

Ausgrid's Revised Tariff Structure Statement

Options paper

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1 Introduction

On 9 August 2016, Ausgrid held a stakeholder forum to discuss the key elements of the Australian Energy Regulator's (AER's) draft decision on our Proposed Tariff Structure Statement (TSS) and to understand stakeholders' views on these issues. In particular, Ausgrid sought feedback on the AER's decision not to approve a declining block tariff and to shorten the periods over which peak and shoulder prices apply. The link between revenue cap and price stability was also discussed.

This paper outlines the preliminary options on key matters that Ausgrid is considering for its revised TSS, based on the AER's draft decision and the stakeholder feedback provided at the forum.

2 Price stability under a revenue cap

Under a revenue cap, Ausgrid sets network tariffs each year to recover the allowed revenue amount on the basis of a forecast of energy consumption and demand. If our customers consume more energy than we forecast, we earn more tariff revenue than our allowance in that year, which must be returned to customers in the form of a price adjustment (lower prices) in the following year. Alternatively, if our customers consume less energy than we forecast, we earn less tariff revenue than our allowance in that year. Ausgrid may recover this from customers the following year in the form of a higher price.

From our discussions with stakeholders we understand that maintaining price stability where possible is important to our customers. We are therefore focussing on options that allow us to manage price variability for customers as effectively as possible.

3 Declining block tariff versus flat tariff

For customers with basic meters, Ausgrid proposed to apply a Declining Block Tariff (DBT) comprising a fixed charge and three charging blocks, where the applicable price level for each charging block reduces as consumption increases.

The AER did not approve Ausgrid's proposed DBT on the basis that:

- Ausgrid did not provide evidence that small users in the first block (<4MWh pa) are less responsive than users in the second block (4-8 MWh pa) and third block (>8 MWh pa);
- Ausgrid does not face significant revenue risk and the revenue cap ensures that we earn our allowed revenue over time; and
- the revenue cap provides a significant degree of price stability to customers.

At the forum, stakeholders expressed greater support for a flat tariff in place of a declining block tariff for the 2017-19 TSS.

With this in mind, Ausgrid is considering the adoption of a flat tariff for customers on basic meters, along with the corresponding implications for price stability and customer bill impacts. Ausgrid welcomes further views from stakeholders on this matter.

4 Demand charges

A demand charge involves applying a price to the highest maximum half hourly demand recorded for a customer over a defined period.

Ausgrid did not propose demand charges for residential customers in its proposed TSS, however, some stakeholders expressed support for such a tariff at the forum. A demand charge may better reflect the costs associated with maintaining the necessary infrastructure to support consumption at peak periods, as compared with usage based tariffs.

Ausgrid considers that the implementation of demand charges would necessitate extensive consultation and detailed analysis of the price stability and customer bill implications. At this stage, Ausgrid considers that it would be challenging to develop and adequately assess the implications of demand charges in time to submit our revised TSS on 4 October 2016.

Nevertheless, Ausgrid agrees with stakeholders that demand charges have merit and could play a role in transitioning to cost reflective prices. Given this, and bearing in mind stakeholder feedback, Ausgrid will include options for a demand charges as we engage on the next TSS for 2019-24. We will utilise the period from November 2016 to the submission of the 2019-24 TSS to understand the impacts of change on customers and stakeholder views.

5 Time of use and peak times

Ausgrid's proposed seasonal TOU tariff for residential and small business customers is:

- Fixed charge: cents per day;
- Summer peak charge: price applied to energy consumption between 2pm and 8pm on business days in summer (1 November to 31 March);
- Winter peak charge: price applied to energy consumption between 2pm and 8pm on business days in winter (1 June to 31 August);
- Shoulder charge: price applied to energy consumption:
 - from 7am to 2pm and 8pm to 10pm on working weekdays in summer and winter;
 - from 2pm to 8pm on working weekdays outside of the summer and winter months; and
 - from 7am to 10pm on weekends and public holidays; and
- Off-peak charge: price applied to energy consumption at all other times.

Ausgrid proposed to introduce seasonal peak energy price signals to low voltage connected customers in the final year of the current regulatory control period so as to give our customers more time to prepare for this change in tariff structure. Further, Ausgrid proposed to delay the application of incremental refinements to the charging windows until the next TSS so as to enable more analysis and discussion with stakeholders.

The AER did not approve our proposal on the grounds that it is not satisfied that it represents a movement towards cost reflectivity. The AER's draft decision is that Ausgrid should:

- reduce the period over which peak prices apply such that peak prices apply:
 - from 2pm to 4pm on working weekdays in summer (1 November to 31 March); and
 - from 5pm to 7pm on working weekdays in winter (1 June to 31 August); and
- reduce the period over which the shoulder price applies by removing the shoulder period on weekends, ie, making weekends off-peak.

These changes will result in an increase in the peak price in Ausgrid's TOU tariff along with an increase in fixed charges and/or off-peak charges, with corresponding implications for price stability and customer's bills.

It is for these reasons that a number of stakeholders have expressed concerns with the AER's draft decision to shorten the peak period and remove the shoulder period on weekends. Ausgrid is currently undertaking further analysis of the price stability and customer bill impacts arising from the AER's draft decision to amend the charging windows.

At this stage, Ausgrid is considering:

- maintaining its existing approach and providing to the AER more detailed information in support of the proposed period over which peak charge is applied;
- amending the period over which peak charge is applied to be consistent with the AER's draft decision; or
- incorporating some, but not all, of the AER's draft decision in the revised TSS, say by shortening the winter peak period only.

Ausgrid welcomes stakeholder feedback on these alternatives.

6 Assignment of new retail customers

Though not discussed at the forum, Ausgrid still would like to seek stakeholders' feedback on the AER's draft decision on the assignment of new retail customers.

Ausgrid proposed to assign:

- new customers with solar PV installations to a TOU tariff, with the option to opt-out to a transitional flat TOU tariff; and
- new customers without solar PV installations to a transitional flat TOU tariff, with the option to opt-in to a more cost reflective TOU.

The AER's draft decision is that all new customers, not just those with solar PV installations, should be assigned to a more cost reflective TOU tariff, with the option to opt-out to a transitional flat TOU tariff.

Ausgrid welcomes stakeholder feedback on the assignment of new customers to TOU tariffs. At this stage we are likely to amend our proposal to reflect the AER's draft decision.

We are interested in your views on these views. You can provide your views by emailing us at yoursay@ausgrid.com.au by Tuesday 6 September 2016. Ausgrid must submit its revised TSS to the AER by 4 October 2016.