

Appendix N

RESPONSES BY LARGE CUSTOMERS TO THE LARGE CUSTOMER TSS CONSULTATION PAPER QUESTIONS

Ausgrid emailed its “Large customer Tariff Structure Statement consultation paper” and indicative prices to the large customers connected to Ausgrid’s network. The consultation paper sets out proposed changes to the tariffs for large customers within the context of the National Electricity Rules. The consultation paper also includes questions at the conclusion of each section which have been structured to give customers an opportunity to respond to the issues raised in each section. Large customers can also raise other issues in their response to Ausgrid.

Large customers were able to respond to the consultation paper without disclosing their identity. The large customer’s request not to disclose their identity would not inhibit Ausgrid from using the customer’s response in the Tariff Structure Statement submitted to the Australian Energy Regulator (AER) as long as the response did allow the customer to be identified.

The large customer’s responses may be included in the tariff structure statement to be submitted to the AER by Ausgrid.

The large customer Tariff Structure Statement consultation paper covers the following points.

- The proposed changing of tariff class allocation criteria from demand or energy criteria to network connection characteristics.
- The method of signaling the Network’s Long Run Marginal Cost (LRMC) DUOS to customers
- The pricing structure of residual costs
- The pass through methodology used for TUOS
- The extent to which Ausgrid transitions to the “Efficient” tariff structure
- A proposal to limit peak periods to only the Summer and Winter peak months
- The use of published DUOS rates for large customers
- The TUOS transitioning process for large customers
- The phasing out of legacy DUOS discounts for large customers
- The introduction of a published Transmission (TNI) connected tariff

LARGE CUSTOMER CONSULTATION PAPER QUESTIONS

Questions		Customer Answers	Ausgrid Response
1	Do large customers agree with Ausgrid's assessment that tariff classes based predominantly on the Voltage level of supply as measured at the metering point constitutes the most appropriate way to group customers for the purpose of setting tariffs? If not, please explain.	Voltage level has always been the predominant factor in establishing network tariffs. Given that a user is committed over a long term to network charges, and in practice cannot easily change from one voltage to another, any deviation from this practice risks to introduce issues of fairness and equity.	Ausgrid notes the agreement of large customers to the use of metered Voltage levels for assigning customers to a tariff class.
		Yes ... agrees with Ausgrid's position.	
		Yes Ausgrid's assessment that tariff classes will be predominately allocated based on voltage as opposed to consumption is supported by	

Questions		Customer Answers	Ausgrid Response
2	Do stakeholders agree with Ausgrid's potential new criteria for assigning new large business customers to a tariff class? Is it an economically efficient approach to grouping large business customers? If not, please explain.	Yes and yes.	Ausgrid notes the agreement of large customers to the new criteria for assigning new customers to a tariff class.
		Yes	

Questions		Customer Answers	Ausgrid Response
3	Do stakeholders agree with Ausgrid's potential new criteria for assigning new large business customers to a default network tariff? If not, please explain?	Yes	Ausgrid notes the agreement of a large customer to the new criteria for assigning new customers to a default tariff.

Questions		Customer Answers	Ausgrid Response
4	Do stakeholders agree with Ausgrid's potential new procedure for reassigning existing large business customers to another tariff? If not, please explain.	No, refer to previous correspondence between ... and Ausgrid.	The proposed tariff re assignment procedure is based upon the customer's maximum demand being above or below 10 MW or their annual consumption being above or below 40 GWhs during a financial year. Ausgrid considers that these are reasonable criteria for balancing transaction costs against locational TUOS pricing efficiency issues.
		No. Criteria need to be known by customer which forms basis of review.	

Questions		Customer Answers	Ausgrid Response
5	<p>Do large customers agree with Ausgrid's assessment that dynamic peak price signals are the most efficient way to signal LRMC to customers? If not, please explain?</p> <p>Do large customers agree that applying peak prices only to summer and winter represents an improvement in economic efficiency?</p>	<p>We support dynamic peak pricing being based on summer only since this is the period where the peak occurs, it makes sense.</p>	<p>Ausgrid notes that most large customers are not in favour of dynamic peak prices, however, there is support for peak pricing in only summer and winter. Customers whose operations would not allow them to take advantage of the lack of peak period pricing during autumn and spring would not benefit from such a change.</p>
		<p>... does not agree with dynamic peak pricing where the customer does not know exactly when the dynamic peak pricing periods will be.</p> <p>... believes that peak Summer and Winter capacity pricing may be a much fairer and transparent price signal for LRMC.</p>	
		<p>No, ... load profile remains consistent year round.</p>	

Questions		Customer Answers	Ausgrid Response
6	<p>Do stakeholders agree with Ausgrid's assessment that localised dynamic peak price signals are the most efficient way to signal LRMC to customers? If not, please explain.</p> <p>Do stakeholders agree with Ausgrid's position that there is merit in reforming the peak period definition? If yes, when do you think it is appropriate to make this change?</p>	<p>It makes sense for pricing to be set reflecting costs.</p> <p>We support in general the approach of peak pricing more closely following peak periods. Ausgrid and other network providers should move ahead with it.</p>	<p>Ausgrid notes the lack of support from large customers for the adoption of dynamic peak prices. There does appear to be support for the implementation of summer and winter peak pricing periods.</p>
		<p>... is of the view that peak capacity pricing is far more transparent than dynamic peak usage pricing</p> <p>... does agree that capacity pricing should only apply to summer and winter peak periods.</p>	
		<p>No. System too complicated to work with.</p> <p>Yes. Further consultation with stakeholders required.</p>	

Questions		Customer Answers	Ausgrid Response
7	<p>Do stakeholders agree with Ausgrid's assessment that it is more appropriate to signal LRMC through the peak energy price, rather than the capacity charge? If not, please explain.</p> <p>If you agree with Ausgrid that the capacity charge should be used to recover residual costs in a more equitable manner than relying on fixed charges alone to recover these costs, do you think it is necessary to reform the capacity charge to ensure that it does not distort network usage? If yes, how should it be reformed?</p>	<p>Large users have capacity/demand charges imposed based on their maximum peaks and these fixed costs are locked in for a year. Depending on the proportion of the charges, this can already be a strong incentive to manage peak demands over the medium/long term.</p>	<p>Ausgrid notes that large customers do not agree with the assessment that the LRMC should be signaled through the peak energy price.</p> <p>Ausgrid notes the support for reform to capacity pricing which is consistent with Ausgrid's proposal for seasonal peak period pricing which would cover peak demand capacity measurement.</p>
		<p>... does not agree that it is more appropriate to signal LRMC through a peak energy price rather than a capacity based price.</p> <p>The capacity charge is a much fairer way to recover residual costs than a fixed charge which has no price signal</p>	
		<p>No. ... would be disadvantaged as load profile is relatively constant, peak energy pricing would increase our costs.</p>	

Questions		Customer Answers	Ausgrid Response
9	Do large business customers agree with Ausgrid's proposed approach to the allocation of residual costs as shown in the above Figure? If not, please explain?	<p>... is comfortable that residual costs can be recovered via a fixed charge, but not where they exceed 10 % of a customer's bill.</p> <p>... is not supportive of 100% recovery of all Ausgrid charges by way of a fixed charge</p> <p>Yes</p> <p>... does not agree with Ausgrid's proposed approach to the allocation of residual costs to ... electricity accounts.</p>	Ausgrid proposes to continue to recover DUOS costs (including residual costs) via published tariff DUOS rates. Ausgrid notes the lack of support for the allocation of all residual costs to fixed charges.

Questions		Customer Answers	Ausgrid Response
10	Do large business customers agree with Ausgrid's proposed approach to the allocation of Transmission related costs as shown in the above Figure? If not, please explain.	<p>TUOS charges are almost all fixed costs in nature and linked to assets required for peak demand. The TransGrid costs should flow through in a manner closely aligned with their costs. The costs should also be structured in an efficient and fair manner that encourages users against using the system during peak demands.</p> <p>... believes that the proposed allocation of transmission charges is reasonable.</p> <p>Yes</p> <p>... does not agree with Ausgrid's approach for the allocation of transmission charges.</p>	Ausgrid notes most large customer's support for Ausgrid's methodology of directly passing through TUOS costs to customers. Ausgrid plans to apply a direct pass through methodology for allocating TUOS for all customers.

Questions		Customer Answers	Ausgrid Response
11	Do large customers agree with Ausgrid position on what constitutes an efficient tariff for large business customers? If not, please explain.	<p>When faced with real congestion issues, a higher proportion of user costs should be exposed to peak pricing using both capacity charges and peak energy pricing.</p> <p>... is of the view that what constitutes and Efficient tariff is an artificial construct and has no relevance in setting tariffs for large energy users.</p> <p>It does not take into account the network benefits of them underpinning network investment by large and constant loads.</p> <p>No. ... use of electricity is relatively constant throughout the year. "Efficient" tariff system would not suit the way our business operates</p> <p>... is very concerned with Ausgrid's calculation of its 'efficient' tariff</p> <p>... believes that the efficient tariffs calculated by Ausgrid substantially exceed the cost of provision to ...</p> <p>In addition, ... does not see Ausgrid's 'efficient' tariffs as allowing electricity consumers to have an efficient operation of electricity when the bulk of electricity charges are set out as a fixed daily cost.</p>	Ausgrid notes the lack of support for the proposed efficient tariff. Ausgrid does not plan to implement the proposed efficient tariff during the period covered by the TSS.

	Questions	Customer Answers	Ausgrid Response
12	<p>Do large customers agree with Ausgrid's assessment that the introduction of efficient tariffs for large customers is undesirable given the likely impact that this would have on the NUOS bill outcomes for large business customers? If not, please explain.</p> <p>Are large customers concerned over the potential for bill impacts to arise as a direct consequence of implementing a dynamic peak price reform i.e. applying a high price per kWh to their energy consumption during 12 dynamic peak periods each year, which are confined to 12pm to 8pm peak period, business days?</p>	<p>... agrees that the introduction of efficient tariffs is undesirable and it could cause large energy users to leave the grid thereby contributing to the "death spiral" of network revenues.</p> <hr/> <p>No. use of electricity is relatively constant throughout the year. "Efficient" tariff system would not suit the way our business operates.</p> <hr/> <p>... agrees that the introduction of 'efficient' tariffs is commercially undesirable. This is not simply due to an increased NUOS cost but also due to the significant portion of the tariff that is accounted for by the daily fixed charge, which provides a benefit of certainty to the supplier but reduces the price incentive to improve energy efficiency for the consumer.</p>	<p>Ausgrid notes that large customers agree with Ausgrid's assessment that the introduction of the efficient tariffs would be undesirable.</p>

	Questions	Customer Answers	Ausgrid Response
13	<p>Do large business customers agree with Ausgrid's assessment that there are likely to be economic benefits from applying peak energy charges only to energy consumption during the daily peak period on business days in only in summer (1 November to 31 March) and winter (1 June to 31 August). If not, please explain.</p> <p>Do large business customers agree with Ausgrid that implementing this reform on 1 July 2017 will not cause unacceptable customer impacts if the level of the seasonal peak price is constrained to CPI? If not, please explain.</p>	<p>We support pricing being cost reflective.</p> <hr/> <p>... is of the view that all tariffs should be capacity based rather than energy based or for that matter comprising largely of fixed charges.</p> <hr/> <p>No. use of electricity is relatively constant throughout the year. "Efficient" tariff system would not suit the way our business operates</p> <hr/> <p>.... agrees with a seasonal peak pricing structure..</p>	<p>Ausgrid notes that large customers are supportive of Ausgrid's proposal for applying the peak period only during seasonal periods. Customers with flat load profiles would not benefit from such a change, however, they would not lose either. The beneficiaries would be those customers who could take advantage of the lack of network constraints during low demand months.</p>

Questions		Customer Answers	Ausgrid Response
14	Do large customers agree with Ausgrid's position that the DUOS component of the individually calculated tariffs for large customers should be set equal to the DUOS prices for applicable published tariff?	... agrees with Ausgrid's position that large customers should be shielded against any price shock as these costs are very hard to absorb or pass on.	Ausgrid notes the agreement that with the need to minimise price shocks for customers. However, Ausgrid does not support the concept of minimal DUOS for sub transmission customers. Ausgrid proposes that the published DUOS for the sub-transmission tariff class should be cost reflective to the extent that is possible.
	To the extent that setting DUOS prices in this manner is expected to result in unacceptable NUOS bill impacts, Ausgrid proposes to apply transitional TUOS prices to address these concerns. Do you agree with this approach? If not, please explain.	... does not agree with the allocated DUOS charges being set to the published rate, The DUOS component for a sub-transmission customer should be minimal.	

Questions		Customer Answers	Ausgrid Response
15	Do large customers agree with Ausgrid's approach to transitioning TUOS prices for both customers that are paying less than the efficient level and customers that are paying more than the efficient level? If not, please explain.	... agrees with Ausgrid's position	Based upon its response from large customers, Ausgrid will apply its proposed transitioning pricing policy for large customers.
		No. ... use of electricity is relatively constant throughout the year. "Efficient" tariff system would not suit the way our business operates.	

	Questions	Customer Answers	Ausgrid Response
16	<p>Do large customers agree with the proposal to phase out legacy DUOS discounts attributed to historical capital contributions? If so, how long should the transition period be?</p> <p>Do large customers agree with our proposed methodology for calculating the DUOS discount for the large customers who are eligible for such a discount due to their legacy capital contributions?</p> <p>Do stakeholders agree with our proposed partial discount approach to apply for customers that are already receiving a DUOS subsidy? If not, please explain.</p>	<p>... is of the view that any customer capital contributions should be taken into account. Furthermore, ... is of the view that customer contributions should be taken into account for the whole life of that asset and depreciated in line with Ausgrid's assets, rather than for the limited period imposed under Ausgrid's new capital contribution policy.</p> <p>... agrees that discounts should continue to apply to customers that have made a capital contribution under Ausgrid's previous capital contribution policy.</p> <hr/> <p>No. Discounts should be applicable for as long as infrastructure is still being used by respective stakeholder.</p>	<p>Ausgrid notes that two large customers have objected to the proposed phasing out of legacy capital contribution discounts to DUOS. In the case of one of the respondents the proposed DUOS is zero until the TUOS charges have reached the cost recovery level. Applying a specified discount equivalent to the present value of the original capital contribution would result in a negative DUOS charge for this customer, which would be difficult for Ausgrid to justify. The other large customer who objected to Ausgrid's proposal to phase out the discount to DUOS from legacy capital contributions does not have any legacy capital contributions so is not a potential beneficiary of the legacy capital contribution discounts. Given the large customer response to this issue, Ausgrid is of the view that the proposed policy of phasing out legacy capital contribution discounts can be justified.</p>

	Questions	Customer Answers	Ausgrid Response
17	<p>Do large customers agree with potential new default tariff for new transmission-connected sites? If not please explain.</p>	<p>Any tariff published by Ausgrid for a direct connection to the transmission network should be available to all users, both existing and new.</p> <hr/> <p>... agrees with Ausgrid's position</p>	<p>Ausgrid notes the support of large customers to the introduction of a default transmission connected tariff.</p>

	Questions	Customer Answers	Ausgrid Response
18	<p>Do large customers agree with Ausgrid's potential option for transitioning prices to efficient levels in respect to customers on an individually calculated tariff? If not, please explain.</p>	<p>If Ausgrid is committed to ensuring cost reflective pricing, then more transparency on Ausgrid's costs is needed. Leading up to the last regulatory period, ... was given no warning, and had no expectations, of the massive price hikes which were pending. Had ... been aware, then capital spending decisions would have been different, plant configurations may have been modified and the marketing of products would have been refocused.</p> <p>... agrees with Ausgrid's position in respect to transitioning NUOS charges; however it does not agree with Ausgrid's allocation of CCF charges. For transmission and sub transmission customers the CCF charges make up a very large part of their NUOS bill. If Ausgrid continues with the current cost allocation/recovery methodology for CCF from these customers it will only serve as an incentive to bypass the Ausgrid network entirely.</p> <p>No. ... use of electricity is relatively constant throughout the year. "Efficient" tariff system would not suit the way our business operates.</p>	<p>Ausgrid notes that large customers agree with the policy of transitioning NUOS prices for large customers. Ausgrid has noted that large customers prefer the existing price structure compared with the proposed efficient price structure. Ausgrid proposes to use the transitioning pricing approach to minimise price shocks for those large customers who are not currently recovering the pass through TUOS costs.</p>

Summary of Key findings

(i) *Tariff class assignment rules based upon Voltage at the metering point*

There is unanimous agreement from respondents with the tariff class assignment being based upon the Voltage at the metering point

(ii) *Tariff class assignment rules for large business customers*

There is unanimous agreement from respondents with the tariff class assignment rules.

(iii) *Default Tariff assignment rules for large business customers*

There is support for default tariff assignment where the criteria for tariff class assignment are known by the customer.

(iv) *Tariff re-assignment rules for large business customers*

The proposed tariff re assignment rules for large business customers are not supported by large customers. Additional clarity required for the tariff re assignment procedure.

(v) *Dynamic peak pricing signals for LRMC and Summer/Winter peak periods*

Dynamic peak pricing is generally not supported. Peak period capacity pricing only applying during the summer and winter peak period has support from a majority of respondents.

(vi) *Localised dynamic peak pricing applied in only capacity constrained network areas*

Peak period capacity pricing only applying during the summer and winter peak period has support from a majority of respondents.

(vii) *Signaling the LRMC through the peak energy or capacity charge. Residual costs also recovered through the capacity charge rather than just relying on the fixed charge.*

All respondents have a preference for capacity pricing compared with peak energy pricing.

(viii) *N/A*

(ix) *Method for allocating residual costs*

There appears to be general agreement with Ausgrid's method of allocating residual costs

(x) *Method for the allocation of Transmission related costs*

There appears to be general agreement with Ausgrid's method of allocating Transmission costs

(xi) *What constitutes an efficient tariff for large customers?*

The respondents did not agree that the proposed efficient tariff was efficient. There was a preference for a capacity based tariff.

(xii) *Would the introduction of efficient tariffs be undesirable for large customers?*

None of the respondents supported a dynamic peak price tariff. This implies that efficient tariffs are considered to be un-desirable for large customers.

(xiii) *Introduction of peak periods to only the Summer and Winter seasons and without CPI constraint*

Responses unclear, however some support for cost reflective and capacity based pricing.

(xiv) *Application of published DUOS rates for large customers*

No significant response but agreement with the avoidance of price shocks

(xv) *Transitioning of TUOS for large customers*

There is some agreement with the transitioning of TUOS for large customers.

(xvi) *Phasing out of legacy DUOS discounts and methodology calculation and DUOS subsidies*

There is not any support for the phasing out of legacy capital contributions.

(xvii) *New default Transmission connected tariff*

There is support for the introduction of a Transmission connected tariff for large customers.

(xviii) *Transitioning methodology for large (ICT) customers*

There is some agreement with the proposed transitioning methodology. There is a general request for greater transparency with the price transitioning process than what has been available in the past.

(xix) *Other Issues raised by customers*

During the period of rapid demand growth after 2000, there appeared to be a lack of demand side management solution offered by Ausgrid which may have mitigated the proposed subsequent network augmentation program.

There should be increased pricing transparency for large ICT customers.

There should be greater network price incentives for large customer to reduce their maximum demand.

With respect to the dynamic peak pricing tariff, how would a customer know if they were in an area of critical peak congestion?

If Ausgrid is concerned about capacity limitations on parts of its network, and it should be, then capacity based pricing makes most sense. Given that all large energy users now have smart metering installed there should be no barrier to capacity based pricing. This is a true market signal to drive investment in the network and in customer's premises.