

ACTIVE

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Active Utilities Pty Ltd

ABN 78 116 498 803

1300 587 623 | www.activeutilities.com.au

40 English Street
ESSENDON FIELDS VIC 3041

Submission:

**Ausgrid's Amended 2019-24 Tariff Structure
Statement**

February 2020



TABLE OF CONTENTS

RE: Active Utilities Pty Ltd (Active) Submission on Ausgrid’s Amended 2019–24 Tariff Structure Statement.....3

Ausgrid’s cross subsidy reference5

Timing on demand charges6

Arbitrage and demand diversity6

Removing efficiency from the grid7

Recommendations7

 Learnings from other Electricity Distributors.....7

 Change timing on Demand Changes8

Summary.....8

3rd February 2020

To: Australian Energy Regulator
GPO Box 520
Melbourne, Victoria 3001

To Australian Energy Regulator (AER)

RE: ACTIVE UTILITIES PTY LTD (ACTIVE) SUBMISSION ON AUSGRID'S AMENDED 2019-24 TARIFF STRUCTURE STATEMENT

Active thanks the AER for the opportunity to comment on Ausgrid's Amended 2019-24 Tariff Structure Statement.

Active understand Ausgrid's Amended 2019-24 Tariff Structure Statement proposes to:

- › Assign new EN connections to applicable EN Tariff from 1 July 2020, unless exempt from the AER guideline
- › Re-assign existing EN connections that modify their connection from 1 July 2020 to an applicable EN tariff, unless exempt from the AER guideline.

Active concur with the AER Staff preliminary compliance assessment of Ausgrid's TSS amendment proposal that Clause 6.18.1B(d) of the National Electricity Rules has not been satisfied, therefore the AER is required to not approve Ausgrid's proposal. However, Active are producing this submission based on our understanding and commentary on the merit of Ausgrid's current proposed TSS amendment.

Active does not support the merit of the amendment of special EN tariffs as proposed in Ausgrid's TSS amendment. This statement is supported further in this submission package below.

Active find this amendment to be unexpected on the basis that Ausgrid is the only Distributor who is proposing to amend their TSS. As such, Active believe there is inconsistency between Ausgrid and other Distributors which hinders the AER's desirability of consistency under Chapter 6 of the National Electricity Rules, particularly clause 6.2.5(d)(4).

Active are also of the belief that if this amendment was approved it would unfairly disadvantage embedded networks, strata titled buildings and embedded network customers.

Lastly, Active agree with the AER's comments that there are some fundamental tariff related questions that have been raised by Ausgrid's TSS proposal and these questions should be further discussed in an appropriate manner with all relevant stakeholders. Active believes these discussions should be conducted as a more holistic approach, rather than through individual TSS Amendment proposals. Active look forward to working closely with the AER and other stakeholders in relation to this discussion topic, and, to the key questions raised in the AER workshop on Ausgrid's proposed TSS amendment.

If the AER requires any further information in relation to this submission, please feel free to contact me.

Kind Regards,

A handwritten signature in black ink, appearing to read 'K. Johnson', is written over a light grey rectangular background.

Kyle Johnson

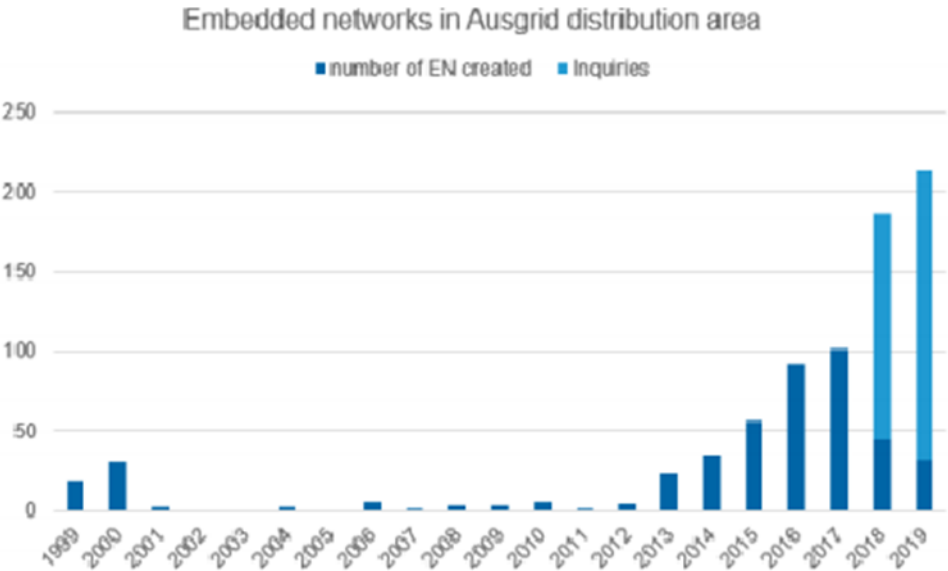
Risk & Compliance Manager

AUSGRID’S CROSS SUBSIDY REFERENCE

Active believes the cross subsidy, as alleged by Ausgrid in their revised TSS for residential embedded network customers, is largely unjustified on aggregate, as Ausgrid have hyper focused on a small segment of the embedded network customer base which Active believe has immaterial impacts on the broader residential market.

By Ausgrid’s own admission¹, they equate this impact on their entire residential base to be in the vicinity of 1% to 2% in totality. This is further confirmed in Ausgrid’s proposed TSS amendment where it is stated that there are only 420 known embedded networks in the Ausgrid distribution area.

Ausgrid further state that embedded networks in the Ausgrid distribution area is a growing segment but have not demonstrated this with relevant statistics. However, Ausgrid have provided a graph in their proposed TSS amendment (Embedded networks in Ausgrid distribution area graph) that shows the creation in embedded networks in the Ausgrid distribution area has declined over calendar year 2018 and 2019 and the majority of the increase shown on the graph in the last two years has been “Inquiries”.



¹ Statement by Ausgrid occurred at the AER workshop on Ausgrid’s proposed TSS amendment on the 15th January 2020.

Active believes if an alleged cross subsidy were to exist, then this cross subsidy would also likely exist in other C&I business segments². However, Ausgrid have not proposed to create separate tariffs for these subclasses. Active explore this alternative option in further detail below.

TIMING ON DEMAND CHARGES

Ausgrid's assertion that their proposed TSS amendment is because embedded network connections receive significant subsidies that in turn increases "non embedded network" residential network costs. Ausgrid believe this occurs as embedded network residential customers have a peak demand period between 8pm and 9pm, which occurs outside the normal peak period for C&I tariffs resulting in a cross subsidy.

Active believes that if such a cross subsidy does exist, there could be a suitable alternative solution instead of implementing a special embedded network tariff. The alternative solution could be that Ausgrid could change the timing on their demand charges to cover the maximum peak demand of embedded network residential customers³ whilst not impacting Ausgrid's C&I customer base. This solution would be in line with Ausgrid's change in TOU tariffs made for business customers in July 2018⁴.

ARBITRAGE AND DEMAND DIVERSITY

The arbitrage and demand diversity calculation provided by Ausgrid are based on simulated profiles. Ausgrid have confirmed the calculations have been simulated as they do not have access to child NMI data behind the gate meter. Active query, that if Ausgrid were to reproduce their calculations based on actual data, the result may be different than the simulated outcomes achieved.

² C&I Business are known to operate afternoon and night shifts which would fall outside of current business peak tariffs.

³ E.g. change the peak demand period to match embedded network residential demand

⁴ AER Approved - Ausgrid Pricing Proposal 2018-19 - April 2018 - located at <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/pricing-proposals-tariffs/ausgrid-annual-pricing-2018-19>

REMOVING EFFICIENCY FROM THE GRID

Unlike other sites, residential strata titled buildings that operate as embedded networks are not permitted to make a profit under jurisdictional Strata Acts. As such any benefits received by a strata titled building are generally used to:

- › Reduce tenant rates which can offset the increased cost of living pressures owners of apartments face due to body corporate fees
- › General building upkeep
- › Invest in renewable energy technologies which can reduce demand on the grid and improve efficiency

In relation to the last point above, owners of strata titled buildings generally don't have access to roof space and are not able to install energy efficiency systems such as solar panels on a standalone basis. Rather the building, as a whole, make these investment decisions through the Owners Corporation. Such investments are only possible if there are sufficient funds to purchase solar systems⁵. Therefore, increasing network costs may have the detrimental effect of making strata titled building (residential) embedded networks no longer financially viable, removing the ability for the Owner's corporation to both fund and invest in energy saving technologies which has efficiency benefits for the entire distribution network in the long term. Active believes this is contrary to clause 6.18.3(d)(2) of the NER which states for "the need to avoid unnecessary transaction costs".

Further to the point above, increasing network costs will not only remove the ability for Owner's corporations to fund and invest in energy saving technologies, but may prevent them from offering lower rates to individual customers within the embedded network and there may be a further detrimental impact on the strata titled building having to pass on these added costs to the end consumer in order to not run at a financial loss.

RECOMMENDATIONS

LEARNINGS FROM OTHER ELECTRICITY DISTRIBUTORS

In Ausgrid's proposed TSS Amendment, Ausgrid sites learnings from other sectors and includes a reference to IPART's 2017 review of wholesale price review. Active believe learnings and more appropriate citation could be actions taken by other electricity

⁵ Generally, Owners Corporations are not able to access financing options and other products such as PPA's may not be appropriate.

distribution networks, including in other jurisdictions, and the manner they have implemented policies to manage embedded networks.

Active recommends Ausgrid review Jemena's treatment of embedded networks in this area. Historically Jemena have had separate network tariffs for embedded networks, these tariffs penalised small embedded networks resulting in site-based losses. Jemena has reviewed their tariff structure and recently revised all their embedded network tariffs in their approved 2020 pricing approvals⁶.

CHANGE TIMING ON DEMAND CHANGES

As stated under Timing and Demand Changes, Active believes that if such a cross subsidy does exist, there could be a suitable alternative solution instead of implementing a special embedded network tariff. The alternative solution could be to change the timing on the demand charges to cover the maximum peak demand of embedded network residential customers.

SUMMARY

Active believe that by implementing an embedded network special tariff, as currently proposed by Ausgrid, this will have a detrimental impact on the embedded network industry, strata titled buildings, associated third parties and most importantly the end customer.

At a time when there is emphasis on embedded networks as an alternative viable option in the electricity retail market, including the large amount of work conducted by the Australian Energy Market Commission on proposing updates to the regulatory framework, the Default Market Offer (DMO) and the Victorian Default Offer (VDO) to reduce consumer pricing concerns and simplify the electricity market, a special embedded network tariff adds further complexity and confusion to embedded network customers and has the possibility to increase the end customers cost. This is contrasting to the AER's purpose and something that the embedded network industry has been working on improving.

Active implores the AER to consider the customer and the detrimental impact this could have on them when there are alternative options available that have been raised in this submission.

⁶ AER Approved - Jemena 2020 Pricing Proposal PUBLIC Update 7 Oct - November 2019
<https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/pricing-proposals-tariffs/jemena-annual-pricing-2020>

If the AER moves ahead with the implementation of a special embedded network tariff, either as result of Ausgrid's proposed TSS Amendment or future pricing approvals, Active believe, at the very least, the following conditions should be in place:

- › A grandfathering provision should be extended to all existing committed projects to prevent any costly changes in electrical infrastructure resulting from the abolishment of the proposed embedded network due to being financially unviable.
- › All newly constructed embedded networks have a grace period of ten (10) years from registration, to allow implementation of sufficient cost saving measures, such as solar, to counteract the embedded network special tariff.
- › The removal of any provisions to have grandfathered embedded networks placed on a special embedded network tariff due to any modifications occurring.