



# Tasmanian Renewable Energy Alliance

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## TREA response to Aurora Draft Standing Offer Price Strategy and OTTER Consultation Paper

11 April 2016

### Context

TREA welcomes the opportunity to comment on the Aurora Draft Standing Offer Price Strategy.

Our response should be read in conjunction with our previous submissions on TasNetworks' tariff reform process which set out our general views on tariff structures:

- [Response from Tasmanian Renewable Energy Alliance](#) for TasNetworks Tariff Reform Working Group, 13 February 2015
- [Response from Tasmanian Renewable Energy Alliance](#) to TasNetworks Directions and Priorities Consultation Paper, 25 September 2015.
- [TREA response to "Demand based network tariffs – offering a new choice"](#) 23 October 2015.
- [TREA response to TasNetworks consultation paper "Improving the way we price our network services October 2015"](#) of 20 November 2015

### General comments

#### Impact on customer investment decisions

Customers make significant investment decisions based on tariff structures:

- Existing solar customers have invested capital in part on an assumption of what they will save based on existing tariff structures.
- Prospective solar customers will make purchase decisions based on current tariffs.
- Many customers have invested in heat pumps on the assumption that they would cost less to run.

For this reason we believe that new types of tariffs should be offered on an opt-in basis and changes to existing tariffs need to be introduced over a period which balances the need to reflect changing circumstances in the electricity market with fairness to customers.

#### Problems with increased fixed charges

Many proposed tariff changes designed to increase cost reflectivity involve increasing fixed charges and decreasing consumption charges. While this may more closely match the actual cost of using the electricity network, it has undesirable impacts:

- Reduced consumption charges will discourage investment in energy efficiency. Customer awareness and implementation of energy efficiency has been an important change over the last

decade and should not be discouraged. While the resultant reduced demand (and the lack of anticipation of this by the regulatory system) has created challenges for the electricity industry, energy efficiency remains an important goal, particularly for Tasmanian households which have poorly performing housing stock.

- Reduced consumption charges will discourage investment in distributed generation including household and commercial PV.

The current marginal cost of generating electricity in Tasmania is unsustainably high. This will presumably reduce significantly once Basslink is repaired and/or we receive substantial winter rains. However generation costs are likely to remain high for some time as a result of the use of gas-fired generation until dams rebuild to a safe level. It is therefore in the financial interests of all Tasmanians to both encourage reduced consumption and encourage distributed generation. For this reason we believe it is important that all tariffs involve a significant consumption based component.

### **Need for impact analysis**

Decisions about tariff changes are being made without sufficiently detailed analysis of the impact on particular customer segments, in particular solar owners, regional customers and vulnerable customers.

TREA and TasCOSS have prepared a detailed proposal for how customer impact analysis could be improved using existing Aurora customer data. This proposal have been supplied to TasNetworks, Aurora and OTTER but has not been implemented.

To some extent the customer impact issue is less of a problem because at this stage new tariffs are being introduced on an opt-in basis. However we believe this analysis should still be conducted. OTTER could make more detailed customer impact analysis a requirement for Aurora's submission to the 2016 Standing Offer Determination.

## **Questions in the OTTER consultation paper**

The Economic Regulator is seeking feedback on:

- whether Aurora Energy's proposal to limit 'rebalancing' increases for tariff prices to 1.5 per cent per year, but pass-through any other price changes for tariff components without limits, is appropriate; or
- whether one of the following options would be more suitable:
  - price increases being limited to ten per cent per year; or
  - price changes being assessed against a set of criteria

As outlined above, we believe changes in pricing should be implemented over a period of time and we support any regulatory option that avoids sharp changes in cost for existing tariffs.

### **Proposed consumption time of use tariff from July 2016**

The Economic Regulator is seeking feedback on:

- Aurora Energy's proposed introduction of a ToU product;
- whether Aurora Energy's proposed ToU product should be a regulated standing offer tariff or as an unregulated market offering;
- whether the Draft Strategy should be amended to make it clear that constraints on price changes apply to any new tariffs in addition to existing tariffs; and
- in the event that it is decided to approve Aurora Energy proposal to include ToU tariffs as standing offer tariffs, whether price changes should be assessed against a set of criteria (see Section 3 of this Paper).

We understand that this proposed tariff will be introduced with a two step tariff (peak 7am – 10am and 4pm-9pm Monday to Friday, all other times off-peak) rather than the three step tariff set out in the

Draft Standing Offer Price Strategy. We support this change and the decisions to use the same time bands for a consumption Time of Use (ToU) tariff and the proposed demand ToU tariff.

We support the introduction of this tariff on an opt-in basis. We believe that it will provide an incentive for the industry to offer new production and services and it will provide participating customers with an incentive to modify their consumption behaviour in ways in which both saves them money and reduces long term network costs.

Scenarios under which this tariff would be beneficial include:

- Customers who add timers to their storage hot water service to avoid peak times.
- Customers who have the capacity to modify their behaviour to move consumption from peak to off-peak times.
- Customers who install battery storage with solar to store some of their surplus daytime generation for use in peak periods.
- Off peak charging of electric vehicles.
- Use of grid connected battery storage (including batteries in electric vehicles) to store off-peak energy for use in peak times.
- Customers who are able to pre-heat well-insulated houses in order to avoid or reduce the need for heating at peak times.
- There may be a case for new solar installations using this tariff to consist of east and west facing panels rather than north facing panels to increase solar generation at peak tariff times.

In all these scenarios, the decision by TasNetworks and Aurora to offer two relatively short peak periods in a day with an off-peak period between makes time shifting of consumption much more viable than other jurisdictions which have a long day-time peak period.

Under all these scenarios, there is a benefit to the network and hence to all customers from a reduction in the network infrastructure necessary to meet peak demand.

All of these benefits will be maximised if the difference between peak and off-peak rates is sufficient to incentivise changed customer behaviour. For this reason we are pleased to see that the indicative tariffs suggested by Aurora (25.6c vs 10.2c/kWh) involve a large price difference between peak and off-peak.

We support the consumption ToU tariff being introduced as a regulated standing offer tariff to ensure that it is available to all customers and with adequate consumer protection.

We acknowledge that this tariff would be a partial solution for the problem that solar owners are not able to offset their solar output against their simultaneous consumption on hot water and heating. We do not accept that this is a full solution to this problem because:

- It will not be available until July 2016, almost three years after the problem was identified and the state government instructed Aurora Networks to address it as a matter of priority.
- Solar owners who have already paid for an interval meter will be required to pay again for a meter change to access the new tariff.
- It may not be advantageous for solar owner who have significant peak period consumption on tariff 41/42.

## **Proposed demand time of use tariff from July 2017**

The Economic Regulator is seeking feedback on:

- Aurora Energy's proposed inclusion of demand-based products as standing offer products;

- Aurora Energy's proposed approach to the introduction of demand-based Standing Offer tariffs in the upcoming regulatory period; and
- whether only demand-based tariffs based on network tariffs approved by the AER should be considered for approval as standing offer products.

In summary, TREA welcomes the introduction of the proposed opt-in two-part demand time of use tariff. We believe this will give particular customer segments a valuable option and a motivation to explore shifting and managing demand in ways that benefit both the customer and the efficient operation of the network. Equally importantly, a two-year opt-in introduction of this tariff has the potential to provide real world experience of the impact of this tariff as a basis for assessing the impact of wider use of demand based tariffs in the regulatory period past July 2019.

More detail is contained in [our response to the TasNetworks proposal for a demand ToU tariff](#) and summarised on our website at <http://tasrenew.org.au/newtariffoption/>.

## Other proposed tariff types

The Economic Regulator is seeking feedback on:

- whether the Economic Regulator should consider the approval of unknown future tariffs as standing offer products during the next regulatory period;
- its proposed criteria against which future tariffs would be assessed in the event that the Economic Regulator was to consider the approval of future tariffs as standing offer products.

The introduction of both consumption and demand based ToU tariff in the 2016 Determination is likely to be sufficient challenge for regulators, TasNetworks, retailers, industry and consumers to cope with in a three year period. We are not opposed to the introduction of additional innovative tariff types provided:

- they are introduced on an opt-in basis
- adequate customer impact modelling is undertaken
- full account is taken of the cost and complexity of metering infrastructure that may need to be implemented to support additional tariff types.

We acknowledge that market and technology developments might make it desirable to consider new tariffs based on the requirements of:

- electric vehicle charging
- location and time based feed-in tariffs to support network constraints.

We support the proposed criteria for assessing future tariffs set out on p15 of the Consultation Paper.

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