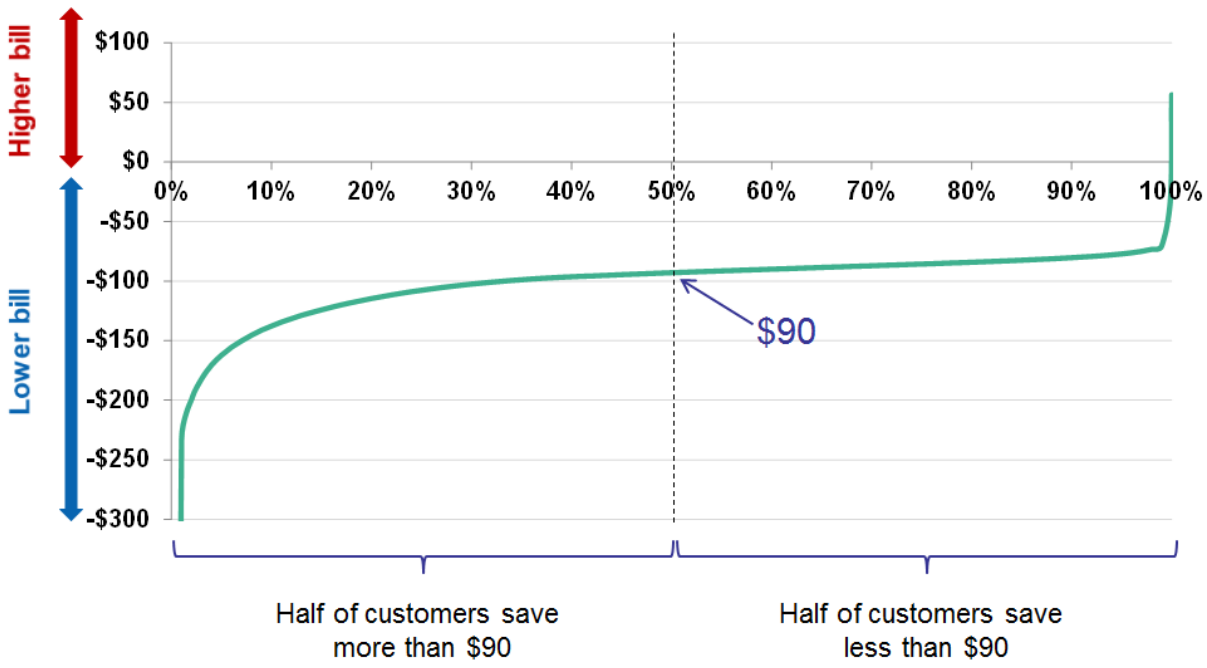
A typical residential customer in AusNet Services' network, who uses 4.3MWh annually, would currently pay approximately $830 in network charges including metering charges and GST. We believe the annual retail bill for this customer, using the standing offer tariff from a major energy retailer, would be approximately $1,790 inclusive of GST.

The figure below shows that in the first year of the transition to cost reflective tariffs (2018), AusNet Services expects almost every customer to have a lower network charge than they currently pay. Those very few customers that have a higher network charge we believe are outliers in AusNet Services' data set, with very low energy and extremely high maximum demand.

Whilst the figure focuses on the first year of transition, by the end of the TSS period (2020), AusNet Services still expects that close to 100% of customers (excluding outliers) will have a lower network charge than they have today.

Some stakeholders expressed concern with how customers who currently pay off-peak rates (either for dedicated circuits, e.g. off-peak hot water, or a standard peak/off-peak two rate tariff) would be treated under cost-reflective tariffs. We believe the impact on off-peak/dedicated circuit customers will be the same as other residential customers. This is because our off-peak energy rates are already close to cost-reflective, therefore AusNet Services is not proposing to change energy rates for these customers. And since the proposed demand charge is only applied during the 3pm-9pm time window, the impact of off-peak consumption is quarantined from those customers' demand charge.

**Figure 8.1: Size of change in network charge by share of residential customer base**



Given the similar energy and demand distribution of low socioeconomic groups to the wider customer base (see section 6.3), there is no strong evidence to suggest that the distribution of outcomes for vulnerable customers would be markedly different to the customer base as a whole.

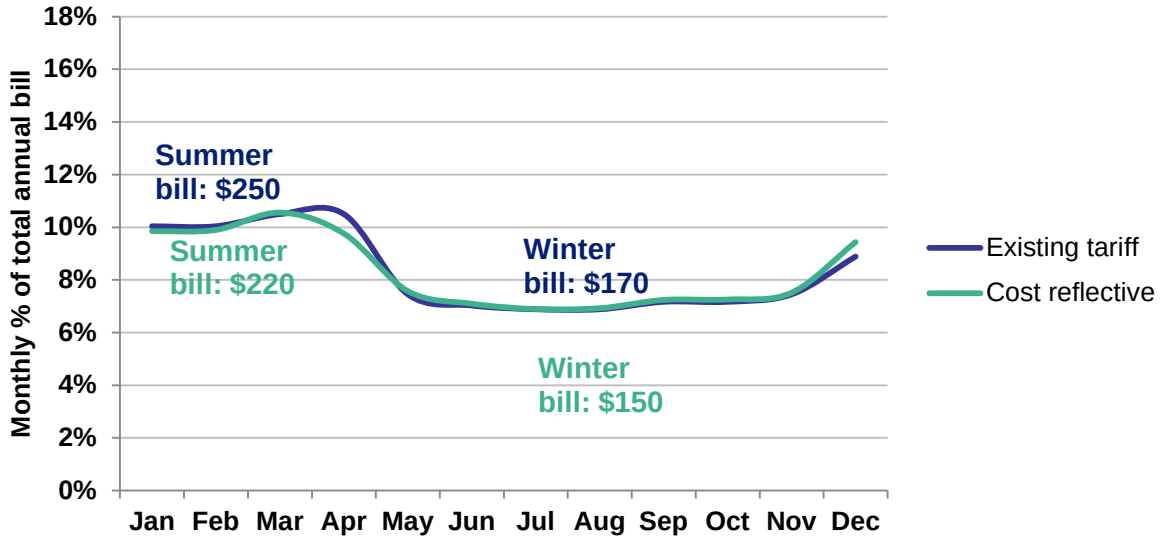
Nonetheless, recognising the need to ensure appropriate safeguards for vulnerable customers and the need for further analysis we expect to continue to refine our tariffs and work with our stakeholders to get the balance right.

### What are the bill to bill impacts?

The introduction of a demand charge has the impact of potentially increasing summer network bills and lowering winter bills. A number of stakeholders raised concerns that large bill variations from bill to bill and in particular a potentially large bill after the Christmas period could materially impact vulnerable customers. We have responded to this concern through re-balancing our tariffs and introducing an off-season demand charge and altering the fixed charge both of which help lower the bill volatility across the year.

The figure below shows the change in seasonal profile for electricity bills in 2018 versus 2015. The charts are again based on a customer who has ~4.3MWh of annual energy consumption and peak (summer) demand of 4.0kW. In addition to the lower total network bill in 2018, the measures taken by AusNet Services have resulted in an annual bill profile that is similar to the current tariff.

**Figure 8.2: Seasonal network bill profile for typical customer – 2015 vs 2018**




Beyond 2018, as we further transition towards a more cost reflective price and increase the demand charge the proportion of the annual bill paid in summer will increase. Importantly however, the five year transition path gives customers time to adjust and respond to this change with little or no one off bill shock. In addition, we will work with stakeholders to ensure appropriate safeguards for vulnerable customers.

## 8.2 Indicative customer impacts – potential benefits of behavioural change

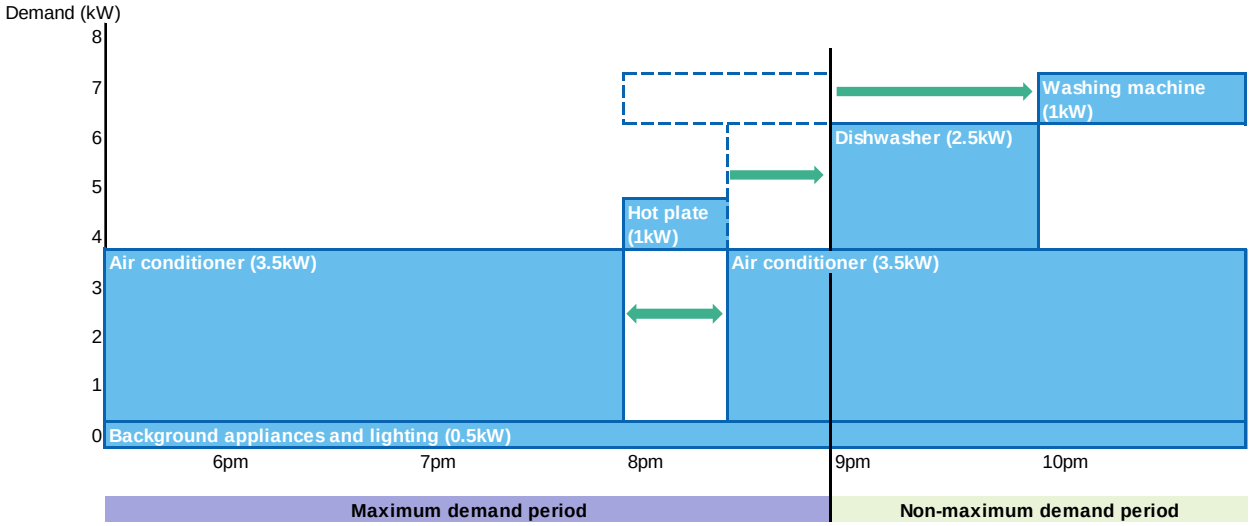
This section considers how customer behaviour can affect their networks bills under the proposed tariff structures and the potential cost reductions available through reducing their maximum demand for the summer period.

It is important to note that, even with a transition to cost reflective tariffs, customers can still reduce their energy bills by focusing on energy efficiency and that a move to cost reflective pricing does not remove this incentive. Rather, it provides an additional avenue for customers to save.

For customers to benefit through reducing their maximum demand they must have visibility (potentially in near real time) of their maximum demand. This means that customers must be aware of the impact that using multiple appliances at any one time may have on their demand.

The figure below depicts the impact of 'appliance stacking' for a hypothetical customer.

**Figure 8.3: Example of potential customer response**




The potential benefit obtained by a customer is determined by the level of reduction in maximum demand multiplied by the maximum demand charge.

In the above example, the customer's maximum demand before any behavioural change is approximately 7.5kW. By moving the washing machine and dishwasher to outside of the maximum demand period, and switching off the air-conditioner whilst cooking, this customer could cut their maximum demand by ~3.5kW. Using the 2018 indicative summer demand charge this (permanent) change in behaviour would result in a ~$40/year saving. Shifting only the dishwasher and washing machine, and letting the air-conditioner run during cooking time, would save a customer ~$29/year.

Stakeholders expressed a concern that one 'slip up' could result in a customer being penalised under a maximum demand tariff. As highlighted above, the scale of a 'slip up' to the network bill is likely to be small, particularly in the context of a total annual bill.

As an example, if a second (2.5kW) air-conditioner is used for a hot period or during a party in summer a customer's bill in 2018 for that month could be increased by as little as an additional $5. By the end of the TSS period (2020), the impact of this event would be $15.

# 9 Next steps

The process for finalising the TSS and our tariffs for 2017 to 2020 still has a long way to run, with final structures due to be approved by the AER mid-2016 and then final tariff levels and a transition path approved on an annual basis each November from 2016.

As previously mentioned, AusNet Services does not consider itself to be in a position to propose what form of targeted assistance is most appropriate. This is a question for the industry and community as a whole, and should be informed by government and organisations with expertise in the needs of vulnerable customers and the practical implications of various options.

For this reason this proposal should be viewed as the starting point for further engagement and we are committed to continuing to work with stakeholders to ensure that our future tariffs are set in a manner that best meets the long term interests of our customers.

# ATTACHMENT A – Stakeholder Consultation

## A.1 Introduction and context

A key objective in AusNet Services' five year corporate strategy is to become more customer focused. The business is currently at the start of a process of implementing a company-wide customer strategy. An important part of that strategy is a commitment to improve customer engagement across the business. This was developed in response to a number of internal and external factors and recognised the need to be prepared for the changes in the energy industry. In particular, the growing role of customers directly engaging with energy networks in areas such as network service levels.

Consequently, since 2013, AusNet Services has significantly increased the level and extent of customer engagement undertaken as part of, and beyond, regulatory review processes. Given the level of maturity of the business and the industry in undertaking broader customer engagement, it was deemed more effective and financially prudent to gain actual experience in this area, before attempting to develop detailed long term strategies and policies.

In adopting a realistic and pragmatic approach to customer engagement, AusNet Services has focused resources and effort on establishing a relationship with end-user customers and their advocates, and building internal capability through practical experience of customer consultation. This approach was put into practice in earnest for the first time as part of the development of its proposal for the 2016-20 Electricity Distribution Price Review (**EDPR**).

As a result, a range of broad based and targeted customer engagement activities were undertaken for the EDPR. These activities did not include detailed customer consultation on proposed tariff structures, as at the time, AusNet Services' tariff design was not sufficiently advanced to enable such consultation. In accordance with transitional arrangements, commencement of formal consultation on the development and implementation of cost-reflective tariff structures was planned for July 2015, prior to submission of a Tariff Structure Statement (**TSS**) on 25 September 2015.

The delay in consultation was driven by a number of factors:

- Further work on tariff design and customer impact analysis was waiting on the Australian Energy Markets Commission's (**AEMC**) final determination on distribution network pricing arrangements, released in November 2014;
- While it was recognised that consistency across distribution network service providers (**DNSPs**) in implementing cost reflective tariffs would be critical for effective tariff reform, industry consultation on the Rules Change had not yet commenced; and
- Development of a specific stakeholder consultation program for implementing cost reflective tariffs would benefit from learnings from EDPR specific customer engagement activities.

It is important to acknowledge that whilst EDPR customer engagement activities did not gauge customer views about proposed tariff structures, it did test several cost reflective concepts with customers. Customer feedback on this topic identified a number of consistent themes, which were helpful in illuminating customer attitudes to certain parameters of tariff design:

- In the context of whether customers should pay different amounts based on where they live if there are different costs of providing services to those customers, there was clear consensus that costs should be evenly spread across all customers. This view was shared by both metro and regional customers, and typically expressed in comments such as, "It's not really fair charging some people more".
- The concept of peak pricing signals were more acceptable than locational signals, however, it was also clear that customers did not distinguish between the network and energy

consumption elements of their electricity bill and, therefore, already consider themselves to be paying more for using more electricity during peak times.

- Paying a fixed charge (rather than variable charge based on consumption) to cover sunk network capacity was also rejected on the basis that it was unfair that there was no reward for cutting consumption, and that it would add additional complexity.

More broadly, feedback from customers highlighted the complex and sensitive nature of tariffs. It demonstrated that the topic is inherently provocative and people tend to react emotionally. Tariff discussions raise issues of equity, fairness, previously established expectations and social and public policy objectives. Also, without demonstrating price impacts at an individual level with tangible examples, it is very difficult to explain the economic justification for a move towards cost reflective pricing.

Finally, the original timeframe for the lodgement of our TSS was the end of September 2015, however, given the complexities and sensitivities we took an extra month to develop our proposal. We believe it was more important to spend this additional time to further engage with specific stakeholders, and to understand alternative options and their impacts on our customers.

This chapter describes how AusNet Services has engaged with stakeholders, including retail customers and retailers, in developing its proposed tariff structures. It also describes how findings from those engagement activities have been reflected in its TSS.

While these engagement activities were planned with discrete objectives in mind, they were also planned as an extension of the work commenced as part of the EDPR. In this regard, the approach and broader objectives of customer engagement are consistent with that adopted by AusNet Services in the development of its proposal for the 2016-20 EDPR. This was outlined in detail in AusNet Services' proposal, titled '*AusNet Electricity Services Pty Ltd Electricity Distribution Price Review 2016-20*', submitted to the Australian Energy Regulator (**AER**) on 30 April 2015.

The remainder of this Chapter covers the following:

- Section 1.2 explains the scope and objectives of consultation;
- Section 1.3 describes the range of engagement activities undertaken; and
- Section 1.4 summarises the findings of customer and other stakeholder engagement and how AusNet Services has incorporated these findings into the TSS.

## A.2 Scope and objectives of consultation

While the Rules explicitly require consultation with retail customers and retailers, AusNet Services believes that the implementation of cost reflective tariffs must involve consulting and working closely with a number of other stakeholder groups. The business recognises that network pricing raises particular issues for some sectors of the community (e.g., disadvantaged and vulnerable customers), and it has an obligation to consider these customers. It is also understood that there are some stated public policy concerns about some aspects of cost-reflective pricing.

Accordingly, in addition to retailers and retail customers, AusNet Services consulted with a number of other stakeholder groups, including:

- Other distributors to promote consistency in tariff design, language and terminology;
- Customer and community representatives such as Consumer Utilities Advocacy Centre (**CUAC**) and social welfare groups to ensure interests of vulnerable customers are protected; and
- Government and regulators such as the Victorian Government's Department of Economic Development, Jobs, Transport and Resources (**DEDJTR**) and the AER to ensure proposals address concerns identified by those stakeholders.

In response to public policy concerns and customer feedback provided as part of the EDPR, the scope of consultation did not specifically seek feedback on the issue of geographical differentiation in tariffs.

In developing the objectives for consultation on cost reflective tariffs, consideration was given to AusNet Services' longer term commitment to broader customer engagement and its objectives related to regulatory reform.

To that end, AusNet Services' customer and stakeholder consultation plan sought to advance those objectives by:

- improving the level of understanding and interest of customers and stakeholders in the energy industry;
- fostering an environment for increasing collaboration between network service providers, customers and other industry stakeholders;
- identifying potential issues and concerns of customers, and where possible, responding appropriately to address those concerns; and
- advocating cost-reflective tariff structures that balance economic outcomes with societal and broader community considerations in a way that best serves the long-term interests of customers.

In addition to supporting broader corporate objectives, the primary objective of customer and stakeholder engagement on cost-reflective tariffs was:

> **"To ensure our final proposed tariff structures and proposed transition arrangements adequately balanced the diverse preferences and views of our end-user customers and other stakeholders, and where possible, addressed any material issues/concerns."**

Due to the sensitivity surrounding tariffs, implementing any type of reform requires extensive customer consultation from multiple stakeholders.

A key learning from our experience with the implementation of Time-of-Use (**ToU**) energy tariffs is that changes to 'small' customer tariffs require engagement by government, other network businesses and retailers. With the above in mind, to support the achievement of our primary objective, the following subsidiary objectives were identified:

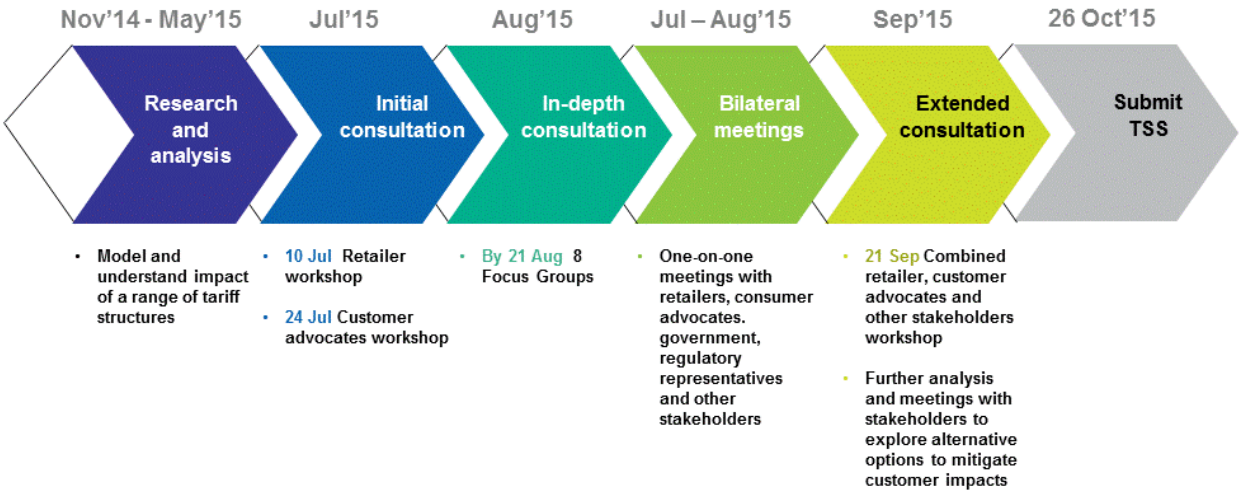
- Build understanding of tariffs among end-user customers and their representative organisations, including how cost-reflective tariffs result in more equitable cost allocation and efficient investment decisions;
- Encourage retailers to pass through price signals;
- Build support for AusNet Services' proposed tariff structures; and
- Build on AusNet Services' internal customer engagement capability to support embedding it as a business-as-usual activity across all business operations.

## A.3 Engagement activities

Based on a comprehensive review of customer and stakeholder groups, including their capacity to engage, their areas of influence and the impact of the proposed changes to tariff structures on them, four streams of activities were identified.

A high-level timeline and summary of these activities is outlined in Figure 1. below.

**Figure A.1: Summary of customer and other stakeholder engagement program**




A more detailed summary of the key engagement activities, which exclude the research and analysis phase, is documented in Table 1.

**Table 1: Description of customer and other stakeholder engagement program**

| **Initial consultation** | |
|---|---|
| **Overview** | AusNet Services' past experience with tariff reform has highlighted that:<br>• the nature of tariffs was complex and difficult to consult on at conceptual level with largely uninformed stakeholders, and without tangible examples of price impacts; and<br>• changes to residential and small- to-medium enterprise customer tariffs required support from retailers as they were the primary interface with these end-users.<br>Based on the above learnings, it was felt that customer advocates and retailers should be engaged in an initial consultation phase on proposed tariff structures. This would allow feedback to be sought early enough to enable time to consider feedback and factor it into the proposed tariff structures presented to end-user customers for consultation.<br>A focus on these two groups was considered the most effective way to:<br>• gauge the views and preferences of broader groups of customers who were otherwise difficult to reach;<br>• obtain meaningful feedback that could influence the final outcome; and<br>• engage those stakeholders who had the greatest influence and impact on the success of implementing any changes. |

**Activities**

### 1. Preliminary meetings with retailers

In preparation for a workshop with retailers, a number of bilateral meetings were held with large and small-to-medium retailers to seek preliminary feedback on our proposed tariff structures.

The purpose of these meetings was to identify potential issues with our proposed tariff structures, and where possible, address those concerns ahead of the retailer workshop.

### 2. Separate workshops for retailers and customer advocates

An invitation to attend the retailer workshop held on 10 July 2015 was extended to all Victorian retailers operating within AusNet Services' electricity distribution franchise area. Representatives from 12 retailers attended, representing a cross section of large, medium and small retailers.

An invitation to attend the customer advocates workshop on 24 July 2015 was extended to advocates representing diverse customer interests, and a number of regulatory and Victorian Government stakeholders. Representatives from 11 organisations attended, representing a diverse range of small-to-medium customer interests. The group included advocates for disadvantaged/vulnerable customers and alternative technology, the AER, a member of the AER Consumer Challenge Panel (CCP) for the Victorian EDPR, and a representative of the DEDJTR.

The purpose of these workshops was to foster an environment of collaboration between AusNet Services, retailers and customer advocates on the development and implementation of cost-reflective tariff structures by:

- sharing the latest thinking on possible tariff structures and stakeholder feedback received to date; and
- seeking feedback on all aspects of the proposed tariff structures in an open forum where design and implementation issues, and complex trade-offs could be debated.

Both workshops were independently facilitated to encourage discussion and avoid an adversarial environment. Feedback was specifically sought on three broad categories:

- **Tariff design:** Guiding principles adopted by AusNet Services in the development and implementation of cost-reflective tariff structures, options currently being considered, including definition of parameters.
- **Customer impact:** AusNet Services' methodology and approach to analysing customer impacts and implications of preliminary findings.
- **Stakeholder engagement:** How to best engage with retailers/customer advocates in future, and how to communicate changes with end-user customers.

Across all three discussions, feedback was also sought on what additional information would be considered helpful.

**Outcomes**

Participant feedback, provided in person and via forms, indicated that the workshops were effective in generating a good discussion and debate, sharing information and exploring ideas.

Feedback from this phase of consultation also assisted with selecting the tariff design option to be presented to end-user customers, and identifying the issues to be explored in planned focus groups.

Participants also expressed interest in both previewing our TSS and understanding how stakeholder feedback has shaped our proposal. In response, whilst not initially planned as part of the engagement program, a stakeholder briefing was held on 21 September 2015, following completion of the formal consultation phase. This briefing has been outlined in more detail later in this section.

## In-depth consultation

**Overview**

Another key learning from customer consultation as part of the EDPR was that focus groups, rather than public forums, was the most effective approach to explore end-user customer preferences in depth.

These enabled complex technical information to be delivered in a manner that could be clearly understood by participants. It ensured a two way dialogue with opportunities to respond to, and clarify key discussion topics.

This stream involved partnering with the same research company that assisted with the EDPR, to conduct a series of eight independently facilitated focus groups with a cross-section of AusNet Services' customer base.

**Activities**

During August 2015, a total of 54 AusNet Services' customers participated in focus groups held in Chadstone, Warragul and Ferntree Gully. These locations were selected to ensure a cross-section of AusNet Services' customer base, including the following criteria could be met:

- a mix of age, genders, electricity bill size, household income, children/no children;
- a mix of home owners and renters;
- a mix of households with and without solar power; and
- for non-residential focus groups, a mix of business types, including restaurants and primary industry.

The objectives of these focus groups were to:

- gauge the extent to which end-user customers could reasonably understand the various components of AusNet Services proposed tariff structure, and to seek their views on the materiality of the indicative customer impacts;
- identify potential issues and concerns of end-user customers with the proposed changes to tariff structures to ensure that where possible, AusNet Services could respond appropriately to address those concerns;
- test the validity of certain assumptions about end-user customer responses to the proposed changes, which were raised by retailers and consumer advocates; and
- explore the nature of the communication/education campaign required to effectively implement the new cost reflective tariff structures.

**Outcomes**

Findings of the focus groups were used to either confirm or question some pre-existing assumptions and observations made by the business, retailers and customer advocates. These related to the end-user customers' ability to reasonably understand the new tariff structures, their preferences and likely behavioural responses to tariff changes.

Some of the findings were helpful in illuminating customer attitudes to AusNet Services' proposed tariff structure and preferences in regards to the various approaches to transition arrangements. These have been specifically considered as part of the development of AusNet Services' TSS. A number of other findings were related to issues outside the scope of the TSS. These will be valuable in assisting with future industry-wide planning on the implementation of the new tariff structures.

Further insights and findings are discussed in more detail in the next section of this chapter.

## Bilateral meetings

**Overview**

Due to the sensitivities that surround tariffs, AusNet Services' executive and senior management met with individual stakeholders on a needs basis to ensure concerns were being heard and addressed.

**Activities**

A number of briefings and meetings with key stakeholders and customer representatives were held during the course of developing AusNet Services' TSS.

These include:

- meeting with CUAC on 29 June 2015, to seek preliminary feedback on proposed approach and tariff structure options.
- meeting with the Minister's Office on 30 June 2015, to ensure that the State Government's views and any public policy concerns were considered early in the development of proposed tariff structures and transition arrangements.
- meeting with the AER on 1 July 2015 to maintain an on-going dialogue during the development of the TSS and facilitate a common understanding of issues and options to address concerns.
- meeting with the DEDJTR on 18 August 2015 to provide an update on customer impact analysis.
- joint meeting with CUAC and ATA on 19 August 2015 to provide an update on the development of AusNet Services cost reflective tariff structures.

In addition to bilateral meetings, AusNet Services' has participated in industry led engagement on implementing network tariff reform. This includes a workshop led by Energy Networks Association (**ENA**) and Energy Retailers Association of Australia (**ERAA**) on 28 May 2015 between distributors and retailers.

**Outcomes**

These meetings assisted with understanding the specific concerns of various stakeholder groups, exploring options to address those concerns, and facilitating on-going dialogue during the consultation process.

## Stakeholder briefing

**Overview**

As previously highlighted, in response to stakeholder feedback, AusNet Services held a combined retailer, customer advocate and other stakeholder workshop on 21 September 2015.

**Activities**

Representatives from 13 organisations attended, representing a mix of retailers and a diverse range of small-to-medium customer interests. The group included the AER and a member of the AER CCP for the Victorian EDPR.

The purpose of this briefing was to:

- outline how AusNet Services had balanced desired economic outcomes with stated concerns about customer impact and volatility in our proposed tariff structures and transition arrangements;
- explain how stakeholder feedback, including findings from focus groups with real customers, had been considered in our proposal; and
- seek feedback on how stakeholders should be engaged in the next phase of consultation to address any material issues raised, and provide further information/analysis requested.

The objectives of this briefing were to:

- build understanding of the design of our proposed tariff structures and transition arrangements;
- provide an opportunity to ask questions about the rationale behind the decisions and trade-offs made; and
- commence planning for the next phase of implementation of cost-reflective tariffs by exploring options to engage in future.

**Outcomes**

The briefing was helpful in validating that the common themes of stakeholder feedback identified were material areas of concern. Each theme generated a rich debate and discussion. The diversity of perspectives presented, which were often opposing, demonstrated the challenge in balancing trade-offs in tariff reform.

It was also apparent that tariff design alone could not adequately address all material stakeholder concerns. Some concerns may need to be addressed through other mechanisms, such as changes to concession payment schemes and a customer education/communication campaign.

Stakeholder feedback from this briefing also highlighted the need for clearly articulated and consistent communication messages between DNSPs, on the objectives of introducing cost-reflective tariffs and the benefits to customers.

| Extended consultation | |
|---|---|
| **Overview** | Given the complexities and sensitivities highlighted in the stakeholder briefing, we took an extra month to further engage with specific stakeholders, and to understand alternative options and their impacts on our customers. |
| **Activities** | A number of briefings and meetings with key stakeholders and customer representatives were held during October 2015.<br>The purpose of these briefings were to:<br>• share further information and analysis undertaken in response to stakeholder requests;<br>• address concerns expressed with respect to vulnerable customers; and<br>• test various alternative options to our initial tariff proposals. |
| **Outcomes** | These meetings markedly enhanced stakeholder understanding of what tariff reform meant for AusNet Services' customers and allowed various alternative options to be road tested with experienced customer advocates and Government.<br>The TSS was modified to include the results of our further analysis and provide the prefered options for the AER's consultation phase. |

## A.4 Customer and other stakeholder engagement findings

AusNet Services undertook several engagement activities aimed at gauging the views of customers, their advocates and retailers, on preferred tariff design and transition arrangements. Customer and customer advocate activities continued the work that commenced as part of the EDPR, albeit with a more defined scope. In this regard, engagement activities have been valuable in further building relationships with customer advocates, and helping embed that activity as part of business-as-usual practices.

In contrast, retailer-focussed engagement activities were a major step forward by AusNet Services to initiate collaboration with retailers to implement network tariff reform. It was clear that progressing tariff reform at an industry level is not only valuable, but necessary for effective implementation.

At the core of this consultation was the trade-off between efficiency and effectiveness, in both tariff design and the transition to new tariffs, whilst being cognisant of the need to mitigate adverse impacts on particular customer groups. In effect, this reflects the need to balance the requirement to reflect the true potential future cost of augmenting the network to meet growing peak demand, with the ability to effectively implement and communicate the new tariffs in practice, whilst also protecting the interests of disadvantaged and vulnerable customers. While AusNet Services believes that cost reflective tariffs are necessary, we recognise the many stated public policy issues that need to be satisfied, including due consideration for the protection of disadvantaged and vulnerable customers.

As the engagement program progressed, some common themes in customer and stakeholder views became evident. Following is a summary of these views and opinions, and how they have been incorporated into the TSS.

| Theme 1 | Consistency and simplicity in tariff design, language and terminology is essential between DNSPs |
|---|---|

**What we heard**

- There was general consensus from both retailers and customer advocates that achieving consistency across Victorian DNSPs, particularly in defining and measuring peak demand, will be critical to the effective communication and implementation of new network tariffs. This includes consistency in parameters such as which months, days and hours are considered "peak" periods. It also includes consistency in the calculation of peak demand based on the highest measured half hour demand per month.
- In terms of implementation, consistency was seen as particularly important for both the operation of the retail market and application of concession schemes.
- In terms of communication, consistency was seen as fundamental to explaining the new tariffs to customers whose knowledge of tariffs in general was already low.
- Generally, retailers and customer advocates believed there was very little difference between recovering residual costs through a minimum monthly peak demand charge component, or through a fixed charge component. Further, it was the general opinion of customer advocates that end-user customers would not perceive a difference between a minimum and fixed charge component.
- Feedback from end-user customers was not explicitly sought on the topic of consistency. Its importance, however, was implicit in their comments on the topic of communication and education about tariff changes. This feedback highlighted the need for simple messaging, which in practical terms can only be achieved through consistency across DNSPs.
- Further, customers expressed a preference for the changes to be communicated through their bills, and supported by traditional broadcast communication channels, such as TV and radio. Therefore, a successful education/communication campaign involving broadcast media and reaching a state wide audience, would necessarily require consistency between DNSPs.

**What we have done**

- Common tariff structure – Maximum Demand, Energy, Fixed
- Common definition and calculation of maximum demand
- Introduced off-season demand charge
- No separate pricing for Alpine regions
- No separate solar tariff

| Theme 2 | Preference for the peak demand charge to apply on five business days only and not extend to weekends and public holidays |
|---|---|

**What we heard**

- Late in the stakeholder consultation phase, many customer advocates highlighted concern about the application of the peak demand charge to weekends and public holidays. AusNet Services is unaware of whether this is a concern shared by retailers, as it had not been explicitly raised as an issue by any retailers.
- This concern was expressed in a formal joint submission to AusNet Services from the Alternative Technology Association on behalf of St Vincent De Paul Society, CUAC, Victorian Council of Social Service, Consumer Action and Kildonan. These customer advocate groups indicated a preference for the peak demand charge to only apply to business days.
- The reasons for this include:
  - Weekend and public holiday charges are inconsistent with LRMC based pricing as only a small portion of Victoria's networks peak on weekends;
  - It would be unfair and send perverse price signals to charge consumers with weekend-peaking homes in weekend-peaking areas, when their weekend load does not impact on the local network;
  - Weekend peak charges may be highly confusing and very unpopular with the public, negatively impacting effective implementation of the new tariffs.
- There was no clear consensus among end-user customers as to whether the maximum demand period should be applied five or seven days, with differing attitudes largely based on perceived effect of the demand charge. Key reason for a seven day preference was to reduce the complexity of the change and make the parameters easier to remember. Those with a five day preference believed it would reduce the number of days in the month where they had to be cautious about their electricity usage.

**What we have done**

- Collaborated with other DNSPs to reach consensus to apply the peak demand charge to business days only, excluding weekends and public holidays.

| Theme 3 | Concern about implementing cost-reflective pricing through introducing a maximum demand charge |
|---|---|
| **What we heard** | • Some retailers expressed a view that if ToU energy tariffs were modified to become more cost reflective, it presented a genuine alternative to introducing a peak demand charge component. This view was driven by a number of factors, including the view that such an approach would minimise the impact on some specific customer groups, marketing of ToU energy tariffs was beginning to gather some momentum in the industry, and the concept of ToU energy tariffs would be easier for customers to understand than the concept of a peak demand charge.<br>• Perceptions of fairness vary among customers and largely depend upon how narrowly or widely they see the change in context with the 'bigger picture".<br>• Most customers felt that the current approach for determining network tariffs based on energy consumption was a more equitable and fair system, often describing it as a "user pays" system.<br>• Other concerns over the fairness of having to respond to a maximum demand price signal include a perceived inability to adequately respond to it (e.g., in the case of renters) or circumstances where it is felt unreasonable to be made to respond to it (e.g., during extreme weather events). |
| **What we have done** | • Proposed a maximum demand charge, but proposed it apply it to business days only, reducing risk of "blowout" effect.<br>• ToU tariffs considered less consistent with Rules than a maximum demand charge.<br>• Using feedback to inform customer communication. |

| Theme 4 | Concern about the potential negative impact of single, one-off events on customer bills |
|---|---|

**What we heard**

- Concern was raised by both retailers and end-user customers that using a single half hour for each month during the peak season (December to March) to define peak demand, would penalise customers for a rare non-characteristic usage pattern (e.g., a celebratory party), i.e., one slip up during a month could lead to a higher bill.
- Retailer concerns primarily related to the operational impact of customer queries seeking to pinpoint the activities/events reflected in their peak demand charge.
- Some customers expressed the view that the potential to be negatively impacted for a whole billing cycle by an isolated event could discourage changes in customer behaviour. In many instances, the first reaction to an explanation of how the peak demand charge was determined is that customers should increase their overall energy consumption to avoid a peak in energy consumption. This reflected a general lack of understanding of how distribution network charges are calculated, and more broadly, what makes up electricity bills.
- Some customers suggested that this could be mitigated by using an average of top values in a month, typically arguing that "it would be fairer", particularly for those customers who were generally responding to the peak demand price signal for all other times during the month.

**What we have done**

- Analysed risk to customers and impact of alternative approaches. Found bill impact was not substantively different to an averaged approach.
- AusNet Services is of the view that adopting an average of top values in the month would create a further complication, reducing customer understanding and responsiveness. It would also diminish the price signal.
- AusNet Services believes current approach is simpler and easier to understand.
- Analysed potential impact of isolated events. There is potential to mitigate this risk to customers through the education campaign leading to the implementation of the new network tariffs. In particular, providing dollar impacts of tangible examples of increased or decreased peak demand to demonstrate that the new tariff is not as punitive as it may be perceived to be, e.g. 2.5kw air conditioner running during peak period = $5 impact in one year.

| Theme 5 | Concern about the adverse bill impacts on low energy consumption customer groups, disadvantaged and vulnerable groups |
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**What we heard**

- Multiple stakeholders, including retailers and customer advocates, expressed broad concern about understanding the bill impacts of tariff change on customers, i.e., proportion of short term 'winners' to 'losers' of network tariff reform.
- Concern that low consumption customers comprised a higher proportion of relative 'losers' of network tariff reform, and that this would include disadvantage or vulnerable customers.
- When net impacts were presented to end-user customers, indicating that very few customers would be worse off in absolute terms (due to non-tariff compensating factors), there was a strong sense among many customers that the introduction of a peak demand charge would increase electricity bills. This scepticism reflects the lack of trust amongst customers when it comes to electricity bills. The prevailing perception is that electricity prices keep rising and any change will lead to further price increases across the board.
- Customers often made an assumption that the vulnerable, low income and large family households would be worse off. Typically, expressed in comments such as: "*What about vulnerable people or people on low incomes? They can hardly afford their electricity bills at the moment."*

**What we have done**

- Identified this issue as an opportunity to collaborate with other stakeholders, such as retailers or customer advocate groups, to gain access to better cohort data. Continuing to seek stakeholder feedback.
- Modelled bill impacts for a small sample of vulnerable customers, but decided further work with better data was required.
- Undertook further detailed research on socio-economic cohorts within customer base using census and ABS data.
- We then undertook an additional round of consultation throughout October to share further research findings and incorporate feedback into tariff options that could mitigate particular distributional impacts.

| Theme 6 | Concern about the volatility in customer bills due to seasonal impacts |
|---|---|
| **What we heard** | • Some customer advocates expressed concern that there was the potential for "bill shock" during peak seasons, creating anxiety and uncertainty for customers. There was also concern that this could create potential cash flow issues for customers, particularly disadvantaged or vulnerable customers depending on concession payment schemes.<br>• Focus groups indicated that end-user customers' attitudes towards the potential for variations in bill size (e.g., +/- $50-100) from month to month are largely based on their financial means or level of household income. Whilst concern was not widespread, those with lower incomes were most concerned about their ability to manage bill variation. Customers on moderate to higher household incomes generally felt more comfortable in absorbing changes in their bills across the year as long as the net impact of these variations do not result in them being worse off across the entire year.<br>• End-user customer attitudes towards seasonal variations in bill size are dependent upon their understanding of the increase pressure on the network over hotter months and the necessity to increase the peak demand charge accordingly. AusNet Services observes that this response is not dissimilar to general customer understanding and acceptance of seasonal variations in gas bills. |
| **What we have done** | • Adjusted weightings between peak season demand charge and off-peak season demand charge to mitigate customer impacts and smooth volatility<br>• Identified opportunities outside of tariff design to mitigate seasonal bill impacts, which could be explored at a later date during industry consultation on implementation, e.g., bill smoothing with retailers, re-shaping concession payment schemes to reflect changes in the timing of cash flows for end customers. |

| Theme 7 | Customers believe they are unlikely to change their behaviour in response to the new tariffs, unless the bill impact was between $200 to $500 per annum. |
|---|---|
| **What we heard** | • Most end-user customers were of the view that they would not change their current behaviour unless there was a significant increase or decrease in their bills a result.<br>• Customers generally felt that an increase or decrease of between $200 and $500 per annum would be significant enough to warrant behaviour change during peak demand periods. |
| **What we have done** | • AusNet Services has not explored increasing the maximum demand price signal in response to this feedback. This response reflects an objective to mitigate the impact on disadvantaged and vulnerable customers. |

| Theme 8 | Preferences about speed of transition to new tariffs were directly related to views about customer impacts |
|---|---|
| **What we heard** | • Recognition from retailers and customer advocates that to realise benefits from implementing cost-reflective tariffs, a relatively shorter transition (e.g., within a year) would be preferable.<br>• One view put forward by a customer advocate that garnered reasonable support, was that the transition to the new pricing structure should be quick (even immediate), and the level of the price within each component of the tariff structure could be used to manage customer impacts. In this scenario, the impact of the change should be at a level that customers can feel without presenting undue difficulty. The rationale for this approach was that a visible price signal would provide a valuable opportunity for educating customers on the change.<br>• Similarly, end-user customers expressing a preference for a relatively shorter transition often believed it was necessary for the tariff change to be less complicated, more visible and therefore easier to respond to.<br>• Notwithstanding the above, when considering customer impacts, many stakeholders preferred the transition to be phased-in over a longer period, but generally for a price signal to still be visible.<br>• Where customers held concerns about adverse customer impacts, preference was for the transition to the new tariffs to be phased-in over a longer period. Advocates of this view believed that a slower transition would help to mitigate the adverse customer impacts and provide adequate time to build customer understanding and acceptance of the reforms. |
| **What we have done** | • Proposed to phase in the LRMC based demand component over a 5-year transition period. |

| Theme 9 | Mixed views about whether customers should be able to exercise choice in adopting cost reflective tariffs |
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| **What we heard** | • Most customer advocates expressed support for a mandatory approach to transitioning to new tariffs. This preference was primarily driven by the view that if customers are not required to have a cost reflective tariff, they will naturally seek to avoid it where it is not in their interests.<br>• Whilst retailers expressed mixed views, there was a tendency towards a preference for an 'opt-in' approach. As expressed explicitly in a submission by one retailer to AusNet Services, an 'opt-in' approach will enable retailers to identify customer groups that will benefit from the new tariffs and directly market retail products to them.<br>• End-user customer views on mandatory uptake of new tariffs were not explicitly explored. A key learning from AusNet Services' experience with the implementation of ToU tariffs appears to suggest that 'opt in' approaches do not attract meaningful customer transfer. This is also supported by international research on the topic. |
| **What we have done** | • Proposed all customers to be assigned to the new cost reflective tariffs, but awaiting further stakeholder feedback |

| Theme 10 | Educating and communicating the concept of a peak demand charge will be challenging but not impossible |
|---|---|
| **What we heard** | • General consensus from retailers and customer advocates that educating and communicating customers about the new tariffs would be challenging. Such views are not surprising, given the inherently complex nature of the concepts of peak demand, the lack of trust among customers and limited understanding when it comes to electricity bills.<br>• Some retailers suggested that the short-term effects of introducing a peak demand charge would appear counter intuitive to customers. As customers were more familiar with the concept of energy consumption and being energy efficient to reduce their bills, the short-term impacts of the tariff charge, which appeared to benefit customers with a high-energy consumption, would appear counter-intuitive.<br>• AusNet Services' experience with a limited sample of end-user customers in focus groups confirmed that customers typically have a strong understanding of the concept of electricity consumption, but most need the concept of peak demand explained. That said, once the need for the tariff structure change was explained in detail, a small cohort of customers (between 1-3 per focus group), generally understood the concept more thoroughly than the others. This cohort was more likely to be positive about the change and feel empowered to explain it to others. Whilst these findings are not statistically significant, they indicate that end-user customers are capable of understanding and responding positively to the concept of peak demand charges. |
| **What we have done** | • Identified an opportunity to share valuable empirical data from focus group findings at a later date during industry consultation on implementation. |

| Theme 11 | **Industry collaboration with Government on a multi-channel approach should be adopted for communicating the new tariffs to customers and educating them about the reasons for and benefits of the change** |
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**What we heard**

- Retailers and customer advocates supported industry collaboration with government to educate and communicate the network tariff changes to customers.
- End-user customers expressed a preference for a trusted, independent body, such as the 'regulator', but often couldn't identify a specific body or organisation.
- In general, customers said that any education and communication about the change should:
  - Explain the reasons for the change;
  - Provide clear and simple messages (including the concept of peak demand) in 'bite-sized' chunks over an extended period of time; and
  - Explain the customer impacts in practical terms.
- Customers generally expressed a preference for the education and communication campaign to be modular and staggered, often citing the switch from analogue to digital television as an example of successful implementation.
- Customer preferences on the preferred channel for communicating the network tariff changes included retail electricity bills, television and radio. 'Shadow billing' was a commonly suggested approach to providing information on the impact of the new tariff structures, i.e., prior to the changes coming into effect, electricity bills could show peak demand usage and the effect it would have on each bill following the introduction of the new tariff structures. This highlights the importance of industry-wide engagement on an education campaign, and in particular, the need for DNSPs to work closely with retailers on tariff reform. On-line and mobile friendly tools also have an important role in helping customers to understand how their behaviour is impacting on their bills. This indicated that effective implementation would require a diverse range of communication channels to be adopted. Broader focus group findings validated the generally accepted industry view that end-user customers have a relatively low awareness and understanding of the electricity supply chain and the make-up of their electricity bills. The focus group findings also revealed a general lack of trust among customers when it comes to electricity bills.
- AusNet Services observed that in light of the above, a successful education and communication campaign must first address the issue of mistrust and improve baseline understanding. Without this groundwork, prevailing customer attitudes and understanding will act as barriers to acceptance of cost-reflective tariffs.

**What we have done**

- Identified an opportunity to share valuable empirical data from focus group findings at a later date during industry consultation on implementation.