

Attachment 9.01

Proposed Procedure for assigning customers to tariff classes

May 2014



Introduction

The AER is required under section 6.12.1(17) of the Rules to determine the procedures for assigning retail customers to tariff classes, or reassigning retail customers from one tariff class to another (including any applicable restrictions).

To assist the AER make this decision, Ausgrid has outlined below its proposed tariff classes and procedures relating to the assignment or re-assignment retail customers to tariff classes in the next regulatory control period. These procedures are based on the procedures determined by the AER for the current 2009-2014 regulatory control period which were set out in Appendix A to that determination.¹ For ease of reference these are referred to in this attachment as the "Appendix A procedures". In developing these procedures we have drawn on experience in implementing the procedures during the current 2009-2014 period and have reviewed the AER's recent determinations with respect to customer assignment procedures.

Ausgrid's proposed procedures for Assignment Customers to Tariff Classes is set out in Appendix A. The background and reasoning for Ausgrid's proposed approach are set out in the following sections.

Relevant Rule Requirements

The Rules require DNSPs to propose tariff classes having regard to the need to group retail customers together on an economically efficient basis and to avoid unnecessary transaction costs.²

The rules also contain principles which the AER must have regard to when formulating the provisions which DNSPs must apply with assignment or re-assigning customers to tariff classes³.

These principles are:

- (1) Customers should be assigned to tariff classes on the basis of one or more of the following factors:
 - (i) The nature and extent of their usage;
 - (ii) The nature of their connection to the network
 - (iii) 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;
- (2) Customers with similar connection and usage profile should be treated on an equal basis;
- (3) Customers with micro-generation facilities should be treated no less favourable than customers without such facilities but with a similar load profile;
- (4) A DNSP's decision to assign a customer to a particular tariff class, or to re-assign a customer from one tariff class to another should be subject to an effective system of assessment and review.

The rules⁴ also require that if the charging parameters for a particular tariff result in a basis of charge that varies according to the usage or load profile of the customer, a distribution determination must contain provisions for an effective system of assessment and review of the basis on which the customer is charged.

Purpose of Assigning Customers to Tariff Classes

The requirement in the Rules for a DNSP to assign customers to a tariff class is fundamental to the annual pricing process because it provides the basis for a DNSP to demonstrate that its proposed prices and revenue outcomes comply with the side constraint requirements of the rules (section 6.18.6 of the NER), and are consistent with the pricing principles in 6.18.5 of the rules. Reflecting this importance, as explained above the rules require that customers are assigned to tariff classes on the most economically efficient basis⁵ possible given the transaction costs and lists a range of criteria that could be adopted as the basis of the tariff classes.

Ausgrid current network tariff classes for standard control services are shown in the table below.

¹ AER Final Decision New South Wales Distribution Determination, 28 April 2009

² Clause 6.18.3 of the rules.

³ Clause 6.18.4(a) of the rules.

⁴ Clause 6.18.4(b)

⁵ Note tariff classes influence economic outcomes through their impact on distribution pricing behaviour, particularly in respect to the estimation of LRMC cost, avoidable and standalone cost and the operation of the price limit mechanism,

Tariff Class	Extent of Network Usage	Nature of Usage	Nature of connection to network	
			Metering	Metering Voltage
Low Voltage	N/A	Residential or Business	Metered	230V/400V
High Voltage		Business		5kV, 11kV, 22kV
Sub-transmission Voltage				33kV, 66kV, 132kV
Cost Reflective Network Price (CRNP)	>10 MW or > 40 GWh pa			Any voltage
Unmetered	N/A		Unmetered	230V/400V

Ausgrid has adopted its current network tariff classes as they result in our customers being grouped together in an economically efficient manner without creating unnecessary transaction costs.

Proposed procedure for assigning new customers to a tariff class during the next regulatory control period

Ausgrid's proposed procedure for assigning a new customer to a network tariff class in the next regulatory control period is summarised below:

Step 1: The new customer or their retailer provides Ausgrid with the following information:

- The nature of their network usage i.e residential or business;
- The nature of their metering i.e metered or unmetered;
- The voltage level as measured at their metering point eg low, high or sub-transmission voltage; and
- A forecast of the extent of their network usage e.g level of annual consumption, maximum demand

Step 2: On the basis of the above-mentioned information, Ausgrid will assign the new customer to a network tariff class taking into account one or more of the following factors referred to as the "tariff assignment factors":

- (1) Customers should be assigned to tariff classes on the basis of one or more of the following factors:
 - (i) The nature and extent of their usage;
 - (ii) The nature of their connection to the network
 - (iii) 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;
- (2) Customers with similar connection and usage profile should be treated on an equal basis;
- (3) Customers with micro-generation facilities should be treated no less favourable than customers without such facilities but with a similar load profile;

At this stage it is proposed that Ausgrid will adopt a similar approach to tariff classes as the current 2009-2014 period in which cases new customers will be assigned to tariffs on the following basis:

- If the supply is unmetered then the new customer is assigned to the unmetered tariff class.
- If the voltage of the supply to the premise as measured at the metering point is either 230V (Single Phase) or 400V (Three Phase) then the new customer is assigned to the low voltage tariff class.

- If the voltage of the supply to the premise as measured at the metering point is 5 kV, 11 kV or 22 kV then the new customer is assigned to the High voltage tariff class.
- If the voltage of the supply to the premise as measured at the metering point is 33 kV, 66 kV or 132 kV then the new customer is assigned to the sub-transmission tariff class.

Reassigning existing customers to a different tariff class during the next regulatory control period.

Ausgrid will reassign existing customers to a different network tariff class in the next regulatory control period in circumstances where Ausgrid believes there has been a change to one or more of the customers' tariff assignment factors such that it is no longer appropriate for the customer to be assigned to their current tariff class.

As explained above, ensuring that our customers have been assigned to appropriate network tariff class is an important part of the annual pricing compliance process because the efficient grouping of customers plays a critical role in estimation of Long Run Marginal Cost (LRMC) and in demonstrating to the AER that our proposed network prices comply with the price limit and that the expected revenues lie between standalone cost and avoidable cost.

Ausgrid proposes to adopt the following method of annual review of network tariff class in the next regulatory control period,

- To assess the extent of each customer's usage of the network on the basis of the historical 12 months of volume data as at 31 December of each regulatory year. If the extent of network usage changes then existing customer will be reassigned to the appropriate network tariff class as part of the next annual pricing proposal process in the following situations:
 - If an existing customer currently assigned to the CRNP tariff class reduces their annual consumption and maximum demand below 40 GWh or 10 MVA respectively then this customer will be assigned to a new network tariff class for the purposes of the annual pricing proposal unless Ausgrid has reason to believe that this reassignment is unreasonable in the circumstances, such as in the case where the reduction in the extent of network usage is expected to be temporary in nature.
 - If an existing customer has increased their annual energy consumption above 40 GWh or recorded a maximum demand in excess of 10 MVA in the previous calendar year prior to the network price change then Ausgrid will reassign this customer to the CRNP tariff class for the purposes of the annual pricing proposal unless Ausgrid has reason to believe that this reassignment is unreasonable in the circumstances, such as in the case where the increase in the extent of network usage is expected to be temporary in nature.
 - To avoid unnecessary transaction costs associated with assigning customers to a new network tariff class associated with temporary changes to network usage, Ausgrid proposes to only be required to re-assign:
 - existing customers to the Cost Reflective Network Price (CRNP) tariff class if their historical volume data over this period exceeds the eligibility criteria for this tariff class by 20% i.e 48 GWh pa or 12 MW.
 - existing customers from the Cost Reflective Network Price (CRNP) tariff class to another network tariff class if their historical volume data over this period falls below the eligibility criteria for this tariff class by more than 20% i.e 32 GWh pa or 8 MW.
 - Ausgrid proposes to have discretion over whether it is economically desirable to assign customers to the Cost Reflective Network Price (CRNP) tariff class that satisfy the eligibility criteria, but lie within the ± 20 percent tolerance of the eligibility criteria for this tariff class.
- To assess the nature of each customer's connection to our electricity network (i.e type and voltage of the metering point) as at 31 December of each regulatory year. If the voltage of the supply to the premise as measured at the metering point changes then the existing customer will be reassigned to the appropriate tariff class for the purposes of the next annual pricing proposal process commencing on 1 July.
- Ausgrid may take into account other relevant information in determining whether a customer's tariff class remains appropriate. This might include for example the situation where Ausgrid has reason to believe that the voltage of connection at the customer's site will change in the next financial year. It is proposed that Ausgrid will have the discretion to decide whether to take into account additional information when making its decision to re-assign a customer to a new tariff class consider as part of the annual pricing compliance process.

Proposed procedure for re-assignment following annual review of tariff class assignment

Where as a result of the annual review Ausgrid decides that a customer should be reassigned to a new network tariff class, Ausgrid will adopt the following procedures:

1. Ausgrid must notify the customers' retailer in writing or through appropriate B2B processes prior to the reassignment occurring.
2. A notice under paragraph 1 above must include advice informing the customer's retailer that they may request further information from Ausgrid and that the customer or their retailer may object to the proposed reassignment. This notice must specifically include:
 - a. NMI
 - b. Existing network tariff and tariff class
 - c. New network tariff and tariff class.
 - d. The reason for the decision to re-assign customer to a new tariff class.
3. In addition the notice will provide the following information
 - a. 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
 - b. that if any objection is not satisfactorily resolved under Ausgrid's internal review process, then to the extent that the matter relates to a small customer and resolution of such disputes are within the jurisdiction of the NSW EWON the retailer's customer is entitled to escalate the matter to the NSW EWON.
 - c. that if the objection is not resolved to the satisfaction of the customer under the Ausgrid's internal review system or EWON, then the customer is entitled to seek a decision of the AER via the dispute resolution process available under Part 10 of the NEL.
4. If, in response to a notice issued in accordance with paragraph 1 above, Ausgrid receives a request for further information from a customer, then it must provide such information. If any of the information requested by the customer is confidential then it is not required to provide that information to the customer.
5. If, in response to a notice issued in accordance with paragraph 1 above, a 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 and notify the customer's retailer in writing of its decision and the reasons for that decision.
6. 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 as part of the next annual review of prices.
7. If a customer objects to Ausgrid's tariff class assignment Ausgrid must provide the information set out in paragraph 7 above and adopt and comply with the arrangements set out in paragraphs 8, 9 and 10 above in respect of requests for further information by the customer and resolution of the objection.

Reasons for Ausgrid's Proposed Approach of notifying retailers.

Ausgrid notes that the requirements set out in the current Appendix A procedures and in the AER's determination for Auroria require the DNSP to notify the customer in writing of the proposed network tariff reassignment. Ausgrid has proposed that this notification be made to the customer's retailer consistent with the approach to network tariff assignment now contained in Chapter 6B of the NER which now applies in New South Wales.

Clause 6B.A3.2 of the NER now provides for a scheme which requires retailers to request a DNSP to review the network tariff to which a customer is assigned. Whilst these provisions relate to network tariffs as opposed to network tariff classes there is clearly recognition that the retailer is in the best position to liaise between DNSPs and customers with respect to network tariffs and tariff classes. This is particularly the case with the regard to assignment of customers to network tariff classes which are based on the need to group customers together on economically efficient basis for the purpose of demonstrating to the AER that the DNSP's proposed network prices comply with the Rules.

A customer's retailer would be in the best position to assess the implications of the reassignment for the customer and provide the customer with advice as to whether any additional information should be requested or any objection should be made to the reassignment given the tariff assignment factors.

System of Assessment and review of the basis upon which a customer is charged.

Clause 6.18.4 (b) of the Rules require a distribution determination to contain provisions for an effective system of assessment and review of the basis upon which a customer is charged if a tariff has charging parameters which result in a basis of charge that varies according to the customers usage or load profile. For example a charge which varies depending on the time during the day that electricity is consumed is such a charging parameter as is a charge which increases if the customer reaches a certain usage level. All of Ausgrid network tariffs have charging parameters which result in the basis of charge varying according to the usage or load profile of the customer.

The current Appendix A procedures (in clause 10) and the AER's decision in Aurora provide for this system of assessment and review to be set out in the annual pricing proposal. Ausgrid has no objection to this obligation continuing.

Appendix 1

Procedures for assigning or reassigning customers to tariff classes

The procedures outlined in this appendix apply to all standard control services.

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

1. Ausgrid's customers will be taken to be "assigned" to the tariff class which was charging that customer immediately prior to 1 July 2015 if:
 - they were a customer prior to 1 July 2015 and
 - continue to be a customer as at 1 July 2015.

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

2. If, after 1 July 2015, Ausgrid becomes aware that a person will become a customer of Ausgrid, then must determine the tariff class to which the new customer will be assigned.
3. In determining the tariff class to which a customer or potential customer will be assigned, or reassigned, in accordance with paragraphs 2 or 5 of this appendix, Ausgrid must take into account one or more of the following factors:
 - a. the nature and extent of the customer's usage
 - b. the nature of the customer's connection to the network¹⁷⁵
 - c. 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.
4. In addition to the requirements of paragraph 3 above, when assigning or reassigning a customer to a tariff class, must ensure:
 - a. customers with similar connection and usage profiles are treated equally.
 - b. customers which have micro-generation facilities are not treated less favourably than customers with similar load profiles without such facilities.

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

5. Ausgrid will make an annual assessment of the nature of each customers connection (ie type and voltage of the metering point) and usage of the network over the past 12 months on the basis of volume data as at 31 December.
6. If the extent of network usage changes then existing customer will be reassigned to the appropriate tariff class as part of the next annual pricing proposal process in the following situations:
 - If an existing customer currently assigned to the CRNP tariff class reduces their annual consumption and maximum demand below then this customer will be assigned to a new tariff class for the purposes of the annual pricing proposal unless Ausgrid has reason to believe that this reassignment is unreasonable in the circumstances, such as in the case where the reduction in the extent of network usage is expected to be temporary in nature.
 - If an existing customer has increased their annual energy consumption above 40 GWh or recorded a maximum demand in excess of 10 MVA in the previous calendar year prior to the network price change then Ausgrid will reassign this customer to a new tariff class for the purposes of the annual pricing proposal.

- To avoid unnecessary transaction costs associated with assigning customers to a new tariff class associated with temporary changes to network usage, Ausgrid proposes to only be required to re-assign:
 - existing customers to the Cost Reflective Network Price (CRNP) tariff class if their historical volume data over this period exceeds the eligibility criteria for this tariff class by 20% i.e 48 GWh pa or 12 MW.
 - existing customers from the Cost Reflective Network Price (CRNP) tariff class to another tariff class if their historical volume data over this period falls below the eligibility criteria for this tariff class by more than 20% i.e 32 GWh pa or 8 MW.
 - Ausgrid proposes to have discretion over whether it is economically desirable to assign customers to the Cost Reflective Network Price (CRNP) tariff class that satisfy the eligibility criteria, but lie within the ± 20 percent tolerance of the eligibility criteria for this tariff class.
7. If the voltage of the supply to the premise as measured at the metering point changes then the existing customer will be reassigned to the appropriate tariff class for the purposes of the next annual pricing proposal process commencing on 1 July.
 8. Ausgrid may take into account other relevant information in determining whether a customer's tariff class remains appropriate.
 9. Ausgrid may reassign a customer to another tariff class if the existing customer's load characteristics or connection characteristics (or both) have changed such that it is no longer appropriate for that customer to be assigned to the tariff class to which the customer is currently assigned or a customer no longer has the same or materially similar load or connection characteristics as other customers on the customer's existing tariff class, then it may reassign that customer to another tariff class. In determining the tariff class to which a customer will be reassigned, must take into account paragraphs 3 and 4 above.

Notice of proposed assignments and reassignments and rights of objection

10. Ausgrid must notify the customers' retailer in writing or through appropriate B2B processes prior to the reassignment occurring.
11. A notice under paragraph 10 above must include advice informing the customer's retailer that they may request further information from Ausgrid and that the customer or their retailer may object to the proposed reassignment. This notice must specifically include:
 - a. NMI
 - b. Existing network tariff and tariff class
 - c. New network tariff and tariff class.
 - d. The reason for the decision to re-assign customer to a new tariff class.
12. In addition the notice will provide the following information
 - a. 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
 - b. that if any objection is not satisfactorily resolved under Ausgrid's internal review process, then to the extent that the matter relates to a small customer and resolution of such disputes are within the jurisdiction of the NSW EWON the retailer's customer is entitled to escalate the matter to the NSW EWON.
 - c. that if the objection is not resolved to the satisfaction of the customer under the Ausgrid's internal review system or EWON, then the customer is entitled to seek a decision of the AER via the dispute resolution process available under Part 10 of the NEL.
13. If, in response to a notice issued in accordance with paragraph 10 above, Ausgrid receives a request for further information from a customer, then it must provide such information. If any of the information requested by the customer is confidential then it is not required to provide that information to the customer.
14. If, in response to a notice issued in accordance with paragraph 10 above, a 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 customer's retailer in writing of its decision and the reasons for that decision.

15. 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.
16. If a customer objects to Ausgrid's tariff class assignment Ausgrid must provide the information set out in paragraph 7 above and adopt and comply with the arrangements set out in paragraphs 8, 9 and 10 above in respect of requests for further information by the customer and resolution of the objection.