

4 October 2016



Ms Paula Conboy  
Chair  
Australian Energy Regulator  
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Chief Executive Officer

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Dear Ms ~~Conboy~~ *Paula,*

### **Ausgrid's revised Tariff Structures Statement**

I refer to the Australian Energy Regulators draft decision on Ausgrid's Tariff Structure Statement (TSS) issued on 2 August 2016. Since that time we have given careful consideration to the content of that decision and the implications it has on the tariff reforms we proposed under our initial submission. As part of our continuing commitment to improve engagement with our customers, we have also taken the opportunity to conduct briefing sessions with our key stakeholders to seek their views on our preferred approach, the AER's draft decision and their input into the construct of our revised submission.

In view of these recent developments, we have now arrived at a different position from that contained within our initial submission. Accordingly, and in line with your requirements, please find attached Ausgrid's revised TSS submission for your consideration. This comprises:

- an overview of Ausgrid's revised TSS;
- Ausgrid's revised TSS; and
- appendices to the revised TSS containing supporting information.

### *Ausgrid's Tariff Strategy*

Ausgrid's principle approach to tariffs remains unchanged. Our focus is on providing effective price signals to customers about the costs they impose on the network from electricity use, while balancing the potential bill impact from any tariff structure change.

However, as a result of the AER's draft decision and feedback obtained via our ongoing engagement with customer stakeholders, Ausgrid has now decided to:

- replace its proposed declining block tariff for residential and small business customers with a flat-rate usage charge that applies irrespective of total electricity consumption;
- retain the proposed rebalancing constraint;

- retain the proposed introduction of seasonality;
- change the peak period definition for its residential time-of-use tariff in the winter months, to 5pm to 9pm;
- continue to promote uptake of time-of-use tariffs through an associated bill discount;
- make time-of-use tariff (TOU) structures the default tariff structure for all new connections - with the option to opt-in to a transitional TOU tariff structure;
- retain transitional tariffs directed at mitigating potential customer bill impacts arising from particular reforms;
- remove the weekend shoulder period for small business customers; and
- retain the proposed new tariff for customers connected directly to the transmission network.

Overall, Ausgrid believes that these reforms achieve the AER's desire for a more rapid transition towards cost reflective tariff structures, while at the same time striking an appropriate balance in terms of customer bill impact.

#### *Signalling future costs so as to lower customer bills*

Another important dimension to our tariff strategy is the need to signal to customers the future costs that will arise from their use of the network so as to promote efficient customer decisions on usage.

It is for this reason that Ausgrid's strategy differs from what we understand to be the AER's focus on improving the price signals via usage based tariff structures that do not vary by time, ie, either a declining, inclining or flat tariff structure.

Ausgrid believes that our focus is better placed on transitioning customers to more innovative tariff structures that more closely link to our future operational and capital expenditure requirements. This will likely require a closer consideration of more targeted tariff structures which may be differentiated both by timing and (possibly) location.

Considering how these ideal tariff structures might be designed, and working through the possible behavioural changes and risks for the network will be complex and necessitates a deep familiarity with our network. To this end, Ausgrid is cognisant of the need for distribution businesses to retain ownership of the pricing processes (consistent with the intention of the AEMC<sup>1</sup>). While Ausgrid was concerned with the network efficiency and cost implications of some elements of the AER's draft decision, eg, a significant narrowing of the peak periods, we acknowledge that these circumstances can be somewhat avoided by working more collaboratively with the AER in the development of our next TSS.

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<sup>1</sup> AEMC 2014, *Rule Determination, National Electricity Amendment (Distribution Network Pricing Arrangements) Rule*, November, p.157, p.160 and p.213.

Further, it will be important to transition these tariff structure changes so as to balance the possible network reliability risks with bill impacts. In this way, our tariff strategy will link more closely with our demand management strategies and drive the efficient use of our network. This is clearly in the long term interests of our customers.

Finally, we do not believe that tariff structure changes can be rushed. This is to ensure that any changes are implemented in combination with effective marketing efforts in collaboration with retailers – so as to maximise the likely effect they will have on customer usage behaviour.

*Customer engagement and development of Ausgrid's Next TSS*

Looking forward, Ausgrid is already making preparations with respect to the development of our next TSS to be submitted in early 2018. As part of this, we anticipate that there will be a need to engage with the AER and stakeholders on other tariff structures that will be effective at signalling to customers the future operational and capital costs that are potentially avoidable by changing consumption behaviours. The outcomes of this engagement will also be integrated into our next revenue proposal.

The preparation of this revised TSS demonstrates our commitment to not only engaging with our stakeholders on matters of interest/impact to them, but to incorporating their views and ideas into our current and future tariff strategies. As we move towards the next TSS and revenue submissions, we will continue to build both our relationships and levels of engagement with our key and representative stakeholders.

I trust that our revised TSS and supporting documentation provides all of the information required to enable the AER to confirm its compliance with the rules. Should you require further information or have any questions in relation to Ausgrid's revised TSS, please contact Ausgrid's Chief Financial Officer, Joseph Pizzinga, on (02) 9269-2121.

Yours sincerely



**TREVOR ARMSTRONG**  
Acting Chief Executive Officer