

Appendix P – ENA and Networks NSW stakeholder workshop

ENA and Networks NSW stakeholder workshop on vulnerable customer issues and network businesses future tariff structures, Thursday, September 24, 2015.

This seminar was jointly hosted by the Energy Networks Association with Networks NSW on vulnerable customer issues and network distributor businesses future tariff structures. Stakeholders representing vulnerable customers and consumer groups participated in the seminar and its discussions.

Several background papers were distributed by ENA to participants ahead of the forum to provide context for the presentations made on the day. These papers included:

Supporting Vulnerable Energy Customers, an Energy Networks Association information paper: - May 2015.

Supporting Vulnerable Energy Customers – an options paper for the Energy Networks Association, Houston Kemp, 20 March 2015.

The seminar's presenters included:

Speaker	Organisation
Janine Young	Energy and Water Ombudsman (EWON), NSW
Vince Graham	CEO, Networks NSW
Lynne Gallagher	Energy Networks Australia
Mathew McQuarrie	Ausgrid Manager Network Regulation
Daniel Bubb	Endeavour Energy Network Pricing Manager
Natalie Lindsay	Essential Energy Manager Network Regulation
Kate McCue	Networks NSW
Wayne Burns	ACIL Allen Consulting

This summary should be read in conjunction with the presentations given by the presenters above. Please note that in the interests of time, not all presenters were able to present all the material included in their material.

Attendees at the seminar included:

Participant	Organisation
Annie Kiefer	Country Women's Association
Morris Mansour	Ethnic Communities Council
Iain Maitland	Ethnic Communities Council of NSW
Jane Leung	EWON
Armanda Scorrano	NCOSS
Serena Ovens	Physical Disability Council of NSW
Oliver Derum	PIAC
Jess Munton	PIAC
Mark Byrne	Total Environment Centre
Craig Memery	Alternative Technology Association
Rosemary Sinclair	Energy Consumers Australia
Mercedes Lentz	Consumer Utilities Advocacy Centre

Participant (Continued)	Organisation
Randall Brown	Energy Australia
Ben Barnes	Lumo Energy
Alex Mc Pherson	Jemena
Kee Li	Jemena
Katharine Hole	NSW Department of Industry
Shelley Ashe	NSW Department of Industry
Lauren Solomon	AGL
Shaun Ruddy	Alinta Energy
Keith Roberson	Origin Energy
Adrian Kemp	Houston Kemp
Helen Scott	Ethnic Communities' Council of NSW
Chris Dodd	EWON
George Powell	NSW Business Chamber
Katie Hannouch	Transgrid
Representative	Choice
Representative	Lumo Energy
Representatives	Salvation Army

Attending from the three network businesses:

Participant	Organisation
Trevor Armstrong	Deputy Chief Executive Officer, Ausgrid
Matthew McQuarrie	Ausgrid Manager Network Regulation
Robert Telford	Ausgrid
Zoe Allebone	Ausgrid
Scott Ryan	Acting Deputy Chief Executive Officer, Endeavour Energy
Jon Hocking	Endeavour Energy
Nathalie Cooke	Endeavour Energy
James Tydd	Endeavour Energy
Janet West	Endeavour Energy
Gary Humphreys	Deputy Chief Executive Officer, Essential Energy
Catherine Waddell	Essential Energy
Belinda Kallmier	Essential Energy

Networks NSW partners: Adrian Kemp, HoustonKemp and Wayne Burns, ACIL Allen Consulting

The Roundtable began with the presentation by Janine Young, Energy and Water Ombudsman NSW. Janine's presentation outlined issues relating to vulnerable energy customers and called for a combined approach from parties to achieve better outcomes as the current approaches are not meeting the needs of many vulnerable consumers.

As part of the seminar, the CEO of NNSW outlined the importance of maintaining the electricity distribution network to provide secure, reliable and affordable electricity to consumers. He emphasised that this was paramount and that the use of declining block tariffs over the next few years will mean the most financially vulnerable customers will be shielded from electricity "bill shock".

Each network then outlined the key drivers and unique network characteristics that needed to be considered as the platform for developing its tariff strategy.

This roundtable set an ambitious amount of content to absorb and for that reason, seminar participants agreed a further roundtable meeting be held of a subset of consumer representative stakeholders on the information asymmetry about electricity tariffs faced by many vulnerable customers, and how the whole electricity sector can, with consumer advocates, better inform consumers about electricity tariffs, and the most economic use of electricity in their homes.

The roundtable meeting would be organised and hosted by Networks NSW.

The following table summarises the main areas of discussion during the seminar.

	Area of focus	Discourse and discussion
1	Janine Young CEO of EWON delivered an overview of the profile of vulnerable electricity customers in NSW, including affordability issues.	<p>2.55 million people in Australia live below the poverty line (14% of population)</p> <p>Complaints to the Energy and Water Ombudsman have decreased to around 31,000 last financial year, from a peak of 37,000 in 2013/14.</p> <p>An estimated 35,000 homes have been disconnected from the grid last financial year.</p> <p>22.4 per cent of disconnected customers were concession customers.</p> <p>Debt collecting and the use of credit fixing agents is increasing.</p> <p>Bill complexity and fees and charges are increasingly cited as problems for vulnerable customers.</p> <p>Up to 10 per cent of the household budget of low income earners is spent on electricity.</p> <p>Ms Young stated the most vulnerable customers often consume the most electricity, principally due to poor insulation in their home; or in the case of the unemployed, electricity use is high because unemployed customers spend considerable time at home. Ms Young said that the declining block tariff structure can be of benefit to this demographic as they can be pushed into the declining blocks where energy consumption charges are lower.</p> <p>A safety net, transition to cost-reflective tariffs, and consumer capacity to make informed choices by providing greater accessibility to easy to understand information around electricity consumption and energy use is viewed as important by most stakeholders.</p>
2	EWON preferred approach to alleviate customer financial vulnerability	<p>Recognition: that it is a shared problem.</p> <p>Examination: of the relationship between income and affordability.</p> <p>Collaboration: to achieve effective strategic and systemic solutions.</p> <p>Exploration: of ways to find sustainable solutions.</p> <p>Implementation: of customised responses to address individual, situational and generational poverty.</p>

	Area of focus	Discourse and discussion
3	NNSW outlined its rationale for considering a declining block tariff	<p>Electricity pricing structure in Australia has been characterised traditionally by inclining tariff blocks, where electricity prices increase the more that electricity is consumed.</p> <p>Electricity demand is decreasing in NSW and NSW networks are operating under a capped revenue regime. This means that if consumption falls, network electricity prices increase, and if consumption increases, electricity prices fall. For this reason, NNSW has been steadily moving to a declining block tariff structure, from an inclining block tariff structure. NNSW indicated the proposed declining block tariff would underpin maintaining the distribution network, and provide secure, reliable and affordable power to consumers.</p> <p>The network businesses are open to considering other tariff options. However to date, there has been a strong rationale for declining block tariffs to meet Australian Energy Regulator Rules, and shield consumers from “bill shock”.</p> <p>All seminar participants, including the network businesses, agreed the wide range of tariff options that have been discussed in NSW since 2014 must be considered by the network businesses in their tariff deliberations.</p> <p>NNSW indicated that it needed to consider the customer impact of all tariff options, and encouraged and welcomed proposals and responses to its issues paper from advocates, indicating that all tariff option preferences would be considered if there were logical and compelling cases grounded in evidence.</p>
4	Information asymmetry	<p>Consumer advocates indicated that consumers are often confused about the tariff and other electricity charges information provided to them by distributors and retailers. Representatives from the Salvation Army cited the prevalence of selling electricity retail contracts via door knocking as a factor contributing to the challenges faced by vulnerable customers in NSW.</p> <p>There was discussion about consumers being swayed by retail salespeople on the prospect of a lower energy bill, and then later often finding themselves with less access to government rebates, and an increased debt. There was discussion that information asymmetry about electricity tariffs and other charges hindering the ability of consumers to understand their bills. NNSW agreed more can be done across the industry, including with retailers and networks to address consumer education, and suggested public policy makers and NGOs should be involved also.</p>

	Area of focus	Discourse and discussion
5	Solar energy generation and tariffs	<p>Stakeholders focused on solar and renewable energy generation and distribution, including customers with home solar energy generation, indicated they were concerned that declining block tariffs will act as a disincentive to household investment in and use of renewable energy, and would result in immediate higher cost burdens for customers generating solar electricity.</p> <p>Some advocate groups suggested a declining block tariff that did not charge household customers more for their electricity they used beyond the fixed charge first block, would encourage more people in NSW to use more electricity. The result would be an environmentally unsustainable use of electricity.</p> <p>NNSW indicated that the AER rules stipulated the efficient use of the network must be central to how tariffs are structured, and that public policy settings, consumer education, and retailer competition and education, are factors influencing more environmentally responsible use of electricity.</p> <p>The NNSW CEO stated network businesses in NSW were not considering a specific tariff for customers who generated electricity from solar energy, including customers who use the 'grid' to export electricity generated from solar technology back into the grid.</p>
6	Social tariffs	<p>Social tariffs were discussed during the seminar, including the objectives of social tariffs – to shield financially vulnerable customers from adverse social and economic experiences or outcomes.</p> <p>It was discussed if applying social tariffs was within the AER rules, and if efficient use of the distributor network would entertain all customers subsidising a social tariff, and how that tariff would be applied (eligibility, billing).</p> <p>The role of retailers in being better able to offer consumers a social tariff, and the role of public policy in financially supporting socially vulnerable citizens to meet electricity costs was raised also.</p> <p>NNSW and a number of stakeholders suggested a multijurisdictional approach is required to address how 'efficient' application of AER rules can be managed to make sure the less well off in the community can afford electricity to sustain a good quality of life.</p>

	Area of focus	Discourse and discussion
7	Stakeholder engagement	<p>NNSW indicated to stakeholders that it would have preferred to begin its engagement with stakeholders around future tariff structures earlier. It discussed that stakeholder engagement in September/October 2015 was Phase Two of tariff stakeholder engagement, which began in 2014 with a series of tariff briefing workshops. Phase Three will commence following the December 2015 lodgment of the TSS proposal to the AER, including the seven month AER deliberation period before draft determinations in July 2016.</p> <p>Some stakeholders indicated they would have preferred a longer engagement period around tariff options, and were concerned about what flexibility existed for NNSW to consider tariff options other than declining block tariffs.</p> <p>NNSW indicated that while a declining block tariff (the tariff applied in NSW since July 1, 2015) is a preferred option to meet the AER rules and the three distributor business objectives, social tariffs, demand tariffs, solar tariff options, food and fibre tariffs and regional (geographic) tariffs were options NNSW will consider as part of its upcoming TSS proposals – and in future proposals – if stakeholders saw merit in them, if they met the AER rules, and if the rationale for them is clear.</p> <p>A number of stakeholders indicated they were sceptical that NNSW businesses had not already cemented a declining block tariff as the tariff it would propose to the AER. The NNSW CEO indicated that while the declining block tariff now applied in NSW was a preferred option, all other options within the AER rules would be considered. He encouraged stakeholders to discuss tariff options with NNSW during September/October roundtables and one-on-one consultations, including to offer guidance as to how preferred tariffs can be structured and applied.</p>

Networks NSW Electricity Retailers Stakeholder Roundtable on future tariff structures, Monday, September 28, 2015.

This Roundtable was convened by Networks NSW to discuss stakeholder views, opinions, proposals and questions about the future tariff structures of Ausgrid, Endeavour Energy and Essential Energy. Representatives of electricity retailers in NSW participated in the Roundtables and its discourse.

Roundtable participants were:

Participant	Organisation
Lam Phan	Simply Energy
Randall Brown	Energy Australia
David Calder	Origin Energy
Steven Dimovski	Origin Energy
Patrick Whish-Wilson	AGL
Constantine Noutso	Lumo Energy
Stuart Auld	COzero Energy Retail
Andrew Mair	Dodo Power & Gas
Hillary Priest	Pooled Energy
Scott Begg	Powershop
James Gerraty	Powershop
Danielle Holly	Powershop
Vince Graham	CEO, Networks NSW
Adrian Kemp	HoustonKemp Economics
Catherine Waddell	Essential Energy
James Barton	Simply Energy
Shaun Ruddy	Alinta Energy
Keith Robertson	Origin Energy
Wayne Burns	ACIL Allen Consulting

The CEO of NNSW presented to the Roundtable and outlined the importance of maintaining the electricity distribution network to provide secure, reliable and affordable electricity to consumers – and outlined how a declining block tariff (DBT) complies with AER rules.

The following table summarises the main areas of discussion.

	Area of focus	Discourse and discussion
1	Key priorities and tariff structure issues flagged by retailers	Retailers wanted to understand how DBT reflects the AER rules and principles, how volumetric tariffs support emerging technologies, how the networks will approach metering charges. Some retailers indicated they would prefer for the NSW market to reach a point where tariffs in NSW will be as cost reflective as in Victoria.
2	Declining Block Tariffs and the rules	<p>Electricity pricing structure in Australia has been characterised traditionally by inclining tariff blocks, where electricity prices increase the more that electricity is consumed.</p> <p>Electricity demand is decreasing in NSW. NNSW indicated a DBT would underpin maintenance of the distribution network, and provide secure, reliable and affordable power to consumers.</p> <p>The network businesses indicated they are open to considering other tariff options. However, to date, there has been a strong rationale for DBTs to meet Australian Energy Regulator Rules, and shield consumers from “bill shock”.</p>
3	Discussion about declining block tariffs, smart meters	<p>Some retailers questioned whether a DBT was a cost reflective structure, and if consumers would have less incentive to reduce energy consumption within a DBT regime.</p> <p>Some retailers argued demand-based tariffs provide an incentive for customers to reduce consumption, and asked how the tariff structure can evolve to meet trends in customer demand if it is fixed for three years. Participants agreed that customers are more focused on the short term, and that it takes longer time frames to change customer behaviour.</p> <p>Most participants suggested they understood the logic of a DBT in light of declining electricity demand in NS. However, some retailers indicated they have different views on how the rules should be implemented. Some retail representatives stated the most appropriate price signal to customers would be to offer the market various tariffs, especially once consumers in NSW have the option of using smart meters. They argued customers need an incentive to use the network in a more efficient manner.</p> <p>There was further discussion about smart meters. NNSW indicated the NSW Government had indicated that any roll out of smart meters in the State would be market-led. A number of retailers indicated they did not see the benefit for customers to have smart meters.</p>

	Area of focus	Discourse and discussion
4	NNSW CEO Vince Graham explained the impact of various network tariffs on retailers, and outlined the rationale for declining block tariffs	<p>NNSW indicated each retailer decided how it competed in the market.</p> <p>NNSW indicated its tariff decisions that send price signals to electricity customers in NSW depended in part to what degree retailers passed on those signals to their customers.</p> <p>It suggested the long run marginal cost (LRMC) of electricity distribution is close to zero.</p> <p>Smart metering was discussed as an option to inform a demand tariff. NNSW stated it considered there is not yet market appetite for a demand tariff, confirmed by Victorian experience. It was discussed that if, by some projections, LRMC is zero over the next five years, it remains unclear what benefit smart meters would offer to the large majority of NSW electricity customers.</p>
5	Open Roundtable discussion	<p>One retailer asked why NSW distributors could not be more aggressive with tariff structuring. NNSW suggested it was focused on considering customer impact under the AER Rules, and its own consideration of customer impact; and that it was at this stage committed to ensure there were more customer 'winners' than 'losers' in a post 2016 tariff structure regime.</p> <p>There was discussion about the impact on the network businesses of more customers installing solar generating technology. NNSW indicated that although the network businesses have been asked to consider a 'solar tariff' to realise the cost of household solar generators using the network to export electricity to the grid, it is not considering such a tariff.</p> <p>Some retailers enquired about the confidence the network businesses have that peak demand would not increase over the next five to seven years.</p> <p>One retailer was concerned consumption was not driving network costs structures. Another retailer questioned whether the DBT complies with the rules when demand is the real driver.</p> <p>A retailer commented that while the DBT makes sense in 2015, if demand catches up, then a long term pricing strategy needs to be considered.</p> <p>NNSW noted the need to balance long term, medium term, and the immediate demands of customers.</p>
6	Social tariffs	<p>Participants asked about if NNSW was considering proposing a social tariff in its AER proposal. NNSW Indicated a social tariff option has been flagged, and that it was considering it. However, it indicated there has been no evidence base as yet to propose a social tariff to the AER. NNSW indicated network businesses in NSW offer five to six vulnerable customer support or payment arrangements.</p>

	Area of focus	Discourse and discussion
7	Customers with different needs – pricing and customer information	<p>Retailers asked whether customers with different needs should be priced the same. There was a discussion about opt in smart metering. Retailers noted quarterly meter reads made it harder for customers to make informed decisions.</p> <p>Participants discussed providing more information on the customer bills about network costs.</p> <p>Some retailers indicated that detailed information about customer electricity bills confused most customers, and failed to provide meaningful information for customers to make decisions that can reduce their electricity costs.</p>

Networks NSW Food and Fibre Stakeholder Roundtable on future tariff structures, Monday, September 28, 2015.

Hosted by Essential Energy and NNSW, the Roundtable explored the views and priorities of food and fibre stakeholders around future electricity tariff structures in NSW. Six peak stakeholder groups were invited to attend the Roundtable.

Seasonal harvesting commitments meant some of the stakeholders were unable to attend the Roundtable, but were keen to keep apprised of discussions, and keen also to participate in the one-on-one discussions that Essential Energy will be scheduling with its tariff structure stakeholders.

Roundtable participants included:

Participant	Organisation
Stefanie Schulte	Policy Manager, NSW Irrigators' Council
Felicity Muller	Policy Officer, Cotton Australia
Cory Urquhart	Essential Energy
Catherine Waddell	Essential Energy
Oliver Nunn	HoustonKemp Economics
Wayne Burns	ACIL Allen Consulting

The following table summarises the main areas of discussion during the Roundtable. Catherine Waddell from Essential Energy, and Oliver Nunn from HoustonKemp, delivered presentations on Essential Energy's tariff environment, and the regulatory rules in which network businesses need to approach and frame their TSS.

	Area of focus	Discourse and discussion
1	Irrigator issues	<p>Stakeholders indicated they have seen a significant increase in electricity costs, especially network costs, over the last five years. The Irrigators' Council has analysed data from irrigators to see where the challenges lie, and where gains can be made. The Council indicated that with the most efficient systems, some growers find their businesses unviable, and electricity charges contribute to business costs considerably.</p> <p>Stakeholders stated the costs of many irrigators are extremely large because of seasonal and weather conditions that growers can't control, and that do not align with tariff timings. The way the water system works varies across parts of NSW according to water flow and rain.</p>
2	Cotton Australia issues	<p>Growers have seen power bills increase by up to 300 per cent over the last few years. Growers are thinking seriously about "going off the grid because of costs".</p> <p>Stakeholders reported many growers are spending considerable effort and time considering other forms of energy – such as renewable and diesel as a backup, to reduce the load of their water pumping and associated irrigation costs.</p>
3	Consultation and timeline	<p>Roundtable stakeholders indicated the harvesting season and school holidays meant their capacity to engage with Essential Energy's TSS engagement process was truncated, and would have benefited from considerably more time.</p> <p>Stakeholders noted all their comments were preliminary, because they need to consult with members.</p> <p>Cotton Australia questioned also the extent to which its feedback would be incorporated into NNSW's deliberations, and wanted assurance that its input would be considered meaningfully.</p> <p>NNSW noted the timeframe for Phase Two TSS stakeholder engagement was compressed, but the engagement was meaningful, and that NNSW was seeking for any evidence-based approaches to tariff structure options.</p> <p>Stakeholders indicated they perceived they did not have enough time to date to examine tariff structure options in detail, and would prefer more time to examine various tariff options.</p>

	Area of focus	Discourse and discussion
4	Pricing information	<p>Stakeholders noted their members' lack of understanding of the timing of peak and shoulder tariff periods, and feel they cannot modify their electricity use because of the unpredictability of water releases and availability.</p> <p>Stakeholders indicated their audits indicate precise time of peak and shoulder charges, and each component (access charge, green charge, tariff charge), are not clear on electricity bills (NNSW suggested it could provide such information to electricity retailers).</p> <p>Stakeholders stated irrigators may not be aware if they should be on a more suitable tariff. There could be significant savings if they understood they can change their tariff.</p> <p>Stakeholders noted that precision irrigation is on the rise, with a focus on optimal water use. However, this mode of irrigation has implications on irrigation electricity costs.</p>
5	HoustonKemp Economics outlined the AER's Rules, and NNSW's rationale for considering a declining block tariff as a way to move to an efficient charging structure	<p>Economics firm HoustonKemp (which conducted TSS analysis for NNSW) noted the move to efficient pricing structure is a long term process, primarily about aligning marginal prices and marginal costs. It indicated a key concern is for network businesses must be to move an efficient charging structure while complying with the AER's Rules.</p> <p>It was discussed that electricity demand is decreasing in NSW. NNSW indicated the proposed declining block tariff would underpin maintaining the distribution network, and provide secure, reliable and affordable power to consumers.</p> <p>NNSW indicated network businesses are open to considering other tariff options. To date, there has been a strong rationale for declining block tariffs to meet Australian Energy Regulator Rules, and shield consumers from "bill shock".</p> <p>NNSW indicated that it is open to consider tariff options that can be supported by an evidence base.</p>
6	Managing demand	<p>Irrigators asked about ability for primary producers to manage demand to enable large scale electricity users to take advantage of technology. Could growers switch on or off to an alternative source to smooth out consumption? Participants discussed demand management solutions to manage forward costs.</p> <p>Irrigators asked about areas of specific constraint in NSW; Essential Energy noted minimal constraints and no increase in demand.</p> <p>Irrigators highlighted that if electricity prices continue to increase because more growers "leave the grid", there may be an acceleration of primary producers 'leaving the grid'. Stakeholders suggested a large cohort of primary producers leaving the Essential Energy grid was not desirable; but is a "real option" being considered by many producers who are under severe whole of business cost pressures.</p>

	Area of focus	Discourse and discussion
7	Patterns of electricity use	<p>Irrigators asked if Essential Energy has examined electricity use patterns to inform a discussion about if there is capacity to smooth out peaks in demand.</p> <p>Cotton Australia indicated it was interested in seeing network tariffs correlated to energy usage – with a move to have triggers for signal shifts so that growers can offset electricity use to different times, and rates between peak and shoulder to provide incentives. Network tariffs must not discourage water efficiency.</p> <p>Irrigators agree that the priority is to identify feasible options, and that time signals would be a good step if growers have flexibility to change behaviour to achieve some savings. Currently there are two tariff signals – shoulder and peak – so there is no incentive to change electricity consumption behaviour. Stakeholders indicated there is significant value in electricity users understanding the time periods when the real peaks in electricity use occur.</p> <p>Cotton Australia suggested offering choice by removing the demand charge, or avoiding charges over weekend days. It was noted Essential Energy had removed low voltage rebate criteria, which was a disappointment for many food and fibre sector growers and processors.</p>
8	Food and fibre tariff?	<p>Stakeholders indicated time varying demand charges would be supported by many food and fibre producers and processors.</p> <p>Cotton Australia noted an option to select better times of power use based on water supply (with up to two to three days' notice of water availability) could attract considerable support.</p> <p>Essential Energy confirmed the potential for discussions about time of use flexibility, including facilitating discussions with electricity retailers and water regulators.</p>
9	'Bill shock'	<p>Stakeholders stated preliminary reports indicate that electricity bills for some food and fibre producers in the Essential Energy footprint have fallen slightly.</p> <p>Cotton Australia noted there has been very little opportunity to advocate for adjustments to demand charges, and noted that time of use charges would be a tariff option that could be supported by its members.</p> <p>Essential Energy confirmed it is investigating these options.</p> <p>Cotton Australia noted some cotton growers used electricity via an average daily demand tariff, and that this tariff arrangement could be useful for other users and customers.</p>

	Area of focus	Discourse and discussion
10	Future consultation	Essential Energy indicated that this Phase Two consultation on 2017 – 2019 TSS would be part of a continuous consultation in the future with food and fibre stakeholders.

Networks NSW Environmental and Consumer advocates Roundtable on future tariff structures, Tuesday, September 29, 2015.

The Roundtable was hosted by Networks NSW on environmental and consumer concerns around network distributor businesses' future tariff structures. Representatives from environmental groups and consumer advocates participated in discussions.

The participants were:

Participant	Organisation
Craig Memery	Alternative Technology Association
Iain Maitland	Ethnic Communities Council & Federation of Ethnic Communities Councils Australia
Mark Byrne	Total Environment Centre
Dan Scaysbrook	Solar Citizens
Oliver Derrum	Public Interest Advocacy Centre
Jon Hocking	Endeavour Energy
Dan Bubb	Endeavour Energy
Mike Martinson	Networks NSW
Kate McCue	Networks NSW
Catherine Waddell	Essential Energy
Cory Urquhart	Essential Energy
Matt McQuarrie	Ausgrid
Chris Amos	Ausgrid
Robert Telford	Ausgrid

Presenters were:

Mike Martinson – Networks NSW

Oliver Nunn, HoustonKemp Economics

Networks NSW partners: Wayne Burns, ACIL Allen Consulting and Oliver Nunn, HoustonKemp Economics

As part of the seminar, Mike Martinson of NNSW delivered a presentation that outlined the importance of maintaining the electricity distribution network to provide secure, reliable and affordable electricity to consumers. He also outlined NNSW rationale for its shift from inclining block tariffs to declining block tariffs and highlighted the key drivers that were causing differences in tariff strategy between NSW and other states in the NEM.

Oliver Nunn from Houston Kemp also briefly outlined issues related to the Rules and LRMC.

This summary should be read in conjunction with those two presentations for completeness.

Seminar participants requested that calculations of long run marginal cost (LRMC), which form the basis of the proposal to stay with a declining block tariff (DBT), be made available. NNSW agreed to share these calculations in the coming weeks.

The following table summarises the main areas of discussion.

	Area of focus	Discourse and discussion
1	Stakeholder issues	<p>All environmental and consumer advocates noted the need to understand logic of the declining block tariff and how it meets the AEMC Rules, as well as other options of tariff structures going forward. Some advocates expressed scepticism of Networks NSW's commitment to consider other options and felt that a decision to implement DBTs had already been made. Advocates noted networks in other states had included optional demand tariffs.</p> <p>Most stakeholders stated they supported a longer consultation period before the network businesses in NSW submit their TSS proposals. Some stakeholders questioned if NNSW has already made a decision about which tariff structure it would be proposing to the AER.</p> <p>Key concerns for culturally and linguistically diverse (CALD) consumers are: more than half of CALD household and SMEs don't understand their electricity bill, and one third of SMEs don't even read bills. It was discussed that these facts make the concept of tariff structures difficult to understand. There are specific ways to address communication and understanding with CALD communities; these are not traditional. CALD comprise 25% of NEM and can't be ignored.</p> <p>The Total Environment Centre stated a declining block tariff has significant consumer impacts and has a bigger impact on customers who generate some of their energy needs via solar systems more than others. It argued a declining block tariff is not likely to generate good environmental outcomes.</p> <p>Solar Citizens are particularly concerned about possibility of a solar tariff, which no other network has found necessary to introduce in the TSS process. This will encourage solar consumers to leave the grid in the long term, and NNSW is taking a long-term reputational risk implementing it. NNSW repeated previous explanations that it was one of several different tariff options being considered and it did not have any plans to implement such a tariff despite some stakeholders calling for one.</p> <p>Alternative Technology Association noted metering is limited in NSW, and the declining block design focuses on where we are now, rather than considering the possibility that LRMC will rise.</p>

	Area of focus	Discourse and discussion
2	<p>HoustonKemp Economics outlined the AER tariff structure rules, and NNSW rationale for considering a declining block tariff as a way to transition to an efficient charging structure</p>	<p>HoustonKemp noted the transition to efficient tariff pricing structures is a long term process about aligning marginal prices and marginal costs. A key concern for NNSW and all network businesses is how to move to the efficient charging structure while complying with the Rules.</p> <p>Electricity demand is decreasing in NSW and each network operates under a capped revenue regime. This is an important factor in NSW as it means if consumption declines, electricity costs increase and if consumption increases, electricity costs will fall. NNSW indicated the proposed declining block tariff would underpin maintaining the distribution network, and provide secure, reliable and affordable power to consumers.</p> <p>The network businesses indicated they are open to considering other tariff options. However, to date, there has been a strong rationale for declining block tariffs to meet Australian Energy Regulator Rules, and shield consumers from “bill shock”; and an evidence base is lacking to make the compelling case for other tariff structures to be the dominant structure across the network businesses in NSW.</p> <p>Networks NSW invited participants to respond to their issues paper and set out the logic for alternative tariffs.</p>

	Area of focus	Discourse and discussion
3	Time frame, smart meters and differences with other states	<p>NNSW noted the TSS period being discussed is a two year period only.</p> <p>The network businesses noted that smart metering is restricted to about 300,000 customers in NSW (in Ausgrid’s business footprint), which does not support a move to a demand tariff (which is supported strongly by environment stakeholders).</p> <p>Environmental advocates argued that other networks have approached the tariff structures as a 10 year process, to implement tariffs that would be cost reflective by 2020-2025, and are using that basis for calculating the LRMC. They stated NSW has more smart meters than Queensland or South Australia, yet network businesses in both those states will offer a demand tariff, thus low smart meters take up in NSW should not prevent network businesses offering a demand tariff.</p> <p>Environmental advocates argued NSW network businesses are “going in a different direction” to networks on other states by favouring a DBT, which appears to be contrary to intent of the AER rule change, and that does not send a price signal to reduce peak demand.</p> <p>Consumer advocates argued that if a demand tariff isn’t offered as an option for the next two years, NSW “will be years behind” when it is offered.</p> <p>NNSW indicated smart meter roll out had been designed by NSW Government policy to be “market driven”, and that retailers had the option to offer smart metering as market advantage. It stated that the absence of smart meter scale in NSW meant that based on existing analysis, a demand-based tariff structure for the NSW network businesses was unlikely to be viable.</p> <p>Environmental stakeholders disagreed with this analysis, and argued a DBT would not discourage customers from using electricity efficiently.</p>

	Area of focus	Discourse and discussion
4	Declining block tariffs vs demand tariff and voluntary options	<p>NNSW outlined its view that introducing a demand tariff for the next period of the TSS may not represent a responsible transition to a long-term efficient tariff structure. It suggested it would be more reasonable to consult with customers between now and post 2019 TSS period to understand if customers want to be charged on a demand basis. NNSW noted the vast majority of customers have accumulation meters, which limits the ability to charge consumers at peak/capacity constrained times, making implementing a demand tariff difficult.</p> <p>The network businesses indicated consumers can opt into a time of use tariff, but it is uncertain what the level of metering will be; there is a paucity of analysis on demand tariffs to make NNSW confident to roll out a demand without testing it. NNSW stated it is committed to monitoring customer preferences, and if customers indicate they want a demand tariff, the network businesses would examine a demand tariff as part of the next TSS.</p> <p>Environmental advocates indicated they could not see a compelling case not to offer an opt-in demand tariff, especially as it would encourage the uptake of smart meters. If there is a danger, it should be explained to consumers.</p> <p>Advocates noted current low LRMC would be a good time to offer a demand tariff, giving consumers an opportunity to “try while the price remains low” to avoid being shocked when the electricity price increases. Some advocates argued that a demand tariff cannot be left until too much power is being consumed. They posited that customers are encouraged to use more power thanks to DBT.</p> <p>Network companies noted that only a handful of consumers have currently opted in to time-of-use; don’t see consumer interest in demand tariffs. Lack of consumer interest credited to the fact that bills aren’t well understood.</p> <p>Consumer advocates questioned whether NNSW has genuinely considered a demand tariff if analysis of the impact has yet to be shared.</p>

	Area of focus	Discourse and discussion
5	Network businesses rationale to prefer a declining block tariff, and discussion of LRMC	<p>The network businesses stated over the long term, the AER rules would lead to higher fixed charges and lower variable charges based on LRMC. NNSW believes DBT meets the requirements of the rules because it minimises price distortions by not pricing above LRMC at the highest block. They indicated that a DBS — what is in place from 2015 — is most likely the best option to transition to the final structure.</p> <p>The businesses noted that in terms of efficient tariffs, the level of variable charge will change based on how LRMC is calculated at a particular time (each five year period). They stated that a LRMC at close to zero would be reflected in a low variable charge. If there is a need for investment in the network, LRMC may be higher, and thus variable charge may increase.</p> <p>Some stakeholders stated NSW should have a similar cost structure to other states, and argued that LMRC calculations must be made available to support the rationale for a DBT. NNSW agreed to share these calculations in the coming weeks.</p>
6	Information sharing	<p>A consumer advocate sought to clarify disclosure of information during the stakeholder engagement process. He argued the network businesses should share information with environment stakeholders so that advocates can support the final TSS decision. This information could include: load profiles for individual types of customers, plus LRMC for different tariff and customer classes.</p>

	Area of focus	Discourse and discussion
7	Discussion of DBT not encouraging people to reduce energy consumption	<p>Environmental advocates argued a DBT is regressive for low income and solar consumers who pay relatively more for their electricity, while high energy users do not receive price signals to reduce peak demand.</p> <p>Network distributor businesses noted solar customers are spread evenly across three blocks of DBT use — not necessarily hit with high prices. They noted also that the AER rules required network businesses to develop tariff structures that make the most efficient use of the distribution network, and that efficient energy use was an issue not only for distributors, but for retailers, public policy and civil society.</p> <p>Environmental advocates argued that as people invested in solar generation, they should be brought “down” a block along the three blocks of DBT. Net solar customers (as opposed to gross solar customers) have invested so they can save energy with the expectation of a consistent price. Shifting some of the cost to an earlier block (DBT) means they get less of the savings anticipated. The tariff is not only a signal to consumers for future use; some consumers have made investments in solar or other efficiencies.</p> <p>Environmental advocates disagreed also with a view that the AER rules will lead to an efficient tariff that will eventually be 90 per cent fixed and 10 per cent variable charges. They argued the point of the rule change is to limit “gold plating” through price signals, and to encourage lower electricity use during peak periods, which is not achieved with a 90 per cent fixed tariff.</p> <p>HoustonKemp notes that efficiency does not mean lower power use. It means that in terms of consumption, the decision of a customer to consume aligns with costs to provide that service, and aligns with forward looking costs of provision.</p>
8	Further discussion about considering demand tariff as an option	<p>The network businesses noted there is another six to nine months to really explore the issues raised during discussions up until the AER makes its 2017 – 2019 tariff structure decisions; and that November’s lodgement of TSS proposals is a “milestone not an endpoint”.</p> <p>The network businesses asked whether small electricity users will understand a demand tariff; the CALD advocate suggested not - that it would require heavy marketing, and highlighted a disconnect between what networks are proposing and the reality for people when they actually pay the bill.</p> <p>NNSW stated that during the TSS Retailer Roundtable, a retailer suggested a suite of tariffs in the medium to long term. It was reported one retailer stated it had “spent millions to educate consumers about time of use tariffs, but customers found it hard to understand”. It was discussed that the more complicated the tariff structure, the lower the chance that retailers will pass it on to customers.</p>

	Area of focus	Discourse and discussion
9	Solar export tariff	<p>NNSW explained that a solar export tariff is not for consideration in this TSS. There is a debate about whether an export tariff for people producing energy should be available, but it is for consideration in the longer term. Currently only asking for views – same with social tariffs.</p> <p>Environmental advocates noted that if the rationale is that the average load profile of solar customers is less favourable, then this will be taken care of by demand tariffs. Solar users will see an export tariff as another cost imposed on them.</p> <p>NNSW explained there are some costs on the network of exporting into the grid, and the question is whether there should be a separate charge for importing or exporting into the grid.</p> <p>Advocates disagreed with the assumption that solar is a cost to networks.</p>
10	Further consultation	<p>It was confirmed that a further Roundtable on tariff options would be held in coming weeks, including discussion of the LRMC for each of the NSW network businesses, and that one-on-one discussions also were being scheduled with TSS stakeholders.</p>

Networks NSW Final Tariff Structure Proposals Stakeholder Roundtable on the data and technical underpinnings of tariff structure options for 2016-2018.

Friday October 30, 2015, 9.00am – 4.00pm

ACIL Allen Consulting Boardroom, Sydney

Participants

Participant	Organisation
Chris Barrett	City of Sydney Council
Oliver Derum	Public Interest Advocacy Centre
Chris Dodds	Office of the Energy and Water Ombudsman
David Havyatt	Energy Consumers Australia
Iain Maitland	Ethnic Communities' Council of NSW
Craig Memery	Alternative Technology Association
Shannon Moffitt	Australian Energy Regulator
Catherine Waddell	Essential Energy
Robert Telford	Ausgrid
Dan Bubb	Endeavour Energy
Jon Hocking	Endeavour Energy
Mike Martinson	Networks NSW
Kate McCue	Networks NSW
Wayne Burns	ACIL Allen Consulting
Oliver Nunn	HoustonKemp Consulting

The table summarises the main areas of discussion during the Roundtable. Robert Telford from Ausgrid delivered a presentation on Ausgrid's tariff environment, and the regulatory rules in which network businesses need to approach and frame their TSS.

NNSW indicated that the closing date for accepting written submissions on its Issues Paper released in September has been extended to November 4. Presentations were delivered by Catherine Waddell from Essential Energy and Daniel Bubb from Endeavour Energy on the LRMC and other tariff issues for those network businesses.

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	Area of focus	Discourse and discussion
1	Stakeholder issues	<p>What methodologies have been used to support the existing preference by the NSW network businesses for a declining block tariff?</p> <p>What supports the premise that more use of network capacity is a good outcome for consumers?</p> <p>What work has been done to support a supposition that disadvantaged customers use less electricity?</p> <p>What will be the impact of the DBT on vulnerable customers, especially given what EWON reports is record high number of electricity supply disconnections.</p> <p>What analysis supports that increasing network utilisation will realise a fall in network costs?</p> <p>If LRMC are low, why is a DBT being considered for Essential Energy?</p> <p>Why isn't there a plan by the network businesses to introduce smart metering in NSW?</p> <p>The "short-termism" of the tariff structure period is of a concern. What is the view of the network businesses of what is a 'long-term' approach?</p> <p>To what extent have SMEs been consulted as part of the TSS consultation?</p> <p>Is a demand tariff part of the long-term deliberations of the NSW network businesses?</p>
2	Stakeholder Consultation	<p>It was discussed that the stakeholder consultation process in the future can be strengthened by reporting back sooner to stakeholders about the proceedings of the previous open consultation Roundtables. NNSW indicated it will distribute summaries of all the Stakeholder Roundtables, and that the outputs of all Roundtables and person-to-person TSS interviews with stakeholders have been part of TSS deliberations in each of the NNSW network businesses.</p> <p>Some stakeholders expressed concern that consumer representatives could express support for one tariff over another if they did not have enough information to inform their deliberations. NNSW indicated its TSS Issues Paper was a platform around which considerable Phase Two stakeholder engagement has been occurring; and that NNSW has provided also written answers to specific questions from stakeholders, as well as provided special briefings for peak stakeholder groups who have requested them.</p> <p>NNSW indicated also that it has been conducting one-on-one interviews with priority TSS stakeholders to see their input into network business TSS decisions, has had its public consultation portal open for TSS community input for more than one month, and has been using the outputs from five previous Stakeholder Roundtables in TSS deliberations.</p>

	Area of focus	Discourse and discussion
3	Tariff design	<p>Ausgrid outlined how that network business approached tariff design, and the economic foundations and assumptions underpinning tariff design. There were considerable discussions about the economic assumptions used by Ausgrid.</p> <p>Reform options were canvassed, including the definition of seasonal peak periods, location-based time signals.</p> <p>There was discussion as to how the financial impact customers who would be most adversely affected by tariff structure changes could be mitigated, including the role of public policy, electricity retailers, as well as the role of network businesses.</p> <p>The network businesses indicated that a DBT needs to be considered as part of transitional arrangement towards efficient tariff pricing.</p>
4	Demand tariff	<p>The network businesses indicated the design of a demand tariff is problematic in the absence of smart metering, and the challenge of designing incentives to encourage low peak use customers to a demand tariff.</p> <p>NNSW indicated also – though this was disputed by one stakeholder – that the absence of smart meters in NSW meant that in the 2017 – 2019 tariff transition period, a demand tariff was not viable to facilitate transition to efficient pricing.</p> <p>NNSW flagged that NSW Government policy was that smart meter introduction would be “market driven”. It was discussed that this would most likely be driven by competition among retailers to offer tariff choices.</p> <p>Some stakeholders held strong views that a demand tariff could not be feasibly introduced with only 300,000 smart meter customers in NSW; other stakeholders disagreed.</p> <p>The NSW network businesses indicated they had no plans to introduce metering in NSW, and suggested the experience of smart metering in Victoria suggested a market-led roll-out - which was likely to occur- would be more efficient and fit-for-purpose.</p> <p>NNSW discussed that a demand tariff would be considered as part of the next tariff structure deliberations.</p>
5	Impact of tariff structures on customers	<p>Some stakeholders flagged that they were concerned that NNSW has not considered adequately the impact of a DBT on customers, including that some vulnerable customers use high levels of electricity.</p>

	Area of focus	Discourse and discussion
6	Long Run Marginal Cost	<p>There was discussion also about how residual network costs were apportioned as part of LRMC, including the overall approach as to how Ausgrid determined LRMC.</p> <p>The challenges of average incremental cost methodology were canvassed, as was the theory that marginal cost being a function of network circumstance and price elasticity of demand.</p> <p>The treatment of replacement capital expenditure in an inefficient tariff context was flagged.</p> <p>There was discussion of Endeavour Energy offering a number of opt-in tariffs, but that more than 99 per cent of residential customers are charged via a DBT; of how Endeavour Energy converts LRMC to prices; and that for DBT customers, the LRMC is the same price per kilowatt hour over the first three blocks (separate from the fixed price).</p> <p>Essential Energy indicated it has a time of use tariff, and is taking action to explain to customers how that tariff may be able to save them money.</p> <p>Essential Energy indicated also that it is considering a food and fibre tariff, but is awaiting feedback from stakeholders on what the take up of a cost reflective tariff would be.</p> <p>Some stakeholder offered their view that the NSW network businesses and NNSW have placed too much emphasis on LRMC in their approach to discussion about TSS, including in the NNSW TSS Issues Paper.</p> <p>It was canvassed also if NNSW and its businesses would be prepared to engage with the AEMC around LRMC.</p>
7	Transition to the most efficient use of the network	<p>Stakeholders indicated they remain keen to understand what the 'end point' is for the NSW network businesses in their transition to price reflective and efficient tariff structures. NNSW indicated it would clarify further the direction of the transition of tariffs in its TSS proposals.</p>