AUSNET SERVICES, JEMENA, CITIPOWER, POWERCOR AND UNITED ENERGY

VICTORIAN ELECTRICITY FUTURE FORUM: HOUSEHOLD NETWORK PRICING
CONSULTATION REPORT

DECEMBER 2017

PUBLIC
# Victorian Electricity Future Forum: Household Network Pricing Consultation Report

*AusNet Services, Jemena, CitiPower, Powercor and United Energy*

WSP  
Level 15, 28 Freshwater Place  
Southbank VIC 3006  

Tel: +61 3 9861 1111  
Fax: +61 3 9861 1144  
wsp.com

<table>
<thead>
<tr>
<th>REV</th>
<th>DATE</th>
<th>DETAILS</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>8/12/2017</td>
<td>2270504A-STE-REP-001-RevC</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NAME</th>
<th>DATE</th>
<th>SIGNATURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepared by:</td>
<td>Roland Short</td>
<td>21/11/2017</td>
</tr>
<tr>
<td>Reviewed by:</td>
<td>Jen McDonnel</td>
<td>9/12/2017</td>
</tr>
<tr>
<td>Approved by:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This document may contain confidential and legally privileged information, neither of which are intended to be waived, and must be used only for its intended purpose. Any unauthorised copying, dissemination or use in any form or by any means other than by the addressee, is strictly prohibited. If you have received this document in error or by any means other than as authorised addressee, please notify us immediately and we will arrange for its return to us.

2270504A-STE-REP-001 Rev-Final-1   Public   December 2017
# TABLE OF CONTENTS

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BACKGROUND</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>BREAKOUT SESSION ONE: DRIVERS, OPPORTUNITIES AND CHALLENGES</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>BREAKOUT SESSION TWO: OBJECTIVES FOR NETWORK PRICING DESIGN AND REFORM</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>BREAKOUT SESSION THREE: MEETING KEY OBJECTIVES</td>
<td>7</td>
</tr>
<tr>
<td>5</td>
<td>BREAK OUT SESSION FOUR: ENGAGING WITH YOU AND CONSUMERS</td>
<td>8</td>
</tr>
<tr>
<td>6</td>
<td>FEEDBACK</td>
<td>9</td>
</tr>
</tbody>
</table>
1 BACKGROUND

ABOUT THIS DOCUMENT
The following report provides a summary of the outcomes and planned next steps of the Victorian Electricity Future Forum held on 1 November 2017. This is the first in a series of engagement opportunities that the Victorian distributors - AusNet Services, CitiPower, Jemena, Powercor, and United Energy are planning for communities.

ABOUT NETWORK PRICING
Network components of electricity bills for the most part are a combination of fixed charges and rates based on the volume of electricity that is used. Those network charges are the same, regardless of when it is used—whether it’s during the hottest part of a summer’s day (when network peaks tend to occur) or the middle of the night.

Similarly, the feed-in-tariffs for electricity exported from solar PV panels are paid at a flat rate. These types of legacy pricing structures were first developed at a time when consumers had little ability to change their patterns of consumption.

However, the electricity market is changing and in order to keep pace with these changes, the distribution businesses need to consider ways networks price electricity. The energy system is shifting to a more decentralised and diversified grid, with a mix of large-scale and distributed energy resources. Consumers are looking to control their bills, and technology is increasing their ability to do that.

The challenge as a sector is to ensure the transition to a modern energy system delivers benefits to all consumers, in a way that is fair, affordable and sustainable.

In Victoria, new approaches to network pricing have been introduced in recent years. Most recently this has included tariffs with a demand component, i.e. a charge based on the highest level of instantaneous usage within a given time (e.g. a month). However, most consumers will have experienced little change.
ABOUT THE FORUM

The Victorian Electricity Future Forum was held on Wednesday 1 November 2017. It was the first in a series of engagement opportunities that the Victorian distributors - AusNet Services, CitiPower, Jemena, Powercor, and United Energy - will be holding to examine what network pricing should be offered and how best to maximise the benefits to consumers.

The aim of the first forum was for attendees to collaborate and share the challenges and opportunities that could arise from changes to household network pricing, and work towards identifying key objectives to inform the process moving forward.

The Victorian electricity network businesses are currently developing their pricing submissions for the Australian Energy Regulator to set prices for the five-year period 2021 to 2025. Whilst the forum discussions will inform regulatory proposals, the event was about much more than just regulatory submissions and pricing. The forum explored a range of consumer and stakeholder perspectives on what else is needed, whether that is better information and data for consumers, technology that will enable more efficient engagement, or research.

The Victorian distributors recognise that a new approach to engaging on network pricing is required. One that engages those involved in setting the prices that consumers see, but also including representatives of the consumers receiving those bills, the stakeholders who help consumers manage their bills and electricity use, and others. This forum was the start of a process to collaboratively develop the best way forward for network pricing in Victoria.

The forum was opened with leading industry research insights by Paul Graham from CSIRO, Dr Larissa Nichols from RMIT and Neil Horrocks from Citysmart. This was followed by four breakout sessions in a world café format to discuss various key questions. Attended by 56 representatives of organisations including government, retailers, consumer groups, social services, technology and green energy companies among others, the forum brought together diverse disciplines with similarly diverse viewpoints to fully explore the issues facing stakeholders affected by network pricing change.
2 BREAKOUT SESSION ONE: DRIVERS, OPPORTUNITIES AND CHALLENGES

This session offered forum attendees the opportunity to discuss the key drivers to and opportunities/challenges associated with changing existing network pricing. Groups of up to eight, consisting of representatives from across the sector (e.g. government, energy providers and not-for-profit) were asked to answer the following three questions:

1. What are the drivers of considering network pricing changes?
2. What are the opportunities and/or benefits that network pricing could bring?
3. What are the key challenges associated with changing network pricing?

The following provides a high-level summary of key themes that emerged from the discussions.

WHAT ARE THE DRIVERS OF CONSIDERING NETWORK PRICING CHANGES?

**Equity, fairness and affordability**

- Addressing the impacts price increases are having on Victorian households
- Unwinding cross-subsidisation, the need to develop a fairer pricing structure
- Addressing geographic inequalities
- Misalignment between what we pay and how we use electricity.
Complexity of the existing energy market

- The supply chain is complex, there are various moving parts in the retail price stack
- A need for greater collaboration between distribution businesses and with other stakeholders
- New technology and the growth of renewables
- The growth of home Solar PV, grid feed-in and emerging battery storage technologies will increasingly challenge the future of the electricity network
- Smart meters and the uptake of new technologies that allow households to monitor and better interact with their usage, offering an opportunity for better demand management.

Politics and Regulation

- Electricity has become a highly politicised issue, the electorate is increasingly demanding change
- National regulation prompting the move to cost reflective tariffs, but state based legislation shielding customers from cost reflective tariffs
- The upcoming network price review (2021-2025).

Some other key points mentioned were:

- The reliability of the network and the existing asset base as consumer demand profiles change
- Sustainability of the National Energy Market.

WHAT ARE THE OPPORTUNITIES AND/OR BENEFITS THAT NETWORK PRICING COULD BRING?

Improving consumer options / addressing affordability issues

- Empower households to better manage costs through usage management and potentially save money
- Address cross-subsidy issues and reward consumer behaviours which reduce network costs
- Improve the retailer offering and drive competition in the market.

Manage demand that results in optimised network investment

- Encourage efficient use of electricity that results in reduced network cost
- Mitigate the need for investment in a network to meet intermittent peaks
- Drive investment in alternative options where feasible
- Encourage batteries and other technologies to be operated in such a way so as to reduce network costs.

Increased transparency and engagement

- Communicate and educate on what “Peak” is early on and educate consumers on behaviour change benefits
- Work in partnership with community organisations to facilitate two-way knowledge sharing
- Rebuild and develop trust in the industry.

Build off lessons learnt

- Learn from and build off lessons from elsewhere.
WHAT ARE THE KEY CHALLENGES ASSOCIATED WITH CHANGING NETWORK PRICING?

The sheer complexity of the issue, how to engage, educate and communicate the right message

— Price signals are complex, as is the market. There is no simple way to define these complexities to all parties involved

— Consumer disengagement

— Uncertainty about roles and responsibilities during the reform process.

Fairness: who will be the winners and losers?

— There are competing objectives: efficiency versus fairness

— Any change will have winners and losers, how to ensure the most vulnerable consumers are not big losers

— New technology/solar uptake is predominately in well off households, vulnerable customers are priced out.

Legacy issues and trust in the market

— High level of distrust in the existing energy market which is exacerbated by media reporting and the current political environment

— Some people are unwilling/unable to change consumption patterns.

The need for sector wide collaboration

— This is a giant collaborative process that will require cooperation at every level of the supply chain

— There is a disconnect between network and retail pricing, network pricing needs to be priced to facilitate retailer competition

— There is a need to continue to drive collaboration to provide consistency to the market.
3 BREAKOUT SESSION TWO: OBJECTIVES FOR NETWORK PRICING DESIGN AND REFORM

In breakout session two, the forum was posed the question: “What do you see as the key objectives for changes to network pricing?”

In groups of up to eight, attendees were asked to discuss the key priorities and tensions surrounding network pricing reform and identify a set of key pricing objectives. Each group was then asked to share their objectives with the wider forum. As to be expected, responses were wide and varied with 93 objectives being presented to the group.

In order to identify the objectives of most importance to attendees, a forum vote was held, whereby each attendee was asked to allocate up to three sticker dots against one, two or three of the 93 objectives collectively identified. The table below displays the results of the vote:

The top five key objectives to emerge from the forum vote are listed below:

1. Simplicity
2. Efficient and reflective
3. Fairness, consistency and equity
4. Affordability
5. Recognise two-way energy flows.

These five objectives will inform the development of a set of working principles that will guide the distribution businesses through the network pricing reform process.
4 BREAKOUT SESSION THREE: MEETING KEY OBJECTIVES

Attendees were asked to participate in a snap poll in response to the following question:

“Some kind of network pricing change is A) Necessary, B) Desirable, C) Undesirable, D) Not Sure?”

All but five participants believed some kind of change to network pricing was either necessary or desirable, with the remaining participants not sure. No one in attendance thought changes to network pricing was undesirable. Groups were then posed a question depending on their belief and asked to brainstorm solutions.

Those who believed that some kind of network pricing change is necessary or desirable were asked to discuss the most material complementary measure to realising opportunities and overcoming challenges.

Those who were not sure were asked to discuss knowledge or research gaps, which if filled, would help them be more certain in their view.

THE MOST MATERIAL COMPLEMENTARY MEASURE TO REALISING OPPORTUNITIES AND OVERCOMING CHALLENGES.

– Consider a transition process that integrates with an education program to help consumers better understand usage behaviours and their effects
– Trials, ghosting and “try before you buy” mechanisms
– Incentivise direct load control devices and other energy management technologies and provide concessions for such products to assist vulnerable consumer groups
– Open source usage data to allow the market to develop products and programs that benefit customers
– Build trust by providing research that supports any change
– Collaborate with social service providers, retailers, regulators and government to ensure all impacts are investigated and understood.

KNOWLEDGE OR RESEARCH GAPS, THE FILLING OF WHICH WOULD HELP YOU BE MORE CERTAIN IN YOUR VIEW.

– Alternative methods other than price signals to manage peak demand
– Targeting price signals to the cause of the problem, whilst not affecting those who have little capacity to change
– Social issues with using price signals for an essential service
– Investigating whether it is consumers or industry that needs change
– Asset write downs
– Involving different disciplines outside of economics and engineering in the decision-making process
– Avoiding detrimental impacts on households with little ability to change
– Ensuring simplicity for disadvantaged and linguistically diverse consumers.
5 BREAK OUT SESSION FOUR: ENGAGING WITH YOU AND CONSUMERS

In groups, participants were asked to design an engagement program to guide the distribution business through the upcoming review process. Understandably, there were diverse opinions about when and how the distribution businesses should continue to engage throughout the process.

Some of the common discussion points to emerge include:

— Do not lose momentum, engage early and often
— Continue the collaboration between all distribution businesses, present a united front
— Develop working groups and continue the forum process, utilising participants from diverse backgrounds
— Engage early with government and retailers, build a positive relationship that supports change and overcomes existing legacy issues.

The distribution businesses are currently reviewing all suggestions received during this session and are working collaboratively to develop a process for engagement.

Figure 3. Jemena Managing Director Paul Adams addressing the forum during breakout session four.
6 FEEDBACK

Out of 56 participants, 37 completed and returned a forum evaluation form. The forms asked participants to rate the forum as whole and then asked for categorical feedback to help improve the process for future forums. The response was overwhelmingly positive, with every participant either rating the forum an excellent or good. Table 6.1 below shows a breakdown of overall responses.

Table 6.1 Breakdown of forum rating responses

<table>
<thead>
<tr>
<th>Rating</th>
<th>Excellent</th>
<th>Good</th>
<th>Fair</th>
<th>Poor</th>
<th>Terrible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responses</td>
<td>22</td>
<td>15</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

YOUR COMMENTS

“What went well today?”

- “Collaborative, good mix of stakeholders in room and at each table”
- “Shared sense of purpose”
- “Open collaborative discussion”
- “The objective voting process”
- “Facilitators engaged everyone well to ensure that all could have a say”
- “The ability to gain insights from a wide variety of stakeholders”

Some comments to the question “What could be improved next time?”:

- “Involve government and retailers in the process to hear their views”
- “Provide background reading or research prior to session to bridge knowledge gaps”
- “Rotate groups to gather a wider range of perspectives”
- “Provide more data or possible options to invoke discussion”
- “Shorter time with highly focused discussion”
- “Provide more context on where the distribution businesses actually sit”.

It should be noted that the forum did exceed the expectations of many participants, with multiple comments praising the collaborative and open nature of the discussion that took place. Conversely, there were also numerous comments that reiterated the fact that the forum needed to be more than just paying lip service to engagement, and it is hoped that the outcomes would truly have impact on the network pricing reform process.