

# Improving the way we price our services

Revised Tariff Structure Statement for  
Regulatory Control Period  
1 July 2017 – 30 June 2019

## Overview



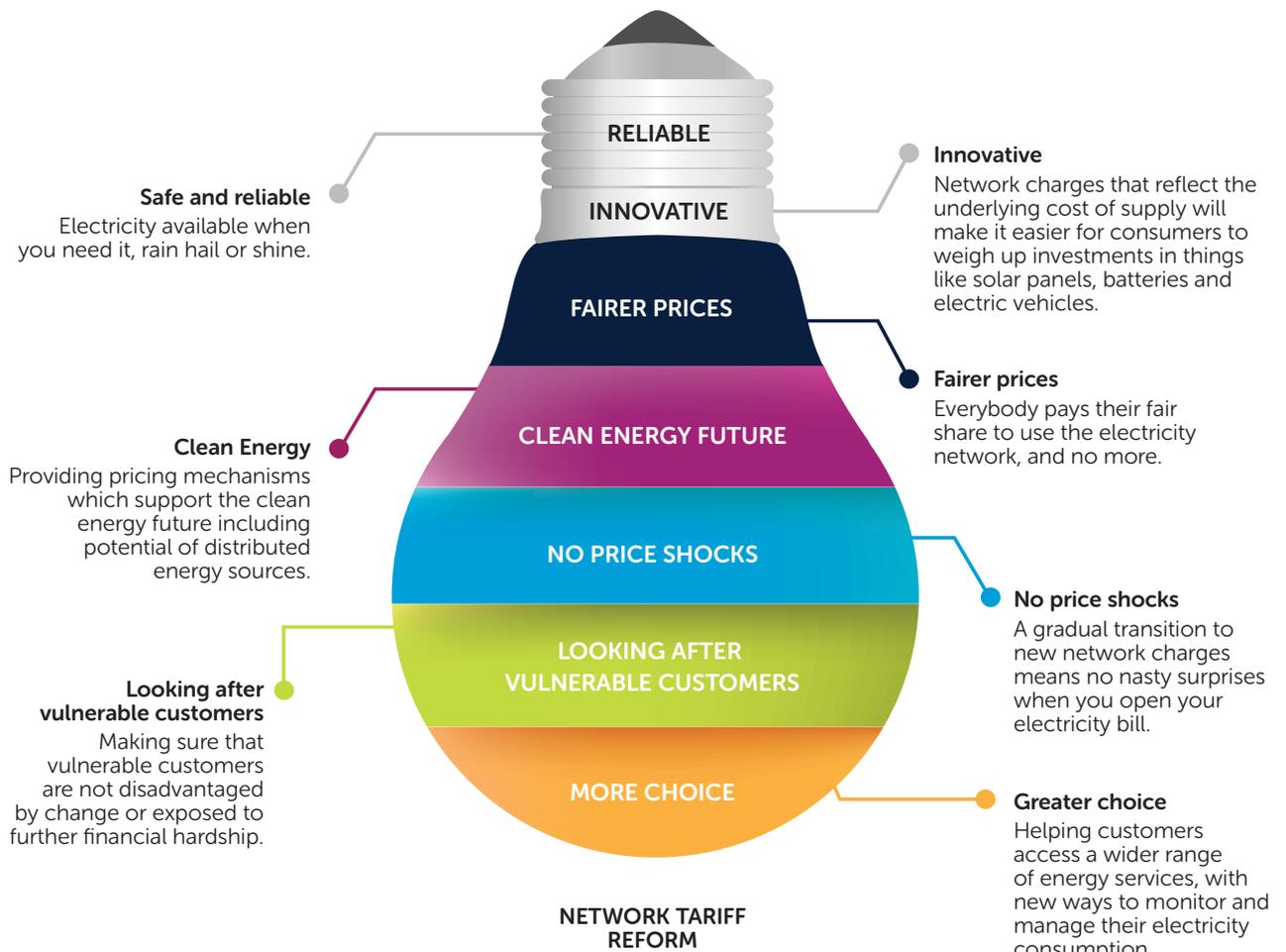


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# Benefits of network tariff reform

The following illustration highlights some of the key benefits of network tariff reform for our customers.



# Creating value for our customers, our owners and our community



TasNetworks provides transmission and distribution network services, delivering Australia's cleanest electricity to Tasmanian homes and businesses. TasNetworks is a State Owned Corporation with total assets of over \$3 billion and our purpose is to create value for our customers, our owners and our community. Our vision is to be trusted by our customers to deliver today and create a better tomorrow.

**We are working hard to keep our costs and our prices as low as we sustainably can,** while delivering safe and reliable services.

As part of our journey to a better tomorrow, we are changing the way we charge for the delivery of electricity and access to the distribution network. Network costs presently make up over half of the typical Tasmanian residential electricity bill.

Many of our charges take the form of network 'tariffs', which we charge to electricity retailers. This document, which provides an overview of our Tariff Structure Statement, outlines key changes we are making to network tariffs and explains why these changes will result in better outcomes for our customers.

At the heart of our tariff changes is the need to send our customers network price signals that better match the demands customers place on the network (and the benefits they derive) with the cost of providing the network. The consumption based network tariffs we have traditionally used to recover the cost of providing and running the electricity network are no longer fit for purpose.

Present network prices do not send the right signals for customers to understand how their electricity use affects network costs, or to support technological and customer driven changes in the electricity market, like the widespread uptake of solar panels and emerging battery technology. Recent changes to the National Electricity Rules also require us to apply a more cost reflective approach to determining our tariffs.

In January 2016, we submitted our Tariff Structure Statement for the two year regulatory period commencing on 1 July 2017 and ending on 30 June 2019. On 29 September 2016, the Australian Energy Regulator (**AER**) released its draft decision which largely accepted our proposal.

The AER indicated that it would like more consideration of the bill impact of increasing fixed charges for high voltage customers. In response to this, we have engaged directly with our high voltage customers. There is overall support for the changes we are proposing, with most high voltage customers seeing the total network charges decrease.

The move towards fairer, more cost reflective network prices has already begun. It will continue over the upcoming two year regulatory period which commences on 1 July 2017. For most customers the transition will involve only small changes. Over a number of years, the changes made to existing network tariffs, plus the introduction of some new demand based network tariffs for residential and small business customers, will see customers pay charges that better reflect their contribution to network costs.

We will not recover any additional revenue as a result of changes to our network tariffs. In fact, in the long term, our revenues may fall as we support a more efficient network.

This is good news for all customers.

The process of tariff reform is challenging. To be successful, we will need to gain customers' trust, and foster understanding and acceptance of any new or modified network tariffs. To that end, we have already consulted extensively with customers, electricity retailers and the wider community about improving our network tariffs.

The customers and stakeholders that we have engaged with have been broadly supportive of the changes we've proposed to our network tariffs. They've also told us that we need to put a lot of effort into explaining network tariff reform, to ensure that customers understand the potential benefits of network tariff reform, and how the new demand based network tariffs will work. Customers are also keen to see the results of our tariff trial that is just getting under way. This will help us gain more information about customer demand, the effectiveness of our communication with customers and customers' responses to new network price signals.

This Overview Paper supports our *Tariff Structure Statement* which provides customers and retailers with more detailed information about likely network tariffs over the next regulatory period.

We will continue to seek feedback on how we can improve our customer communications and we welcome your feedback on this document.



**Lance Balcombe**  
Chief Executive Officer

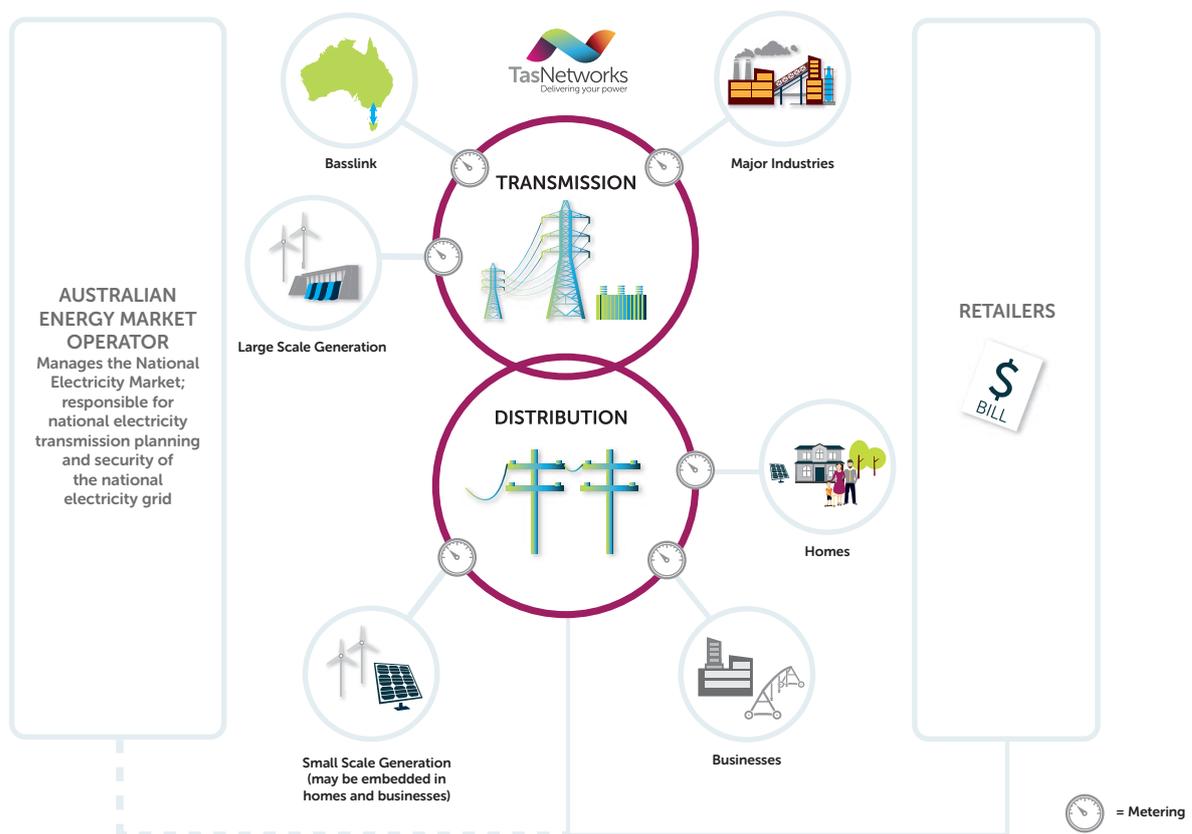
# Who we are

Tasmanian Networks Pty Ltd (**TasNetworks**) owns, operates and maintains an electricity network, or 'grid', that delivers electricity to more than 280,000 households, businesses and organisations on mainland Tasmania. We also own, operate and maintain a telecommunication network to enable safe and efficient operation of the electricity system.

Our role in the electricity supply chain and our customer service relationships are shown below.

## TasNetworks' customer service relationships

TasNetworks provides a variety of electricity network services for the transmission and distribution of electricity in Tasmania.



This document principally relates to our role as the operator of the electricity distribution network on mainland Tasmania.

# What are network tariffs?

Network tariffs are used by TasNetworks to determine the cost of network services for each household, business and organisation that takes their supply of electricity from the poles, wires and underground cables that make up the electricity distribution network.

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Rather than bill customers directly for their use of the network, we charge electricity retailers for each of their customers' connections to the distribution network and the delivery of electricity.

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The retailer then passes those costs on to their customers, through the retail tariffs that appear on electricity bills. Retail tariffs reflect how each retailer packages its input costs for particular customers, including network costs, electricity costs, renewable energy target costs and the cost of providing retail services. The default pricing arrangements for small customers are set by the Tasmanian Economic Regulator. It is the retail tariffs that customers see on their electricity bills.

Every household, business and organisation connected to the network makes a contribution towards the cost of the network through the bills they receive from their electricity retailer.

The network tariffs which currently apply to residential connections and most small businesses are made up of two parts: a daily service charge and a charge for each unit of power that the customer consumes. Network operators in Australia have commonly used this type of network tariff to recover the cost of building, running and maintaining their networks.

Our network tariffs, which are just one component of a typical customer's electricity bill, are subject to regulation by the Australian Energy Regulator (**AER**). For each regulatory period (usually five years), the AER determines our allowable revenue for the distribution network services we provide, setting an allowance for each year. The regulator then approves the network tariffs we use to recover that revenue on an annual basis.

The AER also approves the tariffs or prices that we may charge for a range of other regulated services, such as metering and public lighting.

TasNetworks' next regulatory period is for two years, so that we can align the regulatory periods for both our distribution and transmission networks from 2019 onwards.

# Purpose of this document



This document provides an overview of our revised Tariff Structure Statement for the two years from 1 July 2017 to 30 June 2019. It outlines how our network tariffs have been developed and how they will apply during the period from 1 July 2017 to 30 June 2019.

Specifically, the objectives of this overview are to:

- outline how we propose to move to network pricing which is fairer for all our customers;
- provide an overview of network pricing and its associated concepts;
- set out our proposed tariff structures and charging parameters; and
- explain how we arrived at our proposed tariffs and our future plans for tariffs.

This Customer Overview Tariff Structure Statement supports our *Tariff Structure Statement Background and Explanation paper* and our *Tariff Structure Statement*, which provide customers and retailers with more information about likely network tariffs over the next regulatory period.

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**Our actual prices will continue to be approved annually by the Australian Energy Regulator and there will be variations from the prices included in the Tariff Structure Statement.**

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Variations may arise for a number of reasons, including incentive scheme payments and penalties, as well as differences between the forecasts of our annual recovered revenue, electricity consumption and demand.

# Our Tariff Strategy



TasNetworks is committed to delivering the lowest sustainable network prices. In line with the requirements of the National Electricity Rules (**Rules**), our overarching tariff strategy is to move towards more cost reflective network tariff structures. In developing our tariff strategy we have also taken into account the Rules' requirement to consider customer impacts.

We are changing our Tariff Strategy to make greater use of demand charges in future network tariffs.

We will retain our current consumption based network tariff structures during the transition to demand based network tariffs. However, we will be adjusting those tariffs, so that they better reflect the underlying costs of supplying the customers on those network tariffs.

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In the longer term, our aim is to incentivise a customer led shift to demand based network tariffs, with our customers understanding and recognising the value and benefits associated with the new network tariffs.

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To guide the development of our Tariff Strategy, in consultation with our customers we developed a set of pricing principles against which any new or revised tariffs must be assessed. Those principles include:

**Efficiency:** Our network tariffs should facilitate the efficient recovery of revenue (as determined by the Australian Energy Regulator), with cost reflective tariffs for all customers

**Simplicity:** Our network tariffs should be as simple as possible and developed in consultation with stakeholders

**Efficient price signals:** Our network tariffs should clearly signal to all customers that the cost of using the network varies at different times

**Clearly explained:** our network tariffs should be calculated using a well-defined and clearly explained methodology

**Customer impact:** the impacts on customers of any tariff changes must be taken into consideration, and changes introduced over a period of time to manage the impacts on particular customers

**Compliant:** our tariffs must comply with the national and local rules and regulations applying to network price setting

There are trade offs between some of the guiding principles, such as simplicity versus cost reflectivity and cost reflectivity versus customer impact. But taking into consideration the guiding principles and customer feedback, we believe our plan to move customers towards demand, rather than consumption, based pricing represents the best response to the changing electricity market and delivers the best overall outcomes for customers.

# The need for change

Technological and customer driven changes in the electricity market, such as the widespread uptake of solar panels, mean that the current charges used to recover the cost of the network are no longer fit for purpose. For example, the current reliance on consumption based network charges means that some customers are paying less for their use of the network than others, even though they place the same demands on the network at peak times.

This is an issue because electrical demand is not the same as consumption. Consumption refers to the amount of electricity used over a period of time. Demand refers to the rate at which power is being drawn from the network at any given point in time. Generally, the more electrical appliances you have operating at once, the higher your demand.

Our current consumption based network tariffs charge customers for the delivery of electricity based on how much electricity they use over the course of a billing period. Demand based network tariffs, on the other hand, reflect how (and when) you use that energy, and the demands you place on the network.

The following diagrams show how it's possible to use the same amount of energy over the same period but record very different peak demands.

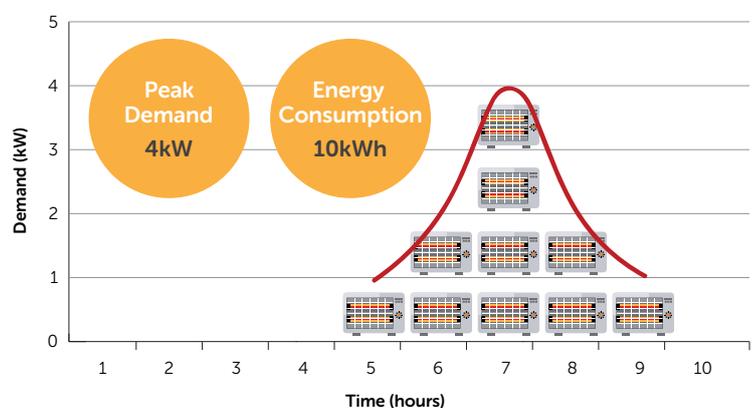
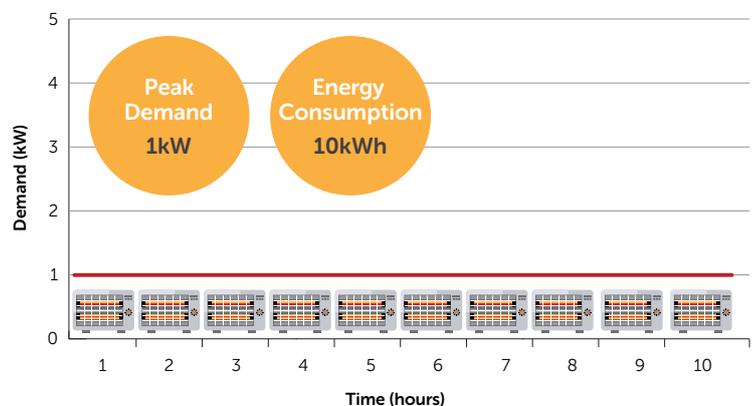
- In the first example, a single portable fan heater is run constantly for 10 hours.
- In the second example, up to four heaters are used at once, but for shorter bursts.

Even though the total amount of electricity used is the same, the peak demand recorded in the second scenario is four times higher than when only one heater was run constantly.

Our current network tariffs' emphasis on electricity consumption encourage customers to reduce electricity consumption to save money, even at off-peak times. However, this may not result in any reduction in our network costs. These costs must still be recovered, which means some customers are subsidising others.

Further, significant numbers of customers are responding to the 'incorrect' consumption based price signal by installing new technology to reduce consumption, which does not necessarily reduce demand or the cost of providing the network.

There are also a number of network tariffs which are evolutions of the discounted electricity prices introduced decades ago by the Hydro Electric



Corporation to increase the use of electricity for water and space heating. Those discounts encourage the use of high load appliances, often at times when our network is most heavily loaded.

Over time, the present network pricing has increased the cost of providing the network for everyone, because the main cost driver for networks is not the amount of power delivered, but providing the capacity to cater for peak times. Many customers who are supplied under the discounted tariffs are also not making their full contribution towards the cost of the network. The shortfall is being recovered from other customers and through other network tariffs.

These are not just Tasmanian issues: recent changes to the National Electricity Rules require networks to apply a more cost reflective approach to determining our tariffs. As a result, the charges for each customer must reflect the efficient cost of providing network services to that customer.

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To ensure that that all customers pay only to the extent that they use the network, TasNetworks – like network companies across Australia – is looking to change the way we charge for the delivery of electricity and access to the network.

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Our view is that **time of use demand based network tariffs** are the best tariff structure for providing a clear and effective price signal to our customers about the impact that their use of electricity has on the cost of delivering that power. We think this is not only fairer than the current consumption based network tariffs, but will give customers greater control over their network related costs.

## The changing energy market

The electricity supply industry in Australia is continuing to evolve in response to a changing energy market, driven by changes in customer behaviour and new technologies. Already, around 25,000 customers in Tasmania have put solar panels on their homes and business premises since 2001, and over 10,000 have installed solar hot water systems. In coming years, falling costs and advances in battery technology are likely to see battery storage cause another major shift in the electricity market and network operation.

For customers, the decision to invest in new energy technologies has costs which need to be balanced against the benefits of that investment.

In the context of network tariff reform, we understand the importance of providing clear and predictable price signals for customers who may be considering these types of investments. That's why our tariff strategy aims to provide predictable, cost reflective network pricing over a number of years. This helps so that customers can understand the true costs and benefits of investment in a range of energy-related services, such as electric vehicles, solar panels, battery storage and energy efficiency measures.

# Our tariff reform plan



From 1 July 2017, TasNetworks will begin a gradual process of adjustment to its existing network tariffs for residential and small business customers.

Changes to existing tariffs will involve rebalancing most of our existing network tariffs, by increasing the emphasis on service charges and reducing the variable consumption based component.

The prices of some network tariffs will also be progressively realigned, to unwind some long-standing cross subsidies between different tariffs and different customer groups.

TasNetworks will also start offering new time of use demand based network tariffs to electricity retailers as a choice for their residential and low voltage business customers.

We will offer a time of use demand based network tariff for residential customers, for business customers connected at low voltage and for business customers connected at low voltage with multi-phase supply. Similar tariffs are already in place for larger customers.

Demand based network tariffs will initially be made available only as a choice for our customers through their retailer. In time, we expect that all small business and residential customers will move over to time of use demand based network tariffs rather than the current consumption based network tariffs.

TasNetworks will not recover any additional revenue as a result of changes to network tariffs.

More cost reflective network prices will allow customers to make informed choices about when, where and how they use electricity. For example, if customers choose to use electricity in ways that reduce network costs (such as by reducing demand at peak periods), they should be rewarded through lower network charges.

# How will demand based network tariffs work?



TasNetworks' preferred demand based network tariff structure consists of a daily service charge and two demand charges – one demand charge for demand in peak periods and the other for demand in off-peak periods.



Demand will be measured as an average over 30 minute intervals. **Customers will be charged for the highest daily demand recorded by their meter in a 30 minute interval** over the course of their billing period in each of the designated peak and off-peak periods.

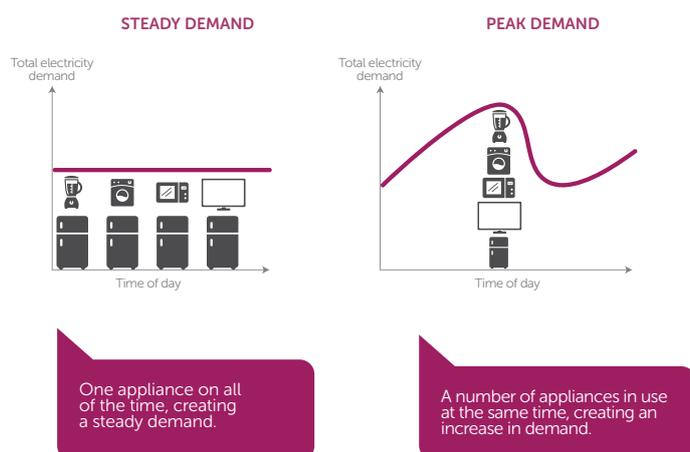
**Monthly billing to retailers for the new time of use demand based network tariffs will be introduced from 1 July 2017.** However, the majority of our customers on existing network tariffs are expected to continue to be billed on a quarterly billing cycle in the short to medium term.

# Impact on customer bills

Electricity prices have increased around Australia over the past decade, with network costs currently making up just over half the delivered cost of electricity for typical Tasmanian households and small businesses. Since TasNetworks commenced operations in July 2014, we have been vigorously pursuing sustainable cost savings to drive lower network charges in the future.

While the total amount of revenue that we recover from our customers won't increase because of network tariff reforms, the network costs paid by individual customers may change.

The new time of use demand based network tariffs will provide a financial incentive for customers to reduce their maximum demand and/or move some of their demand away from the designated peak periods for the network. The impact that demand based network tariffs have on individual customers' electricity costs will, therefore, depend on their ability and desire to respond to the price signals sent by the new demand based network tariffs. The following diagrams illustrate the difference in maximum demand associated with household appliance use.



It is not yet possible to say whether an individual customer will pay more or less for their use of the network under a demand based network tariff.

That's partly because the current accumulation meters used for residential and small business customers don't collect the metering data needed to do the necessary calculations.

It's also because people are likely to use electricity differently if they're being charged more for the delivery of that electricity at peak times of the day than if they pay for the use of the network based on how much electricity they consume.

## Tariff trial

To help our customers better understand the impacts of a move to a demand based network tariff, we have commenced a **tariff trial** to better understand how and when our customers use electricity. This will help us with our plans for the future. Through this trial we are collecting metering data, including electricity consumption, demand and time of use data for a sample of customers. This will provide insights into how typical customers in a range of different circumstances are likely to respond to the new time of use demand based network tariffs in terms of their electricity use, and the impacts that this will have on their total electricity bill.

The trial will also help us test how we can most effectively communicate with customers to help them respond to demand based pricing.

# New network tariffs for the 2017-2019 regulatory period



Consistent with our longer term transition to cost reflective tariffs, our focus in the 2017-2019 regulatory period is the introduction of new opt-in demand based network tariffs for residential and low voltage business customers, and beginning the transition of our existing suite of network tariffs towards greater cost reflectivity.

From 1 July 2017 we will introduce new demand based network tariffs for residential and low voltage business customers which is available on an opt-in basis through electricity retailers.

Network tariff	Description
<b>Residential time of use demand tariff</b>	<p><b>This network tariff is for low voltage installations at premises used wholly or principally as Private Residential Dwellings.</b></p> <p>There are no restrictions on the use of the supply (for example, supply may be used for general power, heating or water heating).</p> <p>This network tariff may not be used in conjunction with any other tariffs.</p> <p>An electronic meter capable of recording interval data is the minimum required for installations on this network tariff.</p>
<b>Low Voltage commercial time of use demand tariff</b>	<p><b>This network tariff is for low voltage installations at premises that are not used wholly or principally as Private Residential Dwellings.</b></p> <p>There are no restrictions on the use of the supply (for example, supply may be used for general power, heating or water heating).</p> <p>This network tariff may not be used in conjunction with any other tariff.</p> <p>An electronic meter capable of recording interval data is the minimum required for installations on this network tariff.</p>
<b>Large Low Voltage commercial time of use demand tariff</b>	<p><b>This network tariff is for installations taking low voltage multi phase supply at premises that are not Private Residential Dwellings.</b></p> <p>There are no restrictions on the use of the supply (for example, supply may be used for general power, heating or water heating).</p> <p>This network tariff may not be used in conjunction with any other tariff.</p> <p>An electronic meter capable of recording interval data is the minimum required for installations on this network tariff.</p>

Like our existing network tariffs, the new time of use demand based network tariffs will include a service charge. However, instead of a variable component which is based on the amount of electricity a customer uses during the billing period, the variable component of the new network tariffs will be based on a customer's maximum demand recorded during the billing period. There will be a maximum demand charge for peak and off-peak periods.

# Time of use periods for the new demand based network tariffs

Having decided to offer demand based time of use network tariffs to residential and low voltage business customers, we consulted with our customers and stakeholders on the time of use periods that should apply to the new network demand based tariffs.

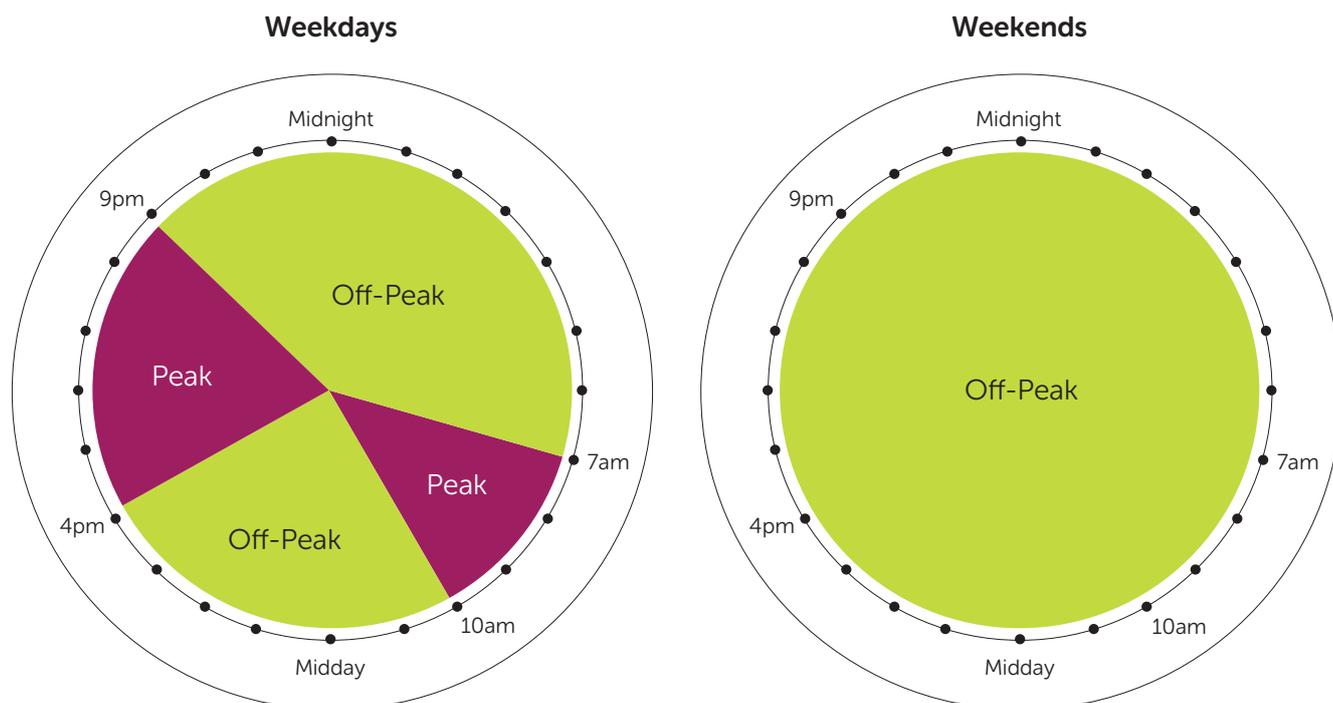
We elected to use the load profile of the system as a whole to identify when the network is most heavily loaded.

In the interests of simplicity for our customers, we decided to distinguish only between peak and off-peak periods.

Further, in the interests of simplicity and in recognition of the reduced demands that customers place on the network at weekends, the peak time of use periods chosen for the new network tariffs will only apply on weekdays. This means that 16 hours of every weekday and all weekends will be treated as off-peak.

The peak periods that have been chosen:

- are considered long enough to encourage customers to shift demand without creating new peaks immediately on either side of the existing peaks in the network's load.
- should allow customers to shift some demand away from system peaks and into off-peak periods.



# Revised network tariffs for the 2017-2019 regulatory period



In the coming two year regulatory period we are introducing a **new opt-in time of use, demand based network tariffs for residential and small business customers**. We will continue revising our existing suite of network tariffs, to make them more cost reflective. This will involve two separate but complimentary reforms:

- 1. realigning the relative prices of a number of existing tariffs to eliminate some long standing cross-subsidies between different tariffs and customer groups; and**
- 2. rebalancing the service and variable charging parameters of many of our existing network tariffs, by increasing the emphasis on service charges and reducing our reliance on variable, consumption based charges to recover the cost of providing network capacity.**

In response to representations from our customers and their advocates, we are going to transition our existing tariffs towards full cost reflectivity over a long period, which could be up to 15 years<sup>1</sup>.

For most customers, the transition phase is expected to involve only incremental changes between years, in terms of the network charges applying to their connection.

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**Due to forecast declining revenue, our analysis indicates, that most customers should face lower network charges in the next regulatory control period, when compared to current charging levels.**

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For example, we anticipate approximately 80 per cent of our residential customers on network tariffs Residential Low Voltage General (**TAS31**) and Uncontrolled Low Voltage Heating (**TAS41**) should experience lower network charges. Further, some customers, in particular business customers, should experience significant reductions in network charges. Where customers are forecast to experience an increase in network charges, the change is generally predicted to be small.

As part of the process of removing cross subsidies between different classes of customers we will also adjust the amount of revenue we seek to recover from some network tariff classes. The revenue we recover from each class of customer through network tariffs will be adjusted so that, over time, it comes to more closely reflect the underlying costs of supplying each customer class.

We will not recover any additional revenue as a result of changes to network tariffs, but the proportion of our network costs which is recovered from particular network tariff classes will change over time.

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<sup>1</sup> Note: the transition period is based on a 2014-15 commencement date.

# Customer, retailer and stakeholder engagement



Customers are central to everything we do at TasNetworks and our success is anchored to the prosperity and well-being of our customers. As part of the process of improving our tariffs we have engaged extensively with connected customers, retailers and stakeholders with the purpose of obtaining their guidance on the development of our approach to tariff reform.

We have employed a variety of consultation methodologies and engagement activities. This provided us with a range of data that has informed our tariff strategy. The wide range of customer and stakeholder groups we engaged with and the forms of engagement activities undertaken by TasNetworks are summarised in the following diagram.

A key initiative was the creation of the TasNetworks Tariff Reform Working Group in late 2014, to provide us with advice on customer needs and issues in respect to our tariff strategy.

While the AER was largely accepting of our Tariff Structure Statement, it required TasNetworks to demonstrate consideration of the network charge impact of increasing fixed charges for high voltage customers. In response to this, we engaged directly with our high voltage customers about the likely impact to network charges. There is overall support for the changes we are proposing to service costs, given these are only a small portion of the network charge and that most high voltage customers should still see total network charges decrease.



As we commence preparations for the 2019-2024 revenue and pricing reset, we have re-named and expanded our pricing advisory group to include greater business customer representation, in addition to electricity retailers and customer advocacy groups. The renamed TasNetworks Pricing Reform Working Group provides a forum where members can contribute to the direction of our distribution and transmission pricing strategies, provide feedback and become informed stakeholders on pricing reform.

# Providing feedback



We encourage our customers, retailers and stakeholders to take part in the AER's Tariff Structure Statement consultation and determination process.

Following submission of TasNetworks' revised Tariff Structure Statement, Tariff Structure Statement Background and Explanatory Statement and this *Overview* to the AER, the AER's consultation continues. Broadly, the process involves:

- a review of the revised Tariff Structure Statement's content by the Australian Energy Regulator for its compliance with the National Electricity Rules;
- publication of the revised Tariff Structure Statement on the Australian Energy Regulator's website and an invitation for written submissions from customers and stakeholders;
- publication of a final determination of the Tariff Structure Statement; and
- approval of the Tariff Structure Statement by the Australian Energy Regulator.

To keep up- to-date with network tariff reform and key TasNetworks initiatives visit our website:

**<http://www.tasnetworks.com.au/customer-engagement>**

For details of the Australian Energy Regulator's network pricing determinations visit:

**<http://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/pricing-proposals-tariffs>**

For more information about distribution network tariff reform requirements refer to:

**<http://www.aemc.gov.au/Rule-Changes/Distribution-Network-Pricing-Arrangements>**

# Related documents



A number of documents are available which support TasNetworks' *Tariff Structure Statement Overview*. These documents are listed below and are available on our website at: <http://www.tasnetworks.com.au>

## Tariff Strategy

We have published a number of information and consultation documents as part of the development of our Tariff Strategy and Tariff Structure Statement. These documents include:

- Improving the way we price our services (March 2015)
- Directions and Priorities Consultation Paper (August 2015)
- Demand based network tariffs – offering a new choice (September 2015)
- Improving the way we price our network services (October 2015)

## Revised Tariff Structure Statement

This Customer Overview of our revised Tariff Structure Statement supports our *revised Tariff Structure Statement* which sets out indicative price levels for each tariff for 1 July 2017 to 30 June 2019.

# Contact us



If you are uncertain about the network pricing arrangements that may be applicable to your particular circumstances, or want to provide us with feedback about this Customer Overview of our revised Tariff Structure Statement or tariff reform in general, you are encouraged to contact us at:

Leader Regulation  
PO Box 60,  
Moonah TAS 7009

E-mail: [revenue.reset@tasnetworks.com.au](mailto:revenue.reset@tasnetworks.com.au)

Tasmanian Networks Pty Ltd  
ABN 24 167 357 299

PO Box 606  
Moonah TAS 7009



Tasmanian Networks Pty Ltd