Discussion Paper – Small to Medium Customers

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

PowerWater

Contents

Introduction	**3**
Our revenue and your priorities	**4**
Tariffs for a new age	**7**
How can you provide feedback?	**12**

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.

Small to medium customers are a focus of our engagement. Power and Water has approximately 9,000 small and 1,000 medium business customers (those consuming less than 750MWh per annum). While our business community make up a small proportion of our customer base (14 per cent), they account for more than 60 per cent of energy consumed and more than 50 per cent of our revenue each year.

We also recognise that, unlike major customers (those consuming greater than 750MWhs per annum), our small to medium customers are currently subject to the Northern Territory Government's Pricing Order (Pricing Order) and therefore do not currently see the full impact of the signals provided by our network tariffs through their retail charges.

Figure 1 – Role of the business community

Engagement to date with small to medium customers has primarily been through a business survey we undertook earlier this year, our Future Network Forum and a briefing session on our Draft Plan through the Chamber of Commerce NT. 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 our small to medium customers:

- small to medium business customers' preferences on Power and Water's draft revenue and expenditure
- proposed changes to our tariff structures impacting small to medium customers consuming less than 750MWh per annum.

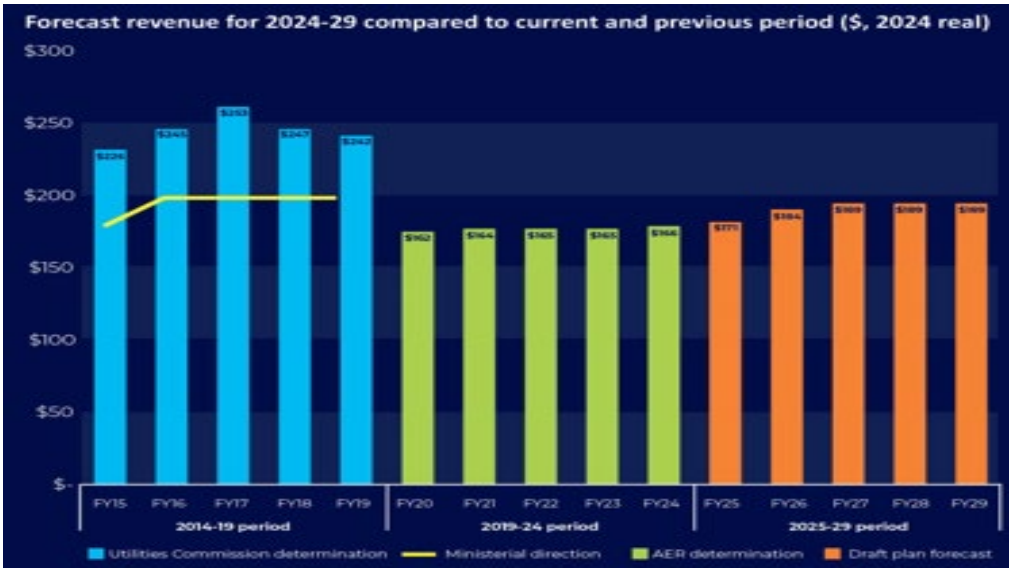
This Discussion Paper and the webinar we have scheduled for 16 September are intended to encourage additional conversation and provide an opportunity to capture feedback from small to medium customers before we formally submit our regulatory proposal to the Australian Energy Regulator (AER) in January 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.

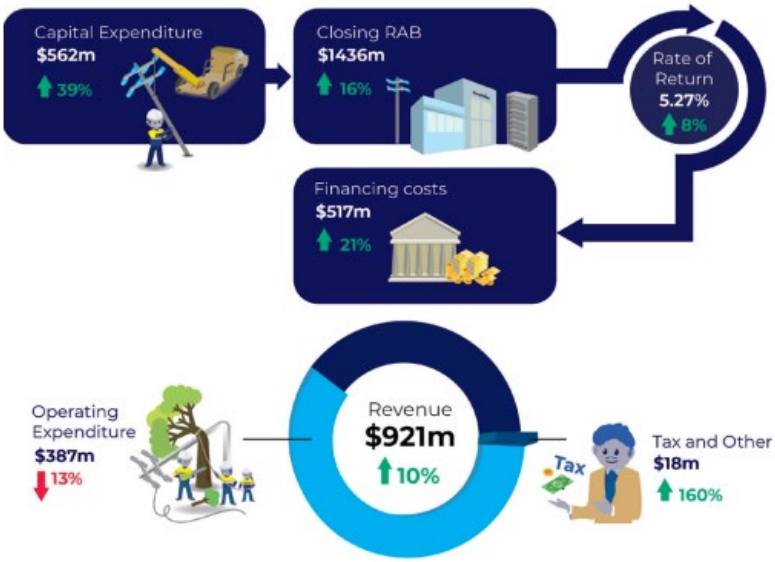
Figure 2 – Forecast revenue compared to 2019-24 and 2014-19 periods



This is largely due to:

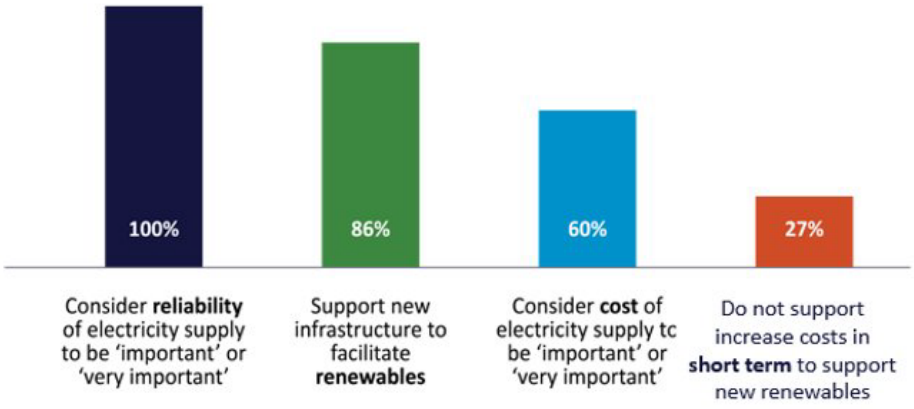
- ***A rapid increase in financing costs related to a higher interest environment*** – since the time of our customer consultations earlier this year, there has been a marked increase in the risk free rate that will be used by the AER to set our rate of return for the 2024-29 period. This is an uncontrollable 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



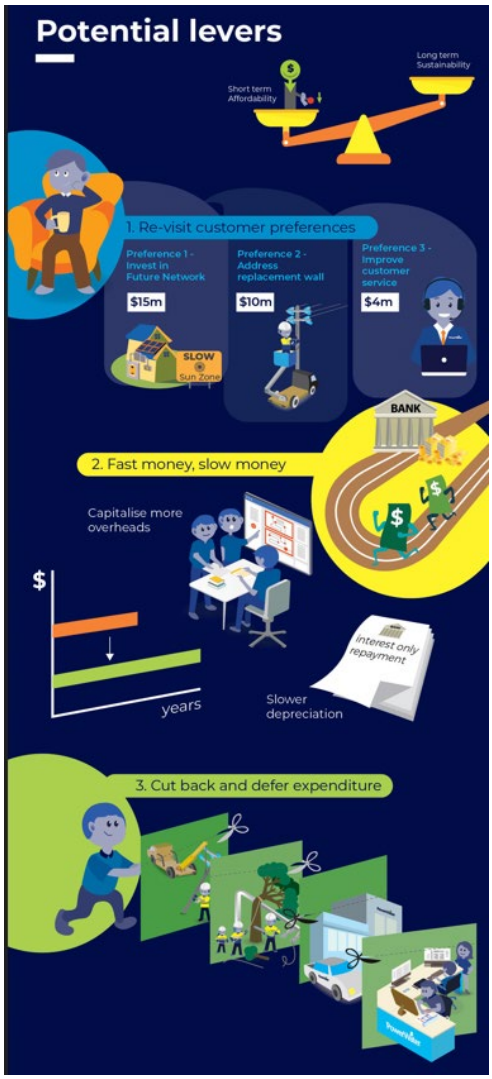
Consultation question 1:

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?

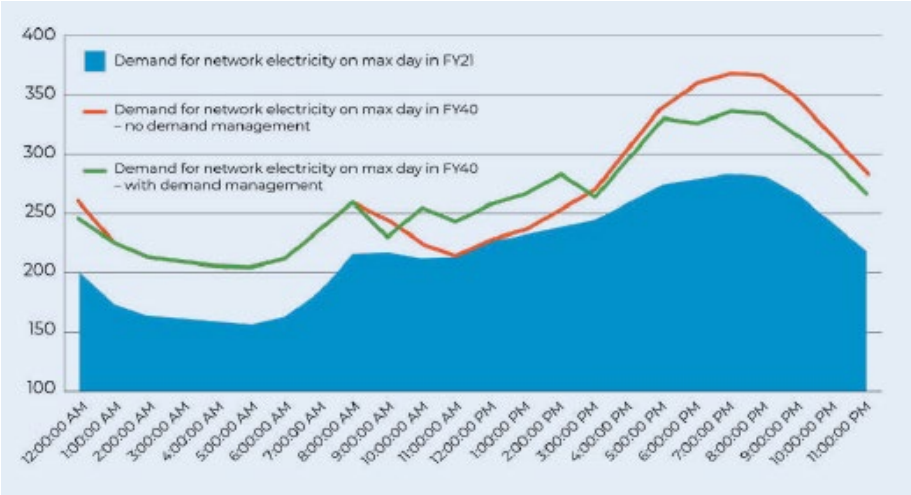
Consultation question 4:

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.

Figure 6 – Opportunities to improve network utilisation



We see that electric vehicles provide a once in a generation opportunity to lower average energy costs provided incentives for day charging to coincide with excess solar in the middle of the day.

Shifting 10% of demand from evening to the middle of the day would significantly flatten demand across the day by 2040.

As a business, we also plan to continue our investment in smart metering, consistent with national trends and customer preferences. Smart meters enable us to facilitate growing solar and battery connections as well as prepare for the uptake of electricity vehicles. Smart meters are a prerequisite for implementing more efficient tariffs that incentivise customers to use appliances in off-peak periods.

Of our 63,250 accumulation meters, 21,000 will be replaced or upgraded to smart meters by the end of the current regulatory period. Around half of the remaining 42,250 meters are proposed to be replaced with smart meters over the 2024-29 regulatory period. We considered different paces of smart meter rollout in preparing our Draft Plan and have proposed a progressive rollout to balance costs to consumers, resourcing needs and compliance issues.

Consultation question 5:

What factors should Power and Water consider when rolling out smart meters across the Northern Territory, e.g. pace of roll out, location, industry, other considerations?

There are several changes to our tariff structures we are considering for our small to medium customers in response to these challenges and opportunities, 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.

Small to medium customer tariff structures

We are looking to separate the existing tariff class for small customers with smart meters (tariff class 3) into tariff classes for customers consuming less than 100MWhs per annum (tariff class 3a) and those consuming 100 – 750 MWhs per annum (tariff class 3b).

This is intended to provide more targeted price signals based on the characteristics of the customer class and follows retailer feedback on how to encourage and expand retail competition in the future.

Figure 7 – Proposed tariff structures for small to medium business 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)
2	Non-residential accumulation	All non-residential customers with accumulation metering	LV	Yes	Yes	No
3	LV smart meter	0 – 750 MWhs	LV	Yes	No	Yes
4	Unmetered	All unmetered	LV	No	Yes	No

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)	Energy ($/kVA) Low, Mid, High	Peak demand ($/kVA)
2	Non-residential accumulation	All non-residential customers with accumulation metering	LV	Yes	Yes	No	No
3a	LV smart meter	0 – 100 MWhs	LV	Yes	No	Yes	No
3b	LV smart meter	100 – 750 MWhs	LV	Yes	No	Yes	Yes
4	Unmetered	All unmetered	LV	No	Yes	No	No

Consultation question 6:

Do you agree with the separation of the 'LV smart meter' tariff classes into customers consuming less than 100MWhs per annum and those consuming 100 – 750 MWhs per annum?

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

- We currently apply a demand charge to all customers with a smart meter. For the new segment of smart meter customers consuming less than 100MWhs (tariff 3a), we are proposing to not apply a demand charge and only apply energy consumption charges.
- We currently have a single 'anytime' charging parameter for the energy consumption component of our small to medium customer tariffs, even if the customer has a smart meter. We are proposing to remove the 'anytime' charge for customers with smart meters and apply an energy charge based on the time of day when energy is consumed (discussed further below).

Consultation question 7:

- *Do you support removal of the demand charge for customers consuming less than 100MWhs?*

Consultation question 8:

- *Do you support the introduction of an energy charge based on the time of day when energy is consumed, for customers with smart meters?*

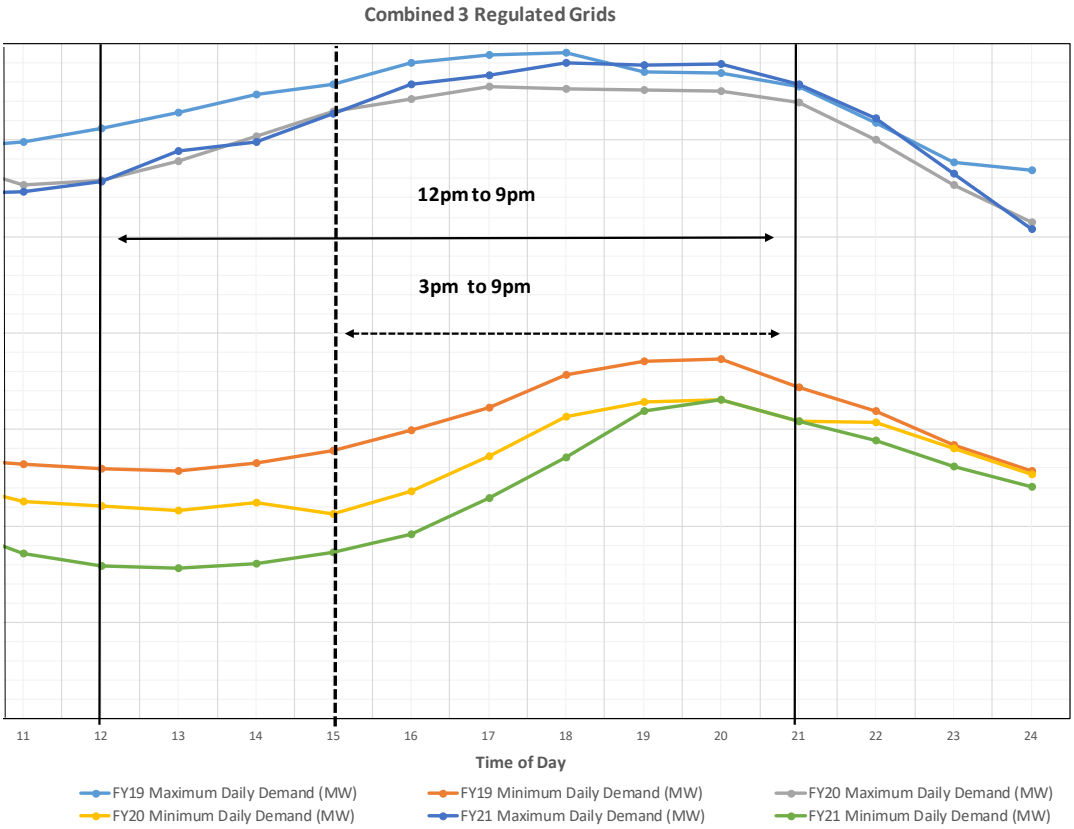
Charging periods

For our small to medium customers, we currently have a peak period of 12pm to 9pm, Monday to Friday from October to April.

For those customers that will continue to have a demand charge applied (tariff 3b), we are proposing that the peak window period be narrowed 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.

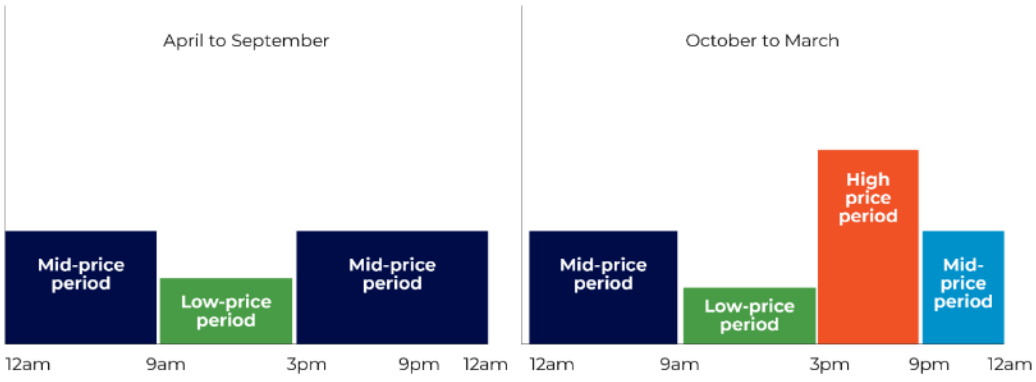
This is intended to encourage customers to use lower amounts of energy during the period when our network experiences congestion, thus lowering our future costs. We have decided not to overly narrow the time period due to the variability of when the peak demand occurs at different locations on our network.

Figure 9 – System load profile of regulated networks combined



As part of this change, we also plan to include a greater distinction between peak and off-peak periods through the energy charge that will replace the 'anytime' charge for customers with smart meters. We consider that this change is required to signal to customers when the network is experiencing peak demand in the evening, and when there is ample capacity to meet demand in the middle of the day (discussed further below). The high price period for energy will replace the demand charge for most customers.

Figure 8 – Time of use pricing relativity for consumption of energy



We are undertaking further analysis to determine how best to transition customers to these energy consumption windows.

Consultation question 9:

Do you support the introduction of pricing arrangements that reflect a greater distinction between peak and off-peak periods?

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 10 – 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.

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

Consultation question 10:

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

Consultation question 11:

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.

Contact

Jason Howe

Executive General Manager – Customer Strategy and Regulation

YourSay@powerwater.com.au

PowerWater