

Ausgrid Submission

Default Market Offer price – AER draft determination

March 2019

20 March 2019

Attn: Mark Feather
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Lodged by email: DMO@aer.gov.au

Dear Mr Feather

Ausgrid is pleased to provide this submission to the Australian Energy Regulator (AER) draft determination for establishing default market offer (DMO) prices (DMO draft determination). Our submission provides views on several issues, including expected changes in cost inputs for customers in Ausgrid's network area.

Over the past four years, we have been transforming our business to provide more cost-effective network services for our customers. This transformation is continuing. In our revised regulatory proposal for 2019-24, submitted to the AER in January 2019, we set out how we propose to deliver more affordable network services over the next five years.

While the AER is still considering our revised regulatory proposal, the expected reduction in Ausgrid's network charges for 2019-20 is likely to be greater than the 0.6% outlined in the AER's draft determination. The AER will publish its final decision on our revised proposal by 30 April 2019. In our view, any network charge reductions resulting from the AER's final decision should be reflected in the AER's DMO prices from 1 July 2019.

Should the AER have any questions in relation to this submission, please contact John Skinner, Regulatory Policy Manager on 02 9269 4357 or john.skinner@ausgrid.com.au.

Yours sincerely



Iftekhar Omar
Head of Regulation

Submission

Ausgrid is the caretaker of an asset which has connected communities and empowered the lives of its customers for over a century. Today, our grid is shared by 4 million Australians living and working in 1.7 million homes and businesses. This shared asset stretches from the heavily populated Sydney CBD to the sparse Upper Hunter.

During recent customer engagement, customers told us that energy affordability is currently their number one concern. We therefore support the policy intent of the DMO, which is to protect consumers who are not engaged in the market and who may be paying standing offer prices significantly above market offers. We also agree that the AER must take care to not set the DMO too low, as to do so may harm competition.

Our submission provides views on a number of issues raised in the AER's draft determination, including expected changes in cost inputs from 1 July 2019.

Forecast changes in cost inputs from 1 July 2019

The AER's DMO draft determination indicates that network charges for customers in Ausgrid's distribution area will fall by 0.6% between 2018/19 and 2019/20.¹ We contacted the AER to seek further information about the basis for this figure.

The 0.6% figure represents the change in distribution network charges (also known as distribution use of system charges, or DUOS) as set out in the AER's November 2018 draft determination for Ausgrid's 2019-24 regulatory period. This 0.6% figure does not accurately represent the expected reduction in network charges (network use of system charges, or NUOS) for Ausgrid's customers as it does not incorporate the reduction in Ausgrid's transmission charges (also known as transmission use of system charges, or TUOS).

$$\text{NUOS} = \text{DUOS} + \text{TUOS}$$

Based on estimates for a residential customer using 4,215kWh per annum, the AER calculated the following network bill estimates:

2018/19 costs			2019/20 Growth rate			2019/20 costs		
2018/19 DUOS	2018/19 TUOS	2018/19 ACS	DUOS	TUOS	ACS	2019/20 DUOS	2019/20 TUOS	2019/20 ACS
\$	\$	\$	%	%	%	\$	\$	\$
342.5	206.1	29.5	-2.40%	4.48%	-14.48%	334.3	215.3	25.2

¹ AER Default Market Offer Price – Draft determination p.48

If Ausgrid's transmission revenue change is factored into the TUOS component for 2019/20, a residential customer on a flat tariff (EA010) would see a significant TUOS reduction (from \$215.3 to \$127.60) from 2018/19 to 2019/20, rather than a small increase.² This represents a 38.1% decrease in TUOS for 2019/20, rather than a 4.48% increase.

This TUOS change results in an Ausgrid residential customer on a flat tariff using 4,215kWh per annum having an 11.23% (\$63) NUOS reduction in 2019/20.

As outlined in the AER's DMO Position Paper, the key policy intent of the DMO is to mitigate the impact of high standing offer prices on those consumers that remain disengaged or have been moved onto standing offers under the circumstances permissible in the National Energy Retail Law (NERL). To achieve this policy objective, in our view the AER should adjust the 2019/20 DMO price point to reflect the reduction in network costs for Ausgrid's component of customer bills.

Annual consumption benchmark calculation

The AER's DMO draft determination specifies the method used to determine the model annual consumption amounts for residential and small business customers in each distribution zone. This amount sets the basis for calculating the DMO price and reference bills. We reviewed the AER's methodology for calculating the reference amounts for the residential flat rate average annual consumption and suggest that it is revised.

The AER has calculated the residential flat rate average consumption per customer without controlled load to be **3,800 kWh** per year.³ This number was derived from Ausgrid's 2018-19 annual pricing model by:

- taking EA010 total annual consumption
- netting out the flat rate contribution of EA010 customers with controlled load, calculated by
 - multiplying 4,744 kWh deduced average flat rate consumption of customers with controlled load by
 - the total number of customers with controlled load, and
- dividing by the total number of EA010 customers without controlled load, calculated as
 - total number of EA010 customers minus
 - the total number of controlled load customers, resulting in

$$(4,678,222,880 \text{ kWh} - 4,774 \text{ kWh} \times (331,158 + 149,401)) / (1,115,128 - (331,158 + 149,401)) =$$

3,800 kWh per year.

In the above calculation, the AER has assumed that all controlled load customers are on a flat rate tariff (EA010). However, our controlled load 1 and 2 customer numbers include residential customers

² Ausgrid - Revised Proposal - Attachment 4.05 - PTRM for transmission - January 2019 - <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausgrid-determination-2019-24/revised-proposal>

on other tariffs such as TOU EA025, as well as a small number of non-residential customers. In our view, all controlled load consumption/customers should not be attributed to flat rate EA010 customers.

We suggest the AER modifies its methodology to pro-rata controlled load to customers on flat tariffs EA010. Small business' contribution to controlled load can be ignored for the purpose of this calculation. The share of flat rate customers in total residential customers is about 76%. This percentage can be used as a proxy for the number of controlled load customers on the flat tariff EA010. After taking into account only the flat tariff EA010 customers with controlled load, the residential flat rate average consumption per customer without controlled load would be

$$(4,678,222,880 \text{ kWh} - 4,774 \text{ kWh} * 76\% * (331,158 + 149,401)) / (1,115,128 - 76\% * (331,158 + 149,401)) = 3,914 \text{ kWh per year.}$$

We recommend that the AER revises its calculation of the residential flat rate average annual consumption from 3,800 kWh to 3,914 kWh (or 3,900 kWh if rounded to the nearest hundred).

The per-customer usage determination table in the AER's draft legislative instrument would also need to reflect this change.⁴

Accommodating demand tariffs in the DMO

The *Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019* (draft code) does not require the AER to develop DMO prices for time of use (TOU) or demand tariffs. However, retailers will need to be able to calculate annual bills for TOU and demand offers to compare to the reference bill.

The AER has simplified the process of calculating a DMO reference bill for TOU tariffs by using its Energy Made Easy (EME) website and a pre-determined usage profiles for each distribution zone.

Ausgrid is among a number of distribution businesses that are in the process of introducing demand tariffs as part of ongoing network tariff reform. In its DMO final determination, the AER should therefore provide guidance on how retailers should calculate annual bills for demand tariffs for comparison to the reference bill.

³ See Table 15 and Table 16, *AER Default Market Offer Price – Draft determination* p.64 and p.66

⁴ *AER Default Market Offer Price – Draft legislative instrument* p.1

A scenic photograph of a road at sunset. The road is dark and paved, with a white dashed line in the center. On the left side of the road, there are large, dark trees. On the right side, there are more trees and a utility pole with power lines. The sky is a mix of blue and orange, indicating sunset. The overall mood is peaceful and serene.

Thank you

