

28 November 2017

Ms Jodi Triggs
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Dear Jodi,

Power Networks Tariff Structures Statement consultation paper

Jacana Energy is pleased to provide a submission in response to Power Networks consultation paper "Power Networks: Overview of our Tariff Structure Statement."

The Tariff Structures Statement (TSS) forms a key component of Power Networks regulatory proposal for the forthcoming 2019-24 regulatory control period. We understand that once approved by the Australian Energy Regulator (AER), Power Networks will be required to apply network tariffs consistent with the TSS for the duration of the regulatory control period.

Jacana Energy considers the current consultation process provides an important opportunity for tariff reform in the Northern Territory (NT). Existing network tariffs by and large:

- do not efficiently signal customer impacts on network costs (driven by peak demand requirements);
- sustain unintended and unfair cross subsidies between non solar PV and solar PV customers; and
- do not provide efficient price signals for the take-up of new technologies and demand management.

In other words, without substantive reform current network tariff structures will lead to excessive growth in network costs and higher network charges for customers over the long term.

Consequently, Jacana Energy is supportive of Power Networks proposals for introducing more efficient network tariffs in its next regulatory control period. However, if the intended objectives of pricing reform are to be achieved we consider that the introduction of the proposed tariff structures must be supported by appropriate changes to the Electricity Pricing Order (EPO) and metering arrangements, as otherwise:

- Signals will not be seen by customers and behaviour won't change; and
- Retailers take on more risk, as network related revenues collected from customers do not match required payments to Power Networks, which could increase the level of required or otherwise compromise retailer viability.

These issues are discussed in more detail below

Power Network's proposals

Power Networks core proposal is for all customers with smart meters to be mandatorily assigned to a seasonally based peak demand (\$/kW) charge. While the precise approach for applying the demand charge has not been confirmed by Power Networks, we understand it intends for the peak demand charge to be charged each month based on a customer's maximum demand (or average of 3 or 4 maximum demands) in the previous month (covering each month of the wet season from November to March).

Jacana Energy understands the rationale for a peak demand charge. Networks are built to a size that keeps customers supplied at times of maximum demand on the network. Yet the price the majority of customers (all residential customers) pay to use electricity networks in the Northern Territory is the same whatever the time of day or season (i.e. a flat c/kWh charge). The price therefore provides no incentive for customers to use the network efficiently by avoiding peak times.

In contrast, a peak demand charge (also referred to as a capacity charge), is based on a customer's maximum energy use (i.e. when a customer uses the most electricity) rather than on how much electricity a customer uses. Compared to existing flat energy consumption based tariffs, this is a better estimate of, and pricing for a household's contribution to peak demand. Peak demand contributes to the costs of building and running the network, and should therefore be a significant factor in considering the prices that consumers pay.

Jacana Energy considers peak demand charges can encourage efficient behaviour, if they are reflected in the retail tariffs the customers are charged. For example, customers can reduce their exposure to high peak demand charges by investing in energy efficient appliances, shifting consumption to off peak, or installing batteries. To the extent all customers seek to reduce their own network charges in such ways, this will act to reduce the maximum demand placed on the network and the consequential need for future network augmentation.

A further important feature of a peak demand charge is it can lead to a more balanced allocation of network costs. For example, as peak demand charges are based on maximum use rather than total consumption, customers will have limited ability to reduce their contribution to network costs by installing solar PV.

Supporting regulatory reforms

In Jacana Energy's view, there are three important policy issues to consider for tariffs to achieve their intended objective of lowering long term growth in network costs, while at the same time avoiding unintended consequences.

First, more efficient network tariff structures must be reflected in retail tariffs, otherwise customers will not observe the price signals necessary to change their behaviour. Further, in the absence of full pass through of network structures, retailers will face a financial risk of mismatch between the network tariff revenues collected from customers and the payments they must make to Power Networks. This would require an increase in the CSO to manage this risk for retailers or otherwise their viability could be compromised. It is therefore important that if more efficient network charges are to be implemented that the Electricity Pricing Order (EPO) is amended to reflect any changes in network tariff structures.

Second, assuming the EPO is changed to accommodate the proposed peak demand charges, customers will also need to be educated about how such charges will operate and how they can respond in ways that will reduce their bills. Power Networks, Jacana Energy and the Department of Treasury and Finance will need to work together to establish how best to implement such a significant change in the structure of prices under the EPO, drawing on experience in other jurisdictions for guidance.

Finally, the objectives of network tariff reform can only be delivered with advanced meter technology. This technology is required to both settle customer use against the new tariffs and provide timely signals to customers about consumption levels so they can modify their consumption accordingly.

Should you have any questions or wish to discuss further, please contact Con Van Kemenade on 0439399943 or myself.

Thank you,

Con van kemenade

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Jacana Energy