Nekon Pty Ltd

GPO Box 1406
Hobart TAS 7001
T: (03) 6224 6511
F: (03) 6224 6522
E: office@nekon.com.au

ABN 64 676 235 168

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Mr Chris Pattas
General Manager, Network Regulation
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Sir

TASNETWORKS DISTRIBUTION DETERMINATION
DRAFT DECISION – LACKS DATA AND PROPER CONSIDERATION

The draft decision by the Australian Energy Regulator (AER) on the TasNetworks distribution determination is expected to increase the energy costs of small and medium sized businesses in Tasmania. The AER is making decisions without thorough real life assessment and understanding of small and medium businesses' energy usage. There has been no extensive dual metering study undertaken by TasNetworks to demonstrate how the proposed tariff reform will impact on small and medium businesses. The AER is relying on TasNetworks' modelling which includes a raft of averaging and unrepresentative assumptions about the customers' usage.

Excerpt from TasNetworks' consultation paper of September 2015

21 Appendix E: Methodology/assumptions underpinning indicative annual network charges

21.1 Methodology

There are no existing network demand based tariffs for residential and most low voltage commercial customers. Therefore, no demand data is held for individual customers. Typical demand profiles (30 minute profile data for 2013-14 and 2014-15) have been derived from system load data and extrapolated to each customer class:

- Residential;
- Small Low Voltage;
- Large Low Voltage;
- Irrigation;
- Uncontrolled energy; and
- Controlled energy.

The demand data (as derived above) was used to develop indicative network prices and network charges.

With these pricing decisions being approved, Tasmania's small and medium sized businesses, instead of saving energy costs with the implementation of energy efficient initiatives, can now expect to see their energy costs rise by as much as 5-10%. This is unacceptable; the AER should be reducing the cost of energy.

The notion, from the AER and TasNetworks, that the tariff reform will; empower small and medium sized businesses to better manage their use of the network; and energy consumption, is a joke. TasNetworks pricing examples show large percentage increases in fixed costs, which reduce the capacity of business to save energy costs and investment in energy saving devices. This pricing reduces incentives and will result in more government subsidies to meet our emission
Targets.

The AER's approval of increased fixed costs removes the cost benefits of small and medium business investments into energy efficiency. The AER should be removing fixed cost and increasing the reliance on variable cost and not pandering to TasNetworks by providing it with an easy guaranteed income.

Similar pressures will apply to the residential sector with these AER decisions.

Nekon Pty Ltd and its associated group of companies has invested significantly in the development and management of commercial and retail properties and businesses throughout Tasmania. Our company also has interest and investments in a diverse range of retail and manufacturing businesses in Tasmania, including:

Hill Street Pty Ltd
Southern Food Services Pty Ltd
Wursthaus Pty Ltd
Island Berries Pty Ltd
Valhalla Ice Cream Pty Ltd
Pipeclay Oysters Pty Ltd
Westhaven Dairy Pty Ltd

Nekon Pty Ltd is therefore representing these companies and its numerous small and medium sized businesses with this submission to the Regulator in respect to the draft decision on TasNetworks Distribution Determination, with specific focus on the Tariff Structure Statement, dated September 2016.

Nekon Pty Ltd, in making this submission, believes the issues raised in the submission are of great concern and interest to the broader Tasmanian community, including the residential sector.

DEMAND AND TIME OF USE TARIFFS

The general nature and rationale for the introduction of the proposed demand and time of use based tariffs is understood. The premise for these tariffs has been described to better reflect the actual cost of the use of energy related infrastructure as opposed to the existing simple power usage arrangement.

As indicated in the opening of the submission, the decision to approve tariff arrangements without real life dual metering data, across a representative sample of customers, is irresponsible, as is the lack of attention to the following issues.

Nekon Pty Ltd would like to highlight issues of concern, which relate to:

1. Setting tariff charges.
2. While TasNetworks revenue is capped, there is no safety net for individual consumers with overall **cost capping**.
3. The use of one peak in the determination of "demand charges".
4. The timing of opting in and out.
5. The cost of metering associated with new time of use and demand based tariffing.

1. Setting Tariff Charges

TasNetworks has not undertaken any dual metering of representative customer groups across the Tasmanian community. The modelling of annual network charges has been derived by averaging processes and calculations. Averaging is not representative of the peaks across customer groups let alone individual customers. TasNetworks having no real metered data on the customers is therefore, at best, guessing the likely outcomes.

This approach will inevitably result in significant price shocks throughout the community, but of course the final TasNetworks' revenue will be averaged, perhaps close to expectations.

It is a disgrace that such pricing decisions, which can have severe individual impacts, are based on loose modelling and assumptions. Pricing decisions should be based on real data.

The AER should require TasNetworks to undertake dual metering studies across representative groups, using real data to assist tariff setting.

Fixed Service Charges

The introduction of time of use and demand based tariffing to the broader community has been touted by TasNetworks as a fairer means of charging for use of the electrical network. This principle appears to have the full support of the Regulator and the NEM at large.

The proposed increase in fixed costs goes against this principle and to larger extent minimises the consumers' ability to control energy costs.

The claims by the accounting based energy theorists that there should be fixed and increasing charges to pay for the fixed cost of infrastructure is considered ludicrous and as stated is not reflective of a true user pay principle.

The only commercial and government organisations that seem to be able to charge for high fixed costs within the Australian community are the water and energy authorities, which coincidentally are regulated entities. Other authorities which charge fixed costs are Government agencies and local government and these costs are simply taxes.

The oil industry is one of the largest in the world. The industry has potentially the highest fixed costs of any other commercial activity. This industry's fixed costs include; oil rigs; tankers; refineries; storage; employees; and retail establishments. Yet, when we buy fuel, we pay 100% variable cost. We do not pay a fixed charge, it is completely variable. Those who use more fuel, pay for it. Non users, people without vehicles or machinery simply do not pay.

The following discussion on fixed cost is referenced to the AER's "Draft Decision TasNetworks distribution determination 2017-18 to 2018-19" – "Attachment 19 – Tariff Structure Statement, September 2016", section C, pages 63-64.
Excerpt below. *Percentage changes have been added, shown in red.*

Figure 19.8 TasNetworks customer impacts for residential and small business

Figure 13: Residential Network Customer Impact (Residential Low Voltage General and Uncontrolled Low Voltage Heating distribution network tariffs)

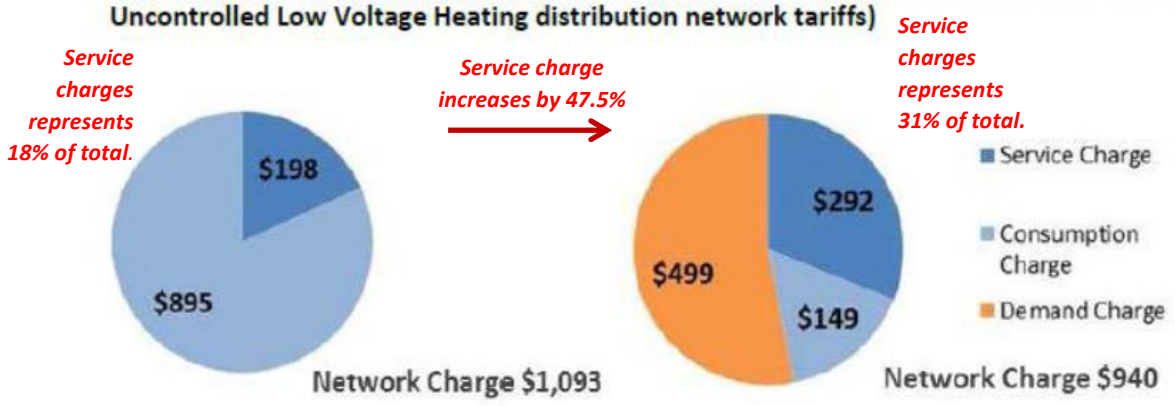
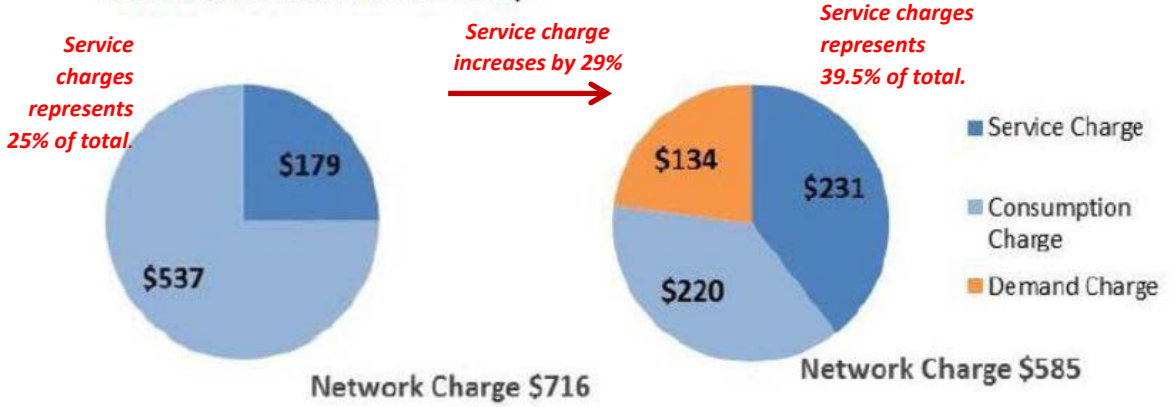


Figure 15: Low Voltage Commercial Network Customer Impact (Business Low Voltage General distribution network tariff)



Source: TasNetworks: *Demand based network tariffs – offering a new choice - Consultation paper*, September 2015.

Figure 13 relates to the likely change in a residential energy charges following the transition to a demand based tariff.

The fixed charge increases by a **staggering 47.5%** from the consumption based invoicing to the demand based invoicing.

Such an increase in fixed charges significantly reduces the capacity and indeed the incentive, of the residential customer to actually reduce energy consumption/demand and therefore costs.

This approach, by TasNetworks, is considered deceptive, unethical and against the drive to encourage energy saving and the principles of user pays. Here the customer pays significantly higher costs without using.

Figure 15 relates typically to the small business, again the increase in fixed charges is significant, an **increase of 29%.**

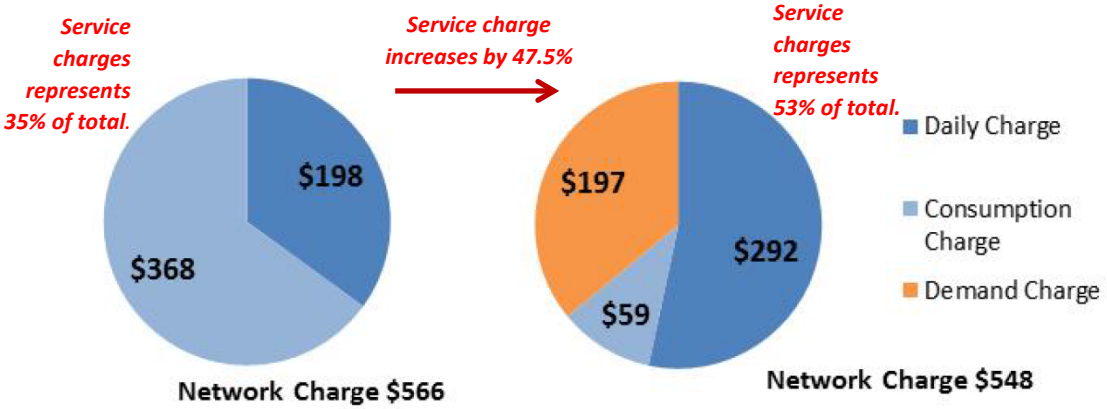
Fixed charges under the new tariff scenario, in the example given, is proposed to represent almost **40%** of the customer's energy invoicing.

This is a disgraceful situation and the Australian Energy Regulator is asked to act against such a pricing scenario being established.

Missing Example in the "AER Draft Decision …."

TasNetworks, in its consultation paper of September 2015, "Demand based network tariffs – offering a new choice", page 24, included another example of "Residential Network Customer Impact (Residential Low Voltage General and Uncontrolled Low Voltage Heating Distribution network tariffs). This was not replicated in the AER paper. Detailed below.

Figure 14: Residential Network Customer Impact (Residential Low Voltage General and Uncontrolled Low Voltage Heating distribution network tariffs)



This example is another showing the likely increase in service charges under the proposed tariff review. Fixed charges, representing more than half the billing, is unacceptable.

High fixed charges remove the cost benefits of customers investing in energy efficient infrastructure, such as heat pumps, LED lighting and timers. This situation will also negate the value of energy efficient assets already invested by customers, again adding cost to the customer. High fixed costs removes any incentive to assist with the better management of the Network. This is the basic premise TasNetworks claims is the reason to introduce time of use and demand based traiffs.

The AER is again asked to review and not approve increases in fixed charges, but rather to reduce fixed charges, so the Network can be better managed.

2. Electricity Cost Capping

While the overall regulated revenue of TasNetworks may be capped, what measures are in place to ensure this occurs? Should the pricing model prove to generate higher than expected revenue, how responsive will the Regulator be to ensure adjustment of the pricing structure? Will the Regulator make monthly assessments or wait for an annual report?

TasNetworks' total regulated revenue may be capped by the Regulator, but individual small businesses' and households' potential increases in electricity costs are currently not proposed to be capped or have any safety net arrangement in place.

With the introduction of new water pricing in Tasmania several years ago, State Government introduced unit price capping, so that cost increases per household would not exceed 5% p.a. excluding consumption increases.

It is recommended that the Regulator seeks some safety net arrangement from TasNetworks for those entering the new charging regime, whereby the unit cost equivalent per KWHr consumption does not exceed more than a prescribed amount. Of course if the business or household uses more total energy, there will be an increase, but the change in tariff structure should have a safety margin in order that something like the peak demand calculation does not immediately penalise the customer.

Timing and Meaning of Opting in and Out

There is general agreement for existing and new customers being able to "opt in" to demand based tariffing from 1 July 2017.

New customer connections and customer relocations should have the option of opting in, there should be no onus on the customer to have to elect to opt out of a demand based tariffing arrangement, at least until the first two year tariff arrangement has concluded.

The Regulator should require TasNetworks to be clear about the trigger mechanisms which will later require customers to opt out of demand based tariffing. Currently this is not clear.

Default Scenarios that may require customers to consider "opting out", could include:

Customer relocating to another premise. TasNetworks may require the customer to adopt demand based tariffing, under a default arrangement, unless they elect to opt out.

Customers requiring upgrade to main electrical board or other power supply rearrangements, which trigger a range of electrical compliance issues, which may now also include the customer adopting demand based tariffing, unless they opt out.

New developments and new connections may be required to adopt demand based tariffing, as the default, unless the opt out option is taken.

Questions that relate to opting out, include:

Will there be time constraints, restrictions in respect to advising of opting out?

Will there be costs associated with opting out ? If so, on what basis and what is the expected cost of such action?

Will "opting out" require a demand based meter to still be installed ? Will the customer be required to pay for this meter?

3. The use of one peak in the determination of "demand charges".

Peak demand charging is an unknown concept to the majority within the small business and residential sectors. It is considered reasonable, with the aims of avoiding price shock and in developing a charging regime that better represents the customer's use of the network, that one of the following scenarios is adopted by TasNetworks. It is not considered appropriate that the highest peak demand for the month be used in the calculation of a customer's monthly demand on the network.

A. Daily Demand Charging.

Smart, high interface metering should allow the calculation of daily peak demand thus allowing the easy calculation of daily demand charges. Daily peak demand will eliminate the potential price shock of a small business or residence paying a full month for one high peak. The daily calculation and charging is also considered the most appropriate means of charging for the customers' real demand on the network. **This would represent a true user pay approach.**

B. Averaging of Peak Demands

As already suggested, the monthly charging of one peak demand incident is not necessarily representative of a customer's demand on the network. One customer's peak may also not necessarily coincide with other peaks on the network, so therefore not having a true impact on increasing the overall demand.

It is therefore considered appropriate that if daily demand charging is not to be made available, then an average of a number of peak demand values is used for the demand charge calculation for the month.

Perhaps the averaging concept may allow a cheaper type of meter, again saving cost on the consumer. This arrangement is therefore considered favourable if metering options allow for lower meter costs for customers.

The AER should ensure assessment of the cost benefits of Daily Demand Charging and Averaging inclusive of metering options and costs to customers. Currently this does not appeared to have been considered.

4. The cost of metering associated with new time of use and demand based tariffing.

There has been little consultation or disclosure about the impact of new metering on customers.

Given that high interface interval meters can cost upwards of $1,000pa and the issue of pending market entry to other meter suppliers, it is imperative for customers to understand their metering options and likely costs.

The AER is asked to escalate the issue of metering and consultation regarding the metering options available, ie. approved meter types, default meters and likely costs.

Conclusion

Nekon has very recently participated in the consultation with TasNetworks on the proposed tariff changes and has utilised the AER website to obtain papers and briefings on the changes proposed. Unfortunately the broader community is yet to understand and have a say.

The proposed service charges are misguided and a step in the wrong direction. This is another example of the AER being conned by the regulated entity.

The proposed scenario reduces customers' ability to better manage their network usage and therefore costs. The proposed increase in fixed charges reduces the cost benefits of customers wishing to invest in simple energy efficient devices.

Nekon cannot stress highly enough the importance of the need to communicate with the market segments that will be so severely impacted by the proposed changes. These market segments have little capacity to read, yet alone understand, the quantum of papers and materials produced by TasNetworks and the Australian Energy Regulator. The AER's current Draft decision alone comprises of one 64 page document and 19 attachments comprising of 763 pages.

The draft decision into “TasNetworks Electricity Distribution 2017-19” leaves so many questions unanswered, no dual metering in place, no real scientific data available for assessment and increases in fixed charges proposed.

There also appears a communitywide lack of understanding of what the AER is approving, ie increased prices and financial risk for small and medium sized businesses’ energy use and management.

Nekon requests that the Australian Energy Regulator seriously considers the issues highlighted within this submission. Instead of guaranteeing returns to a regulated entity, we look forward to a more scientific, logical and lower cost approach to network and demand based pricing for the Tasmania small and medium sized business and residential markets.

We are happy to meet with you in Melbourne to discuss our submission at an agreed time.

Yours faithfully

NEKON PTY LTD

Robert Rockefeller