Empowering communities to share and use energy for a better tomorrow

Overview of our Tariff Structure Statement

April 2018

empowering you

Our Vision

What we want to be

Empowering communities to share and use energy for a better tomorrow.

Our Purpose

What we stand for

To enable energy solutions that improve life.

Our Values

What we care about

Make safety your own

Be easy to do business with

Make every dollar count

Be courageous, shape the future

Be inclusive, supportive and honest

A short message from Essential Energy's Chief Executive Officer

Welcome to Essential Energy's Tariff Structure Statement (TSS) Overview. Your continuing feedback will play an important part in shaping our approach to network charges. As the TSS contains comprehensive detail, we have distilled the main points into this Overview for customers and stakeholders.

John Cleland Chief Executive Officer

The Essential Energy network is funded through charges that form part of the electricity bills issued by your retailer. Each bill covers everything from electricity generation to transmission, distribution (Essential Energy), retail and State and Federal Government charges. With Essential Energy's distribution network charges (tariffs) making up around 37 per cent of the typical total bill, our charges are controlled by the Australian Energy Regulator (AER).

Every five years, we submit a Regulatory Proposal to the AER that covers all aspects of how we plan to run our business over the next regulatory period. The AER reviews our Proposal, considers customer feedback, and tells us how much we can charge customers over the next five years of operations. The TSS sets out our proposed structure for network charges to fund operations for the 2019-24 regulatory period and is an important part of the overall Proposal.

We made significant inroads into introducing cost-reflective network charges in our previous TSS (2017-19), including removing morning peak charges and introducing opt-in demand-based charges for customers with interval meters, and making time of use the default charging structure for new connections and upgraded meters from 1 July 2018. Our TSS builds on this progress and takes into consideration the feedback from our extensive customer and stakeholder engagement program to date.

This Overview:

- Presents our proposed structure for network charges for the five years from 1 July 2019;
- Outlines the contribution our charges make to retail electricity bills;
- Explains why our charges need to change and how we arrived at the proposed new structure; and
- Shows how our charges, and how they are assigned to different customer groups, has been influenced by the stakeholder consultation process so far.

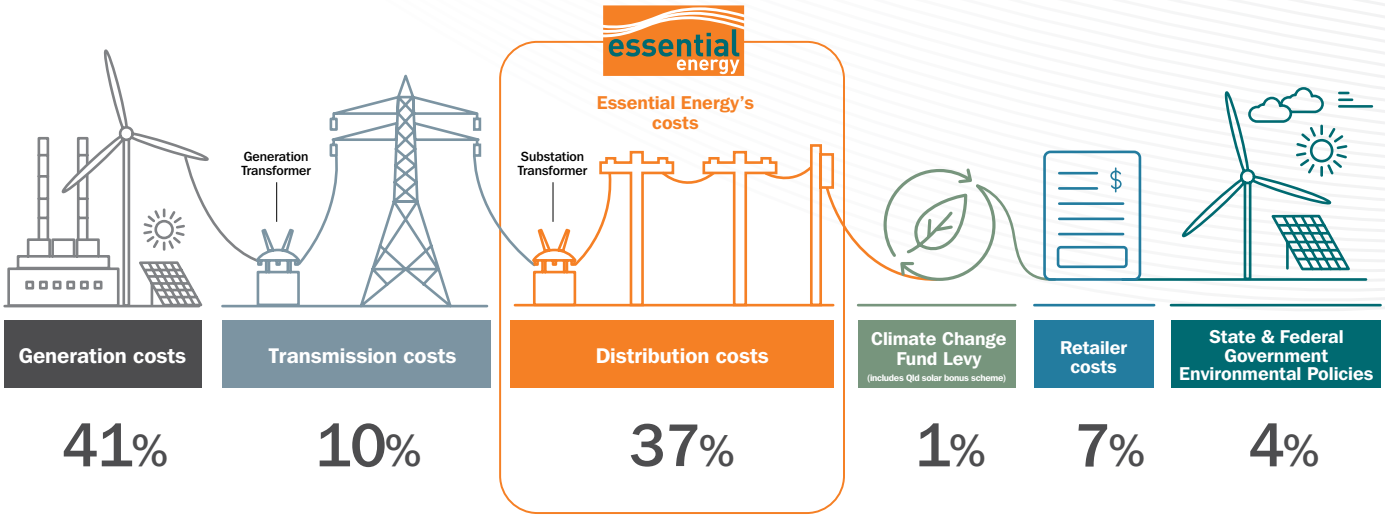
I invite you to read the information then provide your feedback to the Australian Energy Regulator or us directly using one of the communication channels detailed on the final page. This is your opportunity to help us refine our TSS even further, and I look forward to receiving your opinions and ideas.

John Cleland
Chief Executive Officer

About our TSS

How we recover our costs

The costs we incur for running our distribution network comprise about 37 per cent of a typical residential electricity bill. Apart from large businesses, customers don't see our network charges. These are paid directly to us by retailers, who then build our costs into the prices they charge customers.



Note: Based on the 2017-18 forecast, Australian Energy Market Commission, 2017 Residential Electricity Price Trends, 18 December 2017 p.100

Services covered by our TSS

Our TSS covers charges for services that are classified as Direct Control Services under the National Electricity Rules (NER), which govern our industry. The AER further classifies Direct Control Services as either Standard Control Services or Alternative Control Services.

While the TSS covers the structure of charges for both types of service, this Overview focuses on Standard Control Services, as they impact all our customers through the electricity network charges they pay.

DIRECT CONTROL SERVICES

STANDARD CONTROL SERVICES

DISTRIBUTION NETWORK

A monopoly service. Costs are shared between all customers connected to the network.

STANDARD CONTROL

- >Common distribution services
- >Common distribution network augmentations
- >Unmetered supplies

ALTERNATIVE CONTROL SERVICES

BASIC METERS | PUBLIC LIGHTING | ANCILLARY NETWORK SERVICES

- >Some level of competition may exist but the market is not yet fully competitive.
- >Costs are attributable to specific customers who pay for the service.

ALTERNATIVE CONTROL

- >Type 5 & 6 metering services for meters installed before 30 March 2018
- >Ancillary network services
- >Public lighting

How the AER regulates our network charges

On 27 November 2014, the Australian Energy Market Commission made a new rule that requires Essential Energy to move towards more cost-reflective network charges.

Our five-year Regulatory Proposal includes our proposed expenditure forecast for building and maintaining our network and a network charging structure to fund operations for the 2019-24 regulatory period. It is an important part of the overall Proposal. The AER assesses our Proposal and approves what it considers to be efficient and prudent capital and operating expenditure, and a revenue allowance for each year of the regulatory period. It also reviews and approves the charging structures in our TSS.

The electricity industry is dynamic, and circumstances can change quickly. While our TSS outlines the structures and assignment policies for our proposed network charges, actual network charges are reviewed and approved annually by the AER when we submit our annual pricing proposal.

Cost-reflective network charges

The electricity industry is in a period of unprecedented change, driven by changes in the way our customers source and use energy, the push to decarbonise our energy supply, and increased decentralisation of the energy supply chain.

As these changes occur, we expect to have a mix of active customers who invest in new technologies and change their energy sourcing and usage behaviours, and passive customers who continue to use energy in much the same way as they do today.

We need to ensure our network charging structures are fit-for-purpose for all customer types so we can best support customers' long-term interests. This means designing charges that recognise the characteristics of our network and our customers' needs now and in the future.

Cost-reflective network charges provide all customers with greater visibility of how their usage impacts the costs of operating the network. It also allows customers to alter their consumption behaviour in return for lower network charges.

How customer consultation has changed the structure of our network charges

Our TSS aims to 'fine tune' the pricing structures introduced in our 2017-19 TSS and enhance customer options to keep pace with the changing energy market, particularly the increasing volume of innovative technology connections to our network. It also takes into consideration the feedback from our extensive customer and stakeholder engagement program.

Pricing structures that better reflect the costs of providing network services to customers play an important role in encouraging customers to utilise the network in a more efficient manner. This in turn will promote efficient network investment and help in the reduction of long-term average prices.

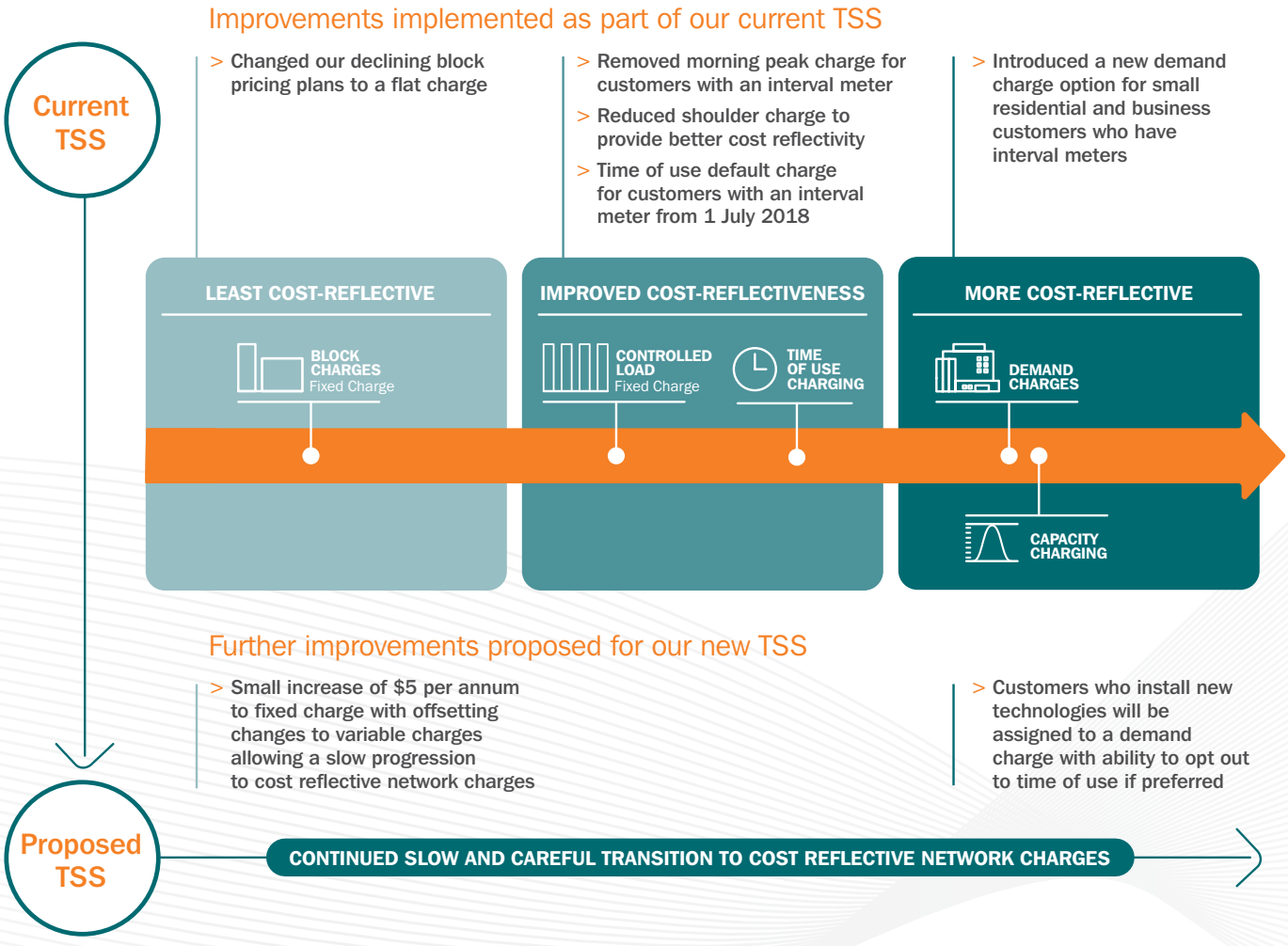
The main changes we propose relate to how we assign different customers to the various network charging plans. We are proposing a default demand charge for Residential and Small Business customers who connect new technologies to our network. This will encourage those customers to use technology in a way that benefits all network consumers, and its introduction is supported by many of our customers and some stakeholders.

Customers who are affected will be able to opt out to a Time of Use (ToU) charge if they prefer. Our demand charge will remain available on an opt in basis for all other customers with an interval meter.

In addition, we will continue to alter the weighting of the various charging components over the regulatory period. There will be a small increase in the fixed daily network access charge for small customers and offsetting changes to variable charges. We will also continue to refine our charging signals for peak and shoulder periods, to encourage customers to review their usage behaviour.

Most meters in our network are basic accumulation meters, which severely limits the types of network charge structures we can offer. Our proposed structures are therefore identical to our current structures.

Overall, we are moving towards more cost-reflective network charges, bearing in mind the complexity of different pricing options and the need for the transition to be gradual but effective, as customers have requested.

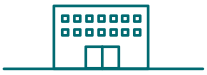


Our proposed network charge structures for 2019-24

Low voltage distribution – Residential and small business

	ACCUMULATION METER	TYPE 5 METER	INTERVAL/ SMART METER	SMART METER WITH NEW TECHNOLOGY*	
MANDATORY	Network access charge				MANDATORY
DEFAULT	Anytime charge	Anytime charge	Time of use charge	Time of use charge with demand component	DEFAULT
OPTIONAL		Time of use charge	Time of use charge with demand component	Time of use charge	OPTIONAL
			Anytime charge		

* New technologies such as embedded generation (solar or wind etc) and storage (batteries and electric vehicles etc).



Low voltage demand – Business

	INTERVAL/SMART METER	
MANDATORY	Network access charge	MANDATORY
MANDATORY	Time of use price charge demand component	MANDATORY

High voltage demand – Large business

	INTERVAL/SMART METER	
MANDATORY	Network access charge	MANDATORY
MANDATORY	Time of use price charge demand component	MANDATORY

These charges may not be obvious as your retailer is responsible for managing these costs. However, you (as a customer) can change your tariff by calling your retailer.

Controlled load is available to all customers. Controlled load is where electricity is provided at a lower cost during specific hours (such as electric hot water systems). Based on customer testing, Essential Energy will be using the term 'Energy Saver' for controlled load network charges.

For more information on the structure of our network charges please refer to the full Tariff Structure Statement.

Our proposed network charge structures for 2019-24 continued

Our guiding principles for cost-reflective network charges

We heard from the majority of our customers that cost-reflective charges serve the long term interest of consumers, however taking steps towards cost-reflective network charges must be done slowly and carefully. We developed these guiding principles for network charges to provide a framework for the long-term transition to cost-reflective charges.

In striving to meet our principles we will trial different options and solutions. As we continue to move towards cost-reflective charges we will continue to involve our customers.

Our guiding principles are:

We will see network charges design as successful when:

> customers want to use the network and are willing to pay for how they use it;

> our charges support the long-term commercial sustainability of our business;

> transition is sensitive to understanding impacts and implications for our customers;

> we deliver customer and stakeholder education and engagement to both design and implement changes to our network charges; and

> the long-term interest of customers is served by looking at options and providing solutions.

We will see our service provision as successful when:

> we understand which customers, feeders and locations we can efficiently support and which may have alternative (cheaper or more reliable) solutions; and

> we support alternative connections and usage of the network through clear network charges, policies and processes.

Reviewing the cost reflective pricing journey

We heard from the Public Interest Advocacy Centre (PIAC) that a review of the 2019-24 TSS be undertaken two years following its commencement. The review would assess the performance of elements of the TSS, such as customer uptake of opt-in tariff options, customers who opt-out of default tariff assignments and an assessment of the general progression to cost reflective prices. We acknowledge the value of PIAC's suggested improvements and propose that a mid-term review of the TSS occur, with involvement of the AER and various customer and stakeholder groups.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Listening to our customers

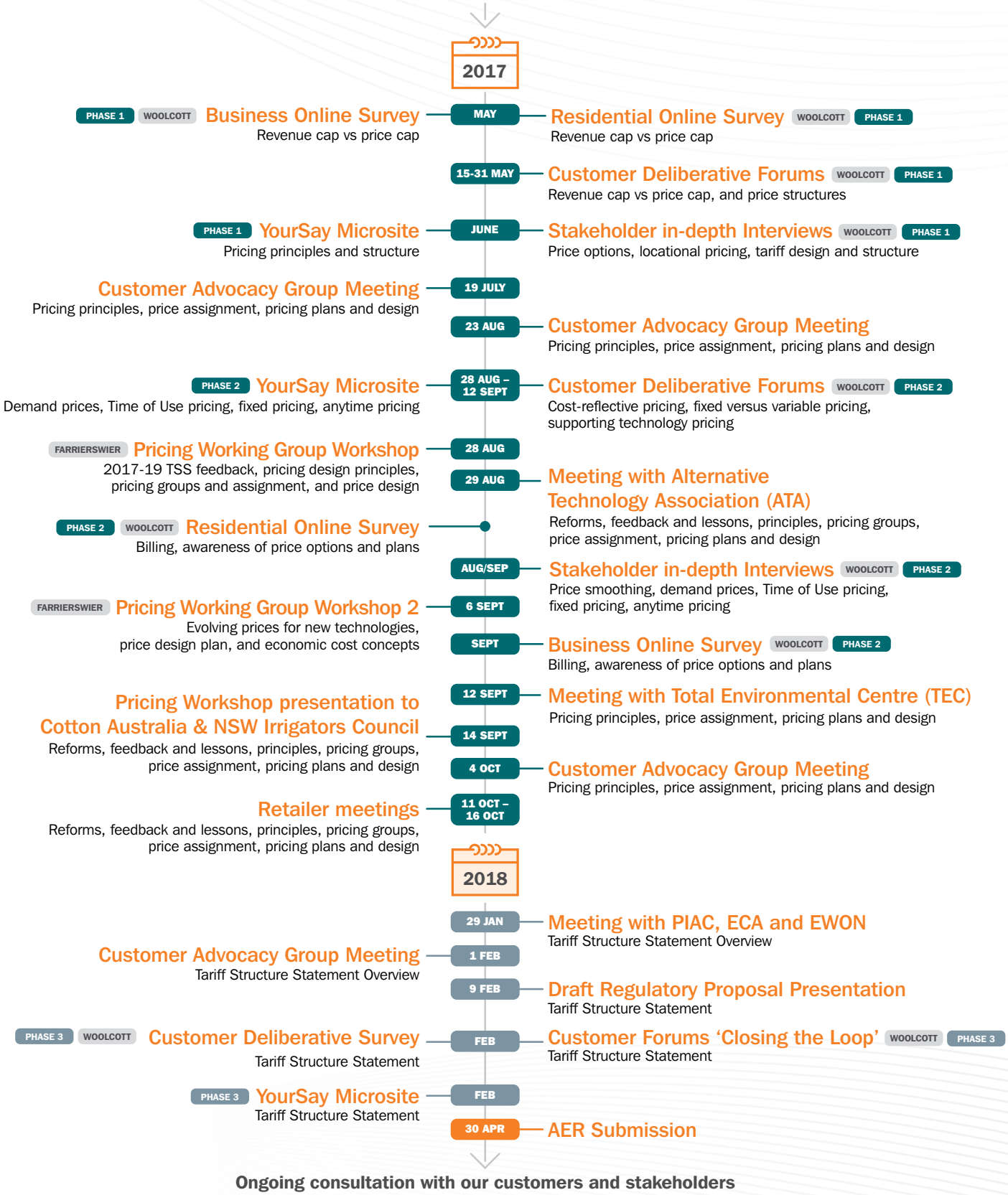
When updating our TSS, we consulted with different groups of customers and stakeholders. Some people participated in our engagement program for the Regulatory Proposal, which covered all aspects of our Proposal (including pricing); some submitted their feedback online or by phone; and others attended specific Pricing Working Group forums.

Topic	Phase 1 and Phase 2 What we heard from customers	Phase 3 Outcomes
Pricing	> Changing the time at which electricity is used impacts quality of life. Incentives needed to support change.	> 90% support for off peak charging available and related services piloted.
	> Progression to cost-reflective charges should be slow and careful. Bills should be predictable and stable.	> 76% support for increasing fixed charges by $5 p.a., with offsetting changes in variable charges which allows slower progression towards cost-reflective prices.
	> Locational pricing, seasonal pricing and fixed charge increase were not popular.	> 87% of customers supported no locational or seasonal pricing.
	> Choice between pricing options required.	> 87% support for network charging structures, with opt-out for all residents and small businesses.
	> Support a price that encourages off-peak charging for electric vehicles.	> 87% support for new default assignment for customers installing new innovative technologies to encourage efficient use.
	> Invest in researching microgrids as an option.	> 81% support for Microgrid pilots, with pricing trials undertaken and policy propositions.
	> No change required to charging windows for time of use pricing.	> 95% support for enhancing our education on network charges.

1. The level of support stated in this column is based on the feedback provided by customers that attended the Phase 3 'Closing the Loop' forums.

We recognise that engaging with customers and stakeholders in ways that suit them is important. Using Essential Energy's Stakeholder Engagement Framework (Attachment 4.1 to the Regulatory Proposal), we have tailored a comprehensive consultation plan to ensure all affected and interested stakeholders have the opportunity to influence the content of our Tariff Structure Statement.

Pricing engagement timeline



Note: Phase 1 and 2 Deliberative forums were held in Port Macquarie, Goulburn, Cootamundra, Wagga Wagga, Tamworth, Broken Hill and Dubbo. Meetings were also held with PIAC as part of these forums. Phase 3 deliberative forums are scheduled for Port Macquarie, Dubbo and Wagga Wagga.

Network Charges – the basics

The role of meters in determining network charges

The type of meter a customer has plays a significant role in the types of network charges we can offer:

- **Accumulation meters** (type 6 meters) are mechanical, and measure the total electricity consumed over a period and are manually read by a meter reader.
- **Type 5 meters** are electronic, and record electricity consumed in 30-minute intervals and are manually read by a meter reader.
- **Interval meters** (type 1 to 4 meters) record electricity consumed in 30-minute intervals, the associated demand, and are read remotely.
- **Smart meters** record customer usage and demand in real time and are remotely read in 30-minute intervals. They can be linked to in-home control devices so customers can make informed decisions about their electricity consumption. They support cost-reflective charges.

From December 2017, all new and replacement meters will be smart meters and are the responsibility of retailers. Apart from some solar customers and large users, most of our customers have basic accumulation meters. This constrains our ability to apply cost-reflective charging structures and limits our possible approaches for network charges until more of our customers transition to smart meters.

Types of network charges

There are six potential ways we can charge for electricity use.

	Meter type	Description
Block charges	Accumulation meter	Different rates are applied to volumes of electricity consumed, irrespective of time of use
Anytime/flat charges	Accumulation meter	All electricity is charged at one rate
Controlled Load (Energy Saver)	Accumulation meter	All electricity is charged at a lower rate during certain periods
Time of Use (ToU) charges	Type 5, interval or smart meter *	Varying rates depending on time electricity is consumed
Demand charges	Interval or smart meter	Based on maximum electricity used at specific times
Capacity charges	Interval or smart meter	Charges based on the level of capacity required

* Must be capable to be programmed for Time of Use

Our distribution charges can be made up of at least two or more types of charges:

Network access charge (fixed)

A daily supply charge that applies to all customers in cents per day and is not impacted by how much electricity a customer uses. It is applied as a daily rate.

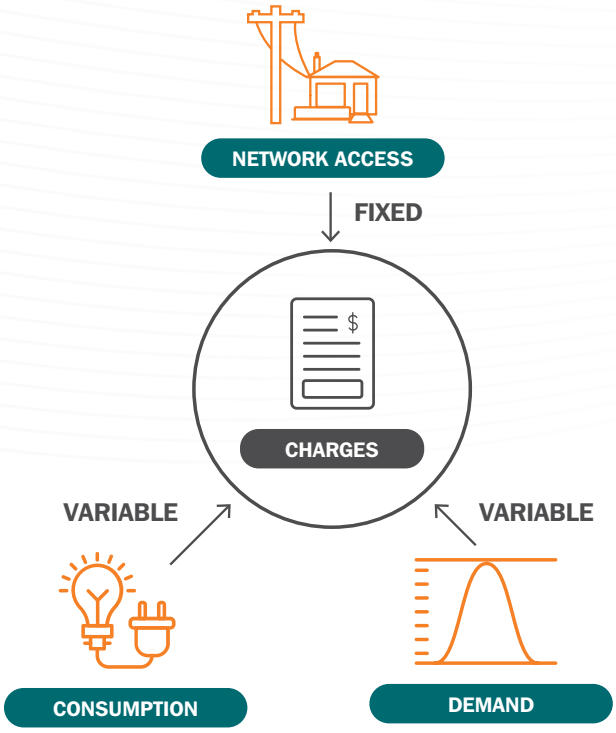
In this TSS we are proposing to increase this fixed charge by $5 each year for small customers. This will be offset by changes to consumption charges.

Consumption charge (variable)

A charge for each unit of electricity consumed in cents per kilowatt hour (kWh). Depending on the Network Charge plan, it may be a one rate 'anytime' charge or it may vary with the time of day.

Demand charge

This charge relates to a customer's maximum demand for electricity or their maximum electricity capacity requirement in dollars per kilovolt-ampere (kVA) electricity. For small customers, it may be one rate for maximum demand over a month. For large customers, it may have different rates relating to the time period when maximum demand occurred, such as peak, shoulder and off-peak times.



Time of Use charging windows

Some customers have charges that are based on time of use. That is, the charges vary based on 'charging windows' across the 24-hour period that align with the electricity demand pressure on our network. Charges are higher in Peak and Shoulder times and lower in Off-Peak times. If customers aim to use electricity at lower cost (Off-Peak) times they can save on their electricity charges.

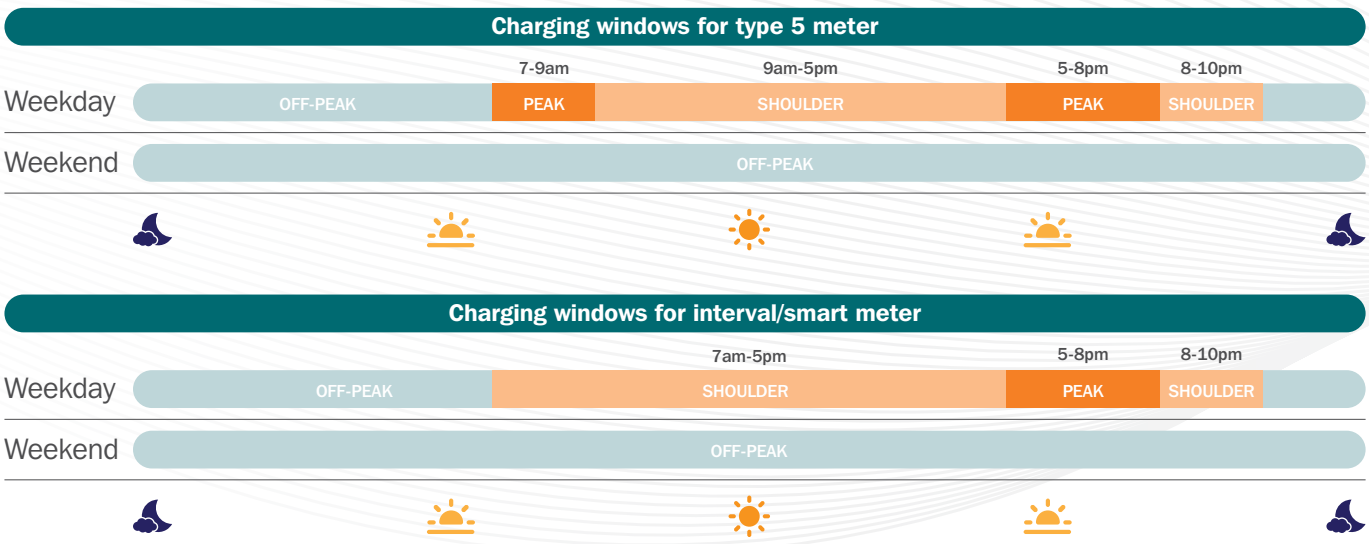
The three windows are:

Peak When the network is experiencing high demand – weekdays 5.00 pm-8.00 pm

Shoulder When the network is experiencing moderate demand – weekdays 7.00 am-5.00 pm and 8.00 pm-10.00 pm

Off-peak When the network is experiencing little demand – weekdays 10.00 pm-7.00 am, and weekends

Customers with type 5 meters on Time of Use Will also have peak charges on weekday mornings 7.00 am-9.00 am



Grouping customers for Network Charge classes

Customers with similar characteristics are grouped into tariff classes. This ensures that customers with similar consumption profiles and network demand pay a similar network charge.

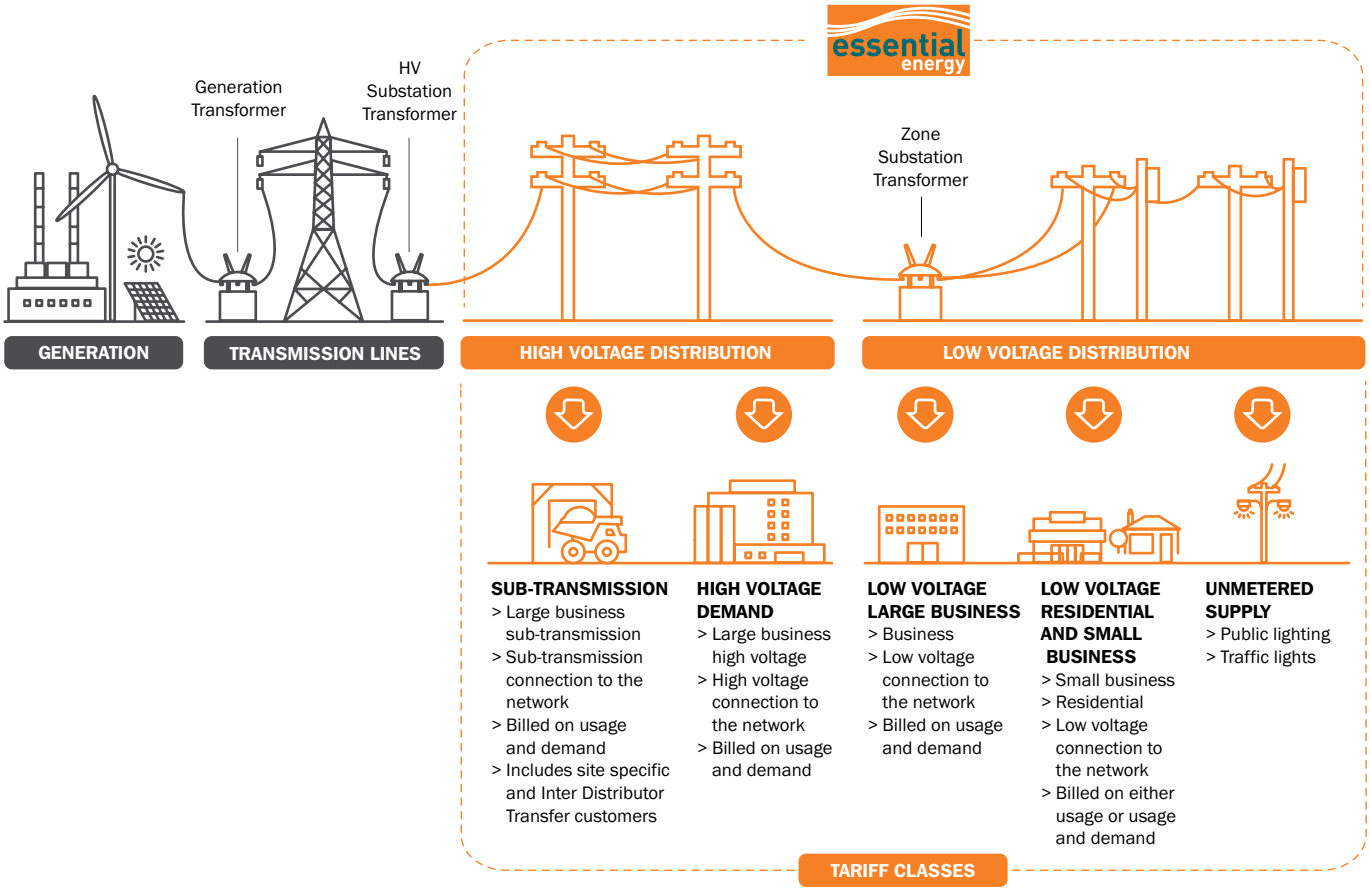
The characteristics we consider when grouping customers are:

> The voltage level at which they are connected to our network;

> The level of consumption; and

> The type of electricity meter they have.

Each of our customers is currently allocated into one of five tariff classes. In our previous TSS, we consulted with stakeholders about changing our tariff classes, and these were approved by the AER. As no variations were suggested in the previous TSS, we are not proposing any changes in this TSS.



Have your say

Customers are invited to read our Regulatory Proposal and provide feedback to the Australian Energy Regulator via their website at aer.gov.au or to us directly using one of the communication channels detailed below.

You can provide feedback on our plans in a number of ways:

Email yoursay@essentialenergy.com.au

Post Manager Customer Service
Essential Energy
PO Box 5730
Port Macquarie NSW 2444

Phone 13 23 91

Web essentialenergy.com.au/yoursay

Essential Engagement
engage.essentialenergy.com.au

Sharing your views. Our customer engagement is always on, with many platforms:

Essential Engagement | Email | Twitter | Facebook | Phone | Face to face | SMS | Website | Letters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