

Discussion Paper – Large Customers

Background information and questions for
large customers to inform our 2024–29
regulatory proposal

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Introduction

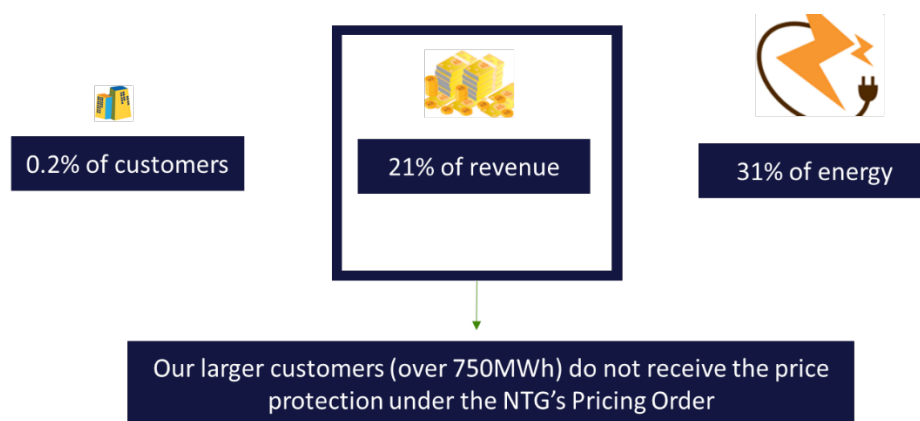
On 2 August 2022, Power and Water released a Draft Plan setting out our initial view on the expenditure, revenue and tariffs for the 2024-29 regulatory period for our regulated networks. Our Draft Plan can be found at (<https://www.powerwater.com.au/your-say/draft-plan>).

Our customers are central to the development of our plans for the 2024-29 regulatory period and we are currently engaging with customers and other stakeholders on topics of relevance and interest to them.

Major customers are a focus of our engagement. While our 180 major customers (those consuming more than 750MWh per annum) make up a small proportion of our customer base, they account for more than 30 per cent of energy consumed and more than 20 per cent of our revenue each year.

We also recognise that, unlike small customers, major customers see and pay the full price of electricity as they are not subject to the Northern Territory Government's Pricing Order (Pricing Order), and that energy prices are critical to business profitability.

Figure 1 – Role of major customers



Engagement to date with major customers has primarily been through a business survey we undertook earlier this year and our Future Network Forum. This Discussion Paper is intended to be read in conjunction with our Draft Plan. It is aimed at providing additional information and seeking input on two key elements we consider particularly relevant to major customers:

- major customers' preferences on Power and Water's draft revenue and expenditure
- proposed changes to our tariff structures impacting major customers.

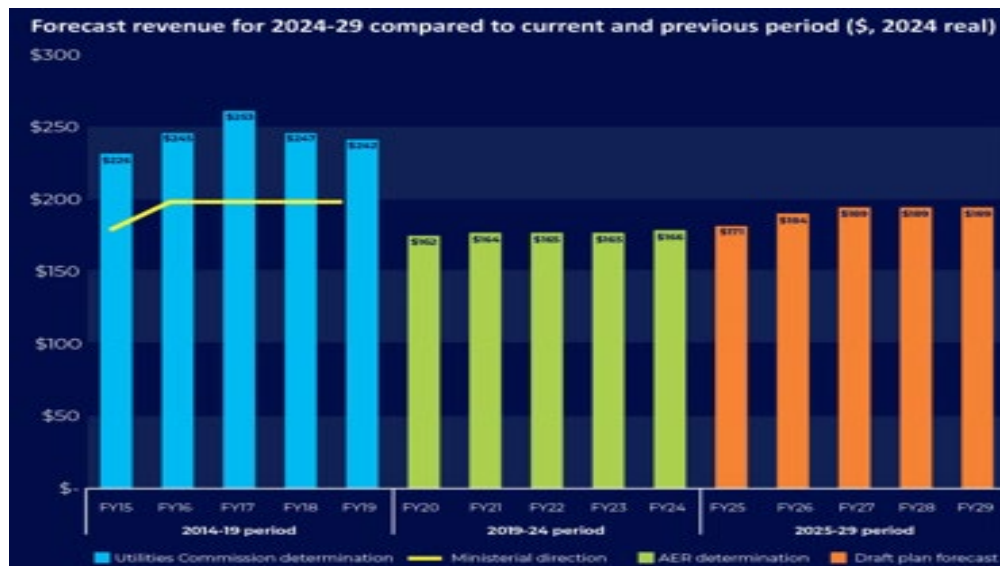
This Discussion Paper and the webinar we have scheduled for 16 September are intended to encourage additional conversation and provide an opportunity to capture feedback from major customers before we formally submit our regulatory proposal to the Australian Energy Regulator (AER) in January 2023. Additional engagement and feedback activities with customers will continue to occur after we submit our initial regulatory proposal as our plans and forecasts continue to evolve in response to feedback from the AER and stakeholders on our regulatory proposal.

Questions for consultation are raised throughout the Discussion Paper. While these questions provide insight on specific matters on which input is sought, we encourage you to comment more broadly should you wish.

Our revenue and your priorities

The expenditure plans we have proposed in our Draft Plan would lead to a revenue increase of 10 per cent (excluding inflation) in 2024-29 compared to the 2019-24 period.

Figure 2 – Forecast revenue compared to 2019-24 and 2014-19 periods



This is largely due to:

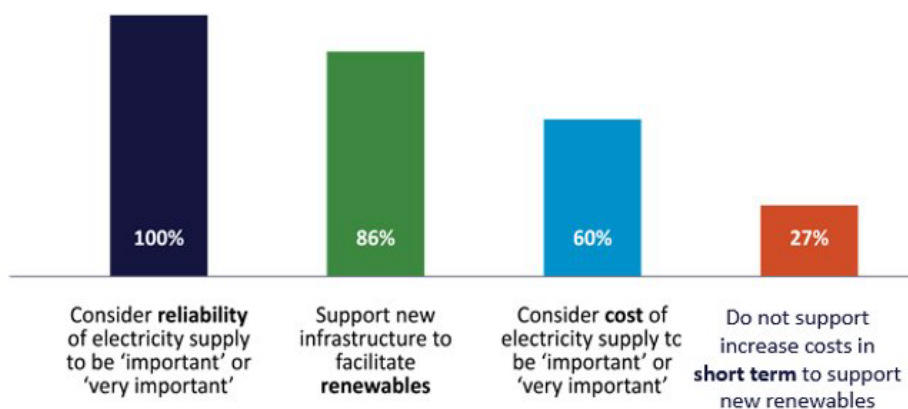
- **A rapid increase in financing costs related to a higher interest environment** – since the time of our customer consultations earlier this year, there has been a marked increase in the risk free rate that will be used by the AER to set our rate of return for the 2024-29 period. This is an uncontrollable factor for Power and Water.
- **An increase in our capital expenditure (capex)** – we anticipate that our delivery capability will improve in the 2024-29 period and that we will invest more in replacing assets installed after Cyclone Tracy that are reaching end of life. We are also investing in a new hosting solution to more efficiently manage household solar exports on the network.

Figure 3 – Changes in forecast revenue since April 2022



These proposed areas of capital investment are consistent with the results of the business survey we conducted, where reliability of supply was identified by all respondents as “important” or “very important”. A majority of the business community were also supportive of us investing in infrastructure to accommodate the shift to renewables. This is a message we have also heard from our People’s Panels and in our Future Network Forums.

Figure 4 – Business survey outcomes



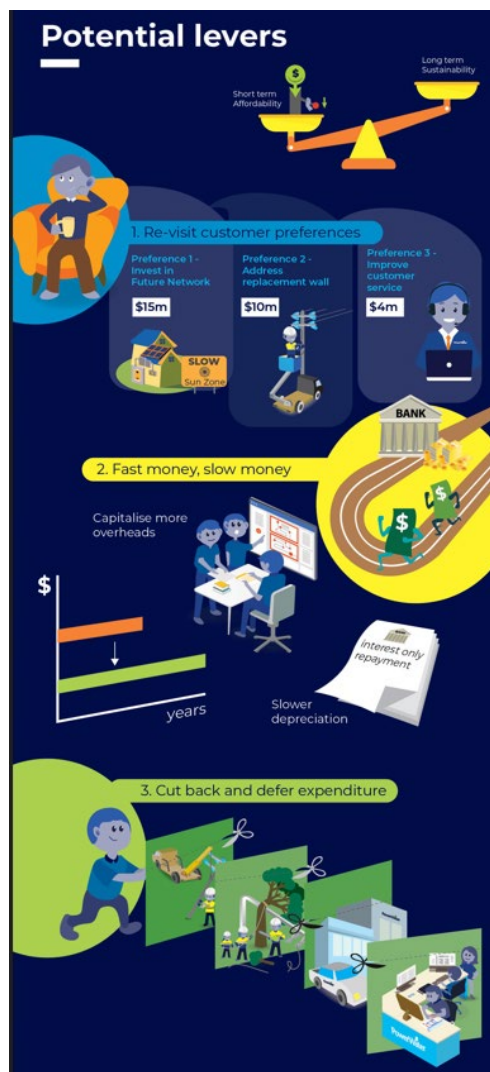
Consultation question 1:

Are the survey responses consistent with your business outlook and view?

Consultation question 2:

What are your pain points with the current services provided by Power and Water and how could we improve?

Figure 5 – Our potential revenue levers



We have identified three levers that are available to us to reduce our revenue requirements for the next period. These are:

- Revisiting the investment preferences that have been expressed by customers to date
- Using accounting methods to defer the recovery of revenue
- Deferring and cutting back programs where the short term risk is tolerable.

We are seeking feedback on whether and to what extent we should be using these levers to reduce revenue and therefore improve short term affordability, while weighing the benefits of short term outcomes against long term sustainability.

It should be noted that use of these levers to achieve short term reductions may create longer term risks of a sharp peak in capex beyond 2030 as we defer programs, and if we are not able to facilitate and efficiently integrate the growing uptake of renewables at the household level.

The direction we have received from our People's Panels is that we should not consider levers that impact our long term sustainability, but that we should sensibly look at opportunities to reduce or defer expenditure programs. Our People's Panels also wanted us to not over-invest in untested technology but rather pilot and scale up.

We are looking to your feedback on whether you have different perspectives on the extent to which we should trade off short term affordability with long term sustainability.

Consultation question 3:

What levers should Power and Water pursue in setting our plans and why?

Consultation question 4:

How should Power and Water balance short term affordability outcomes with long term sustainability?

Tariffs for a new age

Power and Water considers that there is a need to accelerate tariff reform. The increased penetration of electric vehicles will result in the need for considerable investment by 2040 unless there are pricing incentives for customers to charge vehicles in off-peak periods. We also see that shifting consumption to the day will help with managing and utilising low cost renewable solar.

We are also thinking about how our tariff structures can support attracting and retaining big business in the Northern Territory. Attracting large users should help reduce the average cost of electricity by increasing the economies of scale of the energy system.

There are several changes to our tariff structures we are considering for major customers in response to these challenges, each of which are discussed below.

We will also be publishing a Tariff Structure Statement (TSS) as part of our 2024-29 regulatory proposal which describes the changes we are seeking to make to our current arrangements. The AER will make a decision on whether to approve or seek changes to our TSS as part of our regulatory determination process.

Large customer tariff structures

We are looking to introduce a new tariff class for major customers (consuming above 10GWh per annum). These customers (our ‘Super Users’) would have an alternative tariff structure.

Figure 6 – Proposed tariff structures for major customers

Current tariff class and structures (2019-24)

Tariff	Class / Description	Consumption (MWhs per annum)	Connection Voltage (HV/LV)	System Access Charge	Anytime kWh (c/kWh)	Peak demand (\$/kVA)
5	LV Majors	Greater than 750 MWhs	LV	Yes	Yes	Yes
7	HV Majors	Greater than 750 MWhs	HV	Yes	Yes	Yes

Proposed tariff class and structures (2024-29)

Tariff	Class / Description	Consumption (MWhs per annum)	Connection Voltage (HV/LV)	System Access Charge	Anytime kWh (c/kWh)	Peak demand (\$/kVA)
5	LV Majors	750 – 10,000 MWhs	LV	Yes	Yes	Yes
7a	HV Majors	750 – 10,000 MWhs	HV	Yes	Yes	Yes
7b	Super Users	Greater than 10,000 MWhs	HV	Yes	Yes	No

Consultation question 5:

Do you agree with the introduction of a 'Super Users' tariff class for customers consuming greater than 10GWh per year?

Consultation question 6:

Do you agree with a single 'HV Majors' tariff class for all HV customers (other than Super Users) consuming greater than 750MWhs?

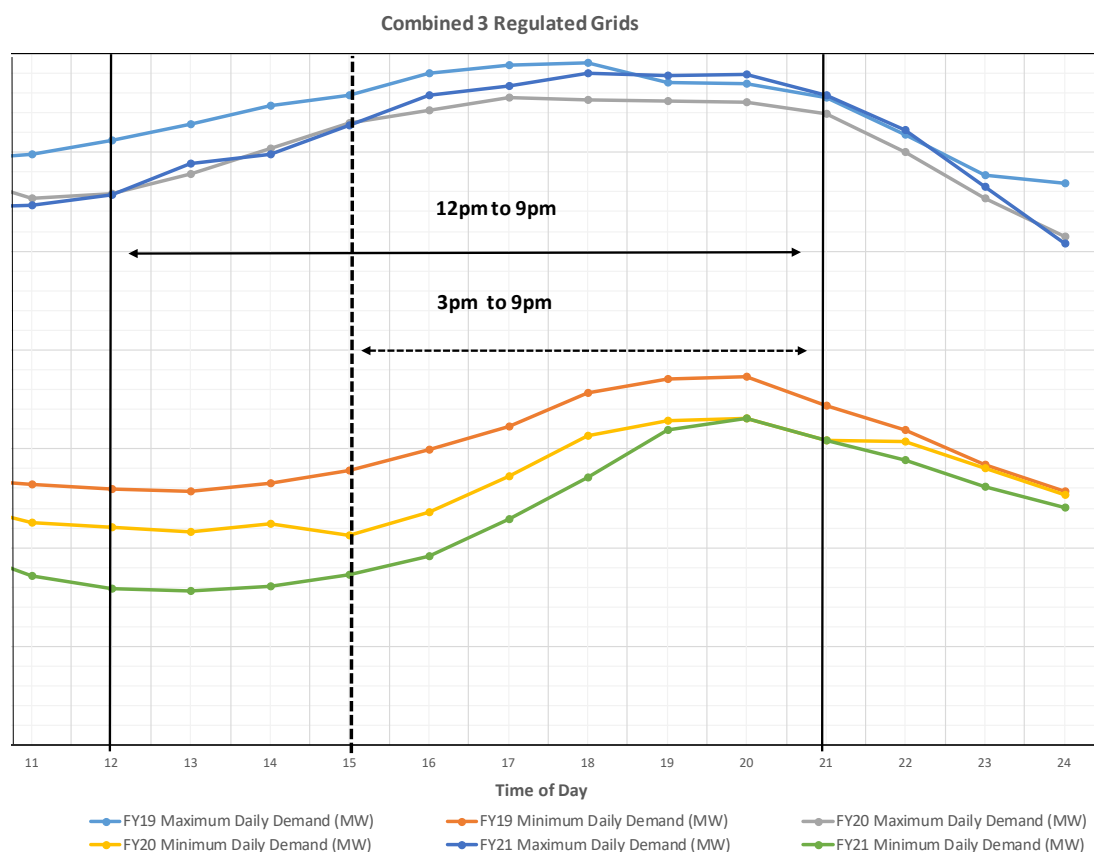
In relation to the charging parameters that would apply to major customers under these tariffs:

- Super Users are likely to locate on the upstream transmission network where there is expected to be significant capacity to meet demand. For this reason, we are looking at a simplified tariff structure where there is a higher daily rate (system access charge) and a lower energy anytime rate (anytime kWh). The existing demand charge would be removed.
- We currently apply a demand charge to all customers with a smart meter. Our Draft Plan considered the introduction of a charge reflecting a rolling average of demand for major customers excluding Super Users. We have subsequently received feedback from our billing system provider that this is not readily capable of implementation and therefore we propose that we will not apply this.

Charging periods

For our demand charge for HV Majors, we are proposing that the peak window period be narrowed from 12pm to 9pm, Monday to Friday to 3pm to 9pm, Monday to Friday. This reflects our analysis that peak demand is shifting to the evening when the network cannot rely on solar to help meet underlying demand. This is intended to encourage customers to use lower amounts of energy during the period when our network experiences congestion, thus lowering our future costs. We have decided not to overly narrow the time period due to the variability of when the peak demand occurs at different locations on our network.

Figure 7 – System load profile of regulated networks combined



We are also proposing that the peak period only apply in the 1 October to 31 March peak season, rather than throughout the year as it is currently.

The implication of these changes is that the demand rate for our HV Majors will be higher but only apply for six months. As noted above, the demand charge will not be applied to our Super Users.

Consultation question 7:

Would you prefer Power and Water to apply the new peak period (3pm to 9pm, Monday to Friday) to apply annually or on a seasonal basis (1 October to 31 March)?

Consultation question 8:

Would you prefer Power and Water to provide different or localised network prices, i.e. applying the same tariff structure but with different rates between networks or localities?

Export tariffs

Our future network strategy is aimed at unlocking solar through a hosting solution where we can demonstrate a benefit to all customers through lower electricity costs.

To ensure fairness to all customers, we are considering a potential export tariff for customers who export electricity beyond a minimum threshold at times when our network has difficulty managing exports, and a rebate when the network requires an injection of energy during peak demand times.

Figure 8 – Application of export changes and export rebate



The export tariff arrangement would only apply if a customer decides to not sign-up to our dynamic operating envelopes initiative aimed at enabling Power and Water to better manage hosting capacity on its network. For major customers, the arrangement would only apply to our HV Majors.

Given the magnitude of the change, we propose to introduce these new arrangements from FY2026.

Consultation question 9:

Do you support the idea of an export tariff and export rebate?

Consultation question 10:

Do you think it should only apply when there is a real issue with managing solar exports?

How can you provide feedback?

Our webinar on 16 September will walk through the information presented in this paper in more detail and provide an opportunity for you to provide feedback.

We have developed a new page called 'Your Say' that is focused on the 2024-29 regulatory proposal. This means that in addition, or as an alternative, to providing feedback at the webinar, you can directly respond to the questions we have posed in this Discussion Paper and provide any other comments.

The web page can be accessed directly through this link (<https://www.powerwater.com.au/your-say/information-paper>).

Consultation on the Discussion Paper will close on 30 September 2022.

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