

Pricing

8 June: Meeting with Customer Forum



Objective and context of today's discussion

- ▶ While pricing is **not in scope** for the purposes of the negotiation, the Forum has requested a discussion on current and future distribution network pricing.
- ▶ This sets important context when discussing our revenue proposal, as in some cases there may be interactions between the need for network investment and consumer behaviour influenced by price.
- ▶ While pricing is not in scope, we can take views on board as part of wider Victorian consultation process.

Network tariffs: overview

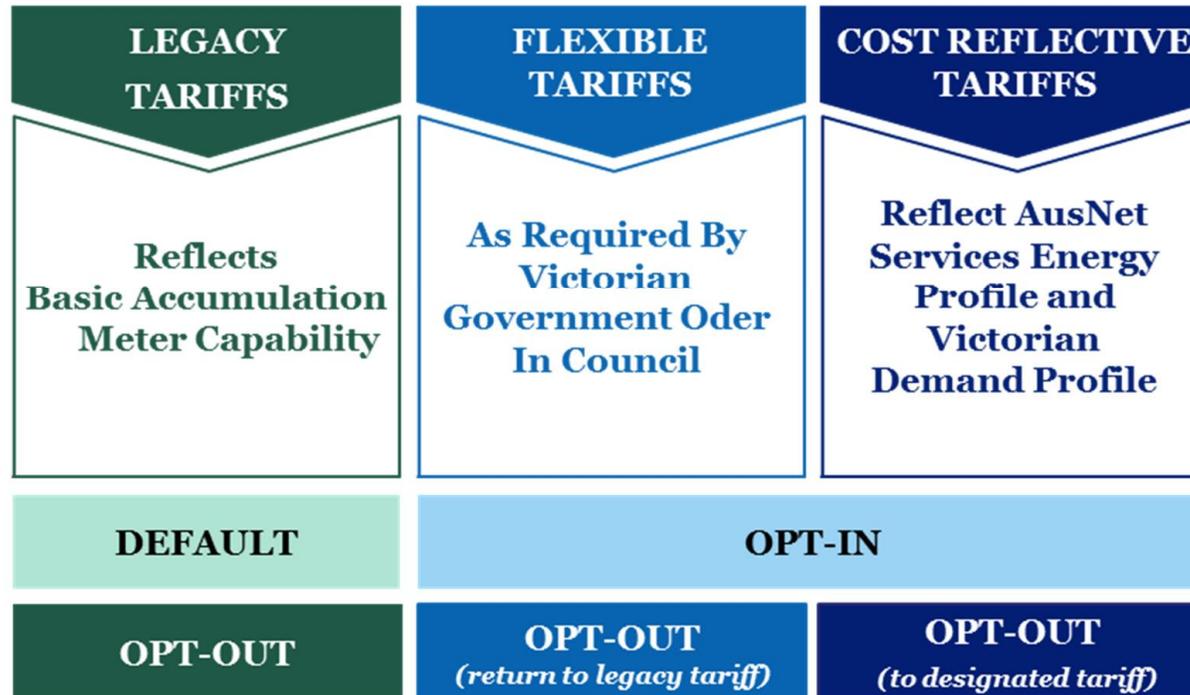


- ▶ Network tariffs (for standard control services) cover the cost of transporting electricity from the generator through the distribution network to our customers' homes or businesses.
- ▶ Network charges also incorporate jurisdictional scheme costs which currently comprise the Victorian premium feed-in tariff scheme.
- ▶ Generally, tariffs consists of one or more of the following components:
 - › Fixed – a fixed fee regardless of consumer behaviour
 - › Energy – based on volume of energy consumed.
 - › Demand/ capacity – based on peak demand (either individual or system wide) or required capacity.
- ▶ Retailers are not obliged to pass through the network tariffs. This means our network tariff structure will not necessarily be seen by the customer, which is a precursor to potentially influence their behaviour.

Tariffs: Moving towards Cost Reflectivity



Moving to More Cost Reflective Tariffs



Tariffs: Assignments and Switching: Residential and SME



Customers are initially assigned to a Legacy tariff structure; then may opt to change their tariff structure to either a Flexible tariff or a Cost Reflective tariff.

- **Flexible tariff:** customers that elect to be assigned to a Flexible tariff may return to their previous Legacy tariff or may exercise their option to be assigned to a Cost reflective tariff.
- **Cost reflective tariff:** Once a customer has been assigned to a Cost Reflective tariff they must remain on a Cost Reflective tariff. As customers move away from Legacy tariffs and Flexible tariffs these tariffs will be closed and removed from the tariff options.

Customers connecting solar:

- Customers varying their connection by installing solar PV are automatically transferred onto a more cost reflective (time of use) tariff.

Switching between tariffs:

- AusNet Services requires customers seeking tariff reassignment to remain on the reassigned tariff for a minimum 12-month period. This condition prevents customers changing tariffs to take advantage of seasonal variations in prices according to their individual load, thereby bypassing payment that reflects use of the distribution network over a full 12-month cycle.

Network tariffs: Legacy tariffs



- ▶ **Legacy tariffs also referred as flat rate tariffs for residential and small business customers (<40MWh)**
 - All time at a single rate
 - Or where two rate tariffs are applied they are limited to either a two rate (peak and off peak) five day or two rate seven day structure

Residential Tariffs

Tariff Type	Tariffs
Single Rate	NEE11, NEN11
Single Rate Plus Dedicated Circuit	NEE13, NEN13, NEE14, NEN14, NEE15, NEN15
Two Rate Five Day	NEE20, NEN20, NEE24,
Two Rate Five Day Solar	NEE23, SUN23, NEE26
Dedicated Circuit	NEE30, NEE31, NEE32

Industrial & Commercial Tariffs

Tariff Type	Tariffs
Single Rate	NEE12, NEN12, NEE40,
Single Rate Plus Dedicated Circuit	NEE16, NEN16, NEE17, NEN17, NEE18, NEN18, NEE41, NEE42, NEE43
Two Rate Five Day	NEE21, NEN21, NEE25, NEE51, NEE52, NEE74, NEE93
Two Rate Five Day Solar	SUN21, NEE28
Two Rate Seven Day	NEE60
Dedicated Circuit	NEE30, NEE31, NEE32

Network tariffs: Flexible Tariffs



► Flexible tariffs – Applied to Residential customers only

- Flexible tariffs created to facilitate the Victorian Government policy on the introduction of “Flexible Pricing” for customers with AMI meters installed and give customers with an AMI (smart) meter the opportunity to take a more cost reflective tariff than a flat rate legacy tariff.
- Option for multi rate tariff, and the time periods are adjusted for Daylight savings during summer months. The tariff consists of a standing charge and peak, shoulder, and off peak usage rates.
- Common structure across all Victoria Distributors
- Customers must elect to take a flexible tariff

Residential Tariffs

Tariff Type	Tariffs
Single Rate	NGT11
Single Rate Plus Dedicated Circuit	NGT13, NGT14, NGT15
Multi Rate plus Controlled Load	NGT26, NGT23, NGT24, NGT25

Network tariffs: cost reflective tariffs (Res and C&I)



➤ Residential Customers:

- Energy based, introduced in 2010. Multi rate tariffs that included high rates at the times demand on the network traditionally peaks (3.00pm and 7.00pm during summer months)
- Demand tariffs (fixed plus energy plus demand) introduced from 1 January 2018 on an opt-in basis for customers using less than 40MWh

➤ **Commercial and Industrial Customers:** Cost reflective tariffs with a common structure with other DBs for customers using between 40MWh and 160MWh – mandatorily assignment. Demand – 3:00PM to 9:00PM ADST, Monday to Friday, Peak Season Dec to Mar Off Peak all other times

Residential Tariffs

Tariff Type	Tariffs
Multi Rate	NSP11
Multi Rate Plus Dedicated Circuit	NSP13, NSP14, NSP15
Single Rate	NASN11, NASN11P
Multi Rate Plus Controlled Load	NSP20
Multi Rate Solar	NSP23, SSP23,
Dedicated Circuit	NSP30, NSP31, NSP32

Network tariffs: cost reflective tariffs: Medium and Large Business



► Cost Reflective Tariffs

- Medium and Large customers with usage over 160MWh were re-assigned to Critical Peak Demand tariffs in 2010

Industrial & Commercial Tariffs

Tariff Type	Tariffs
Multi Rate	NSP12, NASN19, NASN21, NEE55, NSP55, NSP56, NEN56, NSP75, NSP76, NSP77, NSP78, NSP81, NSP82, NSP83, NSP91, NSP94, NSP95
Single Rate	NASN12, NASN12P
Multi Rate Plus Dedicated Circuit	NSP16, NSP17, NSP18,
Multi Rate Plus Controlled Load	NSP21, NSP27, NASN21,
Multi Rate Solar	SSP21
Dedicated Circuit	NSP30, NSP31, NSP32

Critical peak demand tariffs

▶ Which customers?

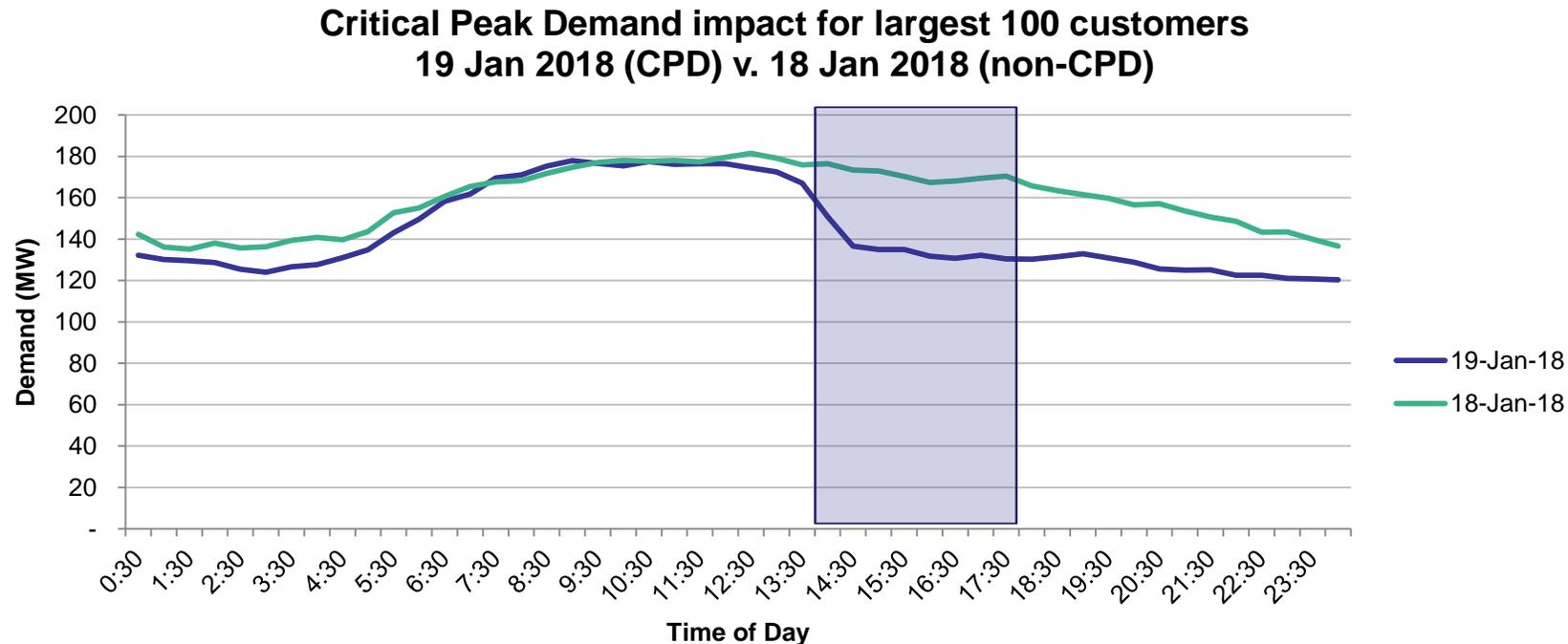
- › CPD pricing applies to all >160 MWh customers with type 1-4 meters
- › ~2,500 customers
- › Customers can register to get a text message notifying them of the intention to call a CPD day

▶ Critical Peak Demand (CPD) pricing

- › On five days per year (where network demand is likely to be high), the control room declares a CPD day
- › Averaged customers' demand on these days between 2pm and 6pm will be used as the basis of the following year's CPD charges
- › To the extent that a customer can reduce demand on these five days, their network charge in the subsequent year will be lower

2017- 2018 summer impact

- › 1. CPD day 1, Wed 13 Dec 2017. Impact ~25-45 MW
- › 2. CPD day 2, Fri 19 Jan 2018. Impact ~60-70 MW
- › 3. CPD day 3, Wed 7 Feb 2018. Impact ~30-35 MW
- › 4. CPD day 4, Fri 9 Mar 2018. Impact ~30-35 MW
- › 5. CPD day 5, Fri 23 Mar 2018. Impact ~25-40 MW



Tariffs and prices going forward

Proposed tariffs and prices for the 2021-25 period will be developed under the separate Tariff Structure Statement project. The Tariff Structure Statement (separate to the regulatory proposal) provides the following information on tariffs for the 2021-25 regulatory period:

- ▶ The proposed approach to setting tariff structures;
- ▶ The rationale for the tariff structures, including how the proposal complies with the pricing principles contained within the Rules; and
- ▶ How the development of the proposed tariffs has been informed by consultation.

New Pricing Principles



The AEMC Final Rule Determination:

- New pricing objective: prices to reflect the efficient costs of providing network services to each consumer
- 4 new pricing principles to achieve the objective:
 1. Each network tariff must be based on the long run marginal cost of providing the service
 2. Revenue recovery via each tariff must minimise distortion to price signals that encourage efficient use of the network
 3. Requires the complying tariffs to:
 - consider price change impact on consumers
 - structures to be understandable to consumers
 4. Compliance with jurisdictional pricing obligations

Tariff reform

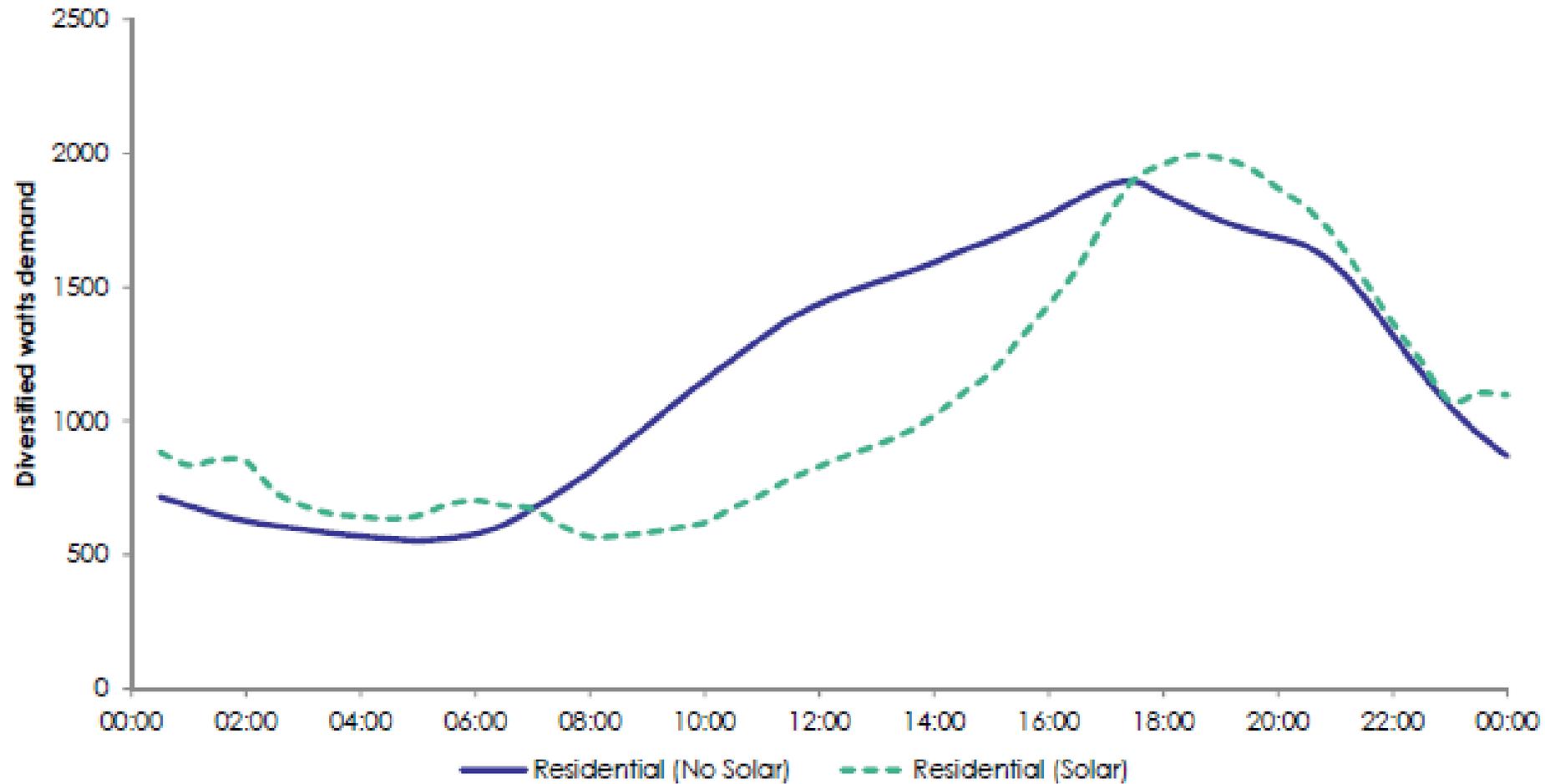
- ▶ Variable charges do not reflect system costs
- ▶ Smart meters enable new ways of charging customers and provides customers with opportunities to shift their load and benefit from lower prices
- ▶ Usage behaviour is becoming more diverse
- ▶ Solar impact
- ▶ Opportunity for greater consumer investment in “distributed energy resources”

We are working jointly with the other Victorian DBs to engage with consumers and key stakeholders as part of the development of our TSS proposal that will cover residential and small business tariff structures (<40MW)

Tariff reform



Solar customers v. non-solar customers on a hot day



1st Joint CEO-led pricing forum 1 November 2017



As an outcome of the first forum, pricing principles were set informed by five key objectives identified for Distributors to consider in decision making

Overarching
Social
objectives

Customer-centric – reform is responsive to customer impacts and needs

Fair – value judgement of customers and stakeholders

- Easily understood (consumers, retailers and stakeholders)
- Easy to predict the bill outcome
- Supports behaviour change

- Low volatility for consumer bills

Simple

Stable

Consistent

(across Vic DBs)

Adaptable

Efficient

- Works with current and future technologies
- Technology-neutral

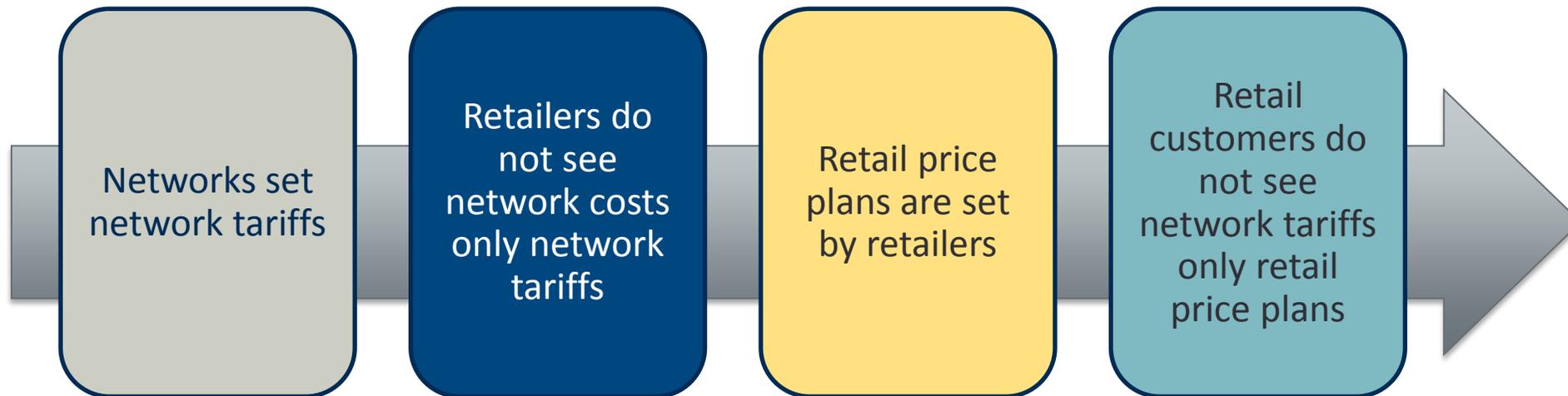
- Drives lower overall network costs and consumer bills
- Reflects long-term cost drivers
- Reduces inefficient cross-subsidies

Technical
design
objectives

2nd Joint pricing forum 18 April 2018



- ▶ Objectives and principles reviewed
- ▶ Pathway – Should network pricing be designed with retailers or consumers as the target audience?
- ▶ Pricing options – exploration of pricing options
- ▶ Complementary measures



Where next?



- ▶ Review potential tariff options;
- ▶ Continuous engagement with stakeholders, including consumer advocates and Victorian Government
- ▶ Possible tariff trials