



## **Attachment 9.03**

Proposed Procedure for Assigning or Re-Assignment of Retail Customers to  
Tariff Classes

20 January 2015



Ausgrid revised regulatory proposal attachment

## Procedure for Assigning (and re-assigning) Retail Customers to Tariff Classes

This Attachment provides Ausgrid's response to the AER's draft decision on the procedure for assigning and re-assigning retail customers to tariff classes set in section D of Attachment 14 to the its draft decision "Control Mechanism for standard control services".

### **AER response to the Ausgrid proposed procedure for assigning and re-assigning customers to tariff classes**

Ausgrid notes that the AER have rejected Ausgrid's proposed procedure for assigning and re-assigning retail customers to tariff classes for the following reasons:

- The proposed procedure requires Ausgrid to notify retailers rather than the affected customer, which diminishes the extent to which assignment and re-assignment decisions are subject to effective assessment and review, as required under clause 6.18.4(a)(4) of the National Electricity Rules
- The proposed procedure provides Ausgrid with the flexibility to assign and re-assign retail customers to the CRNP tariff class in a manner that is not in accordance with clause 6.18.4(s)(1) (i) and (ii) of the National Electricity Rules.

While Ausgrid strongly supports the general principle of retail customer engagement on network pricing issues, it is important that the AER's draft procedure achieves this outcome in a manner that safeguards the long-term interests of our customers by:

- Minimising the transaction costs imposed on Ausgrid, retail customer and third parties involved in the objection and review process.
- Allowing Ausgrid to re-assign retail customers to another tariff class within a reasonable time frame where it is no longer appropriate for this customer to remain in their current tariff class.

Ausgrid seeks some reconsideration of the AER's draft decision on this matter because it considers that the AER's draft procedure has the potential to undermine the long-term interests of our customers by imposing unnecessary transaction costs on Ausgrid, retail customers and third parties involved in the review process. Ausgrid is also concerned that there is risk of delays under the AER process even where there it is clear that it is no longer appropriate for the retail customer to remain assigned to their existing tariff class.

### **AER Draft Decision to require that Ausgrid notifying affected retail customers rather than retailers**

As part of its proposed procedures Ausgrid proposed that notifications to customers regarding tariff assignments should be made to customers' retailers rather than directly to customers. This proposed approach is consistent with the regime established under the National Energy Customer Framework, specifically Chapter 6B of the NER, whereby a customer's retailer is the central point of contact for a connected customer. The AER has indicated in its reasoning for rejecting Ausgrid's approach that Ausgrid's decision to reassign will not be subject to an effective system of assessment and review. Ausgrid disagrees with the AER in this regard given that Ausgrid's proposed procedures provide for a customer or retailer to object to the proposed re-assignment and to have this matter reviewed by a third party to extent that the objection is not satisfactorily resolved by Ausgrid.

The AER also stated that it considers the relevant provisions of Chapter 6B, specifically clause 6B.A3.2 relates to bundled retail tariffs as opposed to large retailer customers on unbundled retail tariff. Whilst it is not totally clear what the AER means by an unbundled tariff, if this refers to situation where a customer is billed directly for network charges, then Ausgrid agrees that clause 6B.A3.2 could not apply. Ausgrid would agree that any customers billed directly by Ausgrid for network

charges should be notified by Ausgrid and not through their retailer. However there are currently no such cases as all customers are billed network charges through their retailer, even the largest CRNP customers. However to the extent that this is a concern for the AER, the procedures could provide an exception for circumstances where network charges are charged to the customer directly. In this situation the customer would not however be subject to Ausgrid's Deemed Standard Connection Contract as that contract only provides for customers to be charged for network charges through their retailer, see clause 11.1. If customers wished to be charged directly for network charges a negotiated connection contract would be required, which would provide for the circumstances in which tariffs could be reviewed and the customer re-assigned and for appropriate notifications to be made directly to the customer.

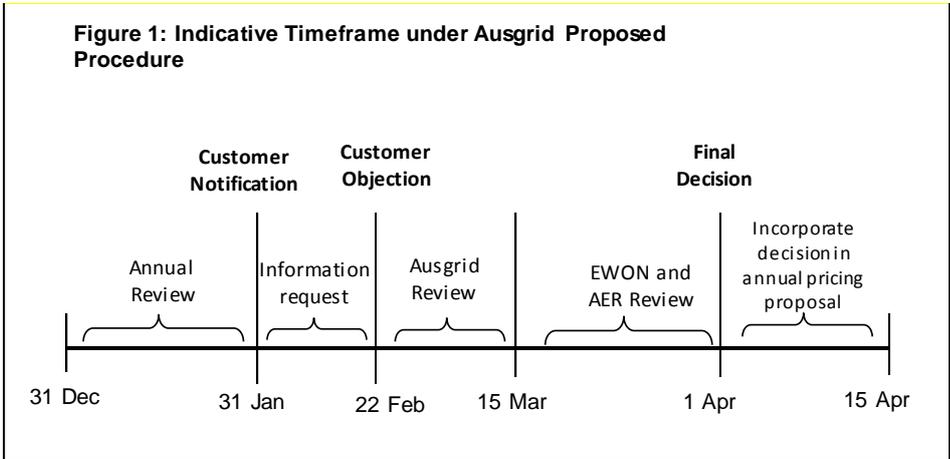
Ausgrid reiterates its submission that its proposed approach is consistent with the National Energy Customer Framework, which contemplates all matters relating to connected customers, including network charges and billing being coordinated through the customer's retailer. It also ensures that transaction costs for all parties are minimised. In addition to Clause 6BA.3.2 of the NER referenced above, Ausgrid notes clause 79 of the National Energy Retail Rules which requires applications for the provision of connection services where there is an existing connection to be made by a retailer on behalf of the customer. Whilst the NER place obligations upon DNSPs to provide notifications to customers, these relate to activities of a DNSP which impact directly upon a customer such as planned interruptions and the like. Network tariffs are in a different category which is recognised by the Standard Customer Connection Contract, which provides for network charges to be billed through the retailer. This contract applies to all customers unless the AER has approved a contract for large customers. All Ausgrid's retail customers are subject to the deemed standard connection contract. Ausgrid has not sought approval for a different contract to apply to its large customers. Ausgrid has made a revision to address this aspect in its revised procedures set out in Appendix 1.

If the AER rejects Ausgrid's position, then as a minimum, the obligation to notify customers directly should be a best endeavours obligation recognising that the information held by retailers regarding billing and addresses for notification will often relate to when the connection was first established and may not have been kept up to date by the customer's retailer. Once a connection is established there is no mechanism for distributor's records to be kept up to date and distributors rely upon retailers to update customer information.

#### **Re-consideration of Timing of Objection and Review Process.**

We have given further consideration to the timing of the proposed objection and review process in light of the condensed timeframes under the recent AEMC amendments to pricing rules and the potential for delays to arise during the review process. Ausgrid is very concerned that there will be insufficient time for the review process to be completed prior to the completion of pricing proposals under the new time frame under the rule to cater for this we consider that any review or objection needs to be completed 15 April at the latest to enable the outcome to be reflected in the annual pricing proposal due to be submitted by the end of April. Any review or objection that is not completed by this time would need to be held over until after 1 July. The diagram below demonstrates that if a customer sought a review of Ausgrid's internal review there would only be 4 weeks for either or both of EWON and AER review of Ausgrid's proposed approach, which is clearly inadequate.

**Figure 1: Indicative Timeframe under Ausgrid Proposed Procedure**



In the event that an objection or request for review is not finalised by 1 April 2014, Ausgrid should be permitted to prepare its pricing proposal, in terms of forecast volumes and the like, assuming that the tariff re-assignments will be able to proceed from 1 July 2014. It would then be a matter for the AER to determine as part of its consideration of the pricing proposal whether those assumptions are reasonable in the circumstances. Including such tariff re-assignments in our forecast volumes would not pre-empt the outcome of any individual objection or tariff assignment as these can occur at any time, although it is highly preferable for such changes to occur from 1 July each year when prices are set.

**AER Draft Decision on the application of a  $\pm 5\%$  tolerance limit to the application of the eligibility criteria for the CRNP tariff class**

Ausgrid notes that the AER have rejected our proposal to apply a  $\pm 20\%$  tolerance limit to the eligibility criteria for the Cost Reflective Network Price (CRNP) tariff class. The rationale for this decision is set out in the AER’s Draft Decision page 14-24:

“Under Ausgrid’s proposal a retail customer’s annual usage must exceed or fall short of the eligibility criteria of the cost reflective network price tariff class by 20 per cent before they are re-assigned to a different network tariff. That is, large retail customers on the cost reflective network price tariff would need to alter their usage by at least 20 per cent before they are allocated to a new tariff class. We consider that a range of  $\pm 20\%$  is too high. On balance we consider that a range of  $\pm 5\%$  would give retail customers a choice of the tariff class without significant impact on efficient pricing.”<sup>1</sup>

Ausgrid also notes that the AER’s Draft Decision only gives Ausgrid’s discretion over whether to re-assign existing retail customers to the CRNP tariff class or to re-assign existing CRNP customers to another tariff class where their historical volume data is within  $\pm 5\%$  of the eligibility criteria for the CRNP tariff class.

Ausgrid strongly disagrees with the AER on the  $\pm 5\%$  tolerance limit because the strict application of the AER approach will result in Ausgrid re-assigning a significant number of CRNP customers to a

<sup>1</sup> AER 2014, Draft Decision, Ausgrid distribution determination 2015-16 to 2018-19 Attachment 14: Control Mechanisms, p.14-13.

published tariff class where it is not in the collective long-term interests of our customers to do so, particularly given that:

- Ausgrid has already incurred the initial set-up costs of developing site specific cost reflective pricing models for these customers.
- Ausgrid has already established an effective process to engage with these customers on site-specific pricing information and issues.
- Conveying blunt and highly average published price signals to these customers will have the following perverse outcomes:
  - **Departure from cost reflective pricing** – It will result in CRNP customers that are connected to the electricity transmission network being forced to contribute to the costs associated with the electricity distribution network and the NSW Government Climate Change Fund as a consequence of being assigned to a published network tariff.
  - **Undermine efficient investment decisions** - It will undermine efficient investment in power factor correction and energy conservation if there is a risk that the CRNP customers will no longer be eligible to remain in the CRNP tariff class as a consequence of undertaking these investments.
  - **Unacceptable Price shock** – it will result in customers with highly volatile loads receiving unacceptable network price shocks as they are frequently re-assigned between tariff classes over time.

Ausgrid also wishes to inform the AER that it is currently investigating the economic merit of reforming the eligibility criteria applying to the CRNP tariff class as part of annual pricing proposal for FY 2015/16. A key issue under consideration is whether to replace the extent of usage criteria with a criteria based on connection characteristics of the customer. If this reform is implemented, the tolerance limit applying to the CRNP tariff class will no longer be applicable given that the extent of usage is no longer a relevant consideration.

To the extent that the extent of usage criteria is a relevant determinant of a customer's eligibility to remain or to be re-assigned to the CRNP tariff class, Ausgrid wishes the AER to adopt Ausgrid's approach as set out in our initial regulatory proposal, as summarised below:

"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 the existing customer will be re-assigned to the appropriate tariff class for the purpose of the annual pricing proposal 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 pa or 10 MVA respectively then this customer will be re-assigned to new tariff class for the purpose of the annual pricing proposal unless Ausgrid has reason to believe that this re-assignment 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 consumption above 40 GWh pa or recorded a maximum demand in excess of 10 MVA in the previous calendar year prior to the network price change then Ausgrid will re-assign this customer to the CRNP tariff class for the purpose of the annual pricing proposal unless Ausgrid has reason to believe

that this re-assignment 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.”<sup>2</sup>

Ausgrid believes that it long-term interests of our customers that AER’s final decision on this matter provides Ausgrid with a reasonable degree of discretion over its decision to re-assign a customer to or from the CRNP tariff class in circumstances where there is reason to believe that re-assigning a customer is likely to be unreasonable, such as in the case of an existing CRNP customer is connected to electricity transmission network or the extent of network usage is a result of temporary factors.

### **System of Assessment and Review of the basis upon which a retail customer is charged**

Ausgrid notes that clause 6.18.4(b) of the NER requires the AER’s distribution determination to contain provisions for an effective system of assessment and review of the basis on which a customer is charged where the charging parameters for a particular tariff results in a basis of charge that varies according to the usage or load profile of the customer.

The AER has decided to carry forward its previous practice of requiring such a system of assessment and review to be included in the annual pricing proposal. Ausgrid supports this approach as it allows the basis of assessment and review to be revisited each year in light of the tariffs adopting during that year

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<sup>2</sup> Ausgrid 2014, Regulatory Proposal, 1 July 2014 to 30 June 2019, Attachment 9.01, May, page 4

## Appendix 1-

### Ausgrid's Revised 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 retail customer immediately prior to 1 July 2015 if:
  - they were a customer prior to 1 July 2015
  - 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 retail 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 retail customer or potential retail customer will be assigned, or reassigned, in accordance with paragraphs 2 or 5 of ~~this appendix~~ these procedures, 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 network<sup>3</sup>
  - 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 retail customer to a tariff class, must ensure:
  - a. retail customers with similar connection and usage profiles are treated equally<sup>4</sup>.
  - b. retail customers which have micro-generation facilities are not treated less favourably than customers with similar load profiles without such facilities<sup>5</sup>.

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

5. Ausgrid will make an annual assessment of the nature of each retail customer's 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~~ retail customer ~~will~~ may be reassigned to the appropriate tariff class as part of the next annual pricing proposal process in the following situations:

<sup>3</sup> The AER interprets "nature" to include the installation of any technology capable of supporting time based tariffs.

<sup>4</sup> NER, cl 6.18.4(2)

<sup>5</sup> NER cl6.18.4(3)

- If an existing customerretail customer currently assigned to the CRNP tariff class reduces their annual consumption and maximum demand below 40 GWh or 10MVA then this customerretail 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 customerretail 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 customerretail customer 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.

- To avoid unnecessary transaction costs associated with assigning customerretail customers to a new tariff class associated with temporary changes to network usage, Ausgrid proposes to only be required to re-assign:

- existing customerretail 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 520% i.e ~~xx~~48 GWh pa or ~~xx~~12 MW.
- existing customerretail 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 520% i.e 32 GWh pa or 8 MW.

- Ausgrid proposes to have discretion over whether it is economically desirable to assign customerretail customers to the Cost Reflective Network Price (CRNP) tariff class that satisfy the eligibility criteria, but lie within the ±5percent 20 % tolerance of the eligibility criteria for this tariff class.<sup>6</sup>

7. If the voltage of the supply to the premise as measured at the metering point changes then the existing customerretail 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 customerretail customer's tariff class remains appropriate.

9. Ausgrid may reassign a customerretail customer to another tariff class if the existing customerretail customer's load characteristics or connection characteristics (or both) have changed such that it is no longer appropriate for that customerretail customer to be assigned to the tariff class to which the customerretail customer is currently assigned or a customerretail customer no longer has the same or materially similar load or connection characteristics as other customerretail customers on the customerretail customer's existing tariff class, then it may reassign that customerretail customer to another tariff class. In determining the tariff class to which a customerretail 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 customerretail 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.

11. A notice under paragraph -10 above must include advice informing the customerretail customer's retailer that they may request further information from Ausgrid and that the customerretail customer or their retailer may object to the proposed reassignment. This notice must specifically include:

<sup>6</sup> Note that paragraph 6 is only applicable if the eligibility criteria for Ausgrid's CRNP tariff continues to be based on the extent of network usage (greater than 40 GWh pa or 10 MVA

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- 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/retail 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 within a reasonable timeframe, then to the extent that the matter relates to a small customer/retail customer and resolution of such disputes are within the jurisdiction of the NSW EWON the retailer's customer/retail 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/retail customer under the Ausgrid's internal review system or EWON, then the customer/retail 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/retail customer, then it must provide such information. If any of the information requested by the customer/retail customer is confidential then it is not required to provide that information to the customer/retail customer.

14. If, in response to a notice issued in accordance with paragraph 10 above, a customer/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 customer/retail 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/retail 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/retail customer and resolution of the objection.

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