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Ms Kami Kau
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Australian Energy Regulator
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AER reference: 63600

By email: VIC2021-26@aer.gov.au

8 January 2021

Dear Ms Kaur,

Victorian electricity distribution determination 2021-26

AGL welcomes the opportunity to provide comments to the Australian Energy Regulator (AER) in relation to the AER's Draft Decision on the regulatory determination on the five electricity distribution networks in Victoria for the five year period from 1 July 2021 and the distributors' revised proposals. AGL has previously provided a submission in relation to the AER's Issues Paper.

We note that the proposed revenues in the distributors' revised proposals are 1 to 3 per cent higher than the Draft Decision but are up to 9.7% lower than the initial proposals. These revised proposals include an assessment of the impact of COVID-19 on demand. We anticipate the AER will review these revised proposals accordingly to determine the appropriate level of efficient costs, noting that significant network constraints are not expected over the next five years.

Our comments in this submission relate to network tariff reform and ancillary network services. We support the common approach the distributors have adopted to network tariff reform, particularly in relation to the introduction of new time of use tariffs for residential and small business customers, and the AER's preference to align tariff assignment policies. In our view, it will also be useful if the distributors adopted a similar approach to standardise and simplify alternative control services, particularly ancillary network services.

Network tariff reform

AGL shares the AER's concern with the progress of network tariff reform in Victoria. The AER has assessed that if customers on legacy tariffs are reassigned to cost reflective tariffs, around 26 per cent of customers will be on these cost reflective tariffs by 2025-26. This is well behind the 50 per cent expected for SA Power Networks and Ausgrid despite nearly all customers in Victoria having a smart meter. We also note that the Victorian Auditor – General report, *Realising the Benefits of Smart Meters*, tabled in September 2015, found that only 2.5 per cent of expected benefit from "tariffs, product and demand management" have been realised.

We support the Victorian networks' revised proposals to close the legacy time of use tariffs and re-assign residential customers to the new TOU. This is in line with the AER's draft decision and AGL's recommendation that the networks simplify the range of tariffs and assign customers to cost reflective network tariffs. It is also consistent with the distribution networks' initial proposals to re-assign small business customers to the new small business TOU tariffs. This will mean that the 3-part TOU 'flexible' tariff and other legacy TOU tariffs will be removed. However, we note that AusNet will retain a legacy rural tariff (NE24) due to the bill impact.

We also support the distributors' revised proposals to price the TOU tariff more favourably than the single rate tariff to encourage greater customer take-up. This will address AGL's concern that, with the introduction of the Victorian Default Offer which is based on the flat (single rate) network tariff, a higher TOU network tariff relative to the flat network tariff could result in fewer competitive offers for customers on TOU tariffs.

We accept that the new residential TOU tariff with a 3pm to 9pm peak everyday will be more easily understood by customers and could allow for some load shifting. In relation to the new TOU tariff for small business customers with a peak window of 9am to 9pm, we agree that this is a significant improvement on the current 7am to 11 pm peak window. However, in our view, the 12-hour peak window does not incentivise demand management and does not reflect the demand profile particularly with increasing penetration of rooftop solar This could be an area for review in the next regulatory period. There is also scope for medium business tariffs to be reviewed and to consider if a standardised approach to structure and time windows is appropriate.

We agree with the AER's view that the tariff strategy of the five Victorian distributors is not well aligned with their strategy for distributed energy resources. AGL has participated in the workshop conducted by the AER on tariff approaches for electric vehicle charging stations and owners and believe that:

- network prices should reflect the cost of providing the service to supply the whole customer load, not a particular device. Hence, we do not support specific pricing for devices or for controllable loads which may be targeted for these devices; and
- moving to more complex network pricing such as dynamic locational pricing is difficult under the current regulatory framework and would be costly for retailers to implement and manage as well as unacceptable for consumers.

AGL does believe that there is scope to improve the tariff structure for large businesses to be more cost reflective. We note the distribution networks have made some improvement by amending the demand charge for large customers from an anytime demand to the maximum demand over a 12-hour window. However, given the increasing role of distributed energy resources, it is important that demand pricing does not discourage the deployment of battery storage which imports energy, with potentially high demand, when wholesale prices are low or at times when the network has low system demand (when the 'duck curve' appears). It is the coincident peak demand which is relevant. Therefore, AGL does not believe measuring the maximum demand charge over wide time periods or 'anytime' are sufficiently cost reflective for situations whereby a Large customer can effectively schedule its maximum demand.

Ancillary Network Services

In the Draft Decision, the AER considered AGL's concern with the differences in charges for services performed during business hours and after hours. As a result, the AER has limited the mark-up of after-hour charges to 75 per cent above business hour charges. AGL welcomes this cap but it is important that the AER ensure that the distributors are able to justify the differences in these charges and not to assume that all after hour charges can be automatically marked up by 75 per cent.

In our view, there is scope to improve the regulation of ancillary services. As the distribution networks operate in a similar manner, it is expected that they provide similar services and at similar costs, after allowing for differences due to the distribution networks' urban or rural customer base. The ancillary services and naming conventions should be standardised to streamline operations for retailers operating across the Victorian network regions

In relation to failed field visit, AER has proposed simplifying the fee for ‘simple tasks’ and ‘complex tasks’ for CitiPower, Powercor and United Energy. Jemena has a range of wasted site attendance charges and we recommend that a simplified approach similar to that proposed for CitiPower, Powercor and United Energy be adopted. We note that Ausnet has listed only one ‘wasted truck visit’ charge. There should also be clarification on the differences in failed or wasted visit charges which range from $206 to $509 (business hours).

CitiPower, Powercor and United Energy have consolidated meter accuracy tests on the basis the cost of the service is similar for single and multi-phase tests. Similarly, Jemena has a charge for ‘meter test of types 5, 6 and AMI smart metering installation’. However, Ausnet has proposed to continue with different charges for single and multi-phase tests and we suggest that there is opportunity for these charges to be simplified. The differences in meter accuracy or equipment test charges, which range from $277 to $509 (business hours), should also be clarified. We also note that Jemena does not have a charge for additional meter tests unlike the other networks.

For connection services, while all distributors have charges based on single phase or multi-phase connections, there are variations depending on whether they are overhead or underground, directly connected meters or current transformer connected meters, or whether the network is the Metering Coordinator. We suggest that these services could be standardised.

If you have any questions in relation to this submission, please contact Meng Goh, Senior Manager Regulatory Strategy, on [redacted] or [redacted].

Yours sincerely,

[redacted]

Patrick Whish-Wilson
A/General Manager Policy and Markets Regulation