23 December, 2016

Dear Mr Pattas,

Thank you for accepting this submission on TasNetworks' Revised Tariff Structure Statement 2017-2019, which is part of its Revised Regulatory Proposal. This submission is made individually, and has not been viewed or endorsed by any 3rd party. I hope its content will assist the AER in making decisions now and in the future.

Introduction

> "We are men of action. Lies do not become us," Westley politely reminded The Six-Fingered Man.
>
> "Well spoken, Sir", the Six-Fingered Man replied, foreshadowing the cold and brutal punishment awaiting his prisoner.
>
> Princess Buttercup failed to recognise the deception, and rode off believing that Westley would be returned to his ship.

It is unforgivable for the AER to transparently approve the obvious economic lies being presented by the networks in their recent proposals. The regulator must have the ability to distinguish between truth and lies, and must have the tools necessary to wind back mistakes as soon as they are identified. Anything less would set us on a course which is doomed to failure.

Networks are not expected to behave with the consumer's best interests in mind. The AER is the consumer's only protection against monopoly abuse of power, and is expected to give effect to the National Electricity Rules, jurisdictional schemes, and the Laws of Mathematics.

Approval of TasNetworks' Revised Tariff Structure Statement would continue an unconscionable path of foot-dragging on network efficiency issues and exploitation of the most efficient consumers across the NEM.

Transparency allows the public to identify deficiencies in the regulatory process. The public will not tolerate lies or complacency from parties which are meant to be acting in the best interest of consumers. Your decisions today have enormous impact on the path of Australia's energy future, and therefore must be made reasonably and carefully. The economic issues at hand are not complex, and therefore it is easy for the observant public to distinguish between truth and illusion.

The ONLY valid definition of "Fully Cost-Reflective".

The National Electricity Rules, version 87 (current). Clause 6.18.5 (g)(3) clarifies that a tariff which complies with the pricing principle given in clause (f) *would result in price signals for efficient usage [of the network].* Clause (f) is the principle that tariffs must be cost-reflective. Networks are only allowed to deviate from fully cost-reflective tariffs when it is necessary to ensure that customer impacts are managed, and then only to the extent necessary.

Since Demand Tariffs do not elicit efficient behaviour from small customers, they cannot be "fully cost-reflective", according to 6.18.5 (g)(3). Since Time of Use tariffs currently satisfy the AER as being sufficiently cost-reflective, it is not necessary to put a customer on a Demand Tariff if that customer would not behave more efficiently under that tariff structure. In fact, it would violate the Pricing Principles! The tariff structure which leads to more efficient use of the network (properly measured by costs of behaviour elicited) must be furthest necessary deviation from a fully cost-reflective tariff.

For some customers, the utter and complete lack of cost-reflectivity would have them investing time and money in absurd responses, such as worthless load shifting within peak periods. As shown by taking an Expected Value, there is no benefit to flattening peaks unless loads are being shifted out of peak periods. In most cases, Peak Volume provides a better all-around price signal than Peak Demand for customers to act efficiently. Efforts which provide no expected value in reducing network costs take away from resources which could be put toward real efficiency measures under actually cost-reflective tariffs.

Peak network costs are driven mainly by the volume of energy flowing through the network at peak times. Peak Volume is also equivalent to Average Demand over the peak period. *Average Demand is a far superior measure of expected long-run impact on network peaks, for many, if not all small customers.* The problems with Demand as a charging parameter are enormous for some customers, which has been well-documented in previous submissions.

Cost-reflective tariffs protect consumers from exploitation.

One purpose of cost-reflective tariffs is to ensure that the value derived from electricity networks is shared by society, not held for ransom by network operators. Prices which reflect the <u>high value</u> customers place on certain network services do not reflect the <u>low cost</u> of efficiently providing that service.

For example, many small customers require their grid connection, thus would pay a very high price for it. Despite the low cost of maintaining a grid connection, DNSPs, including TasNetworks, are asking for disproportionate increases in *connection and service charges*. The value of the network to consumers would naturally be greater than its cost, but the network doesn't get to share in that value. Its revenues are capped at the efficient costs of hiring someone else to maintaining those grid connections. If TasNetworks requires more than its efficient costs in order to maintain those connections, perhaps we should make connections a contestable service.

TasNetworks openly admits to basing tariffs on value to the customer, rather than an efficient DNSP's costs. It writes:

> "*our overarching Tariff Strategy is to move towards more cost reflective pricing and network tariff structures that enable customers to:*
>
> *• recognise and **pay for the value the network provides to them**; and*
>
> *• make more informed decisions regarding their electricity usage, including through investments in embedded generation, storage, control technology and electric vehicles."*
>
> *(Revised TSS, 6),* emphasis added.

To allow *value-reflective pricing* is to allow exploitative high prices for those services which customers value most (connections, metering, SEG approvals, exit fees). This allows DNSPs to artificially lower other prices of its choosing. By lowering prices of consumption and peak consumption, Total Consumption of network-delivered energy is artificially increased. This would be evidence of an inefficient price signal, and thus a tariff which is not cost-reflective according to the strict definition in The Rules. Correct price signals come only from cost-reflective prices, using a very rigorous definition of those terms.

Recommendations:

- TasNetworks' Tariff Strategy must be revised to align with the NEO.
- Increases in fixed charges should be examined carefully and rejected when not justified by increased cost-drivers.
- Volume and peak-volume price reductions should not be allowed where they justified only by the need to offset increased revenues to be collected through fixed charges.

Thank you for publishing this submission. Please contact me if there is any chance of engagement being effective in correcting the many issues which the AER is choosing to ignore.

Best regards,

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