

Community Engagement Report

Retailer Pricing Forum November 2021

V1

30/11/2021



Contents

| | |
|---|-----------|
| Community Engagement Report | 1 |
| Retailer Pricing Forum November 2021 | 1 |
| Contents | 2 |
| Executive Summary | 3 |
| 1 Introduction | 4 |
| 2 Summary of discussion | 5 |
| Introduction..... | 5 |
| Forecasting Challenges | 5 |
| Key Drivers..... | 5 |
| Export Pricing..... | 6 |
| EV Chargers..... | 6 |
| Retail Pricing Order..... | 7 |
| Key Pricing Opportunities | 7 |
| Long-Run Marginal Costs | 8 |
| Further Discussion | 8 |
| Next Steps..... | 9 |
| 3 Invitation to make a submission | 9 |
| 4 Conclusion | 11 |
| Appendix: Slide Deck | 12 |



Executive Summary

This report provides a summary of the Retailer Pricing Forum (the Forum) which was held online on Tuesday 9 November 2021 as part of early engagement on the 2024-2029 AER Regulatory Proposal. The Forum was attended by 14 people including representatives from four retailers.

The Forum was designed to engage with retailers about key challenges for Power and Water, how these impact on retailers and understand how, as a result, retailers view the future of the network.

A series of presentations were given after which participants had the opportunity to ask questions. At the end of the event, participants were asked for their feedback on key issues and opportunities. Key retailer issues raised included:

- Lack of retailer support for consumer education related to network pricing
- Impact of export pricing on their customers.
- Interest in supportive pricing for community batteries

The table below summarises feedback received in relation to key themes.

| Theme | Feedback |
|------------------------|--|
| Export Pricing | <p>The majority of retailers were comfortable with export pricing conceptually. However, one third did not support it.</p> <p>No specific issues were raised regarding export pricing during the discussion. Feedback provided by one retailer post the discussion was an observation in other jurisdictions of significant negative consumer feedback from customers who have already invested in solar and feel that a change in pricing erodes the expected financial returns. This particular retailer would favour some form of grandfathering.</p> |
| Retail Pricing Order | <p>All retailers were supportive of pricing strategies that supported more efficient outcomes for the system including lower cross-subsidies and increased customer choice.</p> <p>Reform of the wholesale and network prices under the retail pricing order needs to be coordinated.</p> <p>A time-of-use based Retail Pricing Order tariff for customers with a smart meter was supported.</p> |
| Tariff Reform | <p>A key message from retailers was that more cost complex, cost reflective tariffs are generally viewed positively because it gives retailers an opportunity to differentiate themselves. It was noted that Ausgrid offers up to six tariff options, enabling retailers to add more value than a single network tariff allows.</p> |
| New EV/PV Tariffs | <p>Retailers reported little interest from consumers in electric vehicle (EV) tariffs, however, were generally supportive of reforms that unlocked demand for EVs including development of new technology specific EV tariffs, similar to controlled load in other states, where a discount is given for control.</p> |
| New Customer Classes | <p>Retailers were generally supportive at looking at smaller customer classes, comparable to the 0-100 MWh classification in other states, to help improve pricing efficiency, to reduce cross subsidies and to eventually increase customer choice.</p> |
| Period Definitions | <p>Changing time-of-use periods to better reflect future load and export congestion was viewed positively by retailers, especially where it reduced the peak periods, even if it was a more complex structure.</p> |
| Long-Run-Marginal-Cost | <p>Potential changes to improve cost reflectivity of the peak period, which would also help reduce cross-subsidies, were supported in principle.</p> |
| Maximum Demand Pricing | <p>Finally, moving away from maximum demand tariffs for small customers to a kWh peak period charge was supported on the basis of being more fit-for-purpose in a future solar PV, EV and battery world.</p> |

Power and Water will progress with the reform options supported by retailers, as well as opportunities for improving support of retailer education of their customers. Power and Water Corporation has asked retailers to provide responses to questions contained in this report under Chapter 3: Invitation to Make a Submission. Power and Water Corporation will come back to retailers in March 2022 with specific proposals for their consideration and feedback.



1 Introduction

This report provides a summary of the outcomes from Power Water Corporation's (Power and Water) Retailer Pricing Forum which was held online at 9:00am – 12:30pm on Tuesday 9 November 2021.

The meeting was attended by representatives from retailers, the Australian Energy Regulator (AER), and Northern Territory Government (NT Government). The session was facilitated by Lucy Cole-Edelstein, an independent facilitator engaged by Power and Water to support the 2024 - 2029 Regulatory Proposal engagement program.

| Organisation | Stakeholder Group |
|------------------------------------|-----------------------------|
| Next Business Energy | Retailer |
| Jacana Energy | Retailer |
| QEnergy | Retailer |
| Rimfire Energy | Retailer |
| Australian Energy Regulator | Regulator |
| Department of Treasury and Finance | NT Government |
| Power and Water Corporation (PWC) | Senior Management and staff |

The Retailer Pricing Forum was held as part of early engagement on the 2024-2029 AER Regulatory Proposal. The session was designed to engage with retailers and receive their feedback about key challenges for Power and Water, how they impact on retailers and how they view the future of the network.

There were five presentations given and after each presentation participants were given the opportunity to ask questions. The table below outlines the topics and presenters. The slide deck is included in the Appendix of this report.

| Session | Presenter |
|--|---|
| Overview of Challenges we are Facing as a Network | Jodi Triggs, Executive General Manager Customer, Strategy and Regulation, Power and Water Corporation |
| Progress Implementing our Tariff Structure Statement | Brendon Crown, Senior Manager, Regulation, Economics and Pricing at Power and Water Corporation |
| What we have Heard from Customers | Brendon Crown, Senior Manager, Regulation Economics and Pricing at Power and Water Corporation |
| Challenges for the Industry | Ezra Beeman, Managing Director at Energeia; a specialist consultancy working with Power and Water Corporation on pricing strategies |
| Key Pricing Opportunities and Options | Ezra Beeman, Managing Director at Energeia |
| Feedback from Retailers | Facilitated by Lucy Cole-Edelstein |



2 Summary of discussion

The tables below provide a summary of the discussions and questions asked throughout the presentations. This is not to provide a verbatim transcript but seeks to capture key comments and questions made throughout the meeting to indicate issues of interest to retailers. For ease of reference, discussion has been themed.

| Introduction | |
|---|---|
| Question/comment/issue | Power and Water response |
| Falling demand from increases in Distributed Energy Resources is driving up costs/kWh of customer consumption | Distributed Energy Resources (DER) have effectively minimised the need to augment parts of our network in many areas, which has been a good outcome for all customers. However, because a large portion of our charges come from anytime energy (cents per Kwh) reductions in energy consumption (without a corresponding reduction in network charges) will result in higher volumetric rates. |
| Previous forecasting/visibility challenges have resulted in an over recovery of revenue from customers recently | Our large over-recovery occurred in the first pricing year and was reflective of under-recovery in a previous period as well as a strong over-recovery against demand charges. The latter was largely caused by a lack of available information on customer demand over longer periods. This has largely been resolved in subsequent years with more data becoming available. |
| What's the change of under-recovering as a result of COVID? | There is always a risk of under and over-recovery, particularly where uncertain variables like weather, COVID and economic activity are present. Based on early analysis of billing data, we are not seeing large discrepancies against our forecast volumes, but we are only part way through the year. |

| Forecasting Challenges | |
|---|--|
| Question/comment/issue | Power and Water response |
| Do you have forecasts that tie economic growth to historical electricity consumption? | We've been focused on peak and minimum demand, we haven't turned to consumption yet, but we do have this data from work with the Commonwealth on COVID impacts by sector. We can provide further information on our demand forecasting at our next session and we are working on ways to integrate this into our energy forecasting. |

| Key Drivers | |
|---|--|
| Question/comment/issue | Power and Water response |
| Influx of solar has a positive impact on short-run marginal costs, but a negative impact on long-run marginal costs | Solar can have a positive influence on long run marginal cost. We have seen deferral of a number of augmentation projects as a result of solar flattening demand on a number of feeders. The increase in solar penetration does require some reconsideration of residual cost recovery as current tariff structures can create distortionary signals which allow customer to bypass the network charge with no corresponding reduction in costs. |
| What's the impact of population growth on pricing? | Population has contracted recently, this will impact consumption, which could lead to increased prices to generate the same revenue from less volume |



Power and Water contextualized this next discussion by reiterating the importance of understanding retailers' perspectives and their understanding of network costs as a result of solar PV, and to explore potential tariff design options. It was stressed that tariff changes would be most impactful on retailers as customers would largely be indifferent as they never see these changes.

| Export Pricing | |
|---|---|
| Question/comment/issue | Power and Water response |
| Is the intent that this tariff type would be independent of geographic region? | Customers said in the last determination process that they want consistent tariffs across whole network. The Australian Energy Regulator (AER) has often expressed a preference toward locational pricing. Our position at this stage is to work at improving the structures of the general tariff so that it is more efficient and provides better signals to customers through the retail tariff. We don't intend on changing our locational split as part of the next TSS. |
| What's the uptake split of PV in the three networks? | Power and Water will provide a further update on this once we've undertaken analysis |
| What's the Australian Energy Regulator's position on export pricing? Do you expect retailer consultation too? | The Australian Energy Regulator expects export pricing to be heavily focused and driven by customer consultation. We also note that export tariffs can't be incorporated without the support of the NT Government Yes, need retailers to know how to include these in customer tariffs (comment by AER) |
| If you are charging for export, why would customers not see this? | It is up to retailers how they pass on the cost This would be a network charge on export from a customer over the baseline, there may be a separate feed-in tariff which customers are exposed to. |

| EV Chargers | |
|--|--|
| Question/comment/issue | Power and Water response |
| Energy Consumers Australia recommended an EV tariff, is PWC looking at this? | Previously, we have tried not to target specific new technology/loads, however it is an emerging trend to ensure there is a specific tariff for EVs. We will look into the option of a specific EV tariff, but there may be more benefit in improving the efficiency of the existing retail tariff which could be mandated to EV users. |
| Is anybody else in the National Electricity Market making EV tariffs? | There are currently no EV tariffs in Australia, we have only found global examples. We are aware however of a number of trials being considered. We need to send the right price signals to consumers which ensures that we minimise overall cost to all customers. For example, we may find that lower network costs can be achieved by sending signals which encourage customers to charge their EVs while they are at work, not after coming home from work. |



| | |
|---|--|
| Are you receiving queries from customers about EV chargers? | <p>Have had at least one large scale customer conversion to EVs. We expect a tipping point soon, however.</p> <p>Jacana and Rimfire noted in chat that customers are not enquiring about EVs, focus is still on solar</p> <p>There are currently Distribution Network Service Provider trials in the National Electricity Market, particularly in NSW. We want to partner with retailers in the NT to help us get a better understanding of EVs.</p> |
| Distance between charging is a barrier for NT but this is reducing quickly with new EV models | EVs expected to be cheaper than internal combustion engines soon, they have 90% new car EV sales in Norway, for example |

Retail Pricing Order

| Question/comment/issue | Power and Water response |
|---|--|
| Do you think it's possible for consistent pricing between urban and regional areas while still providing appropriate price signals? | Even if there is an expectation that pricing across the Territory will be the same (as per government policy), tariff structures can still be improved in terms of cost reflectivity. This can be achieved by, for example, changing the way you classify customers, the tariff structure and the pricing levels |

Power and Water were keen to reiterate they want to know retailers' perspectives on PV and how tariffs can be changed to better accommodate for PV generation

Key Pricing Opportunities

| Question/comment/issue | Power and Water response |
|---|---|
| We see tariffs as very important, currently little interest in time-of-use tariffs from customers. We want to look at usage and how we can change this | We would agree and are key to work across the sector to understand how we achieve this. |
| Do you see an incentive structure for community batteries but not behind the meter batteries? | <p>Existing challenges include ring fencing as well as introducing new mechanisms for capturing value; we see these being virtual products</p> <p>There is a strong incentive for customers to participate in trials, for example, you can take your solar with you, no capital outlay, etc.</p> |
| Want to know what Power and Water Corporation are doing to educate customers here? | We wanted to bring this information to retailers first, we will then inform large customers next. We are currently unsure about how we will undertake small customer engagement, as last time engagement left customers even more confused due to not seeing the end price as a result of the pricing order |
| <p>Particularly want to know if these changes will be explained after they are implemented as this is usually left up to the retailer</p> <p>Generally, there is never any explanation of the changes by networks, even though customers may not see these changes</p> <p>Customers are not well educated on the value of their energy and why networks would want to charge them</p> | <p>Network charges are not visible on a customer's bill</p> <p>Large customers or residential customers?</p> <p>In some ways, the networks are making the network changes for the retailers and not the customers. We would be happy to work with retailers in passing on information costs</p> |

Power and Water were also keen to understand retailers' views on whether a maximum demand tariff could be sending the right pricing signals in the future, and whether they want to see more cost-reflective tariffs, noting that



the ability to implement more cost reflective pricing is dependent on NT Government’s decision regarding the Pricing Order.

| Long-Run Marginal Costs | |
|--|---|
| Question/comment/issue | Power and Water response |
| Passing on more cost reflective tariffs to retailers that may be more complex is helpful to allow for innovation by the retailer | We would welcome more feedback by retailers here. Ultimately, PWC would like to see more cost-reflective retail pricing structures in the retail pricing order. We would be interested in any feedback as to whether network structures that were aligned to retail structures were preferred or instead whether retailers expressed a preference to see greater complexity in the network tariff to enable different products to evolve. |
| Should you set solar soaker tariffs at current minimum demand times or future expected minimum times? | To meet existing Rule requirements, Power and Water would need to set them at future expected times of minimum demand. |

| Further Discussion | |
|---|---|
| Question/comment/issue | Power and Water response |
| Is there a time-of-use type tariff in the retail pricing order? | There is but it is not widely adopted by customers or retailers |
| The alignment of the wholesale market, pricing order and CSO and tariffs to customers is key to efficiency. Currently, wholesale energy is a flat price to all retailers, demand charges are provided by network but are shielded from the customer. Reform is required at the wholesale and retail levels and not just the network level for NTG to update the electricity pricing order | If a customer has a smart meter, do retailers want those customers to have a time-of-use tariff? |
| Think that changes to the pricing order need to be made at the same time as changes to the network pricing, understand that we can’t change everything else as well | The wholesale price is largely settled through contracts for difference which are at a flat price. We have little influence over this. How do we work together on a pricing order tariff structure which is more cost reflective and efficient? |
| Customers under 750 MWh would be reflective of other networks in the National Electricity Market | What are retailer’s views on our proposal to create a new tariff for 100-750MWh customers? |
| Network time-of-use tariffs would provide retailers with a greater opportunity to manage their own book as well as provide new options to their customers. When an energy only charge is provided, it is challenging to offer customers anything other than flat rates. We would see these changes as a positive reform | If there was an option for customers under a pricing order to be on a time-of-use tariff, these customers could be put onto a network time-of-use tariff |
| We can’t pass this on, the complexity of dealing with this charge and the treasury with the community service obligation is unnecessarily complicated and provides no value to the customer | Is the problem that the time-of-use demand it too challenging to pass onto customers? |
| Suggestion for new time-of-use periods to better match forecast minimum and maximum demand forecasts | Would all retailers agree with looking at options to improve peak and off-peak periods? |



Next Steps

Power and Water Corporation will be asking for feedback, particularly for export demand tariffs

Power and Water Corporation will engage in next round of consultation in March next year

3 Invitation to make a submission

A number of questions were posed to participants during the Forum and while specific feedback was obtained, participants expressed the desire to receive questions in writing for their thorough consideration and response.

Consequently, we have compiled the table below which outlines Power and Water's current position on a number of issues raised in the forum as asks questions for retailer's consideration. We ask retailers to submit their responses to these questions in writing by emailing PNRegulationGroup.PWC@powerwater.com.au by 11 January.

| Topic | Issue | Questions for Retailers |
|--|--|--|
| 1. Revenue Volatility and Forecasting Challenges | Falling energy consumption from increases in rooftop PV places pressure on network energy prices under current structures. A movement toward cost reflective charges would result in less volatility from increase solar penetration. | <ul style="list-style-type: none"> What are retailer's views on whether and how we should move to more cost reflective prices to reduce revenue volatility due to uneconomic solar PV bypass? |
| 2. Electric Vehicles | <p>Current pricing structures may also pose a barrier to EV adoption.</p> <p>Pricing periods, Long-Run Marginal Costs and residual and peak charging mechanisms need to be set correctly to ensure prices can be cost reflective and minimise behaviour that would increase network costs inefficiently across all customers.</p> <p>Future work is focussed on network pricing reforms that will unlock efficient demand for EVs, including potential new tariffs</p> | <ul style="list-style-type: none"> Do you agree with supporting EV adoption and user pays principles by increasing the cost reflectiveness of existing tariffs, e.g., changing time periods, peak pricing mechanism etc? Would you support network pricing reforms that unlocked demand for EVs including development of new technology specific EV tariffs, similar to controlled load in other states, where a discount is given for control? |
| 3. Solar PV | Improving cost reflectivity via updated time-of-use periods, long-run marginal costs and charging components will significantly reduce cross-subsidies and uneconomic bypass | <ul style="list-style-type: none"> Do retailers believe Power and Water Corporation should improve fairness and user pays principles by increasing the cost reflectiveness of existing tariffs, e.g., changing time periods, peak pricing mechanism, etc.? Do retailers support Power and Water Corporation investigating whether solar PV customers use the network differently and should therefore be charged differently (i.e., a new tariff)? Do retailers believe that Power and Water Corporation should investigate whether and how much solar PV customers should be charged more for their additional impact on the grid? |



| Topic | Issue | Questions for Retailers |
|----------------------------------|---|---|
| 4. Export Pricing | <p>Power and Water Corporation is required to consider implementing an export tariff</p> <p>Power and Water Corporation plans to review solar PV impact costs, hosting capacity for setting baseline values and impacts of implementing a tariff</p> <p>Power and Water Corporation is considering the relative merits on implementing an export tariff in the next regulatory period</p> | <ul style="list-style-type: none"> Do retailers think that an export tariff is a good idea if it helps pay to ensure that everyone is able to connect their solar PV to the grid? Do retailers believe we should implement an export tariff in the next (not this upcoming one) regulatory cycle if PWC finds there is a case for it How should PWC structure any future potential export tariffs? |
| 5. Retail Pricing Order | <p>Options may exist to maintain government policy while making changes to the Pricing Order tariff arrangements to improve price signals and increase customer choice and competition.</p> | <ul style="list-style-type: none"> Do retailers believe PWC should investigate ways that pricing could support the government's reform of the order? How do retailers think we should do this? For example, by creating new customer classes, creating pricing order consistent structures? |
| 6. Time-of-Use Periods | <p>By charging peak prices when not actually congested, or charging off-peak prices when the grid is congested can incentivise the wrong behaviour from customers. Periods should be set to ensure that customers are incentivised to reduce their use on the network only where it has the potential to reduce future network costs.</p> | <ul style="list-style-type: none"> Do retailers support changing our periods to better reflect demand and export congestion periods, especially where it will mean a shorter peak period, and a new 'solar soaker' period of extra low prices? |
| 7. Long-Run Marginal Costs | <p>Current Long-Run Marginal Costs are increasing grid costs unnecessarily due to inaccuracies, e.g., by over-charging for off-peak kWhs, reducing consumption and increasing per unit costs accordingly. They are also under-charging for peak kWhs, increasing uneconomic consumption and investment costs accordingly.</p> | <ul style="list-style-type: none"> Do retailers support changing our LRMC based prices to improve overall cost reflectivity of tariffs? Do retailers believe we should phase in these changes if they represent a significant change? |
| 8. Peak Period Pricing Mechanism | <p>The current mechanism is increasing grid costs unnecessarily due to inaccuracies and by being difficult for customers to understand and respond to. Customers do not know when they are setting their peak, and the prices do not reflect Power and Water Corporation's costs as well as other mechanisms. Also, Distribution Network Service Providers are generally moving away from maximum demand charges except in certain cases.</p> | <ul style="list-style-type: none"> Do retailers think Power and Water Corporation should review the peak and residual cost recovery components to correct all these issues in order to reduce costs, cross-subsidies and volatility? |
| 9. Existing Tariffs | <p>Current tariffs are increasing grid costs, cross-subsidies and volatility unnecessarily due to the current Long-Run Marginal Costs, time-of-use, peak pricing mechanism and cost allocation settings</p> <p>Reform of the current tariff designs, with adequate customer impact safeguards, could significantly reduce cross-subsidies, uneconomic bypass via rooftop solar PV, and</p> | <ul style="list-style-type: none"> Do retailers think Power and Water Corporation should correct all these issues to reduce costs, cross-subsidies and volatility? |



| Topic | Issue | Questions for Retailers |
|-------|---|-------------------------|
| | unnecessary investment costs due to uneconomic consumption patterns | |

4 Conclusion

The Retailers Pricing Forum provided an opportunity for Power and Water Corporation and retailers to come together and discuss key issues affecting planning for future of energy in the Northern Territory. Power and Water Corporation received useful feedback on issues such as export pricing, retail pricing order, tariff reform, new EV/PV tariffs, new customer classes, period definitions, long-run marginal costs and maximum demand pricing. Responses to the questions asked of retailers in this report will further assist Power and Water Corporation in their planning.



Appendix: Slide Deck