



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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Michelle Groves
CEO
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Michelle

**TASNETWORKS DISTRIBUTION DETERMINATION
PROPOSAL FOR 2017-19 – LAZY APPROACH TO GUARANTEEING REVENUE**

This submission is in direct response to TasNetworks' recent statement release regarding the AER determination proposal on pricing for the 2017-19 period, copy attached.

This submission supports the previous representation our company has made to the AER and again empathises the issue of unfair pricing on the Tasmanian community with increased fixed charges.

The AER's proposed approval to increasing fixed charges and reducing the variable consumption based component will have significant negative impact on the Tasmanian community. The proposal is contrary to the fundamental principles of energy management and investment into energy efficient initiatives and it should be rescinded immediately:

1. FIXED PRICING INCREASES IS CONTRARY TO THE PRINCIPLES OF USER PAYS
2. UNPREDICTABLE PRICING UNDERMINES INVESTMENT MADE TO ENERGY SAVING INITIATIVES

1. CONTRARY TO THE PRINCIPLES OF USER PAYS

TasNetworks claims that there is need to better align charging of consumers to the actual use and cost of network infrastructure and its associated services. TasNetworks has therefore considered it appropriate to increase the coverage of "time of use" and "demand" based charging as an appropriate mechanism. The assertion made by the AER and by the wider industry is that this form of metering and charging would be a fairer means in which to charge users of the network. This approach would seem reasonable; however, the increase of the fixed charge components does not satisfy this criterion in any way.

The increase of fixed charges is a lazy means of guaranteeing a lazy revenue base for TasNetworks.

The proposed increase in fixed charges, as detailed in TasNetworks' own publications, will be up to 47.5%. This will result in the fixed component of a typical power invoice to be between 30% and 53% of total energy costs. This is a disgrace and the AER should be ashamed to even be seriously considering such charges. *Refer to Appendix D, page 41 in the attachment TasNetworks paper, September 2016, titled "Demand based network tariffs – offering a new choice".*

UNPREDICTABLE PRICING STRUCTURES UNDERMINES EXISTING AND FUTURE CAPITAL INVESTMENT INTO ENERGY SAVING INITIATIVES

The State Government's energy strategy is headlined with the objective of:

“delivering affordable energy at competitive predictable pricing.”

TasNetworks also quotes in its promotional materials its aim of delivering predictable pricing and empowering the customer to better manage energy use and cost.

The proposal to increase fixed service charges is not a cost that customers can predict and certainly does not enable or empower customers to manage energy use and therefore energy cost. Customers do expect the cost of energy to rise over time, as with other commodities, but not fixed costs. Increasing fixed charges, in this instance, is simply a monopoly provider taking advantage of its position and guaranteeing a fixed increase in revenue. This is lazy and risk averse poor business practice.

Increasing fixed cost damages the returns on investment that businesses and residences have already made towards energy efficient plant and equipment. There is simply no savings being made available by saving energy when fixed costs are being increased. This will impact on residences and businesses that have already made investment into energy efficient plant and equipment, such as heat pumps, LED lighting, electronic timers etc.

The increase in fixed costs will retard the take-up of energy efficient plant, as the savings in energy use will not justify investment.

The pricing approach also runs against the COAG's drive towards improved energy management, energy efficiency and greenhouse gas reduction. Increases in fixed cost does nothing to encourage reductions in energy use.

Yours faithfully

NEKON PTY LTD



Robert Rockefeller

Demand based network tariffs – offering a new choice

Consultation paper

September 2015

Table of Contents

1	Overview	5
2	Background.....	7
3	Purpose	8
4	Network tariff strategy.....	8
4.1	Network tariff reform options	9
5	Consultation plan.....	10
6	Our customers	11
7	How network tariffs are applied	11
8	Customer feedback	12
9	Network tariff strategy guiding principles.....	13
9.1	Application of the principles to the choice of network tariff design.....	13
10	Efficient network pricing	14
10.1	Network demand and network costs	15
11	Metering as an enabling technology	17
12	Designing demand based network tariffs.....	18
13	Demand based network tariff options	18
13.1	Preferred option: Time of Use Demand Pricing.....	19
14	Demand based network tariff structure.....	20
14.1	Preferred option: two part demand based network tariff	21
15	Two part demand based network tariff - network customer impacts	22

15.1	Network customer impacts.....	23
15.2	Summary – network customer impacts.....	26
16	Consultation with customers.....	27
17	Appendix A: Current network tariffs classes and network tariffs	29
18	Appendix B: Network pricing rule changes and compliance.....	34
19	Appendix C: Demand based network tariff options.....	35
19.1	Option 1: Anytime Maximum Demand Charge	35
19.1.1	Option 1: Advantages	35
19.1.2	Option 1: Disadvantages.....	35
19.1.3	Option 1: Overall Assessment.....	36
19.2	Option 2: Anytime Maximum Demand Charge (Average).....	36
19.2.1	Option 2: Advantages	36
19.2.2	Option 2: Disadvantages.....	36
19.2.3	Option 2: Overall Assessment.....	36
19.3	Option 3: Extended Peak Period Maximum Demand Charge.....	36
19.3.1	Option 3: Advantages	37
19.3.2	Option 3: Disadvantages.....	37
19.3.3	Option 3: Overall Assessment.....	38
19.4	Option 4: Average Maximum Demand Charge.....	38
19.4.1	Option 4: Advantages	39
19.4.2	Option 4: Disadvantages.....	39
19.4.3	Option 4: Overall Assessment.....	39
19.5	Option 5: Time of Use Demand Charge	39
19.5.1	Option 5: Advantages	40
19.5.2	Option 5: Disadvantages.....	40
19.5.3	Option 5: Overall Assessment.....	40
20	Appendix D: Three part network tariff – network customer impacts	41
20.1	Transition plan for the three part network tariff.....	44

21	Appendix E: Methodology/assumptions underpinning indicative annual network charges	46
21.1	Methodology.....	46
21.2	Assumptions.....	46

20 Appendix D: Three part network tariff – network customer impacts

A high level impact summary for key customers segments is provided below, this analysis is based on a move to a three part network tariff. Given its complexity, this is not our preferred option.

The analysis is underpinned by network tariffs that have been developed for comparative purposes only, and use a range of assumptions. The analysis provides a comparison of network charges under two scenarios, the base case (existing network tariff structure) and the demand based network tariff.

The outcomes are therefore illustrative of network charges at the end of the transition period (2028-29) and will not necessarily be representative of any final network tariff structure or network price and should not be relied upon for that purpose (refer Appendix E for assumptions).

Figure 13 illustrates the typical network annual charge for a medium residential customer currently on both network tariffs Residential Low Voltage General (TAS31) and Uncontrolled Low Voltage Heating (TAS41). It also shows the forecast annual network charge following movement to a time of use demand based network tariff.

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

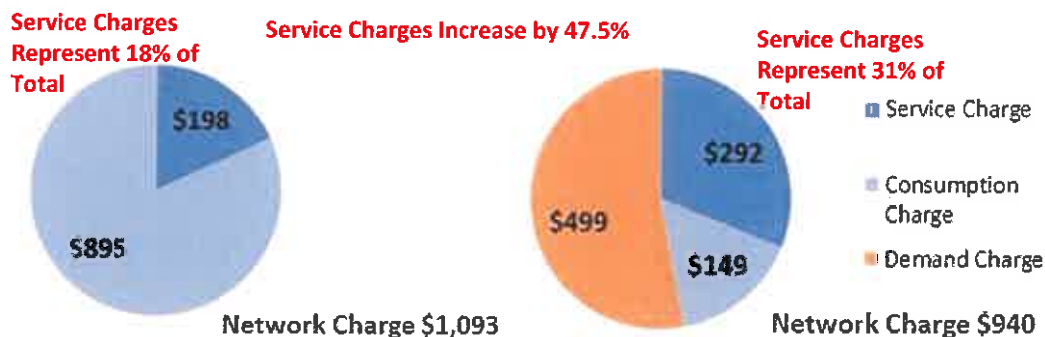
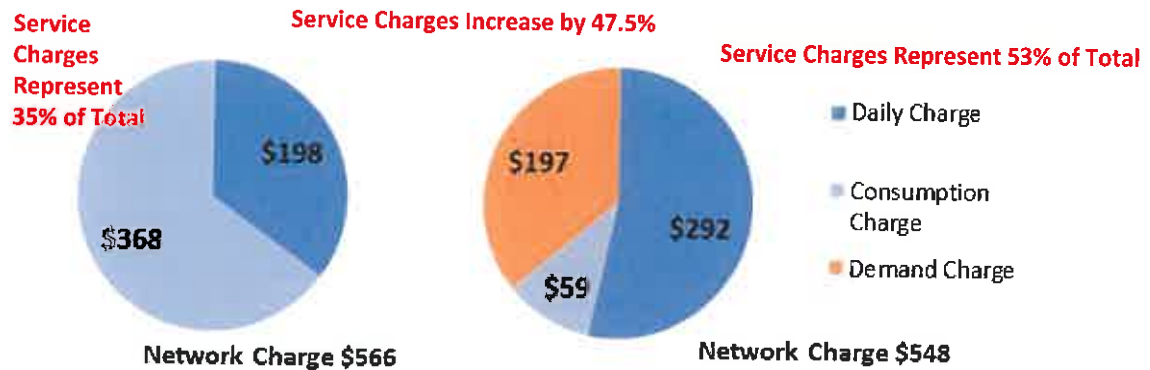


Figure 14 illustrates the typical network annual charge for a low residential customer currently on both network tariffs Residential Low Voltage General (TAS31) and Uncontrolled Low Voltage Heating (TAS41). It also shows the forecast annual network charge following movement to a time of use demand based network tariff.

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



Currently our low voltage commercial customers are on a range of different network tariff offerings which include flat consumption based network tariffs, time of use consumption network tariffs and an anytime maximum demand network tariff. The move to cost reflective network tariffs will impact customers differently depending on individual load profiles and depending on customer's current network tariff. The figures below provide an outline of customer impact for customers on each of the current low voltage commercial network tariff offerings. We recognise that due to the diversity in customer load profiles and usage patterns within the Low Voltage Commercial Customer class that introducing a single demand based network tariff may not be appropriate. We are therefore proposing a small and large low voltage commercial demand network tariff which should be similar to the differentiation between our existing small and large low voltage commercial network tariff offerings.

Figure 15 illustrates the typical network annual charge impact for a medium low voltage commercial customer currently on the Business Low Voltage General network tariff (TAS22) and the network annual charge following movement to a time of use demand based network tariff.

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

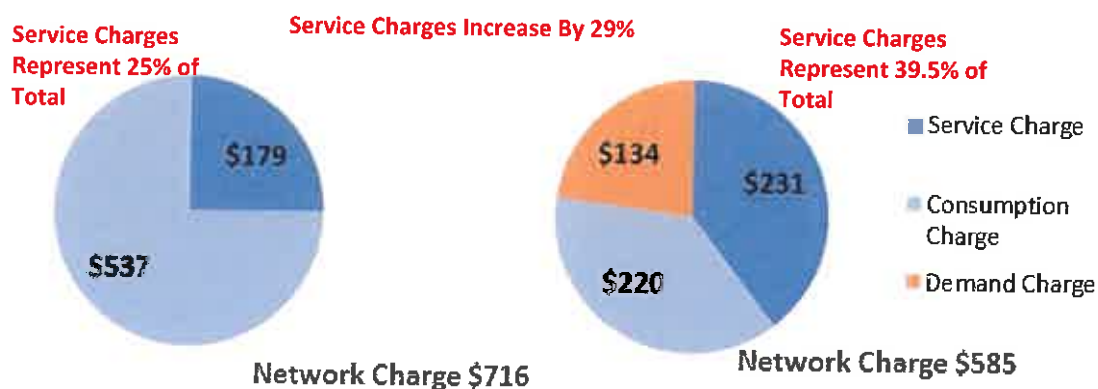
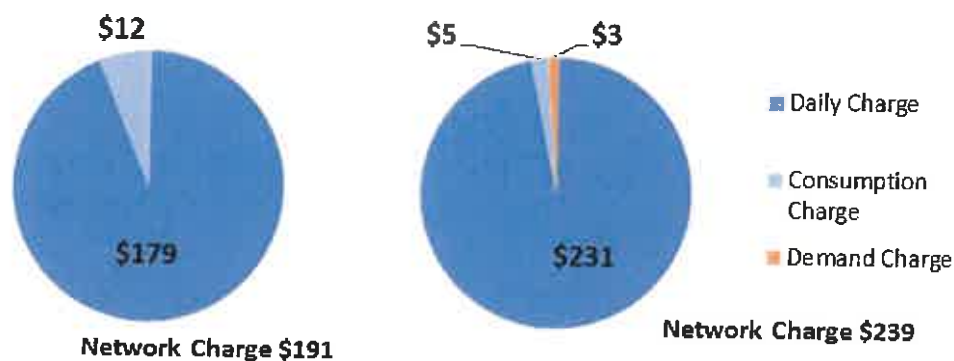


Figure 16 illustrates the typical network annual charge impact for a low usage low voltage commercial customer currently on the Business Low Voltage General

network tariff (TAS22) and the network annual charge following movement to a time of use demand based network tariff.

Figure 16: Low Voltage Commercial Network Customer Impact (Business Low Voltage General distribution network tariff)



A key reason for the increase in network charge for this customer type is the slightly higher service charge. This is not a function of the change to a demand based network tariff but rather an increase in the share of cost recovery associated with service charge. More information regarding the gradual transition of service charges and the transition to efficient revenue recovery by customer class will be provided in a separate consultation paper.

Figure 16 illustrates the typical network annual charge impact for a large usage low voltage commercial customer currently on the Business Low Voltage General network tariff (TAS22) and the network annual charge following movement to a time of use demand based network tariff.

Figure 17: Low Voltage Commercial Network Customer Impact (Business Low Voltage General distribution network tariff)

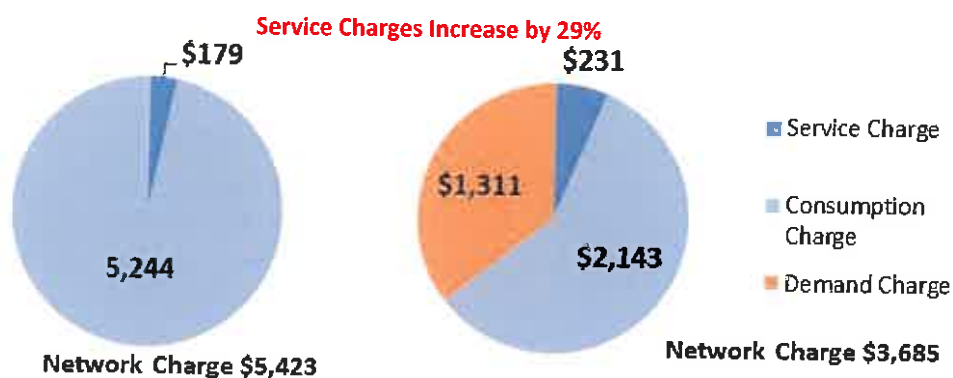
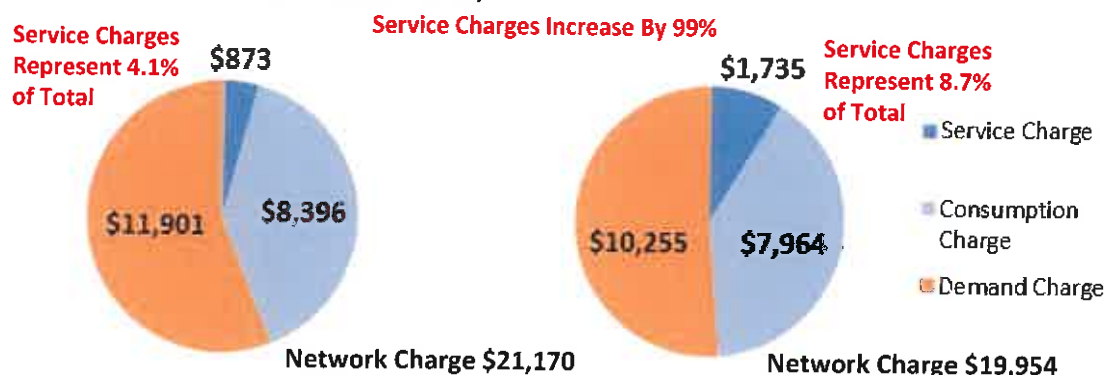


Figure 18 illustrates the typical network annual charge impact for a medium low voltage commercial customer currently on the Business Low Voltage kVA Demand distribution network tariff (TAS82) and the network annual charge following movement to a time of use demand based network tariff.

Figure 18: Low Voltage Commercial Network Customer Impact (Business Low Voltage kVA demand distribution network tariff)



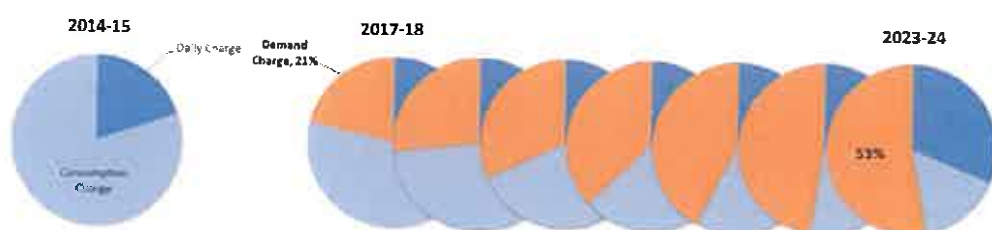
20.1 Transition plan for the three part network tariff

As part of this transition in the first instance from 1 July 2017 we plan to offer a demand based network tariff to small customers on an opt in basis. Currently if a customer requests a network tariff change (via their retailer) a Network Tariff Reassignment charge of may apply. However, as part of the transition process to encourage our customers to consider a network demand based tariff, we will not charge the Network Tariff Reassignment charge to small customers who choose to opt in to a demand based network tariff.

We also recognise that we need to allow time for customers to understand network demand based charging and adapt to these changes. We therefore propose a transition that involves gradually increasing the demand price over a number of years until such a time as the cost reflective network price is reached.

The effect is that, assuming no behaviour change, the contribution to a customers' charge of the network demand tariff component will increase over time while the contribution of the consumption component decreases. We expect the demand component will reach approximately 55% of a residential customer's network charge by 2024⁶; this progression is shown in the figure below.

Figure 19: Proposed Demand Network Tariff Transition (residential customer)



We propose that this transition will occur over a number of regulatory control periods.

⁶ Based on current forecasts and will change depending on changes to forecast programs, demand and long run marginal cost calculation iterations.

Our current expectation is that all our network demand charges will reach fully cost reflective levels by 2024, that is, our demand network tariffs will be recovering the appropriate amount of revenue via the demand component of network tariffs.