FINAL DECISION
Ausgrid
Distribution Determination

2019 to 2024

Attachment 18
Tariff structure statement

April 2019

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the AER's final decision on the distribution determination that will apply to Ausgrid for the 2019-2024 regulatory control period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. The attachments have been numbered consistently with the equivalent attachments to our longer draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 7 – Corporate income tax

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 12 – Classification of services

Attachment 13 – Control mechanisms

Attachment 15 – Alternative control services

Attachment 18 – Tariff structure statement

Attachment A – Negotiating framework

Attachment B – Pricing methodology

Contents

Shortened forms

Shortened form	Extended form
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Augex	augmentation expenditure
Capex	capital expenditure
CCP	Consumer Challenge Panel
CCP 13	Consumer Challenge Panel, sub-panel 13
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIAM	demand management innovation allowance (mechanism)
DMIS	demand management incentive scheme
Distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
Expenditure Assessment Guideline	Expenditure Forecast Assessment Guideline for Electricity Distribution
F&A	framework and approach
MRP	market risk premium
NEL	National Electricity Law
NEM	national electricity market
NEO	national electricity objective
NER or the Rules	National Electricity Rules
NSP	network service provider

Shortened form	Extended form
Opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
Repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SCS	standard control services
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

Glossary of terms

Term	Interpretation
Apparent power	See kVA
Anytime demand tariff	A tariff incorporating a demand charge where the demand charge measures the customer's maximum demand at anytime (i.e. not limited to within a peak charging window).
CoAG Energy Council	The Council of Australian Governments Energy Council, the policymaking council for the electricity industry, comprised of federal and state (jurisdictional) governments.
Consumption tariff	A tariff that incorporates only a fixed charge and usage charge and where the usage charge is based on energy consumed (measured in kWh) during a billing cycle, and where the usage charge does not change based on when consumption occurs. Examples of consumption tariffs are flat tariffs, inclining block tariffs and declining block tariffs.
Cost reflective tariff	Consistent with the distribution pricing principles in the NER, a cost reflective distribution network tariff is a tariff that a distributor charges in respect of its provision of direct control services to a retail customer that reflects the distributor's efficient costs of providing those services to the retail customer. These efficient costs reflect the long run marginal cost of providing the service and contribute to the efficient recovery of residual costs.
Declining block tariff	A tariff in which the per unit price of energy decreases in steps as energy consumption increases past set thresholds.
Demand charge	A tariff component based on the maximum amount of electricity consumed by the customer (measured in kW, kVA or kVAr) which is reset after a specific period (e.g. at the end of a month or billing cycle). A demand charge could be incorporated into either an anytime demand tariff or a time-of-use demand tariff.
Demand tariff	A tariff that incorporates a demand charge component.
Fixed charge	A tariff component based on a fixed dollar amount per day that customers must pay to be connected to the network.
Flat tariff	A tariff based on a per unit usage charge (measured in kWh) that does not change regardless of how much electricity is consumed or when consumption occurs.
Flat usage charge	A per unit usage charge that does not change regardless of how much electricity is consumed or when consumption occurs.
Inclining block tariff	A tariff in which the per unit price of energy increases in steps as energy consumption increases past set thresholds.
Interval, smart and advanced meters	Used to refer to meters capable of measuring electricity usage in specific time intervals and enabling tariffs that can vary by time of day.
kW	Also called real power. A kilowatt (kW) is 1000 watts. Electrical power is measured in watts (W). In a unity power system the wattage is equal to the voltage times the current.
kWh	A kilowatt hour is a unit of energy equivalent to one kilowatt (1 kW) of power used for one hour.
kVA	Also called apparent power. A kilovolt-ampere (kVA) is 1000 volt-amperes. Apparent power is a measure of the current and voltage and will differ from real power when the current and voltage are not in phase.

Term	Interpretation
kVAr	Also called reactive power and is power used to maintain the electromagnetic fields of equipment. Low power factors are associated with higher levels of reactive power.
LRMC	Long Run Marginal Cost. Defined in the National Electricity Rules as follows: *"the cost of an incremental change in demand for direct control services provided by a Distribution Network Service Provider over a period of time in which all factors of production required to provide those direct control services can be varied".*
Minimum demand charge	Where a customer is charged for a minimum level of demand during the billing period, irrespective of whether their actual demand reaches that level.
NEO	The National Electricity Objective, defined in the National Electricity Law as follows: *"to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—* *(a) price, quality, safety, reliability and security of supply of electricity; and* *(b) the reliability, safety and security of the national electricity system".*
NER	National Electricity Rules
Power factor	The power factor is the ratio of real power to apparent power (kW divided by kVA).
Tariff	The network tariff that is charged to the customer's retailer (or in limited circumstances, charged directly to large customers) for use of an electricity network. A single tariff may comprise one or more separate charges, or components.
Tariff structure	Tariff structure is the shape, form or design of a tariff, including its different components (charges) and how they may interact.
Tariff charging parameter	The manner in which a tariff component, or charge, is determined (e.g. a fixed charge is a fixed dollar amount per day).
Tariff class	A class of retail customers for one or more direct control services who are subject to a particular tariff or particular tariffs.
Time-of-use demand tariff (ToU demand tariff)	A tariff incorporating a demand charge where the demand charge measures the customer's maximum demand during a peak charging window. A ToU demand charge might also include an off-peak demand change or minimum demand charge, and may include flat, block or time-of-use energy usage charges.
Time-of-use energy tariff (ToU energy tariff)	A tariff incorporating usage charges with varying levels applicable at different times of the day or week. A ToU energy tariff will have defined charging windows in which these different usage charges apply. These charging windows might be labelled the 'peak' window, 'shoulder' window, and 'off-peak' window.
Usage charge	A tariff component based on energy consumed (measured in kWh). Usage charges may be flat, inclining with consumption, declining with consumption, variable depending on the time at which consumption occurs, or some combination of these.

18 Tariff structure statement

This attachment sets out our final decision on Ausgrid's tariff structure statement to apply for the 2019-24 regulatory control period.

A tariff structure statement applies to a distributor's tariffs for the duration of the regulatory control period. It should describe a distributor's tariff classes and structures, the distributor's policies and procedures for assigning customers to tariffs, the charging parameters for each tariff, and a description of the approach of the distributor to setting tariffs in pricing proposals. It is accompanied by an indicative pricing schedule. A tariff structure statement provides consumers and retailers with certainty and transparency in relation to how and when network prices will change.

Our final decision deals only with issues unresolved after our draft decision and Ausgrid's revised proposal. For details of our consideration of previously settled issues, please see attachment 18 of our draft decision.

18.1 Final decision

Our final decision is to approve Ausgrid's revised tariff structure statement submitted to us in January 2019, with amendments that:

- require Ausgrid to allow residential and small business customers to choose time of use tariffs
- maintain Ausgrid's transitional 40-160MWh and transitional 160-750MWh tariffs and amend the approach to annual prices to set a price path for these tariffs
- remove Ausgrid's proposed 'placeholder' tariffs that do not specify the tariff structure or an approach to annual pricing
- require Ausgrid to keep existing residential and small business customers on their current tariff structure (time of use or flat tariffs), and only reassign customers receiving a new smart meters from 1 July 2019.

Ausgrid's revised tariff structure statement incorporates significant changes to the tariff structure statement Ausgrid submitted to the AER in its initial proposal in April 2018. The changes in the revised tariff structure statement are largely due to a process of 'co-design' with its 'Pricing Working Group'.[1]

We encourage Ausgrid and other distributors to work closely with consumer groups, retailers and their broader customer base when developing their tariff structure statements. In this case, we commend Ausgrid for its approach to incorporating the views of key customer stakeholder representatives. Ausgrid appears to have better embedded its stakeholder consultation within its tariff structure statement development process. However, we note that taking this approach at the revised proposal stage of

[1] Ausgrid, *Revised Proposal – Attachment 10.01 – Tariff Structure Statement,* January 2019, pp 44-45.

the determination process limits the ability of stakeholders more broadly to effectively engage with Ausgrid's detailed proposals.

Our review process allowed stakeholders 100 days to make submissions from the date Ausgrid's submitted its initial regulatory proposal, but only 28 days to make submissions following Ausgrid's revised regulatory proposal. This reflects our expectation that revised tariff structure statements would largely be an updated iteration of the initial tariff structure statement.

While we place significant weight on stakeholder views, including in the context of Ausgrid's co-design approach, we must also assess tariff structure statement proposals against the NER pricing principles. Where our views differ from the joint view of Ausgrid and its co-design participants, they do so in light of the regulatory framework and policy objectives for network tariff reform.

Our comments above should not be taken as criticisms of Ausgrid's approach to stakeholder consultation, which is laudable from a stakeholder and regulatory perspective. Whether other distributors go so far as to also co-design tariff structure statements with stakeholders, Ausgrid's readiness to embrace stakeholder views is a positive model for others. We commend Ausgrid for its openness to stakeholder input, however, we would expect such a process to be undertaken before lodgement of the initial tariff structure statement proposal rather than after the draft (or revised proposal) stage.

18.2 Ausgrid's revised proposal

Ausgrid's revised tariff structure statement maintained from the tariff structure statement submitted in April 2018:

- assignment and tariff designs for high voltage and sub transmission tariffs
- the approach to estimating long run marginal cost (LRMC) and the resulting LRMC estimates
- charging windows for residential and large business customers.

In response to our draft decision Ausgrid:

- removed its undefined demand tariffs for low voltage customers
- adopted flat tariffs rather than inclining block tariffs for customers on accumulation meters
- no longer proposed to assign new customers to non-cost reflective tariffs
- adopted a 12-month data-sampling period for customers who receive a new smart meter to replace a faulty accumulation meter
- aligned small business charging windows for small business energy, demand and capacity charges.

Additionally, Ausgrid proposed the following policies that do not reflect our draft decision:

- offered the time of use tariff only to customers with legacy interval meters
- offered only demand tariffs to new customers, existing customers with smart meters and customers upgraded to demand tariffs
- introduced three undefined 'placeholder' tariffs
- reassigned all existing customers on smart meters to demand tariffs, and existing customers on flat tariffs with interval meters to time of use tariffs from 1 July 2019
- removed transitional tariffs for residential and business customers.

Subsequent to Ausgrid submitting its revised tariff structure statement, Ausgrid wrote to the AER requesting the following further amendments to its revised tariff structure statement in our final decision:[2]

- postpone reassignment of existing smart meter customers to 1 September 2019, including maintaining the residential and smart business transitional time of use tariffs for 2019–20
- reinstate transitional 40-160 MWh and transitional 160-750 MWh tariffs, including a proposed price path of converging in price with the cost reflective tariffs.

18.3 Assessment approach

We assessed the proposed tariff structure statement against two sets of requirements under the National Electricity Rules (Rules).

First, the Rules sets out a number of elements that an approved tariff structure statement must contain.[3] These include the structure of the proposed tariffs, and the policies and procedures the distributor will use to assign customers to those tariffs.

Second, a tariff structure statement must comply with the distribution pricing principles.[4] Broadly, the pricing principles require tariffs to reflect a distributor's efficient costs. An approved tariff structure statement must have regard to the impact on customers in the transition to cost reflective tariffs.

Please refer to our draft decision for more details on our assessment approach.[5]

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2 Ausgrid, *Ausgrid – amendment to the revised TSS,* 28 February 2019.

3 NER, cl. 6.18.1A(a).

4 NER, cl. 6.18.1A(b).

5 AER, *Draft Decision: Ausgrid Distribution Determination 2019 to 2024: Attachment 18 Tariff structure statement, September 2018, pp. 18.10 to 18.13.*

18.4 Reasons for final decision

In this section, we outline our reasons for amending Ausgrid's revised tariff structure proposal to:

- retain time of use energy tariffs open to residential and small business customers
- remove Ausgrid's 'placeholder' tariffs
- reinstate transitional tariffs
- make Ausgrid's residential and small business tariff assignment policies more consistent with other distributors.

We have not provided additional analysis of:

- issues we approved and Ausgrid did not change
- our draft decisions that Ausgrid adopted.

Stakeholders seeking the reasons for our above decisions should refer to attachment 18 of our draft decision.

18.4.1 Customers should have access to time of use tariffs

Our final decision is to approve Ausgrid's proposed demand tariffs and amend Ausgrid's revised tariff structure statement to allow continued access to time of use tariffs. We consider our final decision retains cost reflective price signals while enhancing customer choice.[6] It also promotes understandability of Ausgrid's tariffs and retains the ability for customers to mitigate the impact of tariff changes through their usage decisions.[7] We also consider our final decision amends Ausgrid's revised tariff structure statement only to the extent necessary to enable it to be approved.[8]

With our draft decision, we approved Ausgrid's time of use tariff as a default tariff[9] and recommended Ausgrid develop a demand tariff to provide customers with choice.[10] We came to this position by analysing the cost reflectivity of the tariffs and their ease of understanding, reflecting our role of implementing the Rules.[11]

Figure 1 below compares how well Ausgrid's different low voltage tariff structures can predict Ausgrid customers' demand during the peak 40 hours of demand in the substation zone responsible for their supply.

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6 NER cl. 6.18.5(f); cl. 6.18.5(h)(2).

7 NER cl. 6.18.5(i); cl. 6.18.5(h)(3).

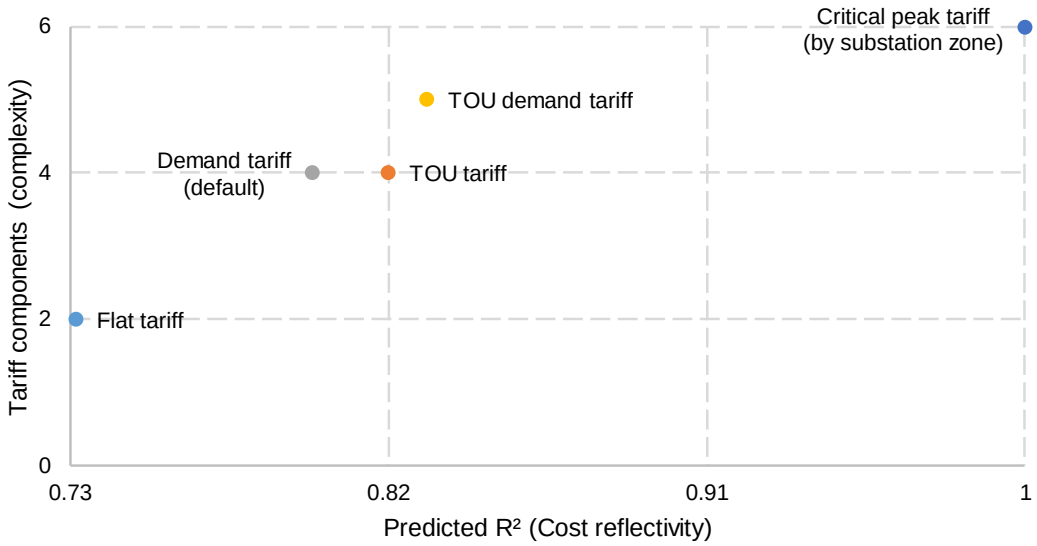
8 NER cl. 6.12.3(l)(2).

9 Australian Energy Regulator, *Draft Decision – Ausgrid – Distribution determination – 2019 to 2024 – Attachment 18 Tariff structure statement,* November 2018, p 18-16.

10 Australian Energy Regulator, *Draft Decision – Ausgrid – Distribution determination – 2019 to 2024 – Attachment 18 Tariff structure statement,* November 2018, p 18-22.

11 NER cl. 6.18.5(g); cl. 6.18.5(i).

Figure 1 AER's analysis of tariff structure ability to predict critical peak demand



This analysis is indicative. It suggests:

- time of use energy tariffs and demand tariffs with time of use energy charges perform similarly
- demand tariffs with time of use energy charges outperform demand tariffs with flat energy charges.

This suggests that, compared to Ausgrid's proposed default demand tariff, time of use energy tariffs may be better suited to signal the long-run marginal cost of customer behaviour.[12]

We consider that, if passed through by retailers, customers can more easily understand time of use energy tariffs than demand tariffs.[13] A stakeholder submission highlighted that during peak periods:

- for a time of use energy tariff a customer's marginal cost of electricity is the peak energy charge
- for a demand tariff a customer's marginal cost of electricity is the energy charge and the demand charge, but only if demand is higher than at any other point in the month to date, and higher than any point in the month going forward.[14]

Therefore, when passed through, it is impossible for demand tariff customers to know their marginal cost of electricity, outside the final 30-minute of the peak period each month, without perfect knowledge of the future. We note that retailers may decide not

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12 NER cl. 6.18.5(f).

13 NER cl. 6.18.5(i).

14 John Herbst, *Submission on the AER's Draft Decision on TasNetworks 2019-2024 Regulatory Proposal,* January 2019, pp 7-8.

to pass-through the demand charges. However, it is not clear how retailers will respond to demand charges and how their response may change over time.

Our decision is to amend Ausgrid's revised tariff structure statement to maintain access to its time of use energy tariffs. Ausgrid's proposal to only offer demand tariffs does not satisfy the pricing principles in the Rules. Reassigning customers from a time of use tariff to a demand tariff (with flat energy charge) does not improve cost reflectivity[15] and may be difficult for customers to understand if retailers pass through network tariff structures to end use customers.[16] Given Ausgrid proposed to maintain the time of use tariff for a subset of customers, our amendments are the minimum necessary to achieve compliance with the Rules.[17]

18.4.2 Ausgrid should not reassign time of use tariff customers

Ausgrid proposed to undertake assignment policy based on the customer's existing meter. Unlike other NSW distributors, Ausgrid proposed to reassign existing customers based on their existing meter:

- all customers with accumulation meters would face flat tariffs
- all customers with interval meters would face time of use tariffs, and
- all customers with smart meters would face demand tariffs.[18]

This meant Ausgrid proposed to reassign 130,000 residential customers to demand tariffs and 80,000 residential customers to time of use tariffs on 1 July 2019. As retailers install smart meters, Ausgrid would reassign these customers to demand tariffs, with customers currently on an accumulation meter who do not initiate the replacement spending 1-year on an introductory demand tariff. We show Ausgrid's proposed residential assignment policy in Figure 2 below. The small business assignment policy is the same (but with small business tariff codes).

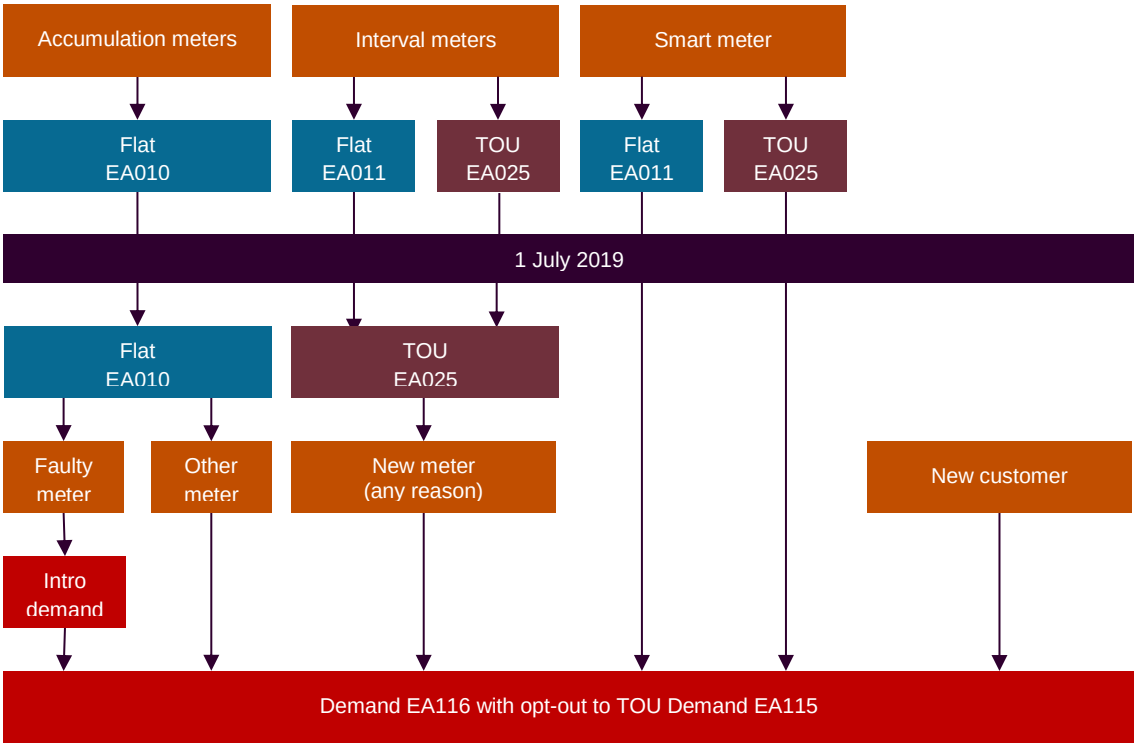
15 NER cl. 6.18.5(d).

16 NER cl. 6.18.5(i).

17 NER cl. 6.12.3(k); cl. 6.12.3(l).

18 Ausgrid, *Revised Proposal – Attachment 10.01 – Tariff Structure Statement,* January 2019, pp 9-10.

Figure 2 Ausgrid's proposed residential tariff assignment



AGL noted concern with the 1 July 2019 reassignment of interval meter and smart meter customers.[19] Ausgrid proposed a delay until 1 September 2019 to reduce retailer concerns and allow Ausgrid and retailers to communicate effectively with their customers.[20]

However, as noted above, we were not satisfied that Ausgrid's proposal to assign customers to demand tariffs was necessary to comply with the distribution pricing principles and determined to require that Ausgrid's tariff structure statement provide access to time of use tariffs for all customers, as these are cost reflective and easy to understand. Therefore, we consider there is no need to reassign customers on time of use tariffs. In addition to retaining efficient price signals and being easier to understand[21], retaining time of use tariffs enhances customer choice and helps customers to minimise any potential customer impacts.[22]

Customers on the flat 'transitional TOU' tariff have either opted-out of time of use tariffs or have not opted-in to time of use tariffs (while having technology that allows them to do so). We consider that there is relatively high likelihood that these customers have difficulty understanding time of use and other cost reflective tariffs.

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19 AGL, *Submission on NSW draft decisions and revised proposals,* February 2019, pp 2-3.

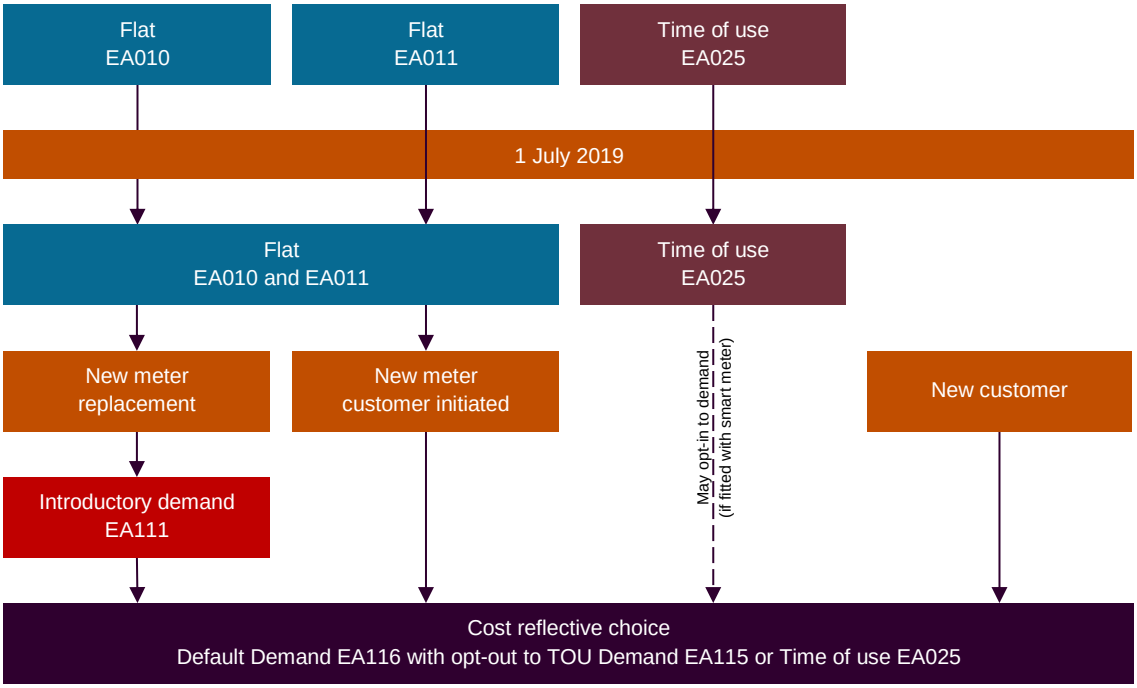
20 Ausgrid, *Ausgrid – amendment to the revised TSS,* 28 February 2019.

21 NER cl. 6.18.5(i).

22 NER cl. 6.18.5(h).

Our decision is to amend Ausgrid's revised tariff structure statement so that customers should remain on their current tariff, with Ausgrid reassigning customers on flat tariffs to more cost reflective choices when they receive a new smart meter. This is shown below in Figure 3.

Figure 3 Ausgrid's amended tariff assignment policy



To reduce Ausgrid's costs, we consider customers on the 'Transitional TOU' should remain on that tariff code (EA011 and EA051), but for that tariff to be set equal to the flat tariff (EA010 and EA050, respectively).

This amended reassignment process is simpler, has a negligible impact on the transition to more cost reflective tariffs (potentially leading to better signalling of long-run marginal cost)[23] and makes it easier for customers to understand their tariffs.[24] We also consider our final decision amends Ausgrid's revised tariff structure statement only to the extent necessary to comply with the Rules.[25]

18.4.3 Undefined tariffs are inconsistent with the NER

Ausgrid proposed three undefined 'placeholder' tariffs:

1. EA041 Controlled load 3 for residential and small business customers to deal with future load from sources such as electric vehicles and smart appliances

[23] NER 6.18.5(f).
[24] NER 6.18.5(i).
[25] NER, cl. 6.12.3(l).

2. EA042 Controlled load 4 for larger low voltage business customers to deal with future load from sources such as electric vehicles and smart appliances
3. EA333 Embedded network for embedded network customers in anticipation of the AEMC introducing a new regulatory arrangements for embedded networks.

The above proposed 'tariffs' were not accompanied by tariff structures nor indicative tariff levels. Rather, Ausgrid proposed these as shells which it further proposed could be filled out with details at some point during the upcoming regulatory control period. We consider that the Rules do not allow us to approve undefined tariffs. We consider:

- customers cannot understand undefined tariff structures, as the charging components are unknown[26]
- we cannot identify whether they contribute to greater cost reflectivity or what impact they will have on customers.[27]

Also, looking forward to our assessment of Ausgrid's annual tariff proposals, it is not possible to determine Ausgrid's annual compliance with tariff structures which are undefined in the tariff structure statement.[28]

Given these concerns, we have determined to amend Ausgrid's revised tariff structure statement to remove all three 'placeholder' tariffs. If a need for these tariffs arises due to uptake of electric vehicles, smart appliances or changes to the Rules, Ausgrid may apply to amend its tariff structure statement during the upcoming regulatory control period.[29]

18.4.4 Ausgrid requested we restore transitional tariffs

On 28 February 2019, Ausgrid wrote to the AER to request that we amend their revised tariff structure statement to restore two large business transitional tariffs:

- EA316 transitional 40-160 MWh tariff, and
- EA317 transitional 160-750 MWh tariff.

Ausgrid proposed a 5-year transition for these tariffs to converge with EA302 and EA305, respectively.[30]

Restoring these tariffs removes unacceptable bill impacts from customers currently on these tariffs.[31] Consistent with Ausgrid's request, our decision is to amend Ausgrid's revised tariff structure statement to restore these tariffs with a 5-year transition to convergence.

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26 NER cl. 6.18.5(i).
27 NER cl. 6.18.5(d).
28 NER cl. 6.18.2(b)(7); cl. 6.18.1A(a); cl. 6.18.1A(b).
29 NER cl. 6.18.1B.
30 Ausgrid, *Ausgrid – amendment to the revised TSS,* 28 February 2019.
31 NER 6.18.5(h).

18.4.5 Ausgrid provided certainty on its annual prices

With our draft decision we required Ausgrid to provide more clarity on how it will base tariffs on long-run marginal cost and recover residual costs where there is variation in the revenue.[32] We reasoned that providing additional clarity helps customers understand their network charges.[33] Additionally, greater certainty enables customers to make behavioural changes and investments to reduce their network charges over the longer term.[34]

Ausgrid's revised tariff structure statement, and the amendments related to restoring residential and small business transitional tariffs, adequately address our concerns. We consider based on its approved tariff structure statement, Ausgrid will need to do the following in its annual pricing proposals from 2019–20 to 2023–24:

- EA316 transitional 40-160 MWh tariff will converge with EA302 LV 40-160 MWh tariff between 2019–20 and 2023–24 making progress each year.
- EA317 transitional 160-750 MWh tariff will converge with EA305 LV 160-750 MWh tariff between 2019–20 and 2023–24 making progress each year.
- EA011 residential transitional TOU and EA051 small business transitional TOU will be set equal to EA010 and EA050, respectively.
- Signal Ausgrid's long-run marginal costs in its peak demand and energy charges.[35]
- Gradually reduce the proportion of residual costs recovered from variable energy charges.[36]
- Gradually reduce the difference between residential and small business tariffs.[37]

18.4.6 Stakeholder submissions

We received several stakeholder submissions which were generally supportive of Ausgrid's revised tariff structure statement. The key themes picked up on by stakeholders recognised the need for Ausgrid to:

- implement cost-reflective network tariffs to advance consumer's long term interests.
- balance cost-reflectivity with complexity to manage customer impacts
- remain mindful of related intiatives occuring in retail markets.

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32 Australian Energy Regulator, *Draft Decision – Ausgrid – Distribution determination – 2019 to 2024 – Attachment 18 Tariff structure statement,* November 2018, pp 18-24 to 18-25.

33 NER 6.18.5(i).

34 NER 6.18.5(h)(3).

35 Ausgrid, *Revised Proposal – Attachment 10.01 Tariff Structure Statement,* January 2019, p 67.

36 Ausgrid, *Revised Proposal – Attachment 10.01 Tariff Structure Statement,* January 2019, p 67.

37 Ausgrid, *Revised Proposal – Attachment 10.01 Tariff Structure Statement,* January 2019, p 68.

Recognition of role of network tariff reform

Red and Lumo Energy submitted that the government, NSW distributors and retailers work together to educate consumers on the benefits of tariff reform as the transition towards more cost reflective tariffs continue.[38]

Origin Energy submitted that there is a need for a broad and synchronised communication campaign regarding tariff reform to provide customers with the understanding they need to make informed decisions.[39]

AGL submitted that it supported greater implementation of cost reflective network tariffs.[40]

We expect that the transition to cost–reflective network tariffs to occur over several regulatory control periods. As the CCP and Energy Consumers Australia (ECA) note in their submissions, there is a need for broad-based initiatives across the sector to provide a cohesive NEM wide approach to promote tariff reform.[41] We consider collaboration across the sector through the 2019–24 regulatory control period is important and would involve retailers, distributors and consumer advocates.

Balancing complexity and customer impacts

AGL raised concerns regarding Ausgrid's proposal with respect to tariff assignment policy and tariff design.[42] AGL's concern is that the combination of a prescribed reassignment policy for small customers with type 4 metering and complex tariff designs may directly impact customers. AGL acknowledges that retailers can play a part in mitigating any adverse customer impacts but considers a more holistic plan is required across the sector.[43] As part of its submission, AGL provided customer impact analysis which showed an average decrease in network costs. AGL's analysis did however show that, in the absence of behavioural change by consumers, for some customer cohorts there would be increases in charges.[44]

Similarly, Origin Energy submitted that it remains concerned that some tariff structures approved by the AER are too complex for the vast majority of consumers to understand and therefore respond to.[45]

We consider the intention of network tariff reform is to change the way distributors charge retailers for distribution services. We also note that AGL's analysis showed that

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38 Red and Lumo Energy, *Submission on NSW draft decisions and revised proposals, February 2019*, p.1

39 Origin Energy, *Submission on NSW draft decisions and revised proposals, February 2019*, p.1

40 AGL, *Submission on NSW draft decisions and revised proposals, February 2019*, p.2

41 CCP10, *Submission on NSW draft decisions and revised proposals*, February 2019, p.18
ECA, *Submission on NSW draft decisions and revised proposals*, February 2019, p.18

42 AGL, *Submission on NSW draft decisions and revised proposals, February 2019*, p.2

43 AGL, *Submission on NSW draft decisions and revised proposals, February 2019*, p.2

44 AGL, *Submission on NSW draft decisions and revised proposals, February 2019*, p.3

45 Origin Energy, *Submission on NSW draft decisions and revised proposals, February 2019*, p.3

on average, Ausgrid's proposal is for a decrease in network costs.[46] While, initially there is likely to be increases in network costs for particular customer segments, we consider that there are options available to retailers to manage network price signals. We encourage retailers to investigate how they can balance their overall network costs to mitigate transitional impacts. We also note that time varying charges provide opportunities for consumers to manage their bills by shifting their consumption.

AGL also submitted it has concerns regarding the 1 July 2019 implementation of Ausgrid's proposed changes to network tariffs.[47] We note Ausgrid's proposal and our draft decision have been available for many months and that this tariff structure statement respresents the next stage of tariff reform that began in 2017. Our final decision on Ausgrid's first tariff structure statement, in February 2017, also included discussion of our expectations on the future directions for the 2019–24 regulatory control period.[48] In our 2017 decision, we set expectaions for this next period that distributors adopt default assignment policies with opt-out provisions and increase the cost-reflectivity of their tariff designs.[49] The decision to enable network tariff reform through the development of new tariff structures by networks was made by the COAG Energy Council and followed the Power of Choice reforms in 2012 by the AEMC.[50]

Mindfulness of other retail market reform required

AGL further submitted that it does not support moving to cost-reflective network pricing under a regulated retail pricing framework.[51]

Similarly, Origin Energy submitted that the AER consider the implications of how tariff reform will interact with other key retail tariff reforms such as the default market offer.[52]

We do not consider that retailers are subject to regulated retail pricing in NSW. Measures such as the default market offer act rather as retail benchmarks and do not constrict retailers' ability to offer innovative tariffs. Further, the relative level of the default market offer and prevailing standing offers is a key determinant of the implications for retailers.

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46 AGL, *Submission on NSW draft decisions and revised proposals, February 2019*, p.2

47 AGL, *Submission on NSW draft decisions and revised proposals, February 2019*, p.3

48 AER, *Tariff Structure Statements, Final Decision, Ausgrid, Endeavour and Essential Energy, February 2017,* p.60

49 AER, *Tariff Structure Statements, Final Decision, Ausgrid, Endeavour and Essential Energy, February 2017,* p.60–63

50 AEMC, *Power of Choice – giving consumers options in the way they use electricity*, March 2012.

51 AGL, *Submission on NSW draft decisions and revised proposals, February 2019*, p.3

52 Or

A Assigning retail customers to tariff classes

This appendix sets out our final determination on the principles governing assignment or reassignment of Ausgrid's retail customers for direct control services.[53] We approve Ausgrid's procedures for assigning and reassigning retail customers to tariff classes.

Ausgrid's procedures for assigning customers to tariff classes

1. Ausgrid provides both transmission and distribution services through its network in Sydney, Newcastle, the Hunter Valley and Central Coast of NSW.
2. This document is Ausgrid's proposed procedure for assigning and re-assigning retail customers to network tariffs and tariff classes for standard control distribution services for the regulatory control period commencing on 1 July 2019.

Assignment of existing customers to tariff classes at the commencement of the regulatory control period

3. Ausgrid's customers will be taken to be "assigned" to the tariff class which was charging that retail customer immediately prior to 1 July 2019 if:
    - They were a customer prior to 1 July 2019
    - Continue to be a customer as at 1 July 2019.

Assignment of new customers to a tariff class during the regulatory control period

4. If, after 1 July 2019, Ausgrid becomes aware that a person will become a retail customer of Ausgrid, then Ausgrid must determine the tariff class to which the new customer will be assigned.
5. In determining the tariff class to which a retail customer or potential retail customer will be assigned, or reassigned, in accordance with paragraphs 4 or 7 of these procedures, Ausgrid must take into account one or more of the following factors:
    - The nature and extent of the customer's usage
    - The nature of the customer's connection to the network
    - Whether remotely-read interval metering or other similar metering technology has been installed at the customer's premises as a result of a regulatory obligation or requirement.
6. In addition to the requirements of paragraph 5 above, when assigning or reassigning a retail customer to a tariff class, Ausgrid must take into account:
    - Retail customers with similar connection and usage profiles are treated equally

[53] NER, cl. 6.12.1(17).

- Retail customers which have micro–generation facilities are not treated less favourably than customers with similar load profiles without such facilities
- the national pricing objective and the distribution pricing principles which direct that tariffs charged by a distributor for direct control services should reflect the distributor's efficient costs of providing these services to the customer.

Reassignment of existing customers to another existing or a new tariff class during the regulatory control period

7. Ausgrid will make an annual assessment of the nature of each retail customer's connection (i.e. type and voltage of the metering point) as at 31 December in the regulatory year prior to the 1 July price change.

Notice of proposed assignments and reassignments and rights of objection

8. Ausgrid must notify the retail customers' retailer in writing or through appropriate B2B processes prior to the reassignment occurring. The obligation to notify a retail customer's retailer does not apply if the retail customer has agreed with its retailer and Ausgrid that its network charges are to be billed by Ausgrid directly to the retail customer, in which case Ausgrid must notify the retail customer directly.
9. A notice under paragraph 8 above must include advice informing the retail customer's retailer that they may request further information from Ausgrid and that the retail customer or their retailer may object to the proposed reassignment. This notice must specifically include:
    - NMI
    - Existing network tariff and tariff class
    - New network tariff and tariff class
    - The reason for the decision to re-assign retail customer to a new tariff class.
10. In addition the notice will provide the following information:
    - Either a copy of Ausgrid's internal procedures for reviewing objections or complaints of this type or the link to where such information is available on the Ausgrid's website
    - That if any objection is not satisfactorily resolved under Ausgrid's internal review process within a reasonable timeframe, then to the extent that the matter relates to a small retail customer and resolution of such disputes are within the jurisdiction of the Energy & Water Ombudsman NSW (EWON) the retail customer is entitled to escalate the matter to the EWON
    - That if the objection is not resolved to the satisfaction of the retail customer under the Ausgrid's internal review system or EWON processes, then the retail customer is entitled to seek a decision of the Australian Energy Regulator (AER) via the dispute resolution process available under Part 10 of the National Electricity Law (NEL).
11. If, in response to a notice issued in accordance with paragraph 8 above, Ausgrid receives a request for further information from a retail customer, then it must

provide such information. If any of the information requested by the retail customer is confidential then it is not required to provide that information to the retail customer.

12. If, in response to a notice issued in accordance with paragraph 8 above, a retail customer or their retailer makes an objection to Ausgrid about the proposed assignment or reassignment, Ausgrid must reconsider the proposed assignment or reassignment. In doing so Ausgrid must take into consideration the tariff assignment factors and notify the retail customer's retailer in writing of its decision and the reasons for that decision.
13. If an objection to a tariff class assignment or reassignment is upheld, then any adjustment which needs to be made to tariffs will be done by Ausgrid as part of the next annual review of prices.
14. If a retail customer objects to Ausgrid's tariff class assignment Ausgrid must provide the information set out in paragraph 9 above and adopt and comply with the arrangements set out in paragraphs 6, 7 and 8 above in respect of requests for further information by the retail customer and resolution of the objection.

Assignment or re-assignment of a customer to a network use of system tariff

15. Ausgrid is required under section 6.18.5 of the National Electricity Rules (NER) to undertake an annual review of the network tariffs of existing retail customers. Ausgrid proposes to undertake this review as part of the annual pricing proposal process.
16. If an existing customer in an applicable tariff class is identified during the annual tariff review as having changed their network usage to the extent that they no longer are eligible to remain assigned to their existing tariff, Ausgrid must re-assign this customer to another tariff in accordance with the tariff eligibility criteria set out in the Tariff Structure Statement as part of the next annual pricing proposal process.
17. To avoid unnecessary transaction costs associated with assigning or re-assigning retail customers to another network tariff that could arise from temporary changes to network usage, Ausgrid proposes to only re-assign an existing retail customer to another network tariff on the basis of at least 24 months of historical volume data.
18. Ausgrid may take into account other relevant information in determining whether a retail customer's tariff remains appropriate.
19. Ausgrid is required to notify the retail customer or their retailer prior to the proposed network tariff re-assignment occurring.
20. This notice must specifically include:
    - NMI
    - Existing network tariff
    - New network tariff
    - The reason for the decision to re-assign retail customer to a new tariff.

21. In addition, the notice will provide information on Ausgrid's procedure for reviewing objections or complaints of this type or the link to where such information is available on the Ausgrid's website.
22. If any objection is not satisfactorily resolved under Ausgrid's internal review process within a reasonable timeframe, then to the extent that the matter relates to a small retail customer and resolution of such disputes are within the jurisdiction of the EWON the retail customer is entitled to escalate the matter to the EWON.
23. If the objection is not resolved to the satisfaction of the retail customer under Ausgrid's internal review system or EWON processes, then the retail customer is entitled to seek a decision of the AER via the dispute resolution process available under Part 10 of the NEL.
24. If an objection to a network use of system tariff assignment or reassignment is upheld by the AER, then any adjustment which needs to be made to tariffs will be done by Ausgrid as part of the normal billing process, inclusive of any compensation relating to the time value of money.