

Driving a consumer outcome from network tariff reform

Victorian Pricing Forum
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April 2018



Why are we doing network tariff reform?

Because the National Electricity Rules say so?

OR

Because we want a better outcome for consumers?

- the potential for lower future network costs
- the opportunity for greater consumer investment in “distributed energy resources,” that is “optimal”
- the opportunity for consumers to shift their load and benefit from lower prices most of the day and most of the year
- with a safety net in place for “vulnerable consumers” that have peaky loads that cant be shifted.

6.1.2 Structure of this Chapter

- (a) This Chapter deals with the classification and economic regulation of *distribution services*.
- (b) It is divided into parts as follows:
 - (1) this Part is introductory;
 - (2) Part B confers power on the AER to classify *distribution services*, to determine the forms of control for *distribution services*, and to make distribution determinations;
 - (3) Part C sets out the building block approach to the regulation of services classified as *standard control services*;
 - (4) Part D regulates the prices that may be charged by *Distribution Network Service Providers* for the provision of services classified as *negotiated distribution services*;
 - (4A) Part DA deals with the preparation of, requirements for and approval of, *connection policies*;
 - (5) Part E sets out the procedure and approach for the making of a distribution determination;
 - (6) Part F regulates cost allocation;
 - (7) Part G contains the distribution consultation procedures;
 - (8) Part H deals with ring-fencing;
 - (9) Part I deals with *tariff classes* and tariffs;
 - (10) Part J deals with billing and settlements;

Powering comfortable homes, competitive businesses

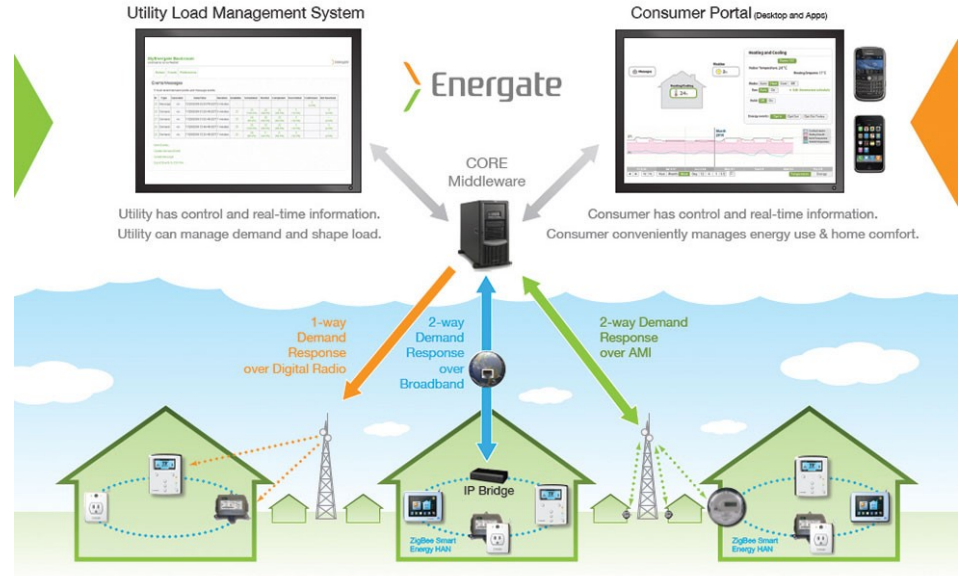


Ask not what you can do TO the consumer with pricing, BUT what the can consumer do FOR you?

What is the opportunity?

To reward consumers for flexibility in their energy use -

- ✓ using less overall
- ✓ using less when it's expensive
- ✓ generating electricity to supply other customers when it's expensive



Current state of play – a failure on the demand side

Consumers don't have the information they need to know what the opportunities are and the tools to take action.



With the consequence that:

- significant generation and network capacity lies idle for much of the year
- output from solar is a waste product in the middle of the day.
- electricity has never been more expensive in real terms (including in Victoria)



Discussion today – whats useful in the Brattle Group work

We are not alone in needing to solve this problem though it may be more urgent in Australia than almost anywhere else because of affordability, and the pace of decentralisation.

We need a sense of urgency, about getting network tariff reform underway.

Two of the design options being put forward.

1. Charge the retailer the costs based on their portfolio – an aggregate demand tariff
2. Charge retailers for demand on an individual customer basis, based on their use of the network at times of peak demand - think about the bundled internet and phone plans

I would add a third.

3. Charge the retailer the costs on a dynamic, locational tariff - analagous to 5 minute settlement in wholesale markets.

Discussion today – what's missing

- Consumers want the same service – to be rewarded for their energy use. They are not much interested who offers the service - a retailer, a regulated network business, an unregulated network business or a service provider (e.g Reposit, Evergen)
- Issue of location not sufficiently emphasised. There are opportunities for price signals in the form of demand response, which may be better for behavioural impacts.
- Retail impacts matter. Its not just the vulnerable. Need an opportunity for potential negative impacts at the retail level to be mitigated by changes in behaviour. And no one left behind.

Future discussion – the Pricing Directions paper – a way forward nationally?

Originally prepared by CCP, ECA, PIAC, TEC for NSW network business engagement, to suggest what success of reform might look like.

What will it take to deliver benefits for consumers?

Network tariffs are one starting point, but not the only one. Opportunity to identify and monetise the value of consumer flexibility in their use, with new retail products.

— — — Retail offers that focus on the consumer – relevant, available, easy, simple and fair.

Opportunities provided by digitisation and IoT to give customers real time information and easy control. Who opts out and who get left behind?

Retailers collaborating with networks, taking into account consumers needs and mitigating harm.

Support from the AER for a more holistic approach that doesn't start and end with the TSS.

Going beyond “tariffs” to a suite of rewards and incentives - networks have the runs on the board so far with Peak Smart (QLD), Summer Saver (Mornington), Power Changers (trial in north-east Melbourne).

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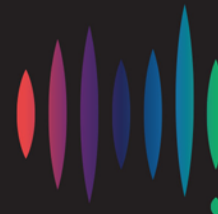
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