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Australian Energy Regulator
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Australian Energy Regulator – Network regulatory proposal 2019-24

AGL Energy (AGL) welcomes the opportunity to provide comments on the regulatory proposals of Ausgrid, Endeavour Energy and Essential Energy (NSW networks) for the period 2019 to 2024.

AGL is one of Australia's leading integrated energy companies with over 3.6 million electricity and gas accounts in New South Wales, Victoria, Queensland and South Australia as well as being the owner, operator and developer of a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation and renewable sources. AGL has one of Australia's largest retail energy and dual fuel customer bases in including over 740,000 market contracts in the NSW retail electricity market.[1]

Given the size of our customer base in NSW, AGL is very interested in both the levels (and change in levels) of network costs that customers inevitably see as well as the structure of those costs.

In the Australian energy market, network charges are generally passed through to customers through retail electricity prices, as one of the many costs that retailers incur on behalf of customers. Therefore, network costs have a significant impact on customers' bills, the customers' experience and energy affordability. Not all consumers recognise that a large portion of their bill is the direct result of network costs.

With a high focus on affordability by government, regulators and the industry, it is important that the network component is as efficient as possible and AGL therefore support the AER's draft determination for recognising the need for efficient operation.

The vast amount of information provided by DNSPs is no doubt helpful to the regulator in assessing regulatory proposals. Retailers, however, and likely other stakeholders do not have the resources nor expertise to review all the information submitted by the DNSPs in support of the cost components in their Regulatory Proposals, particularly in the timeframes provided. AGL has focussed on areas of greatest concern around impact to customers, namely cost structures.

[1] https://www.aer.gov.au/retail-markets/performance-reporting/retail-energy-market-performance-update-for-quarter-1-2018-19

In general, AGL believes the AER draft determinations largely represent positive improvements to affordability and a reduction in NSW consumers' network bills. We are therefore supportive in principle of the NSW Networks revised proposals being largely in line with the AER's draft determination recommendations. AGL does have some concerns with the Tariffs Structure Statements and Alternative Control Services that are described below.

Tariff Structure Statements

AGL remains satisfied with Essential and Endeavour's proposals for improving the cost-reflectivity of its residential network tariffs. These proposals seem to strike are an appropriate balance between:

- improving cost-reflectivity by better aligning network charges with network cost drivers;
- increasing the take-up of cost-reflective network charges by assigning new customers to the cost-reflective tariffs;
- simplifying the pricing structures, including the peak charging periods, of these cost reflective tariffs; and
- protecting small customers using transitional charges, no immediate mandatory assignment to new tariffs and provision of options to opt-out of these arrangements when necessary.

This should ultimately benefit customers.

Ausgrid have made substantial changes in their revised proposal and sought feedback from stakeholders, particularly consumer representatives, to determine their tariff approach. AGL generally support greater implementation of cost-reflective network tariffs and are therefore encouraged by Ausgrid's willingness to make substantial change to its Tariff Structure Statement.

However, AGL does have several concerns with Ausgrid's proposal including:

- the mandate that all residential and small business customers with type 4 smart meters will be reassigned to a default demand tariff from 1 July 2019;
- the complexities in assignment for new customers or customers that change meter with the residential demand, residential TOU demand and introductory demand tariffs applying in different circumstances depending on the type of meter exchange and customer preferences; and
- the complex structure of the demand tariffs themselves with larger time periods used for measuring demand in conjunction with substantial variations in time periods between seasons that affect the periods used to measure both demand and time-of-use energy.

The key concerns here are the pace, quantum and complexity of the change, which is highly likely to directly impact customers, both positively and negatively. Whilst retailers can play a part in mitigating the negative impacts, it is AGL's view that a more comprehensive plan for full cost reflectivity (i.e. a user pays rather than socialised cost) should be considered holistically across the sector.

AGL has attached a detailed analysis these changes may have on its customers in the Confidential Attachment (table A) for the AER's review. The table summarises the average customer impact based on current customer profiles as per the indicative proposed transitions from July 2019. The analysis assumes no change in customer behaviour after the transition to demand tariffs as it is unreasonable to expect a change in customer behaviour based on general customer engagement on energy usage.

The average net impact of the tariff change is a decrease in network cost, however AGL's concern, as indicated above, lies with the customers negatively impacted given the limited time available for:

- transparent reassignment of these customers at 1 July 2019; and
- communication of the changes to the affected NSW customers.

Some key impacts of these pricing changes that AGL would like to highlight are:

- over 20% of residential customers with a Type 4 meter currently configured to a single rate tariff may see an average annual increase of more than 10%;
- around 10% of residential customers with a Type 4 meter currently configured to TOU tariff may see an average annual increase of more than 10%;
- two-thirds of the residential customers on Type 5 meters that are proposed to transition from single rate to TOU tariff may experience an increase of over 5%; and
- over 10% of small business customers with a Type 4 meter currently configured to single rate tariff may see an average annual increase over 10%.

AGL is concerned that:

- there is limited time to engage and educate customers prior to 1 July 2019;
- that these impacts have not been clearly understood by all stakeholders, including the Government; and
- that this network pricing reform is rendered redundant by the introduction of any form of regulated pricing such as the default market offer that the AER is currently consulting upon.

AGL does not support moving to cost-reflective network pricing under a regulated retail pricing framework.

Alternative control services

AGL does have concerns with Ausgrid's pricing structure for its security light proposal which has a capital cost spread over a 2-year period which then reduces to an operations cost. This will result in significant work for retailers as this is not currently a service that is offered. If AGL were to offer this going forward, then the 2-year capital cost makes managing the customer account difficult, particularly if this service becomes contestable.

AGL also notes that the AEMC new Rule on Global Settlements[2] (which goes live across 2021/22) creates the concept of Unaccounted for Energy (UFE) which is allocated to all retailers. One of the elements of this allocation, will be the quality of inventories of un-metered supply connections. Under the Rules, networks have obligations to support investigations of UFE, and it is expected that this will result in the need for more work on inventory control (e.g. via field audit) and improved load profiles for these devices. This may impact the allocations of costs between standard and alternative control services.[3]

AGL's experience to date is that there are different levels of inventory control across networks that maps and records various unmetered services either being connected or disconnected (for example, where a telephone booth has been decommissioned or a bus stop has been added). This results in retailers either paying for unmetered services that are no longer connected, or potentially not paying for services that have been connected but not recorded appropriately.

As such, AGL suggest that the NSW networks should ensure there is adequate allocation in their submissions to meet requirements such as inventory control management and auditing.

Should you have any questions in relation to this submission, please contact Patrick Whish-Wilson on 02 9921 2207, PWhish-Wilson@agl.com.au.

Yours sincerely

Elizabeth Molyneux
GM of Energy Markets Regulation

[2] https://www.aemc.gov.au/rule-changes/global-settlement-and-market-reconciliation

[3] AEMO design – within rule change request - https://www.aemc.gov.au/rule-changes/global-settlement-and-market-reconciliation

Confidential Attachment:

Table A: AGL Impact Analysis for Ausgrid Customers

	Meter Type	Customer numbers	Bill Decrease			Bill Increase			Total customers	
			Share	Average bill impact $	Average bill impact %	Share	Average bill impact $	Average bill impact %	Average bill impact $	Average bill impact %
Residential Customers										
Single rate customers mandatory transition to demand (EA116)	4									
TOU customers mandatory transition to demand (EA116)	4									
Single Rate customers mandatory transition to TOU (EA025)	5									
Total Residential										
Small Business Customers										
Single rate customers mandatory transition to demand (EA256)	4									
TOU customers mandatory transition to demand (EA256)	4									
Single rate customers mandatory transition to TOU (EA225)	5									
Total Small Business										