



24 January 2020

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Dear Arek,

I write in relation to Ausgrid's proposed embedded network tariffs, our amended Tariff Structure Statement (TSS amendment) and the AER's public forum on 15 January 2020. This letter is a response to the AER's call for submissions made at the public forum.

Ausgrid is not the first distribution network to propose an embedded network tariff. Our TSS amendment was driven by a recognition that under existing pricing arrangements the cost of running the shared network is not shared equitably between customers within embedded networks and those outside embedded networks. Our TSS amendment followed several recent reviews which found that existing regulatory arrangements for embedded networks are not delivering the best outcomes for customers.

Throughout 2019 we consulted with our customer advocates, market bodies, embedded network operators and governments about this issue. Our analysis showed that each residential and small business customer connecting directly to our network is providing a subsidy of about \$30 a year to existing embedded networks. This reflects a network tariff arbitrage opportunity for embedded network operators and has been one of the drivers of the growth in embedded networks.

Our customer advocates, including our Pricing Working Group, strongly supported an amendment to our TSS to ensure that all customers are playing on a more level playing field when it comes to network tariffs. In response to specific feedback from our embedded network customers we designed a TSS amendment that is more cost reflective and rewards embedded network operators for reducing peak demand behind the meter, to the benefit of all customers. To ensure that there is a gradual introduction of our proposed new tariff, we also proposed to grandfather or exempt existing embedded networks until there is a change in the way they are connected to our network.

Importantly, because we are regulated under a revenue cap, our proposed TSS amendment will not result in us recovering more revenue. Rather, we are driven by our Energy Charter commitments to provide cost efficient and fair outcomes for all our customers.

We appreciate the engagement and collaboration from AER staff on our TSS amendment. However, we were surprised to hear at the 15 January 2020 public forum that AER staff

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propose to reject our application on the basis that we have not met the trigger for a TSS amendment.

We agree with the AER that the policy intent of the TSS framework is to provide greater certainty about tariff structures, thereby allowing retailers to design their retail tariffs and for customers to respond to the price signals. However, in the 2014 *Distribution Network Pricing Arrangements* rule determination the AEMC clearly recognised that distributors can be faced with unexpected events that require changes to a TSS. The AEMC provided examples which demonstrate that while the AEMC clearly wanted the hurdle for amending a TSS to be high, the hurdle is not so high as to make changing a TSS practically impossible.

As we have previously explained to AER staff in response to information requests, we consider that a combination of three events is a sufficient trigger to meet the first of the conditions for a TSS amendment. These events are:

- publication of the AEMC's final report in its embedded networks review;
- the significant increase in embedded network connections in 2018 and 2019; and
- the AER's rejection of our embedded network placeholder tariff in its April 2019 final decision.

At the 15 January public forum AER staff expressed the view that each of these triggers, in isolation, are not sufficient to trigger a TSS amendment. However, AER staff did not comment on the combined effect of these three events. When combined, in our view they present a substantial trigger that was beyond our control and could not have reasonably been foreseen.

Given the amount of research and consultation that has been undertaken and the support from customer advocates, it will be a disappointing outcome if the AER rejects our TSS amendment on the basis that we have not met the required trigger. We welcome the opportunity to work with the AER and stakeholders to discuss the merits of our proposal and make any modifications in response to stakeholder feedback.

Without pre-empting the AER's decision on our proposed TSS amendment, we would like to emphasise that tariff and pricing challenges presented by embedded networks need to be addressed. We are committed to working constructively with the stakeholders and the AER to develop a more efficient tariff structure that will benefit our customers now and in the future.

We appreciate the AER's offer of further dialogue on this issue prior to making its decision on our TSS amendment. Alexandra Sidorenko can be contacted on 02 9269 4360 or alexandra.sidorenko@ausgrid.com.au to arrange a suitable time for a meeting.

Regards,



Iftekhar Omar
Head of Regulation