25 September 2015

UNITED ENERGY

Tariff Structure Statement: Stakeholder Engagement Initiatives and Outcomes

Public

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Executive Summary

The case for tariff reform

We strongly support network tariff reform. Our primary motivation is that new pricing structures are one part of a suite of complementary initiatives that will contribute to more effective management of peak demand, which will in turn contribute to more efficient capital investment and reduced prices in the long-term interests of customers.

We have seen significant change in consumption patterns over the last 10 years as customers take up different technologies and alter their patterns of consumption. This has resulted in some customers reducing their consumption overall, while at the same time maintaining or growing their use of the network at peak times. We is committed to ensuring customers receive cost reflective signal on their use of the network in the future and believe that the best way to achieve this is through the introduction of demand based tariffs.

The purpose of tariff reform is not to penalise customers for past investment decisions. Rather, it is to ensure that the correct signals are in place for the next wave of technological innovation (such as battery storage) and that customers understand these signals. By embedding more cost reflective tariff signals will we be able to reduce over the long-term what we spend on building and maintaining the network for the benefit of all customers, and in doing so deliver safe and reliable electricity at the most efficient cost.

Regulatory change

The *National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014 No. 9* (Rule Change) became effective on 1 December 2014, amending the Australian National Electricity Rules (NER) by introducing a more 'cost reflective' model for network pricing.

Network businesses are required to develop a Tariff Structure Statement (TSS) to apply for the next regulatory control period that outlines the network business' tariff classes, tariff structures and approach to setting tariff levels consistent with the pricing principles. The TSS is to be accompanied by a schedule of indicative price levels. Each TSS will be assessed for compliance with the pricing principles by the Australian Energy Regulator (AER) in conjunction with the relevant network business's regulatory proposal. The TSS will normally be submitted at the same time as regulatory determinations (submitted in April 2015). However, in the first period, Victorian network businesses are not required to submit a TSS until 25 September 2015.

Stakeholder engagement

We have undertaken extensive stakeholder engagement on tariff reform and in the preparation of our TSS, engagement which commenced in July 2014 through our Customer Consultative Committee (CCC). Since then we have engaged with consumer advocates, customers, retailers, government, industry bodies, other network businesses and regulators. The input of these stakeholders has been highly valuable and constructive and is reflected in the structures and approaches outlined in our TSS.

Our stakeholder engagement initiatives have addressed a broad range of issues including: the case for tariff reform; tariff reform objectives; proposed tariff strategy; different options and structures; transition arrangements; the scope and purpose of the Tariff Structure Statement; customer impact analysis, the evolving benefits of cost reflective network tariffs; and the specification and pricing of our optional residential demand tariff, introduced in July 2015.

1. Introduction

1.1.1 Background

The *National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014 No. 9* (Rule Change) became effective on 1 December 2014, amending the Australian National Electricity Rules (NER) by introducing a more 'cost reflective' model for network pricing.

Under the new rule, distribution tariffs must comply with several new pricing principles. The objective of the rule change is that the network prices that a network operator charges each consumer should reflect its efficient costs of providing network services to that consumer.

As a result of these changes, the network pricing process involves two stages:

1. Network businesses are required to develop a Tariff Structure Statement (TSS) to apply for the next regulatory control period that outlines the network business' tariff classes, tariff structures and approach to setting tariff levels consistent with the pricing principles. The TSS is to be accompanied by a schedule of indicative price levels. Each TSS will be assessed for compliance with the pricing principles by the Australian Energy Regulator (AER) in conjunction with the relevant network business's regulatory proposal. The TSS will normally occur at the same time as regulatory determinations (submitted in April 2015). However, in the first period, Victorian network businesses are not required to submit a TSS until 25 September 2015.
2. Network businesses will develop and submit their annual pricing proposals to the AER. The annual pricing proposals will effectively apply pricing levels to the tariff structures outlined in the already approved TSS. The AER's assessment of pricing proposals will be a compliance check against the approved TSS and the control mechanism as specified in the AER's regulatory determination.

1.1.2 The need for tariff reform

We strongly support tariff reform. Our primary motivation is that new pricing structures are one part of a suite of complementary initiatives that will contribute to more effective management of peak demand, which will in turn contribute to more efficient capital investment and reduced prices in the interests of customers.

Current tariff structures for small customers do not reflect the costs of building and maintaining the network to meet the needs of these customers. In the absence of cost reflective pricing, there has been no incentive or signal for customer behaviour that supports optimal efficiency in energy infrastructure.

Since around 2010 this has emerged as a problem, as average demand and peak demand have uncoupled. After decades of growth demand has declined while peak demand has continued to grow, resulting in price increases even as customers use less energy overall.

We have seen significant change in consumption patterns over the last 10 years as customers take up different technologies and alter their patterns of consumption. This has resulted in some customers reducing their consumption overall, while at the same time maintaining or growing their use of the network at peak times. UE is committed to ensuring customers receive cost reflective signal on their use of the network in the future and believe that the best way to achieve this is through the introduction of demand based tariffs.

The purpose of tariff reform is not to penalise customers for their past investment decisions. Rather, it is to ensure that the correct signals are in place for the next wave of technological innovation (such as battery storage) and that customer understand these signals. Only by embedding more cost reflective tariff signals will we be able to reduce what we spend on building and maintaining the network for the benefit of all customers, and in doing so deliver safe and reliable electricity at the most efficient cost.

1.1.3 Stakeholder engagement

Customers and their representatives have an increased expectation that distribution network service providers (DNSPs) will engage with them in an on-going, effective and meaningful manner about the services that they provide and the price at which they provide them. This shift represents a significant challenge for network service providers that, in the case of Victoria, have managed the networks and operated with relative anonymity since privatisation in the mid-1990s.

In effect, network businesses have been challenged to engage with customers to secure their social licence to operate. This social licence relies on customers understanding the nature, quality and value of the services provided, and a majority of those customers supporting the approach and outcomes of individual businesses.

In December 2012, the AER announced a program of work to deliver an improved regulatory framework focused on the long term interests of electricity consumers. Part of the AER's program included dealing with the new requirement for DNSPs to demonstrate effective engagement with consumers and that they have responded to consumers' concerns in preparing their regulatory proposals.

Underpinning the AER's Guideline are four best practice principles:

- Clear, accurate and timely communication – The provision of information to consumers that is clear, accurate, relevant and timely, recognising the different communication needs and wants of consumers.
- Accessible and inclusive – The recognition, understanding and involvement of consumers early and throughout the business activity or expenditure process.
- Transparent – Clear identification and explanation of the role of consumers in the engagement process, and consultation with consumers on information and feedback processes.
- Measurable – Measurement of the success, or otherwise, of engagement activities.

The AER's Guideline is structured around four components. The components set out a process for service providers to develop and implement new or improved consumer engagement activities to meet the best practice principles:

- Priorities – DNSPs are expected to identify consumer cohorts and the current views of those cohorts; outline their engagement objectives; and discuss the processes to best achieve those objectives.
- Delivery – DNSPs are expected to address identified priorities via robust and thorough consumer engagement.
- Results – DNSPs are expected to articulate the outcomes of their consumer engagement processes, and how they measure the success of those processes, reporting back to the AER, their business and consumers.
- Evaluation and review – DNSPs are expected to periodically evaluate and review the effectiveness of their consumer engagement processes.

This document captures the stakeholder engagement we have undertaken specific to the development of our TSS.

2. What we have learn about engagement

- **Stakeholder engagement is a process of continuous improvement, and we are improving.** Our stakeholder engagement for the development of the Electricity Distribution Pricing Review (EDPR) proposal was our first major consultation program under the new regulatory arrangements. We treated the EDPR as a 'line in the sand', a point from which we would develop a new, improved approach to stakeholder engagement that we would transition into our standard business practices. Consultation for the development of the TSS has demonstrated the benefit of relationships developed with stakeholder groups, encouraging open and transparent debate on key issues, information sharing on both sides and a commitment to work to resolve key issues through negotiation where possible. Feedback from a number of our stakeholder groups has been positive in relation to our approach to engagement.

- **Consultation is deeper and more effective when it can be focused on a narrower range of issues**. While complex, stakeholder consultation on the TSS has been notably deeper than we achieved on the EDPR. We have found the ability to focus on a single issue over a prolonged period, employing an iterative approach; with ongoing consultation where key stakeholder groups contribute to tariff design, analysis of customer impacts, effective transition mechanisms for vulnerable and disadvantaged customers and change communications challenges; has provided better outcomes overall.

- **Engagement is most effective when the strategic objectives are established at the outset.** We made a conscious decision to adopt a strategic approach to the development of our TSS, identifying desired strategic outcomes, debating these with stakeholder groups and implementing detailed analysis and development to deliver these objectives. For example, we established our objective to transition a majority of customers to demand tariffs by the end of the next regulatory period (2020), and then worked with multiple stakeholders to identify the most effective way of achieving that aim. This has facilitated a highly constructive discussion with stakeholder groups where issues are identified, prioritised and addressed in line with the strategic objectives.

- **There are potential benefits in undertaking stakeholder engagement as a collective of Victorian distribution businesses on some issues.** Customer advocates have provided constructive and highly valuable input into the development of our TSS, as they did with the EDPR. Many of these stakeholders have significant resource constraints. Where possible, there are benefits in pursuing opportunities to consult collectively, both in the interests of these resource constraints and as a way to facilitate a common understanding of issues.

3. Our Approach

Our approach to stakeholder engagement recognises that the biggest changes to our industry in the future won't be driven by regulation. They will be driven by customers, in concert with technology. There are enormous benefits, both to our community and to us as a business, from a deeper, genuine engagement with our stakeholders.

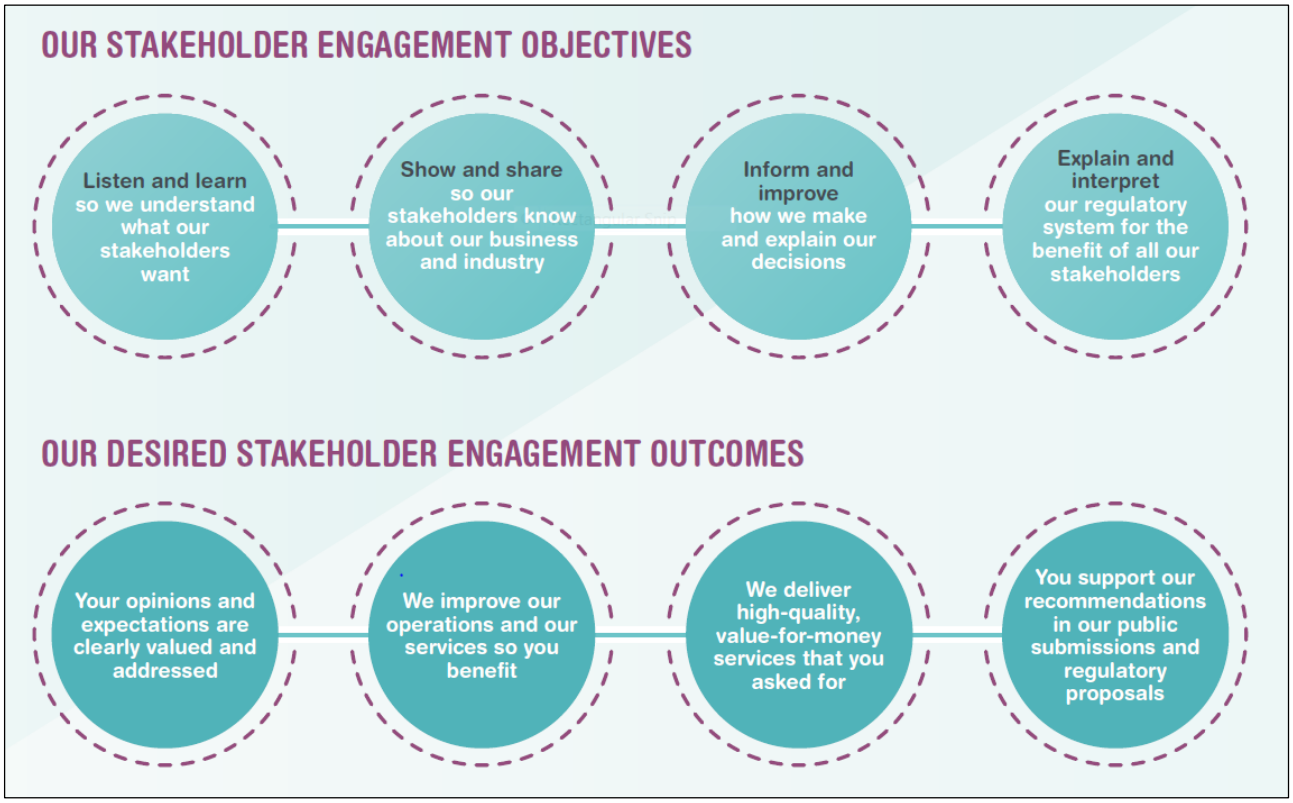
We recognise that to be meaningful, communication needs to be two-way. We have a responsibility to provide information about what we do, what drives our decision-making and what we are doing to plan for the future. Equally important is the need to seek the opinion of our community, take time to understand those views and incorporate them into our planning.

To ensure our investment proposals meet the needs, expectations, and long term interests of our customers, we embarked on a comprehensive, multi-channel customer and community engagement program.

Our approach to stakeholder engagement on the development of our TSS was based on the strategic approach we established in February 2014, in preparation for our Electricity Distribution Pricing Review. We recognised that in order to meet changing community expectations reflected changes to Chapter 6 of the National Electricity Rules (NER) and the AER Better Regulation Guidelines, we needed fresh thinking about the way we communicate. We developed our Customer and Stakeholder Engagement Strategy to outline our commitment and approach.

Our stakeholder engagement objectives are illustrated in Figure 3.1. Our engagement on the TSS has been diverse in nature, commencing in mid-2014. Our final submission has benefited significantly from the sustained and constructive input of a broad range of stakeholders.

Figure 3.1: Stakeholder engagement objectives and outcomes



Source: Shape our energy future together, customer and stakeholder engagement strategy (2014)

4. Stakeholder engagement initiatives

4.1.1 AEMC stakeholder forums

We have played an active role in a series of stakeholder forums in relation to tariff reform over the past two years, commencing with the AEMC rule change process. These forums are listed in the table below.

Table 4.1: Regulatory stakeholder forums

Date	Forum	Where	Type
27 November 2013	Distribution Network Pricing Arrangements Rule Change	Melbourne	Public
26 February 2014	Cost reflective network pricing stakeholder workshop one	Sydney	Workshop
13 March 2014	Network Pricing Framework stakeholder workshop one	Sydney	Workshop
11 April 2014	Cost reflective network pricing stakeholder workshop two	Brisbane	Workshop
16 May 2014	Distribution network pricing arrangements workshops	Melbourne	Workshop
22 September 2014	Distribution Network Pricing Arrangements Draft Determination	Sydney	Public

4.1.2 Customer groups: in depth, ongoing

Our first stakeholder engagement on tariff reform feeding into the development of our TSS was through the UE and MG Customer Consultative Committee (CCC) on 31 July 2014. At that meeting, we commenced on ongoing discussion about the drivers and our objectives of tariff reform, and set out a list of issues as a starting point for consultation. By commencing early, it was our intention to bring the CCC along with us and evolve our thinking as they undertook their own consultation with their respective constituencies. An extract of our paper to the CCC held on 31 July 2014 is below.

Customer Behaviour is Changing Grid Usage Patterns

Historically there was a strong correlation between consumption profiles across consumptions bands, with most users in a consumption band having similar appliance and aggregate consumption patterns. This flowed to a strong correlation between peak and average demand in customer consumption classes. Under this paradigm and with the technology available, charging customers based on consumption was an efficient and effective approach.

Over the past few years there has been a significant change in the way some customers use energy with the increasing demand for air conditioners and more and more consumers electing to install solar PV. These changes have significantly weakened the correlations between average and peak consumption. It is likely that new and emerging technology will further erode the historical relationships.

Peak Demand – Driving Network Capacity Design

Networks need to be designed to manage the peak capacity demand on the system. While these peak loads occur for short periods of time, failure to install sufficient capacity to meet peak demand may result in customers losing supply.

The peak network demand on the UE network has continued to rise over the past decade, with the 2014 peak consistent with the 2009 levels and many areas of the network experiencing all-time peak demand. Peak demand is heavily dependent on weather conditions and as a result annual peak

demand can be difficult to predict. The risk and consequence of failing to install sufficient capacity to meet peak demand is high.

Everyone Uses the Grid

All electricity customers who use the distribution network should contribute fairly to the costs of the development, maintenance and operation of the network. The current tariff structures charge customers based on the total energy they consume, rather than the capacity of the network they utilise. As a result, customers do not face the true network costs of their investment and consumption decisions. Customers who have not invested in new technologies share the cost of customers who have reduced their total but not peak demand requirements, such as those who have invested in new technologies or those who only occupy homes for part of the year (holiday homes). These cross subsidies may also results in inefficient investment decisions. Customers need to be provided with price signals that reflect the true costs of their network usage to increase the equity in network tariffs.

Discussion

UE has been working on tariff reform options that will ensure greater allocative efficiency and equity in prices for consumers. Any significant and effective change in tariff structures is likely to require the commitment of stakeholders and government for effective implementation. UE expects to have ongoing engagement with the CCC on the issues surrounding tariffs and tariff reform including:

- Key customer considerations
- Key tariff design parameters
- Impact of different tariff design mechanisms on different consumer groups
- A shift from consumption to capacity tariffs
- Transition mechanisms.

Since July 2014, we have met regularly with members of our Customer Consultative Committee as part of our iterative approach to the development of our TSS. Below is a discussion of the key topics covered during that time.

Objectives

We presented an initial set of four tariff reform design considerations to be debated for the development of our strategic objectives. These considerations were:

Table 4.2: Tariff design considerations

Topic	Design consideration
General principles	• Equity • Simplicity and ease of understanding • Impact on and protection of vulnerable members of our society • Fair treatment of technologies
Absolute tariff level	• Is there a step change at implementation? • Will the tariff design lead to cost increases over time?
Ability to control	• Can total costs be impacted by customer actions? • Is the feedback and impact of customer actions timely?

Predictability and variability	• Is there a month on month variability? • Is there a year on year variability? • Is the customer able to predict the bills based on easily understood factors?

Through discussion and debate these design considerations evolved into a set of principles against which our TSS was developed. Those principles are:

Table 4.3: Tariff structure objectives and measures

Key tariff structure objectives	Measure
Simple	• Ability for customers to react and understand
Attractive	• Desire of retailers to pass the tariff through to customers
Forward looking	• Ability to deal with changing market conditions • Technology and policy agnostic
Manageable volatility	• Desire for low year-on-year volatility
Predictable	• Ability for customers to forecast and understand impacts
Efficient and equitable	• Reduces inefficient cross subsidies • Adapts to different technology uses
Compliant	• Compliance with pricing rules
Timely	• Time frame for implementation mitigates potential risks associated with changing use of the network

Structures

The development of our proposed tariff structures commenced with the design of our optional demand tariff, tested with stakeholders before submission as part of our 2015 tariff proposal. Our stakeholder engagement initially focussed on assessing and then selecting the preferred tariff components to achieve the strategic objectives and meet the requirements under the Rules. A qualitative assessment determined that demand charges were likely to best satisfy the requirement to signal long run marginal cost to customers, while an energy charge would allow us to recover residual (sunk) costs. The combination of a demand and energy component would see us cover our total efficient costs in a way that minimised distortions to price signals and encouraged efficient use of the network by customers.

Customer impacts

As the proposed tariff structures were developed, we undertook and shared extensive modelling of customer impacts with stakeholder groups. This modelling used historic 30 minute demand profiles of a representative sample of more than 200,000 of our residential customers. We used the analysis to develop a transition approach that most effectively minimises the impacts on customers. Our modelling found that customer impacts correlated strongly to the 'peakiness' of the individual customer's load profile. Further, while there is variance for individual customers, our modelling has consistently shown that no specific customer groups are systematically or significantly better or worse off, including small, large, solar and hot water customers, nor customers from different geographic locations.

Consistency

The need for consistency across network businesses was a common issue highlighted by a broad range of stakeholders including consumer advocates, retailers and government. This consistency started with basic terminology, to assist in building a common understanding of the concepts being debated. For example, in our early engagement we confused stakeholders by using terms such as demand and capacity interchangeably. We responded to this feedback (provided by the Consumer Utilities Advocacy Centre in response to our regulatory proposal) by identifying common terms and definitions. It also applied to tariff design elements and the definition of the peak period. We worked collaboratively with stakeholder groups and the other Victorian network businesses towards achieving the maximum consistency possible. In addition to language, agreement on a common 3pm to 9pm peak period for residential customers was an outcome resulting from cooperation between stakeholders and industry. The benefits of consistent language, tariff design and parameters will be critical in supporting effective education and communication of customers, to manage the transition to demand tariffs.

Transition mechanisms

We have considered a range of options for transition of customers to demand tariffs, in line with our strategic objectives. Various iterations of four core options have been debated:

- Assignment of customers at the time of making an investment or change, such as new connections, move-in/move-out and changes in connection type
- Assignment of all customers to tariffs with a small demand element, with that element increasing over time as other elements reduced
- Assignment of customers on the basis of a defined parameter, such as size
- Opt-in.

In engaging with stakeholder groups on transition, we have also considered international research on the effectiveness of different approaches, specifically opt-in and opt-out mechanisms. The engagement on transition mechanisms has been arguably the most contentious. As a result of detailed engagement and consideration with stakeholders, we are proposing the introduction of a demand based element to all customer tariffs that will increase in proportion over time to achieve full cost reflectivity. The initial demand level will be set to minimise the impacts to customers, consistent with our strategic objectives. We do recognise that none of the options available provide a perfect solution. For this reason, we also propose that customers have the ability to opt out of the new tariff structure for the period of this TSS (to the end of 2020).

Ongoing communication

The need for ongoing communication by the energy supply chain (network businesses and retailers), government and consumer advocates has been clearly recognised in all of our engagement. We see this communication as having a number of key elements:

- Pre-introduction of cost reflective pricing in 2017 – focussed on explaining the problem with existing and the case for reform, educating customers on the nature of the change, customer protections, impacts and changes to assist customers to maximise direct cost savings.
- Post-introduction to reinforce the drivers for change, customer protections and promote the benefits to customers via direct savings and the long term benefits of more efficient infrastructure investment.

4.1.3 Retailers: in depth, ongoing

Successful implementation of tariff reform will not be achieved by network businesses acting in isolation. As the part of the electricity supply chain that has the established and most significant relationship with customers, energy retailers have a key role to play both in the way they package and market demand tariffs, and their part in communicating the benefits and impacts of change. We have benefited from ongoing engagement with energy retailers over the past 12 months and have worked as an individual network business and as part of the Victorian collective of network businesses to address retailers' key concerns in developing this proposal.

The key priorities for retailers are:

- Simplicity in tariff design
- Maximum possible consistency across network businesses in relation to tariff structure – tariff structure, parameters, language and definitions
- Minimum number of tariffs.

Our engagement with retailers on tariff reform started in 2014 when we introduced the concept of demand charging at our annual retailer forum. This was followed by one on one meetings with a number of retailers to discuss the tariff design and implementation prior to the first demand tariff being offered to customers in July 2015.

In May 2015, we presented at a retailer forum hosted by AGL, followed by a series of one-on-one follow up meetings with retailers.

The meetings were to discuss United Energy's tariff reform strategy, recent progress by UE and the Victorian Distribution business on Tariff Reform and our path to towards the submission of our TSS. The meetings also gave us the opportunity to get feedback on the new optional Seasonal Demand Residential Tariff outside of the earlier workshop.

The meetings were largely with representatives in the areas of Regulation or Pricing strategy. The outcomes of the discussion included:

- All retailers were supportive of UE's move to demand tariffs and indicated their intention to pass a signal through to customers
- All retailers preferred a model that included mandatory assignment with no opt out but acknowledged that an opt out model was significantly better for all stakeholders than an opt in model[1]
- All requested that the transition be undertaken with the addition of an element to the existing tariffs in order to make changes easier to implement
- All retailers supported a 2017 start date for tariff reform and no issues were raised on the readiness systems. All retailers appreciated that UE had made the tariffs structures available in our 2015 demand tariff and they indicated that they had undertaken significant analysis of this tariff
- Retailers had different views on the optimal mechanism for increasing the demand component over time, some preferring step changes, others increasing the component each year. Under either approach the most important factor was clear and effective communication with customers.

4.1.4 Major customers

Over ten years ago we commenced phasing in of cost reflective network tariffs for our large customers. This customer segment provides a valuable demonstration of the potential for customers to respond to price signals.

[1] A late submission was received from Lumo Energy recommending an opt in on the basis that tariffs would provide a large incentive to retailers to transition customers.

While we are not proposing any change to the already cost reflective demand tariff for these customers we have held a number of one-on-one meetings with large customers to discuss the existing tariff structures. Each customer demonstrated knowledge of their demand charge and acceptance of the cost reflective nature of the pricing structure. Each customer also communicated an awareness of the economic value of behavioural change or technological investment in demand management solutions.

The existence of cost reflective tariffs for large customers has had the additional economic benefit of sustaining a service industry that provides energy management and power factor correction solutions to large customers. Customer power factor correction improves the efficiency of a customer's electricity usage, reducing their peak demand on the network. Sustaining this industry has resulted in improved service offerings through competition and benefits from the evolution of the demand management technology and services. One service provider indicated in discussions that almost all of their power factor correction customers were located within distribution networks with KVA-based tariffs.

4.1.5 Victorian government: in depth, ongoing

The Victorian Government is a major stakeholder in tariff reform. We have worked closely with the government throughout 2014 and 2015 to advocate for tariff reform and work through issues in the development of our TSS. This has included detailed discussion on tariff design, transition mechanisms, customer impact analysis and communication.

In our view, the successful implementation of tariff reform is a major component in the delivery of direct benefits to customers arising from the now completed rollout of smart meters across Victoria. The recent Victorian Auditor General's (VAGO) *'Realising the benefits of smart meters'* highlighted the importance of innovative tariffs and demand management as being an opportunity to deliver benefits that have not been realised to this point.

We consider tariff reform as part of a suite of solutions to better manage peak demand, avoiding costly investment in capacity that is used only rarely in extreme weather conditions. This will in turn reduce costs to customers over the long-term. In the short-term, our analysis has shown that a majority of customers will be better off or see no real difference on a demand tariff. Of those customers who are negatively impacted, most will be able to realise benefits from relatively minor changes to the way they use electricity.

Our engagement with the Victorian Department of Economic Development, Jobs, Transport and Resources the Office of the Minister for Energy and Resources has been ongoing. Given the potential sensitivity of the proposed changes, we adopted a strategic approach where we established as a starting point a clear statement of our desired outcome, to have a majority of customer transitioned to demand tariffs by the end of the next regulatory period (2020).

Consistent with our approach with other major stakeholders, we considered the discussion of options to achieve that objective to be collaborative, taking into account the smoothest possible transition for customers and retailers. Our TSS canvasses a range of options on how to successfully implement tariff reform. We have maintained a commitment to transparency throughout our engagement with government, sharing customer feedback, customer impact analysis and our ideas on potential options to successfully implement tariff reform in the long term interests of customers, with specific attention to ameliorating any impacts on vulnerable and / or disadvantaged customers.

4.1.6 Public Advocacy

We have played an active role in the public debate on tariff reform over the past 12 months. This has included prosecuting the case for and benefits of tariff reform, as well as options on tariff design, transition mechanisms and communication. Table 4.2 details the forums at which we have presented.

Table 4.4: Public speaking engagements on tariff reform

Date	Forum	Speaker
19 September 2014	**NEM Future Forum, Sydney** **What cost reflective pricing will mean for networks** • Pricing strategy to ensure efficient outcomes for customers and networks • Understanding the mechanics and implications of cost reflective pricing • How will this reduce network capital expenditure? http://www.questevents.com.au/content/qe0018a-conference-day-one#sthash.zNLGVJNM.dpuf	Hugh Gleeson, Chief Executive Officer
17 November 2014	**Australian Utility Week, Melbourne** **Cost reflective pricing, tariff reform** • Pricing strategy to ensure efficient outcomes for customers and networks • Understanding the mechanics and implications of cost reflective pricing • How will this reduce network capital expenditure?	Kiera Poustie, Policy Analysis Manager
17 February 2015	**CEDA Enabling future grid, Melbourne** • The recently commenced Chair of the Australian Energy Regulator, Paula Conboy, and United Energy Chief Executive Hugh Gleeson discussed the state of the energy market, regulatory reform, the AER's recent draft price determinations and the role of the future grid in energy supply and usage. http://www.ceda.com.au/events/eventdetails/2015/02/v150217?EventCode=V150217	Hugh Gleeson, Chief Executive Officer
28 May 2015	**Grattan Institute, Melbourne** • The rise of distributed generation and the consequences for consumers and the electricity sector http://grattan.edu.au/events/is-it-time-to-leave-the-grid-the-rise-of-distributed-generation-and-the-consequences-for-consumers-and-the-electricity-sector/	Kiera Poustie, Policy Analysis Manager
24 June 2015	**NEM Future Forum, Sydney** **Stimulating cost reflective consumer behaviour through better regulation and economic incentives** • Examining how consumer behaviours are changing and why • Assessing the benefits of reflective consumer behaviour for all stakeholders • Identifying the need of cost reflectivity to create different patterns of consumption • What policies are needed to ensure the NEM functions properly as consumer behaviours rapidly evolve http://www.questevents.com.au/content/qe0018a-conference-day-one	Hugh Gleeson, Chief Executive Officer
10 July 2015	**SACOSS Network Tariffs Master Class, Adelaide** • The purpose of the master class was to expand consumer knowledge of electricity pricing structures with a specific focus on cost-reflective network pricing. Senior consumer advocates from around the country were given the opportunity to hear from industry experts and to engage with the Tariff reform agenda. https://www.sacoss.org.au/latest-news-upcoming-events	Kiera Poustie, Policy Analysis Manager

4.1.7 Introduction of the new optional residential demand tariff

As part of the 2015 annual pricing submission and after consultation with stakeholders, UE introduced a new voluntary tariff for residential customers with both demand and energy charge parameters. The objective of introducing the voluntary demand tariff was to establish a real tariff structure to assist stakeholder engagement and to provide electricity retailers with a real tariff structure on which to model offerings to customers.

The seasonal demand time of use tariff (RESKWTOU) sought to achieve better alignment between individual customer use profiles and their resultant cost on the UE network. The more cost reflective pricing structure was designed to deliver:

- Reduced cross subsidies between different types of residential users. For example, air conditioning, solar PV and seasonal consumption.
- Reduced cost of network investment as customers respond to price signals by shifting discretionary load to off peak periods and reducing load in peak demand periods.
- Benefit realisation of the AMI (smart meter) program where greater insight about customer consumption profiles will lead to overall reduction in cost to network users.

While we firmly support a shift towards demand based network pricing the tariff was be offered on an opt-in (voluntary) basis. To allow sufficient preparation of systems and customer communication strategies we indicated a start date for the tariff from 1July 2015. While limited uptake was expected during this initial six month period, we anticipated that the majority of eligible residential customers would have transitioned to a tariff with a demand charge component by the end of the next regulatory period.

The AER approved our proposed tariff on 19 December 2014. This tariff has three main components:

1. Monthly demand charge applied to peak consumption in the month between 3-9pm: rates in summer where the network is under most pressure are higher than those in non-summer periods
2. Low anytime energy rate: the rate of for energy consumption is designed to encourage customers to use more at off peak times
3. Fixed charge: covers pass throughs such as PFiT and other fixed charges.

Tariff Design Summary (2015 DUOS)

Tariff Name	Component	Description	Charging Parameter	Rate Summer (Dec-Mar)	Rate Non Summer (Apr-Nov)	Criteria	Average DUOS Bill (4200KWh pa)	DUoS Charge Split	Billing
Residential demand / Time of Use (RESKWTOU)	Energy	Anytime energy on any day type. Seasonal consumption elements. Initially same price for Summer and Non Summer.	c/kWh	2.50	2.50	Monthly energy kWh. Summer = Dec-Mar	$105	40%	Monthly
	Demand	Actual Max Demand on any day type between 3 - 9PM local time. Seasonal demand elements. Price premium for Summer reflects network constraint. Monthly Minimum of 1.5KW.	$/kW/month	7.10	2.80	Max Actual demand between 3-9 PM local timefor the month. Summer = Dec -Mar Monthly Minimum of 1.5KW	$160	60%	
	Seasonal Split		$/Month	$27.88	$17.98	Total	$265	100%	

4.1.8 Focus Groups

We recognise that effective communication with end use customers will be a critical component of successful tariff reform in Victoria. As part of our engagement program, we engaged KPMG to assist in the running of a

series of focus groups with customers from across our network, to test concepts related to the introduction of demand tariffs.

Following is an extract of the KPMG report on the focus group sessions. A copy of the full report is included in Appendix 1 of this document.

Focus People (a market research company) was engaged to recruit United Energy's residential customers, to ensure a broad cross-section of participants for the focus groups. The only criterion for inclusion in the focus groups was that the individual lived within UE's network, the east and south east Melbourne and the Mornington Peninsula. Participants were paid to attend the focus groups.

The focus groups were structured in a manner that supported the engagement of customers from across United Energy's network and catered for customers who may or may not be aware of the UE brand, its role in the energy supply chain and of tariff pricing. Four focus groups of 1.5 hours duration were conducted in the North, Central (two focus groups), and Southern sub-regions of the network. The location and number of participants in each focus group are provided in the table below.

A total of 37 customers attended the focus groups, comprising 19 men and 18 women. Most customers resided in a house (a total of 27 customers), while the other customers lived in either an apartment or unit. The majority of customers also had air conditioning – a total of 26. Seven customers had solar panels. Further demographic details about participants are provided at Appendix A.

A UE representative attended each of the focus groups as an observer, and addressed participants' specific questions at the conclusion of each focus group.

Table 4.5: Focus groups

Location	Residential	Date
Frankston	9	21 July 2015
Dandenong	10	23 July 2015
Mount Waverly	10	28 July 2015
Brighton	8	29 July 2015

The focus group discussions were facilitated by KPMG, drawing on discussion questions that were pre-agreed with UE. Participants were asked two introductory questions designed to gather information about the participants. Participants were then provided with a presentation on the proposed Network Tariff Reform, detailed below.

Throughout the presentation, the facilitator encouraged discussion amongst the participants in a manner that aimed to address the additional 16 questions on Network Tariff Reform. Where questions were not addressed during the presentation, the facilitator subsequently asked direct questions of participants after the presentation.

Ten key insights were identified from the focus group discussions, which are summarised below.

Table 4.6: Focus group key insights

Theme	Insight
1) Support for the Network Tariff Reform	• Overall, participants accepted the justification for the proposed Network Tariff Reform – that the current network tariffs do not adequately reflect the true cost to the network and that the cost of peak demand could be better reflected in network tariffs. Customers supported the introduction of a demand tariff as a solution to this issue.
2) Strong need for community education	• Prior to the presentation participants had a limited understanding of the role of UE and the broader energy market structure and a very limited understanding of the concept of peak demand and the impact that the growing peak has on the network business and the need for tariff reform. • Participants were only able to come to the conclusion in insight 1) following a detailed presentation. • Wide-ranging community awareness campaigns would be required to achieve similar buy-in and acceptance across the community.
3) Spreading Demand	• The messaging around 'spreading demand' was fine-tuned throughout the presentations but participants (particularly in the last two focus groups) were able to develop an understanding of how they could reduce their peak demand by spreading their use of their heavy appliances so that they were not all being used at once. • Participants generally were of the view that if a demand charge was introduced, this would incentivise them to spread their demand and change their energy use habits.
4) Impact	• Related to the above points, participants understood what the introduction of a demand charge would mean for them, with most identifying that they could be better off from the changes or could readily spread their energy use to ensure that they are.
5) Fairness	• Generally, participants were of the view that the proposed changes were fair. Participants understood that the current pricing approach can result in lower energy users and those who spread their load are subsidising high energy users and users who have high peak demand. • However, some participants did express concerns for lower income large families who may not be able to change their energy use but could face higher costs as a result of the changes.
6) Timing	• Given the support for the reforms, most participants supported their implementation as soon as possible as long a significant public awareness campaign was implemented beforehand to educate the public on the purpose of the reforms and what you can do to inform power of choice including reducing your demand.
7) Solar and future of the energy market	• Participants were able to grasp the importance of the reforms for incentivising the uptake of new technologies (such as battery storage) to assist in flattening peak demand • Participants were able to grasp the example provided around electric vehicles and that their natural instinct may be to charge it as soon as they got home from work, increasing peak demand. A demand charge would help incentivise behaviour to charge the car when it is most economical to do so.
8) Optional demand tariff	• None of the participants were aware that this tariff was available as of 1 July 2015 and had not been offered it by their retailers.
9) Retailers	• Participants expressed confusion and frustration about the current billing approach of retailers but also a reluctance to change retailers due to overall confusion about what retailers are offering. • There was uncertainty as to whether retailers would pass on the benefits of the proposed network tariff reforms to end consumers and hence undermine the effectiveness of the tariff reform. • While participants understood the simplicity of the reform, they considered the implementation to be complex due to the role of retailers and uncertainty as to whether they would pass it on.

10) Lack of public information	• Participants considered there to be a general lack of information on the energy market and they identified a need for reliable information given concerns about retailers. There is an opportunity for UE to fill this breach and use its website to better inform the public. • Participants proposed the use of apps and interactive pages on UE's website to inform customers of how they can reduce their peak demand through changing times of appliance use or using new appliances and potential savings of doing so.

4.1.9 Small to medium sized businesses

In addition to the customer focus groups, we also partnered with the Victorian Employers' Chamber of Commerce and Industry (VECCI) to host a session with its members located in our network area. The workshop, held on 11 August in Nunawading, included an overview of the regulatory changes and our proposed response, and provided participants with the opportunity to ask questions.

The session was a valuable opportunity to explain the drivers for tariff reform and to understand the practical challenges business would have to manage to respond to the price signals inherent in demand tariffs. The presentation materials were developed in consultation with VECCI's sustainability advisors and explained how the implementation of tariff reform was another step in realising the benefits of smart meters to increase efficiency in network investment, better manage peak demand and deliver long term savings for customers. The discussion highlighted the need for ongoing customer education and communication, more active marketing of free online tools like our *EnergyEasy* portal and an appetite for greater transparency of cost components (generation, distribution, retail), with the water sector highlighted as a leader in this area.

4.1.10 Victorian electricity network businesses

Our engagement has highlighted the desire of multiple stakeholders for as much consistency as possible across the five Victorian network businesses. Specific areas where consistency is most important is on language to support effective communication, tariff components and design including the definition of peak periods, and the treatment of weekdays and public holidays.

Given the diverse nature of the five network areas, reaching the level of consistency we have has been a significant achievement. This is the result of the businesses recognising the importance of the reform and adopting a cooperative approach.

The Energy Networks Association (ENA) has also played a pivotal role in leading some of this work, highlighting the benefit of industry working collaboratively with stakeholder groups to identify and address complex issues related to reform.

4.1.11 Energy industry

In recognition of the importance of tariff reform across the energy supply chain, we have been an active participant in cross industry forums to debate key issues of design, implementation, transition and communication. This included two joint forums hosted by the ENA and the Electricity Retailers' Association of Australia. We presented our proposed approach at the first forum, with the second event a facilitate discussion forum.

We were also an active participant in a multiple forums organised by the Energy Supply Association of Australia (esaa) to discuss tariff reform options and implementation on both Victorian and National levels.

5. Stakeholder engagement outcomes

5.1.1 Summary

The preparation of our TSS has benefited significantly from more than a year of consultation with a broad range of stakeholders. Table 5.1 identifies what we learnt through our consultation, categorised by issue, and how we used that information in the development of our TSS proposal.

Table 5.1: Stakeholder feedback and actions or changes to our TSS proposal

Topics	What did we hear (by issue)?	What did we do?
Tariff objectives	• Customers supported tariff objectives as the preferred way to establish strategic direction • Established the need to reflect customer impacts • Identified the important role of retailers in reform delivery • Diverse views about the priority on driving behavioural change over the introduction of cost reflective pricing	• Increased objectives from four to eight – Better reflected advised customer considerations and impacts – Develop demand tariff that is attractive for retailers to pass through to customers
Tariff Components	• Confusion over language (e.g. capacity and demand, component and parameters) • Confusion over the need to reflect LRMC in certain components of the tariff structure only, rather the tariff structure overall	• Developed a common set of definitions which have been reviewed and adopted by industry • Separated the components (energy and demand) from the parameters from which they are measured and priced (time of use, seasonal, block pricing etc.)
Tariff Design	• Customer understand the structures that they have today and changes need to be evolutionary (over time) • Communication of both rationale and changes need to be consistent and effective • Retailers strong preference to avoid mass disruption to existing structures	• Amended existing structures (e.g. added a component to LVS1R) to introduce demand component • Proposed a gradual transition of demand component over time (three years) • Minimised change from current seasonal cost recovery profile
Customer Impact Analysis	• Stakeholders wanted to understand the impact of tariff reform on specific constituencies, including vulnerable customers • Concern over vulnerable customers feeding the need for protection through transition mechanism	• Modelled our proposed tariff on 200,000+ of our customers and shared with key stakeholder groups • Developed and refined proposed transition mechanisms to minimise the impacts on customers • Included an opt-out provision
Peak Period	• Customers prefer a shorter peak period window, to provide realistic options to avoid	• Advocated for and agreed a peak period from 3pm – 9pm, consistently with previously agreed and implemented time of use price peak period

Topics	What did we hear (by issue)?	What did we do?
	• Majority of customers don't like critical peak pricing due to significant perception of bill shock and lack of flexibility to avoid peaks	
Common Industry structure	• Customer groups, retailers and government preferred consistent structure to aid with communication and transition	• Worked with Victorian network businesses to agree common structure (e.g. introduction of demand component, peak period, seasonality, applicable days)
Transition Options	• Customers, retailers and government preferred a common transition approach • There was a variety of views about the preferred speed of transition	• Amended original approach (mandated for new connections, move-in/move-out, change to connection type) to demand component added to existing tariffs and increased over time
Weekend / Public Holidays	• Consumer advocates opposed state-wide weekend and public holiday peak charges. The rationale for their opposition was that peak charges applied to those days would: – Be inconsistent with LRMC – Be unfair to most consumers – Send perverse signals to most consumers – Be confusing – Be met with strong public opposition.	• Explained detailed analysis supporting the proposed approach and the impacts of excluding weekends and public holidays, including potential negative impacts on some customer groups • Agreed to amend our proposal to apply demand tariffs on working days only
Communication	• Network businesses cannot communicate changes to tariffs in isolation • Change communication needs to be collective effort by network business, retailers, stakeholder groups and government • Poor communication is likely to result in tariff reform failing	• Committed to ongoing collaboration on public communication in the lead up to demand tariff introduction • Committed to working with all stakeholders through the transition process

Table 5.2: TSS stakeholder engagement calendar

The table below shows a chronological record of the various forms of engagement undertaken in the development of our TSS.

Date	Forum	Location	Audience	Description	Key Learnings
31/07/2014	Meeting	Mulgrave	Customer Consultative Committee	• The case for tariff reform • Initial options for tariff reform • Proposed process for consultation • Initial objectives/principles for tariff reform	• Customer rep understanding of the market and issues
28/08/2014	Meeting	Melbourne	Industry	• Discussions with industry groups on the need to progress tariff reform • Perspective sharing between retailers and DB's	• Initial understating of retailer views of tariff reform and testing of potential tariffs structures
04/09/2014	Meeting	Mulgrave	Customer Consultative Committee	• Options for tariff reform • Refinement of tariff objectives	• Confirmation of key customers concerns for the development of tariffs including: – Importance of year-on-year and bill-to-bill variation – Predictability, stability
19/09/2014	Conference	Sydney	Industry	• Keynote: What cost reflective pricing will mean for networks	• Level of industry understanding of tariff reform
07/10/2014	Meeting	Melbourne	Retailers	• Objectives for tariff reform • Proposed tariff structure • Customer impacts analysis • Introduction of optional demand tariff	• Feedback on objectives • Options to transition to demand tariffs • Options for future trials
09/10/2014	Meeting	Melbourne	Retailers	• Objectives for tariff reform • Proposed tariff structure • Customer impacts analysis • Introduction of optional demand tariff	• Key implementation issue discussions
10/10/2014	Meeting	Melbourne	Retailers	• Objectives for tariff reform • Proposed tariff structure • Customer impacts analysis • Introduction of optional demand tariff	• Feedback on objectives • Options to transition to demand tariffs • Options for future trials
29/10/2014	Meeting	Melbourne	Government/Industry	• Presentation to AMI MAC on the future of tariffs in Victoria	• Understanding of the view of different industry stakeholders

Date	Forum	Location	Audience	Description	Key Learnings
06/11/2014	Meeting	Melbourne	Government	• Meeting with (then) Shadow Energy Minister Lily D'Ambrosio MP • Briefing on drivers for tariff reform • Impact analysis on customer groups (by tariff profiles)	•
14/11/2014	Meeting	Melbourne	Retailers	• Objectives for tariff reform • Proposed tariff structure • Customer impacts analysis • Introduction of optional demand tariff	• Key implementation issues
18/11/2014	Conference	Melbourne	Public	Cost reflective pricing, tariff reform: • Pricing strategy to ensure efficient outcomes for customers and networks • Understanding the mechanics and implications of cost reflective pricing • How will this reduce network capital expenditure?	• Level of industry understanding of tariff reform
27/11/2014	Meeting	Canberra	Government/Regulator	• UE approach to tariff reform • Importance of tariff reform	• Department of Industry commitment to and approach to tariff reform
30/01/2015	Meeting		Industry	• Discussion pre submission to DSDBI process	•
13/02/2015	Meeting	Melbourne	Government/Regulator	• Proposed response to tariff reform	• Concerns on mandating changes to customer tariffs
17/02/2015	CEDA	Melbourne	Public	• Keynote: enabling the future grid	• N/A
06/03/2015	Meeting	Melbourne	Government/Regulator	• UE tariff reform objectives • UE proposed approach to tariff reform	• Victorian government views on objectives and approach
30/03/2015	Meeting	Melbourne	Government/Regulator	• UE tariff reform objectives • UE proposed approach to tariff reform	• Victorian government views on objectives and approach
21/04/2015	Meeting	Melbourne	Industry	• Industry meeting between retailers and network businesses	• Importance of short (peak) time window • Importance of consistency between DB's • Importance of continuing to work as an industry of these key issues
22/05/2015	Workshop/seminar	Melbourne	Retailers	• Network Tariff reform and new residential demand Tariff	• Importance of consistency across DBs for communication

Date	Forum	Location	Audience	Description	Key Learnings
					• Implementation challenges of different transitions approaches • Importance of considering all aspects of pricing changes (total level, seasonality etc.)
22/05/2015	Meeting	Melbourne	Government/Regulator	• Customer Impact	• Key areas of customer impact focus
25/05/2015	forum	Melbourne	CCC	• Customer impacts • Transition approaches	• Importance of considering all aspects of pricing changes (total level, seasonality etc.) • Different views on ideal transitional approaches
28/05/2015	Workshop	Melbourne	Retailers	• ERAA/ENA Tariff Workshop	• Considerations for implementation and communication of network tariff reform
28/05/2015	Seminar	Melbourne	Public	• Grattan Institute Energy Futures Seminar: Is it time to leave the grid? The rise of distributed generation and the consequences for consumers and the electricity sector	• Different attitudes of active, passive and vulnerable customers
16/06/2015	Meeting	Melbourne	Customer Consultative Committee	• Customer impacts • Transition approaches	• Support for minimal impact level proposed
24/06/2015	Conference	Sydney	Pubic	• Keynote: Stimulating cost reflective consumer behaviour through better regulation and economic incentives	• Approach to transition • Importance of delivering benefits to customers • Need to communicate demand tariffs effectively and create retail offerings that are attractive for customers to take up
25/06/2015	Conference	Sydney	Public	• Panel: Ensuring the delivering of reliable electricity supply without rising prices	• Importance of delivering benefits to customers • Need to communicate demand tariffs effectively and create retail offerings that are attractive for customers to take up
10/07/2015	Seminar	Adelaide	Public	• SACOSS Tariff Master Class	• Level of understanding of different consumer groups • Better understanding of challenges of some vulnerable customer groups
14/07/2015	Roundtable	Melbourne	Industry	• ENA Supporting Vulnerable Customers Roundtable	• Multiple approaches to the definition of vulnerability

Date	Forum	Location	Audience	Description	Key Learnings
20/7/2015	Meeting	Melbourne	Government/Regulator	• Common network approaches • Customer impacts • Transitional approaches	• Vulnerable customer considerations and impacts
21/07/2015	Focus group	Frankston	Residential	• Network Tariff Reform	• See attached
21/07/2015	Meeting	Frankston	Large Customer	• Existing KVA demand tariffs	• Level of understanding of current tariff structures and ways to impact charges
23/07/2015	Focus group	Dandenong	Residential	• Network Tariff Reform	• See attached
24/07/2015	Meeting	Pinewood	Total Environment Centre	• Network Tariff Reform and TEC proposals	• Impact on specific customers groups
28/07/2015	Focus group	Glen Waverley	Residential	• Network Tariff Reform	• See attached
29/07/2015	Focus group	Brighton	Residential	• Network Tariff Reform	• See attached
31/07/2015	Meeting	Melbourne	Government/Regulator	• Network Tariff Reform	• Key implementation concerns
03/08/2015	Meeting	Melbourne	Large Customer	• Existing KVA demand tariffs	• Level of understanding of current tariff structures and ways to impact charges
03/08/2015	Meeting	Melbourne	Government/Regulator	• Objectives • Approach • Customer impact • Transition options	• TSS compliance obligations
10/08/2015	Meeting	Melbourne	Retailers	• Implementation • Customer impact • Transitional approaches	• Support for tariff reform • Staged approach to transition • Consistency and communication key
10/08/2015	Meeting	Melbourne	Retailers	• Implementation • Customer impact • Transitional approaches	• Support for tariff reform • Staged approach to transition • Consistency and communication key
10/08/2015	Meeting	Melbourne	Retailers	• Implementation • Customer impact • Transitional approaches	• Support for tariff reform • Staged approach to transition • Consistency and communication key
10/08/2015	Meeting	Melbourne	Retailers	• Implementation • Customer impact	• Support for tariff reform • Staged approach to transition

Date	Forum	Location	Audience	Description	Key Learnings
				• Transitional approaches	• Consistency and communication key
11/08/2015	Workshop	Nunawading	Medium-sized Customers	• Network Tariff Reform	• Drivers of network costs • The need for education and clear communication with customers
13/8/2015	Meeting	Canberra	Government/Regulator	• Network tariff reform drivers • Objectives • Customers impacts • Implementation	• Importance of effective communication • Different approaches to communication
14/8/2015	Meeting	Canberra	Government/Regulator	• Network tariff reform drivers • Objectives • Customers impacts • Implementation	• Importance of effective communication • Different approaches to communication
21/8/2015	Workshop	Melbourne	Industry	• Vulnerable customers	• Definitions and impacts on vulnerable customers
03/09/2015	Meeting	Melbourne	Large Customer	• Existing KVA demand tariffs	• Level of understanding of current tariff structures and ways to impact charges
08/09/2015	Meeting	Melbourne	Retailers	• Implementation • Customer impact • Transitional approaches	• Support for tariff reform • Staged approach to transition • Consistency and communication key

Appendix 1: Focus group findings