

Ausgrid Network Pricing Proposal For the Financial Year Ending June 2015

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1. Introduction and Overview

Introduction

Ausgrid's distribution and transmission services are subject to price regulation. The Australian Energy Regulator (AER) is responsible for regulating the revenues of distribution and transmission network service providers in the National Electricity Market. The AER exercises its functions in accordance with the National Electricity Law (NEL) and the National Electricity Rules (NER).

In November 2012, the Australian Energy Market Commission (AEMC) introduced major changes to the economic regulation of distribution and transmission network service providers in the National Electricity Market. Prior to the amendments under Chapter 6 and Chapter 6A of the NER, a new five yearly determination was to apply to Ausgrid and the other distribution and transmission network service providers in NSW and ACT on 1 July 2014. However, to allow for an expedited transition to the new rules, the rules provide for a two stage approach for the regulation of the NSW and ACT network service providers over the next five years. The first stage involves the AER making a transitional (placeholder) determination for FY15. The second stage is the AER making a full regulatory (final) determination to apply to the 2014-2019 regulatory control period with a true-up to apply if the revenue decision in the final determination differs from the transitional determination.

The AER published their transitional determination in April 2014. The following table shows the AER's placeholder revenue for Ausgrid's distribution and transmission standard control services in FY15.

Table 1: AER's Transitional (Placeholder) Revenue

	Units	FY14	FY15	%
Distribution Standard Control Services	\$m	2,109	1,958	-7.2%
Transmission Standard Control Services	\$m	268	252 ¹	-6.0%

¹ In addition to this placeholder revenue, Ausgrid proposes to recover \$18.4 million under-recovery of transmission related costs, this is detailed further in Chapter 7.

In line with the transitional decision, the total impact on the overall network component of the annual electricity bill for customers on the inclining block tariffs (IBT) in FY14 is summarised below:

- a typical residential customer² on IBT is estimated to receive a nominal network use of system bill decrease of around 24 cents per week in FY15.
- a typical small business customer³ on IBT is estimated to receive a nominal bill increase of around 22 cents per week in FY15.

This pricing proposal is submitted for review and approval by the AER as required under Chapter 6 of the National Electricity Rules (the Rules).

While every attempt has been made to write this document in a style easily understood by external stakeholders that are not familiar with network pricing and regulatory concepts, it has been necessary to introduce the reader to some technical terms.

² For an average residential customer on the inclining block tariff who consumes 5,000 kWh per annum, and does not have controlled load hot water. Forecast bill outcome excludes GST. Retail related cost increases not included.

³ For an average small business customer on the inclining block tariff who consumes 10,000 kWh per annum. Forecast bill outcome excludes GST. Retail related cost increases not included.

1. Overview and Outline

This document is Ausgrid's formal Pricing Proposal for FY15 and is submitted for review and approval by the Australian Energy Regulator (AER) as required by clause 6.18.2(a)(2) of the Transitional Chapter 6 Rules. It is structured to allow ready assessment of compliance by the AER.

Outline of Compliance with Rules

Ausgrid's Pricing Proposal assesses all of the requirements set out in Rule 6.18.2. Our pricing proposal also demonstrates compliance against the applicable distribution determination, as required under Clause 6.18.2(b)(7) of the Rules.

Specifically, the proposal sets out the tariff classes, tariffs and charging parameters, and expected revenue for the year commencing 1 July 2014 and ending 30 June 2015.

This pricing proposal is structured as follows:

- Chapter 1 provides an overview of the pricing proposal document.
- Chapter 2 sets out the proposed tariff classes for standard control services, the basis for the proposed tariff classes, and Ausgrid's procedures for the assignment and reassignment of customers to tariff classes;
- Chapter 3 sets out the proposed tariffs and charging parameters, and the matters that Ausgrid has taken into account when determining these tariffs and charging parameters including the long run marginal costs of providing services to each tariff class, the transaction cost implications and the scope for customers to respond price signals;
- Chapter 4 sets out the weighted average revenue by tariff class and compares it to the efficient revenue boundary defined by the standalone cost and avoidable cost;
- Chapter 5 briefly discusses the variations to tariffs;
- Chapter 6 sets out the obligations on Ausgrid to recover our contribution to the Climate Change Fund;
- Chapter 7 sets out the approach to passing through the cost of transmission use of system services;
- Chapter 8 sets out the changes since the previous regulatory year, as provided for in the Determination and the Rules; and provides information on how the pricing proposal complies with the requirements for pricing proposals as set out in the Rules.
- Chapter 9 sets out the proposed new network tariffs for FY15.
- Chapter 10 sets the tariffs and tariff class for Ausgrid's public lighting services for FY15.
- Chapter 11 sets out the tariffs and tariff class for Ausgrid's ancillary network services for FY15. These services have been previously known as miscellaneous and monopoly services

Ausgrid notes that Attachment D to this proposal demonstrates that our proposed prices for FY15 comply with the AER's transitional decision and our obligations under Chapter 6 of the National Electricity Rules.

2. Network Tariff Classes

RULE REQUIREMENT

Clause 6.18.2(b)(1) of the NER requires that a pricing proposal must set out the tariff classes that are to apply for the relevant regulatory year

In addition, when developing procedures for assigning customers to tariff classes the AER is required to have regard to the following principles;

(1) customers should be assigned to tariff classes on the basis of one or more of the following factors:

(i) the nature and extent of their usage;

(ii) the nature of their connection to the network;

(iii) whether remotely-read interval metering or other similar metering technology has been installed at the customer's premises as a result of a regulatory obligation or requirement;

(2) customers with a similar connection and usage profile should be treated on an equal basis;

(3) however, customers with micro-generation facilities should be treated no less favorably than customers without such facilities but with a similar load profile.

Clause 6.18.3(d) requires that a tariff class be constituted with regard to the need to group customers together on an economically efficient basis, and the need to avoid unnecessary transactions costs.

230V), high voltage (5kV, 11kV and 22kV) or sub-transmission voltage (33kV, 66kV and 132kV)⁴;

- the usage of the customer (ie, maximum demand exceeding 10MW or total usage of 40 GWh per annum); and
- the metering installed in the customer's premise (ie metered or unmetered).

Table 1 defines Ausgrid's proposed tariff classes for direct control services in FY15.⁵

Proposed tariff classes for Alternative Control Services which are Ausgrid's Public Lighting and certain Ancillary Network Services are set out in sections 10 and 11 of this document.

Definition of a Network Tariff Classes

Under Chapter 10 of the NER, tariff classes are defined as representing 'a class of customers for one or more direct control services, who are subject to a particular tariff or particular tariffs'.

Proposed Network Tariff Classes for Standard Control Services

Ausgrid proposes to make no changes to the tariff classes for FY15. Customers are assigned to tariff classes on the following basis:

- the voltage connection required by the customer, namely low voltage (400V and

⁴ Please note that the voltage level of the connection is defined at the metering point

⁵ Please note that the tariff classes for Miscellaneous & Monopoly Services are set out in Attachment E. Tariff classes for public lighting services are set out in Chapter 9.

Table 1: Ausgrid's Proposed Tariff Class Descriptions - FY15

Tariff Class	Network Tariff	Definition
Low Voltage	EA010 – Residential Inclining Block	Applicable to separately metered low voltage (400V or 230V) connections.
	EA025– Residential Time of Use	
	EA030 – Controlled load 1	
	EA040 – Controlled load 2	
	EA050– Small Business Inclining Block	
	EA225– Small Business Time of Use	
	EA302 – LV 40-160 MWh (System)	
	EA305– LV 160-750 MWh (System)	
	EA310 – LV > 750 MWh (System)	
EA325 – LV Connection (Standby - Closed)		
High Voltage	EA360 – HV Connection (Standby - Closed)	Applicable to any connection at high voltage (11kV) that is not otherwise eligible for a CRNP as defined below.
	EA370 – HV Connection (System)	
	EA380 – HV Connection (Substation)	
Sub-transmission	EA390 – ST Connection	Applicable to any connection at a sub-transmission voltage (132/66/33kV) that is not otherwise eligible for a CRNP price, as defined below.
Cost Reflective Network Prices (CRNP)	Customer Specific Prices	Applicable to connections at any voltage that use more than 10 MW of electricity demand on at least three occasions over a 12 month period or consume more than 40 GWh over a 12 month period.
Unmetered	EA401 – Public Lighting	Applicable to any LV connection that is defined as an unmetered supply by Ausgrid in consultation with AEMO as per clause S7.2.3(Item 5) of the NER.
	EA402 – Constant Unmetered	
	EA403 – EnergyLight	

Procedures for the assignment and re-assignment of customers to tariff classes

For the transitional 2014-15 year the rules require that the same procedures for the assignment and re-assignment of customers as applied in the 2009-2014 period should apply to the transitional 2014-15 year. Those procedures are set out in Appendix A to the NSW Distribution Determination 2009-2014. Ausgrid will continue to apply those procedures during the transitional year.

Ausgrid will assign customers to tariff classes by applying the following criteria:

1. A customer's site has a demand in excess of 10 MW on more than three occasions over a consecutive 12 month period, or uses more than 40 GWh per annum, then regardless of the connection voltage, the customer is assigned to the CRNP tariff class for the purpose of demonstrating compliance with the NER at each annual price reset.
2. If the voltage of the supply is 33kV, 66kV or 132kV then the customer is assigned to

the Sub-transmission Voltage Capacity tariff class (unless already assigned to the CRNP tariff class).

3. If the voltage of the supply is 11 kV then the customer is assigned to the High Voltage Capacity tariff class (unless already assigned to the CRNP tariff class).
4. If the voltage of the supply is 400V or 230V and the customer's annual consumption, the customer is assigned to Low Voltage tariff class.
5. If the supply is unmetered then the customer is assigned to the Unmetered tariff class.

Ausgrid's criteria for assigning our customers to tariff classes are shown in the table below.

Table 2: Proposed Criteria for Customer Assignment to Tariff Class

Tariff class	Nature of Network Connection	
	Voltage	Metering
Unmetered	400V/230V	Unmetered
Low Voltage ⁶		Metered
High Voltage	5kV,11kV,22kV	
Sub-transmission Voltage	33kV,66kV,132kV	
CRNP (> 10 MW or 40 GWh)	Any voltage	

If a customer's connection load or characteristics change, the customer will be re-assigned to the appropriate tariff class. This will be carried out annually consistent with the annual review of customers' assignment to network tariffs (as discussed in Attachment

F).

⁶ Please note that the low voltage tariff class applies to all residential and business connections connected to the low voltage distribution network, excluding unmetered connections.

3. Proposed Tariffs and Charging Parameters

RULE REQUIREMENT

Clause 6.18.2(b)(2) requires that the pricing proposal set out the proposed tariffs for each tariff class; and

Clause 6.18.2(b)(3) requires that the pricing proposal set out the charging parameters and the elements of service to which each charging parameter relates,

Rule 6.18.5 sets out the pricing principles that are relevant when determining tariffs and charging parameters.

Rule 6.18.5 further provides that:

(b) A tariff, and if it consists of 2 or more charging parameters, each charging parameter for a tariff class:

(1) must take into account the long run marginal cost for the service or, in the case of a charging parameter, for the element of the service to which the charging parameter relates; and

(2) must be determined having regard to:

(i) transaction costs associated with the tariff or each charging parameter; and

(ii) whether customers of the relevant tariff class are able or likely to respond to price signals.

(c) If, however, as a result of the operation of paragraph (b), the Distribution Network Service Provider may not recover the expected revenue, the provider must adjust its tariffs so as to ensure recovery of expected revenue with minimum distortion to efficient patterns of consumption.

This chapter sets out the proposed tariffs and charging parameters for direct control services for each tariff class for the period of 1 July 2014 to 30 June 2015, and explains the elements of service to which each charging parameter relates. The proposed tariffs and charging parameters for standard control services are set out for each tariff class in Table 3A, 3B 3C and 3D. This chapter also explains how Ausgrid has applied the pricing principles set out in clause 6.18.5 of the NER. In developing the charging parameters, Ausgrid has taken account of a range of estimates of long run marginal cost, and has had regard to transactions costs and the scope for customers to respond to price signals. In addition, Ausgrid has ensured that its network tariffs are designed to recover the difference between marginal and average cost with the minimum of distortion to efficient patterns of consumption.

The tariffs and charging parameters for alternative control services which are public lighting services are discussed in Chapter 9 and set out in Attachments B and C. The tariffs classes and tariffs and charging parameters for Ancillary Network Services (previous known as Miscellaneous and Monopoly Services) are set out in Section 11.

Table 3a: Ausgrid's Proposed FY15 Network Tariffs by Charging Parameter (Exclusive of GST) - DUOS

Tariff Class	Tariff Code	Tariff Name	Network Access Charge c/day	Non-TOU c/kWh	Peak c/kWh	Shoulder c/kWh	Network Energy Prices				Daily Capacity Prices	
							Off-peak c/kWh	Block 1 c/kWh	Block 2 c/kWh	Block 3 c/kWh	Peak c/kW/day	Peak c/kVA/day
Low Voltage	EA010	LV Res non-TOU	39.92					11.40	1.06			
	EA025	LV Res < 40 MWh (System)	52.53		15.11	4.40	2.23					
	EA030	Controlled load 1	3.32	0.01								
	EA040	Controlled load 2	12.84	0.03								
	EA050	LV Business non-TOU(Closed)	126.08					9.57	3.91			
	EA225	LV Business TOU	126.08		10.59	4.77	0.85					
	EA302	LV 40-160 MWh (System)	577.84		11.11	4.61	2.44				33.83	
	EA305	LV 160-750 MWh (System)	1,681.00		8.51	4.17	1.57					33.83
	EA310	LV > 750 MWh (System)	2,100.20		8.57	4.10	1.51					33.83
	EA325	LV Connection (Closed)	2,100.20		7.50	5.56	1.78					
High Voltage	EA360	HV Connection (Closed)	1,891.13	-	4.35	1.80	0.10					
	EA370	HV Connection (System)	4,202.50	-	4.80	1.22	0.60					17.73
	EA380	HV Connection (Substation)	4,202.50	-	3.14	1.66	0.12					17.73
Sub-transmission	EA390	ST Connection	5,253.13	-	0.02	0.02	0.01					5.68
Unmetered	EA401	Public lighting		6.44								
	EA402	Constant unmetered		7.86								
	EA403	EnergyLight		5.34								

Please note that the prices in the table above have been rounded to two decimal places in the pricing proposal document

Table 3b: Ausgrid's Proposed FY15 Network Tariffs by Charging Parameter (Exclusive of GST) - TUOS

Tariff Class	Tariff Code	Tariff Name	Network Access Charge c/day	Network Energy Prices							Daily Capacity Prices	
				Non-TOU c/kWh	Peak c/kWh	Shoulder c/kWh	Off-peak c/kWh	Block 1 c/kWh	Block 2 c/kWh	Block 3 c/kWh	Peak c/kW/day	Peak c/kVA/day
Low Voltage	EA010	LV Res non-TOU						1.00	12.40	14.45		
	EA025	LV Res < 40 MWh (System)			11.41	0.60	0.19					
	EA030	Controlled load 1		1.93								
	EA040	Controlled load 2		5.17								
	EA050	LV Business non-TOU(Closed)						1.00	13.20			
	EA225	LV Business TOU			10.26	1.15	0.46					
	EA302	LV 40-160 MWh (System)			0.28	0.26	0.25					
	EA305	LV 160-750 MWh (System)			0.37	0.36	0.35					
	EA310	LV > 750 MWh (System)			0.59	0.50	0.49					
	EA325	LV Connection (Closed)			0.58	0.50	0.49					
High Voltage	EA360	HV Connection (Closed)			3.06	2.23	1.54					0.44
	EA370	HV Connection (System)			3.06	3.37	1.00					0.44
	EA380	HV Connection (Substation)			3.56	2.90	0.87					0.44
Sub-transmission	EA390	ST Connection			4.02	2.59	1.21					0.10
Unmetered	EA401	Public lighting		1.72								
	EA402	Constant unmetered		2.29								
	EA403	EnergyLight		2.00								

Please note that the prices in the table above have been rounded to two decimal places in the pricing proposal document

Table 3c: Ausgrid's Proposed FY15 Network Tariffs by Charging Parameter (Exclusive of GST) - CCF

Tariff Class	Tariff Code	Tariff Name	Network Access Charge c/day	Network Energy Prices							Daily Capacity Prices	
				Non-TOU c/kWh	Peak c/kWh	Shoulder c/kWh	Off-peak c/kWh	Block 1 c/kWh	Block 2 c/kWh	Block 3 c/kWh	Peak c/kW/day	Peak c/kVA/day
Low Voltage	EA010	LV Res non-TOU						0.46	0.50	0.51		
	EA025	LV Res < 40 MWh (System)			0.27	0.27	0.27					
	EA030	Controlled load 1		0.26								
	EA040	Controlled load 2		0.26								
	EA050	LV Business non-TOU(Closed)						0.96	0.98			
	EA225	LV Business TOU			0.79	0.79	0.79					
	EA302	LV 40-160 MWh (System)			0.85	0.85	0.85					
	EA305	LV 160-750 MWh (System)			0.85	0.85	0.85					
	EA310	LV > 750 MWh (System)			0.81	0.81	0.81					
	EA325	LV Connection (Closed)										
High Voltage	EA360	HV Connection (Closed)			0.80	0.80	0.80					
	EA370	HV Connection (System)			0.81	0.81	0.81					
	EA380	HV Connection (Substation)			0.81	0.81	0.81					
Sub-transmission	EA390	ST Connection			0.81	0.81	0.81					
Unmetered	EA401	Public lighting		0.79								
	EA402	Constant unmetered		0.79								
	EA403	EnergyLight		0.79								

Please note that the prices in the table above have been rounded to two decimal places in the pricing proposal document

Table 3d: Ausgrid's Proposed FY15 Network Tariffs by Charging Parameter (Exclusive of GST) - NUOS

Tariff Class	Tariff Code	Tariff Name	Network Access Charge c/day	Network Energy Prices							Daily Capacity Prices	
				Non-TOU c/kWh	Peak c/kWh	Shoulder c/kWh	Off-peak c/kWh	Block 1 c/kWh	Block 2 c/kWh	Block 3 c/kWh	Peak c/kW/day	Peak c/kVA/day
Low Voltage	EA010	LV Res non-TOU	39.92					12.86	13.96	14.96		
	EA025	LV Res < 40 MWh (System)	52.53		26.79	5.27	2.69					
	EA030	Controlled load 1	3.32	2.20								
	EA040	Controlled load 2	12.84	5.46								
	EA050	LV Business non-TOU(Closed)	126.08					11.52	18.09			
	EA225	LV Business TOU	126.08		21.64	6.71	2.10					
	EA302	LV 40-160 MWh (System)	577.84		12.23	5.72	3.54				33.83	
	EA305	LV 160-750 MWh (System)	1,681.00		9.72	5.38	2.77					33.83
	EA310	LV > 750 MWh (System)	2,100.20		9.97	5.41	2.80					33.83
	EA325	LV Connection (Closed)	2,100.20		8.08	6.06	2.27					
High Voltage	EA360	HV Connection (Closed)	1,891.13		8.21	4.83	2.45					0.44
	EA370	HV Connection (System)	4,202.50		8.67	5.39	2.41					18.17
	EA380	HV Connection (Substation)	4,202.50		7.51	5.35	1.79					18.17
Sub-transmission	EA390	ST Connection	5,253.13		4.85	3.41	2.03					5.78
Unmetered	EA401	Public lighting		8.95								
	EA402	Constant unmetered		10.95								
	EA403	EnergyLight		8.14								

Please note that the prices in the table above have been rounded to two decimal places in the pricing proposal document

There are three elements of service for which charging parameters are defined, namely:

- Network access charge per day per connection (c/connection/day) – this is a flat charge per connection, charged on the basis of the number of days of access to the network for that connection. A connection is defined as any connection to the network requiring a unique National Metering Identifier (NMI) as defined by the AEMO National Metering Identifier Procedure;
- Electricity usage charge (c/kWh) – this is a charge per unit of electricity supplied to a connection point, through a primary tariff or also through an additional secondary tariff (usually controlled load hot water as seen from the Non-ToU charging parameter); and
- Capacity charge per kiloWatt or kilovoltAmp, per day (c/kW/day or c/kVA/day) – this is a charge based on a customer’s maximum demand recorded on a working weekday, in any half-hour period between 2pm and 8pm over the twelve months preceding the end of the current billing month. Maximum demand is

recorded in either kW or kVA according to the customer’s metering functionality.

In addition, there are a number of alternative components for the electricity usage charge including:

- An inclining block charge – this charge which is triggered once a threshold amount of electricity use has been used in each billing quarter. All electricity used after this point is charged at a higher rate based on (¢/kWh). For example, the residential IBT structure has three blocks with annual energy consumption thresholds at 0 to 4000 kWh, 4000 to 8000 kWh and greater than 8000 kWh. The business IBT structure has two blocks with an annual energy consumption threshold at 10,000 kWh pa.
- Time of use consumption charges vary according to the time of day of consumption and whether it is a weekday, or weekend/public holiday, as summarised in Table 4.

Table 4: Time of Use periods for Tariffs

Customer Type	Annual consumption	Time of Use period definition
Residential and Small Business	< 40 MWh per annum	Peak period: 2.00 pm – 8.00 pm on working weekdays. Shoulder period: 7.00 am – 2.00 pm and 8.00 pm – 10.00 pm on working weekdays and from 7.00 am – 10.00 pm on weekends and public holidays Off-Peak period : All other times
Medium and Large Business	> 40 MWh per annum	Peak period: 2.00 pm – 8.00 pm on working weekdays. Shoulder period: 7.00 am – 2.00 pm and 8.00 pm – 10.00 pm on working weekdays Off-Peak period : All other times

Ausgrid uses the Inclining Block Tariff (IBT) structure for customers with Type 6 metering installations. The inclining block pricing structure is designed to encourage energy conservation, particularly for customers with air-conditioners who use significantly more

energy (and contribute more to summer peak network congestion) than other customers. The structure of the IBT also provides a financial incentive for customers with larger energy consumption to switch to a more cost reflective time of use tariff.

The price differential between the first, second and third block consumption under the IBT structure has been set based on an assessment of customers' capacity to respond to the price signal.

Ausgrid believes that the current three block structure represents the best option (under basic accumulation metering) in terms of ensuring that Ausgrid is able to recover its network costs from residential IBT customers in an efficient and equitable manner. On this basis, Ausgrid does not intend to change the consumption thresholds under the current IBT structure.

To mitigate concerns over volume risk Ausgrid proposes to reform the IBT by reducing the price differences between the consumption blocks under the IBT structure in FY15 as part of a transitional strategy towards a declining block structure, while continuing to keep its share of customer bill increase to CPI or below. Ausgrid proposes to gradually move towards a declining block structure to help make distribution prices more stable and predictable for customers in the longer term.

Ausgrid is aware that reforming the default residential tariff will result in some customer impacts if implemented in a single year. To manage the transition to a declining block tariff it is proposed that Ausgrid take the following sequential steps:

1. Reduce the existing IBT price differential between blocks 1 and 2 and 2 and 3 of the IBT structure towards zero.
2. Transition the "flat" energy price structure to a declining block tariff structure over time.

Ausgrid has commenced reducing the current price differential between the three blocks in the IBT referred to in 1 above as part of this pricing proposal and will move to a flat energy price structure by July 2016.

Ausgrid proposes to consult with stakeholders prior to any introduction of a declining block tariff. In particular, Ausgrid would emphasise to stakeholders that even if a declining block tariff was introduced, there would be no distribution bill increases above CPI over the five year regulatory control period.

Ausgrid is also focused on reducing the discount under the TOU tariff by increasing the level of the TOU prices over time to more cost reflective levels. To ensure that our customers on TOU do not receive unacceptable bill outcomes as a result of unwinding this discount, Ausgrid proposes to increase the TOU tariffs by no more than CPI in FY15.

This approach to tariff reform is consistent with Ausgrid commitment to pursuing network tariff reform in a socially responsible manner by striking an appropriate balance between economic and equity objectives.

Long run marginal costs

The concept of marginal costs is important in economics because of the general principle that setting prices equal to marginal costs presents consumers with the opportunity costs of their consumption decisions, and results in an efficient allocation of society's resources.

The timeframe over which marginal costs are considered to vary with consumption is the distinguishing difference between the concepts of short-run marginal cost (SRMC) and long-run marginal cost (LRMC). In the short-run only costs that directly vary with demand can be avoided (such as the need for some repairs and maintenance, or call centre costs), while in the long-run capital costs can be avoided particularly if anticipated demand growth does not eventuate. The LRMC is equal to the SRMC plus the marginal capital costs.

The use of LRMC as a basis for determining usage charges is common in network

businesses to provide customers with signals about the incremental capital and operating costs associated with use of the network. The use of LRMC is preferred over SRMC because of a desire to minimise the scope for network constraints to ration use of the network. In principle, the use of LRMC ensures that sufficient network capacity is made available such that demand is always able to be met by supply capacity.

Importantly, LRMC is a forward looking concept and should be estimated taking into account future expectations of the growth in costs to meet expected increases in demand. There are a number of methods commonly used to estimate the LRMC for network businesses including the Average Incremental Cost (AIC) approach and the Turvey methodology.

These two approaches differ in the methodology used to estimate the incremental impact of changes in demand on capacity

related expenditure. The AIC approach calculates the average of expected capacity related expenditure over the period that output is expected to change. In contrast the Turvey approach directly estimates the change in expenditure resulting from an increment or decrement in forecast demand.

While there are strong theoretical underpinnings in support of the Turvey approach, Ausgrid has instead estimated the LRMC for each of the proposed tariff classes using the AIC approach. That said it intends to investigate the appropriateness of alternative approaches to estimating LRMC for tariff classes for future pricing proposals.

The AIC approach can be expressed algebraically as follows:

$$LRMC(AIC) = \frac{PV(capex) + PV(opex)}{PV(incremental_demand)}$$

where the optimal capital costs are the annualised capital expenditure required to meet the additional demand forecast over the period and the operating costs are those required to serve additional demand over the forecast period. The additional demand served is the forecast change in demand compared to a base year. Ausgrid considers that incremental demand (rather than energy consumption) is the most appropriate volume cost driver for the LRMC analysis. It is also relevant to note that economic cost is also being driven by the uptake of emerging technologies, such as solar PV and electric vehicles. Ausgrid intends to investigate this issue and to consider the implications for the level and structure of network prices.

The AER’s revenue determinations provide for an allowance for a capital expenditure program to meet its overall demand forecasts. This information has been used as the basis for determining the optimal capital costs to be allocated to each individual network tariff. Similarly the additional demand served has also been allocated to these network tariffs. The resulting estimates of the LRMC were aggregated by proposed network tariff class as set out in the following table.

Table 5: Ausgrid’s Long Run Marginal Cost

Tariff Class	LRMC Estimate (\$/kVA)
Low Voltage ⁷	\$156.11
High Voltage	\$170.41
Sub-transmission Voltage	\$38.99
CRNP	\$28.84
Unmetered	\$77.33

Ausgrid LRMC model is extremely sensitive to key assumptions and inputs. Ausgrid believes that there is further scope to improve its estimates of LRMC and remains committed to undertaking a major review of recent economic literature in this area of the price setting function prior to the commencement of next regulatory control period. In light of the distribution pricing rule change request currently under consideration by the AEMC, Ausgrid proposes to delay this review until there is more certainty in this area. It is for this reason that Ausgrid proposes to update the LRMC estimates for FY 2015 to reflect only movements in CPI.

The application of LRMC to the setting of efficient network tariffs is a two step process, as summarised below:

- To select the charging parameter to use to signal LRMC to customers.
- To convert the LRMC estimate from a \$ per kVA basis to a cents per kWh basis, if required.

Ausgrid believes it is efficient (and appropriate) that LRMC estimates be reflected only in the setting of charging parameter(s) that cover the period when there is a material likelihood of system-wide network congestion, which are a key driver of network augmentation costs. A review of Ausgrid’s existing charging parameters indicates that there are strong economic grounds to reflecting LRMC in the setting of peak energy charges given that there is a reasonable probability that usage during

⁷ Please note that the low voltage tariff class applies to all residential and business connections connected to the low voltage distribution network, excluding unmetered connections.

peak periods will be correlated with network driving augmentation costs.⁸ It is important to note that future network tariff reforms could result in the capacity charge, rather than peak energy charges, being the most efficient charging parameter to reflect LRMC. The potential reform options for the capacity charging parameter will focus on improving the economic efficiency of the peak price signal by recognising that marginal costs of peak network capacity vary by the following dimensions:

- Time of year – the network is generally constrained during high peak demand periods of summer and winter;
- Time of day – peak demand during the day tends to reflect temperature conditions and their impact on heating and cooling loads; and
- Location in the network – the balance between peak demand and network capacity tends to vary within the network area.

In recognition of the importance of LRMC based pricing to customers and other external stakeholders, Ausgrid intends to review the methodology and modelling of LRMC in the near future to ensure that this important basis to the setting of peak charges is consistent with best practice.

Given the decision to reflect LRMC in the peak energy charges, it is necessary to convert the LRMC estimates for each tariff class from a \$ per kVA basis to a cents per kWh basis. The formula used by Ausgrid to make this conversion is shown below:

$$LRMC = \frac{LRMC\ Estimate (\$/kVA)}{peak\ hours\ per\ annum \times power\ factor}$$

Applying the above formula results in the conversion of the LRMC estimate from a \$ per kVA to a cents per kWh basis, at each voltage level. The estimates of LRMC using this calculation (adjusted for CPI) are shown for Ausgrid in the table below:

⁸ This correlation is likely to strengthen if the peak period definition is reformed to more accurately reflect summer and winter patterns of network congestion.

Table 6: Ausgrid’s Long Run Marginal Cost Estimate

Tariff Class	Annual Hours of Peak Period	Assumed Power Factor	Range of LRMC Estimate		
			Lower Bound	Point Estimate	Upper Bound
Low Voltage	1,506	0.85	6.9	11.3	25.6
High Voltage	1,506	0.90	3.7	6.2	16.7
Sub-transmission Voltage	1,506	0.95	1.7	2.9	7.9
CRNP	1,506	0.95	2.5	5.2	7.5 [#]
Unmetered	1,506	0.85	7.7	13.1	35.9

#; Substitute estimate

As required by the NER, Ausgrid has taken into account the estimated range of LRMC shown in the above table when setting the peak energy charging parameter of network tariffs for FY15. This has meant that for some network tariffs, where the current peak charge is above or close to the upper range of LRMC, the increase to the peak charge has been minimised in FY15. In addition, Ausgrid has taken into account to need to recover residual costs in a manner that minimises the distortion to efficient consumption patterns, where appropriate to do so in light of our other pricing objectives, such as equity.

Ausgrid intends to investigate the latest developments in LRMC theory and application with the aim of developing a new economic cost model for price-setting purposes in FY16.

Transactions costs

In developing the tariffs and charging parameters, Ausgrid has been mindful of minimising the transactions costs associated with levying charges.

Ausgrid believes that its network tariffs and charging parameters strike the right balance between transactions costs and ensuring that appropriate signals are provided to customers to facilitate the efficient use of network services.

Scope to respond to price signals

Ausgrid’s network tariffs and charging parameters provide both short term and long

term incentives to our customers to modify consumption patterns in line with efficient use of network services.

4. Weighted Average Revenue

RULE REQUIREMENT

Clause 6.18.2(b)(4) of the NER requires that a pricing proposal set out, for each tariff class related to standard control services, the expected weighted average revenue for the relevant regulatory year and also for the current regulatory year.

it compares these revenues with the standalone costs and avoidable costs by tariff class to demonstrate that the proposed tariffs comply with the principles set out in the NER.

The weighted average revenue for FY14 and FY15 is set out in the following table.

This chapter sets out the expected weighted average revenue from tariffs within each tariff class for standard control services. In addition,

Table 7: Expected DUOS Revenue by Tariff Class (\$ million excluding GST)

Tariff Class	Weighted Average Revenue	
	FY14(\$m)	FY15(\$m)
Low Voltage	\$1,970.33	\$1,842
High Voltage	\$43.68	\$43
Sub-transmission Voltage	\$5.15	\$6
Unmetered	\$13.14	\$13
CRNP	\$50.2	\$53
Total	\$2,082	\$1,956

Estimating standalone costs

The standalone costs represent the costs that would be incurred to replicate or bypass the infrastructure used to provide a service. It represents an upper bound of costs that should be recovered from customers in a particular tariff class. If customers were paying above the standalone costs then it follows that it would be economically beneficial for customers to switch to an alternative provider, and similarly if entry was economically feasible it would result in new suppliers entering to provide services. This creates the possibility of inefficient bypass of the infrastructure.

To estimate the standalone costs for a tariff class, Ausgrid has used the construct of a hypothetical new entrant distribution network service provider that is seeking to supply services to each tariff class separately. Ausgrid has then asked what infrastructure and operating costs would be incurred to supply the tariff class alone, without the benefit of any economies of scale and scope arising from the supply of services to all other tariff classes. To assist with estimating the cost of the hypothetical new entrant, Ausgrid has drawn upon information from its own costs as follows:

- Identification of the segments of the network that would be required to provide

services to each tariff class. For example, for HV Business customers we identified the cost of replicating the network from the point of customer connection to the high voltage network to the connection with the TransGrid transmission network.

- Develop an estimate of the annual capital charge for the relevant network by applying the same return to capital and depreciation parameters as set out in the Determination.
- Develop an estimate of the operating costs that would be incurred in order to provide services to the tariff class by identifying those operating costs that are necessarily incurred by Ausgrid for the provision of network services to that tariff class.

The associated summation of the annual estimated capital and operating costs for each

tariff class are therefore estimated to represent the standalone costs that would be incurred by a hypothetical new entrant.

Ausgrid believes that there is scope to improve its estimation of standalone cost and intends to undertake a review prior to the commencement of the next regulatory control period. In light of the distribution pricing rule change request currently under consideration by the AEMC, Ausgrid has decided to delay this review and update the standalone estimates for FY 2015 to reflect only movements in CPI. A more robust standalone cost estimate will be provided to external stakeholders once the review has been completed and there is more certainty under the NER.

The estimated standalone costs for each tariff class are set out in the following table.

Table 8: Comparison of Standalone Costs Vs FY15 DUOS Tariffs

Tariff Class	Total Standalone Cost	Weighted Average Revenue	Weighted Average Revenue as a proportion of Standalone Cost
	FY15 (\$m)	FY15 (\$m)	FY15 (%)
Low Voltage	\$2,220	\$1,842	83%
High Voltage	\$582	\$43	7%
Sub-transmission Voltage	\$211	\$6	3%
Unmetered	\$1,327	\$13	1%
CRNP	\$587	\$53	9%

Estimating avoidable costs

The avoidable costs represent those costs that could be avoided by a business if it was not supplying goods or services to its customers. It represents the lower bound of costs that should be recovered from customers. If customers were charged below the avoidable costs it would be economically beneficial for the business to stop supplying the customer and thereby avoid the associated costs which

would exceed the revenue expected to be obtained from the customer.

To estimate the avoidable costs for each proposed tariff class, Ausgrid has:

- identified those categories of costs that would be avoided if a tariff class was no longer served;
- allocated the cost of each avoidable cost category to each tariff class based on either volume or customer numbers, according to the nature of the cost category, to determine those costs that

would be reduced if a particular tariff class was no longer served;

- summed the allocated avoidable cost for all avoidable cost categories for each tariff class to estimate the total avoidable cost for each tariff class.

The cost categories that were identified as being avoidable included:

- repairs and maintenance – this was identified as a partially avoidable cost given that use of the network impacts on its deterioration and the need for repairs and maintenance;
- customer service – these costs relate to managing billing and customer service enquiries which are related to the number of customers served;
- metering costs – these costs relate to meter reading and meter replacement and are related to the number of customers served;
- corporate and divisional support costs – costs relating to media, marketing and legal expenses can be considered to be driven by the number of customers served; and
- customer connections and installation inspections – these costs can be

considered to be proportional to customers numbers, the voltage and capacity of the connection.

Ausgrid believes that there is scope to improve its estimation of our avoidable costs at the tariff class level. In light of the distribution pricing rule change request currently under consideration by the AEMC, Ausgrid has decided to delay a review of our methodology and modeling of economic costs until there is more regulatory certainty and proposes to update our avoidable cost estimates for FY 2015 to reflect only movements in CPI. of the next regulatory control period. A more robust avoidable cost estimate will be provided to external stakeholders once the review has been completed and the AMEC has made a decision on the proposed rule change request

The following table sets out the avoidable costs for each of the tariff classes.

Table 9: Comparison of Avoidable Costs Vs FY15 DUOS Tariffs

Tariff Class	Total Avoidable Costs	Weighted Average Revenue	Avoidable Cost a proportion of expected revenue
	FY15 (\$m)	FY15 (\$m)	FY15 (%)
Low Voltage	\$274.3	\$1,842	15%
High Voltage	\$5.9	\$43	14%
Sub-transmission Voltage	\$3.7	\$6	62%
Unmetered	\$0.9	\$13	7%
CRNP	\$8.7	\$53	17%

As required under clause 6.18.5(a)(1) of the NER, the following table provides a comparison of weighted average distribution revenue in FY15 with the estimates of standalone and avoidable costs for each tariff

class. As required under the NER, the weighted average distribution revenue lies within the bounds of the upper limit (standalone cost) and the lower limit (avoidable cost)

Table 10: Efficient Pricing Bounds Test

Tariff Class	Total Avoidable Costs	Weighted Average Revenue	Total Standalone Cost
	FY15 (\$m)	FY15 (\$m)	FY15 (\$m)
Low Voltage	\$274.3	\$1,842	\$2,220
High Voltage	\$5.9	\$43	\$582
Sub-transmission Voltage	\$3.7	\$6	\$211
Unmetered	\$0.9	\$13	\$1,327
CRNP	\$8.7	\$53	\$587

5. Variations to Tariffs

RULE REQUIREMENT

Clause 6.18.2(b)(5) of the NER requires that a pricing proposal set out the nature of any variation or adjustment to the tariff that could occur during the course of the regulatory year and the basis on which it could occur

Ausgrid does not propose to make any variation or adjustment to the proposed published tariffs during the course of FY2015.

Ausgrid proposes to re-assign one of the CRNP customers to a new individually calculated CRNP tariff during the course of FY15 to account for an expected change in their network usage patterns as a result of a change in their site configuration. It is for this reason that Ausgrid has made adjustments to the forecast volumes for this CRNP customer to apportion their annual usage between their existing and proposed new CRNP network tariff.

6. Climate Change Fund

RULE REQUIREMENT

Clause 6.18.2(b)(6A) of the NER requires that a pricing proposal must set out the amount paid as jurisdictional scheme amounts which in NSW relate to the NSW Climate Change Fund in or in respect of the relevant regulatory year and any adjustments to tariffs resulting from an over or under recovery of these amounts in any previous regulatory year. The proposal must also show the amount attributed to the recovery of the Climate Change Fund in terms of expected revenue for the relevant regulatory year

Climate Change on Ausgrid's contribution to the Climate Change Fund for FY15.

For the year ending June 2015, Ausgrid will pay around \$148.6m to the Climate Change Fund. Ausgrid expects to recover a similar amount for this purpose from network charges, as shown in the following table.

Attachment E is the correspondence received from the Department of Environment and

Table 11: Overs and Unders Account Forecast Closing Balance – Climate Change Fund

Financial Year Ending	Units	Period t-2	Period t-1	Period t
		Unaudited actual FY13	Expected FY14	Forecast FY15
Interest rate applicable to balance	%	10.02%	10.02%	8.1%
Opening balance overs/(unders)	\$'000	(10)	94	(66)
Interest on opening balance (365 days)	\$'000	(1)	9	(5)
Forecast over/(under) recover for financial year	\$'000	100	(161)	68
Interest charged on over/(under) recovery for financial year	\$'000	5	(8)	3
Closing balance of CCF overs/(unders) account	\$'000	94	(66)	0

7. Transmission Use of System Services

RULE REQUIREMENT

Clause 6.18.2(b)(6) of the NER requires that a pricing proposal must set out how charges for designated pricing proposal charges (previously known as transmission use of system services and related charges) are to be passed on to customers and any adjustments to tariffs resulting from over or under recovery of those charges in the previous regulatory year. In addition, clause 6.18.7 states that recovery of designated pricing proposal charges should not exceed the estimated amount of these charges for the relevant regulatory year, once the overs and unders account has been taken into account.

Ausgrid's Transmission Use of System (TUOS) tariffs are designed to recover the allowed revenue for our transmission network, pass through the TransGrid transmission cost to customers and to recover (return) an under (over) recovery of transmission revenues in the previous period. The process used by Ausgrid to achieve these TUOS pricing outcomes is summarised below:

- Step 1: To calculate the annual amount of allowed revenue to recover for Ausgrid transmission assets;
- Step 2: Ausgrid to provide this annual revenue requirement to TransGrid for

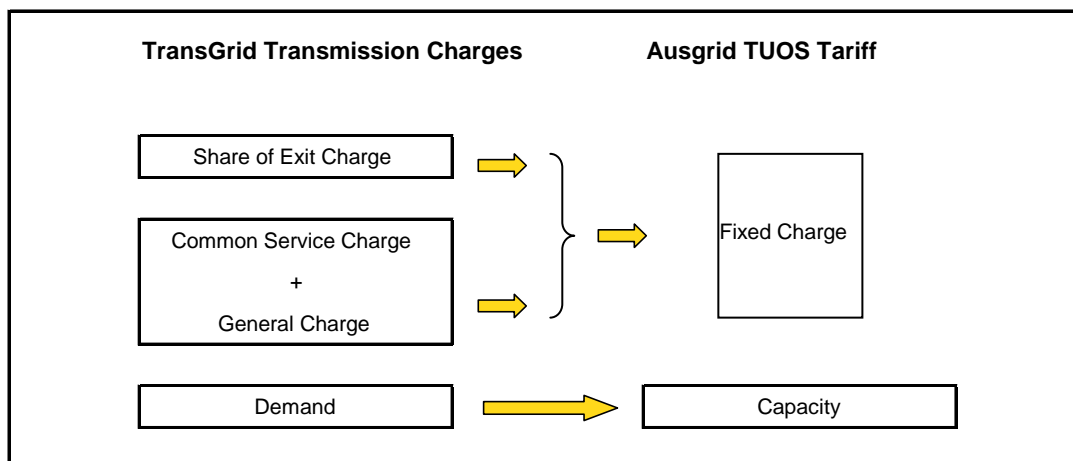
inclusion in their modelling of transmission charges for the coming year;

- Step 3: TransGrid to provide Ausgrid with the final transmission charges for the coming year in early April, as per the Memorandum of Understanding between the two organisations.
- Step 4: Ausgrid to set TUOS tariffs for the coming year to recover the forecast transmission cost plus the opening balance (positive or negative) of the transmission overs and unders account.

Ausgrid's approach to setting Transmission Use Of System (TUOS) prices is based on the fundamental principle of preserving the TransGrid transmission price signal, where it is desirable to do so from an economic and equity perspective. Given the location-basis of TransGrid's transmission charges, it is only possible to preserve the transmission price signal in the TUOS component of network tariffs for Cost Reflective Network Price (CRNP) customers given the site-specific nature of these network tariffs.

As illustrated in the following figure, Ausgrid's approach to setting TUOS tariffs for CRNP customers preserves the TransGrid transmission price signal, in spite of the structural differences between the two price signals.

Figure 5: Ausgrid's TUOS Pricing Structure for CRNP Customers



While it is not possible to provide individual customers on a published network tariff with cost reflective TUOS prices due to “postage

stamp” basis of these tariffs, it is possible, however, to allocate annual TUOS cost (net of CRNP TUOS recovery) to each tariff class on

an equitable basis using cost allocation principles. As with any cost allocation process, this approach requires a significant degree of averaging of costs and assumptions to be made in relation to the time of use consumption and demand characteristics of tariff classes where interval consumption data does not exist.

While Ausgrid endeavours to set TUOS tariffs consistent with the cost reflectivity principle, this may not always be possible in practice given the following considerations:

- It is not possible to preserve the TransGrid⁹ transmission price signal for customers on published network tariffs;
- The likelihood of forecast volume error;
- The NER requirement to set TUOS tariffs to achieve a zero forecast balance of the transmission overs and unders account by the end of the year that the new prices apply. Noting that for this year's pricing proposal Ausgrid is seeking to recover the full amount of its \$19.8mil estimated under-recovery from FY 14 to ensure that a zero balance can be for FY 15 ; and
- Ausgrid's commitment to transitioning TUOS prices to cost reflective levels, where necessary to avoid imposing unacceptable price shocks on individual customers, as discussed below.

While it is important from an economic perspective to preserve the TransGrid price signal to these customers, Ausgrid believes that it is unfair to burden any individual customer with unacceptable price shocks arising from unexpected changes in the structure of prices. It is for this reason that Ausgrid has decided to transition TUOS tariffs to cost reflective levels over a reasonable period for a number of CRNP customers.

Unders and overs account

The over and unders transmission account is a mechanism to ensure that if transmission revenue recovery is too high or too low in a given regulatory year, Distribution Network Service Providers, such as Ausgrid can recover the difference between actual transmission revenue and transmission payments by adjusting TUOS prices in the

subsequent year. Fluctuations in revenue recovery are most likely to be caused by the impact of weather on electricity consumption and demand forecasts.

As required under the NER, Ausgrid have set TUOS tariffs to achieve a forecast zero balance of the overs and unders account for transmission by the end of FY15, as shown in the following table:

⁹ Note that TransGrid is the co-ordinating TNSP for the setting of Transmission charges in NSW

Table 12: Overs and Unders Account Forecast Closing Balance – Transmission-Related

Financial Year Ending	Units	Period t-2	Period t-1	Period t
		Unaudited actual FY13	Expected FY14	Forecast FY15
Interest rate applicable to balance	%	10.02%	10.02%	8.1%
Opening balance over/(under)	\$'000	3,949	(18,912)	(17,014)
Interest on opening balance (365 days)	\$'000	396	(1,895)	(1,378)
Forecast over/(under) recover for financial year	\$'000	(22,173)	3,616	17,690
Interest charged on over/(under) recovery for financial year	\$'000	(1,084)	177	702
Closing balance of transmission overs/(unders) account	\$'000	(18,912)	(17,014)	(0)

Prices for CRNP (Cost Reflective Network Price) Customers in FY15

Ausgrid proposes not to increase the network use of system charges for the CRNP customers in FY15. Ausgrid believes that this is the most appropriate approach to setting site-specific individually calculated network tariffs in light of the uncertainties arising from the following factors:

- The potential for the placeholder revenue amount (Transitional Decision) to vary materially from the final revenue amount (Final Determination) for standard control services supplied by Ausgrid and TransGrid.
- Changes in the configuration of Ausgrid's electricity transmission network which will result in changes to the customers who are connected to Ausgrid's transmission network and consequently those customers who receive a TUOS only component in the network use of system charges.
- Potential change in the TransGrid transmission pricing methodology in the next regulatory control period

Ausgrid's proposed network prices for CRNP customers for FY15 are set out in Confidential Attachment A.

8. Changes from the Previous Regulatory Year

RULE REQUIREMENT

Clause 6.18.2(b)(8) of the NER requires that a pricing proposal must describe the nature and extent of change from the previous regulatory year and demonstrate that the changes comply with the Rules and any applicable distribution determination

This chapter sets out the principal changes since the previous regulatory year, and demonstrates that these changes comply with our regulatory obligations under the NER and the AER Determination.

Description of the nature and extent of change from previous regulatory year

Ausgrid proposes to make no changes to tariff structure, but does propose in FY 15 to:

- Introduce a transitional tariff for customers with annual energy consumption above 750 MWh pa. The purpose of this new tariff is to ensure that Ausgrid is able to effectively manage the customer fairness and equity issues in the situation where a site is required to be re-assigned to a new tariff class to meet the requirements of the customer assignment principles under the National Electricity Rules. Ausgrid expects to assign only a small number of sites to this new tariff in FY 15. This proposed tariff has been design to comply with the pricing principles set out in Chapter 6 of the NER.
- Undertake a significant number of network tariff reassignments in FY 2015. These tariff transfers are required as a result of the changing consumption patterns of our customers. To ensure that this proposal does not result in unacceptable network bill outcomes, Ausgrid proposes to only implement mandated transfers where we estimate that the customer will receive a network bill increase of no more than CPI on a constant volume basis. These proposed transfers are in accordance with our current procedures set out in Attachment F of this pricing proposal.

- A summary of the proposed mandated network tariff re-assignments for FY 15 is provided in the table below:

Table 11: Proposed network tariff Re-assignment in FY15

Network Tariff	Eligibility Criteria	Customer No.
LV TOU Capacity 40-160 MWh pa	<40 MWh pa	5,450
LV TOU Capacity 160- 750 MWh pa	<160 MWh pa	1,450
LV TOU Capacity >750	<750 MWh pa	850

9. Proposed New Network Tariffs

Ausgrid proposes to introduce a transitional network tariff in FY15 to apply to sites with annual energy consumption above 750 MWh pa. The purpose of this new tariff is to ensure that Ausgrid is able to effectively manage the equity issues that arise in the situation where a site is required under the National Electricity Rules to be re-assigned to a new tariff class.

This proposed tariff has been design to comply with the pricing principles set out in Chapter 6 of the NER.

Ausgrid expects that only a few sites will be eligible to be re-assigned to this proposed new tariff during the course of FY 15.

10. Public Lighting Services

Public lighting services are classified as alternative control services and are subject to a different control mechanism to general network services which are classified as standard control services.

Public lighting services encompass the provision, construction and maintenance of public lighting and emerging public lighting technology¹⁰. Ausgrid provides public lighting services to over 100 customers including councils, community groups and government associations. There are over 240,000 public lights in Ausgrid's network area, which are typically installed on major and minor roadways. A conventional public light comprises five (5) main components a lamp, a luminaire, a bracket, a support structure, and a connection to the low voltage electricity network.

Tariffs and tariff classes

All public lighting customers are subject to the tariffs in the AER April 2010 determination and therefore are defined to be a single tariff class.¹¹

The tariffs that apply to these customers are:

1. Fixed capital charge for assets installed prior to 2009.
2. Annuity capital charge for assets installed post 2009.
3. Maintenance charge that is applied to all assets.
4. Residual charges for assets replaced before their regulatory end of life

Adjustments to prices for 2014-15 Transitional Regulatory Year.

For the transitional regulatory year the Rules require that services which were classified as alternative control in the 2009-2014 period should increase by CPI only.

Ausgrid proposed indicative prices which applied a CPI increase of 2.5% for these

services as part of its transitional regulatory proposal. The AER approved these indicative prices in its placeholder decision.

Approach to CPI Adjustment.

As a result of the 2009-14 determination process and subsequent tribunal decision, there was an error in the allowed public lighting revenue requirement for FY10. This error was corrected by adjusting the revenue by increasing for the pre 2009 capital charges for the remainder years of the 09-14 period.

This means a CPI only increase in the FY14 pre 2009 capital charges will carry over this correction amount resulting in an over recovery for Ausgrid in the 14-19 period. This would likely need to be corrected in the future via a complicated method. If the over recovery was allowed to occur it would be approximately \$6m in 2014-15 and represents approximately 30% of the fixed charge, or 13% of the total charge.

Ausgrid proposes that the pre 2009 asset charges for 14-19 be based on the underlying revenue requirement in FY14. That is the FY14 base year charges are adjusted downward by \$6m, then the CPI escalation is applied. As indicated this approach was included in Ausgrid's indicative prices as part of its transitional proposal and was approved by the AER.

¹⁰ AER, Stage 1 Framework and approach paper, Ausgrid, Endeavour Energy and Essential Energy, Transitional regulatory control period 1 July 2014 to 30 June 2015 & Subsequent regulatory control period 1 July 2015 to 30 June 2019.

¹¹ Tariff class: A class of customers for one or more *direct control services* who are subject to a particular tariff or particular tariffs.

11. Ancillary Network Services

Background

Whilst the AER has classified ancillary network services as alternative control services for 2014/15 to 2018/19, the AER advised that its preferred approach for the transitional year (2014/15) was to adjust the 2013-14 miscellaneous and monopoly fees by CPI. Ausgrid provided indicative prices to the AER on this basis as part of its Transitional Regulatory Proposal and the AER approved those prices as part of its placeholder determination for the transitional regulatory control period, see page 52.

Tariff Classes

Ausgrid proposes that Miscellaneous Services and Monopoly Services each be treated as a separate tariff classes and that customers who seek those services be members of those classes. This is set out in Table 13.

Table 13: Tariff Classes and the applicable customers

Tariff Class	Applicable Customers
Miscellaneous Services	Customers seeking these services as defined in Appendix G1 of the Final Determination. ¹²
Monopoly Services	Customers seeking these services as defined in Appendix G2 of the Final Determination

The following tables 14, 15 and 16 set out the services and charging parameters that apply to each tariff class.

Table 14: Charges for Miscellaneous Services (ex GST)

Miscellaneous	\$
Special meter reading	\$45.10
Meter test	\$74.83
Supply of conveyancing information – desk	\$37.93
Supply of conveyancing information – field	\$74.83
Off peak conversion	\$60.48
Disconnection visit (acceptable payment)	\$45.10
Disconnection at meter box	\$90.20
Disconnection at pole top / pillar Box	\$151.70
Disconnection at pole top / pillar Box	\$226.53
Reconnection after business hours made)	\$97.38

Table 15: Applicable Labour Rates (ex. GST) for monopoly services specified in Table 16

Labour Class	Hourly rate
Admin R1	\$65.60
Design R2a	\$82
Inspector R2b	\$82
Engineer R3	\$98.40

¹² NSW Distribution Determination 2009-2014

Table 16: Charges for Monopoly Services (excluding GST) in FY15

Monopoly service	Underground urban residential subdivision (vacant lots)				Rural overhead subdivisions and rural extensions				Underground commercial and industrial or rural subdivisions (vacant lots - no development)				Commercial and industrial developments	Asset relocation or street lighting
Design information	Up to 5 lots	\$162.98			\$82 per hour				\$82 per hour				\$82 per hour	\$82 or \$98.40 per hour (see Note 2)
	6 to 10 lots	\$244.98												
	11 - 40 lots	\$407.95												
	Over 40 lots	\$489.95												
Design certification	Up to 5 lots	\$82.00			1 - 5 poles	\$82.00			Up to 10 lots	\$162.98			\$98.40 per hour	\$82 or \$98.40 per hour (see Note 2)
	6 to 10 lots	\$162.98			6 -10 poles	\$162.98			11 - 40 lots	\$244.98				
	11 - 40 lots	\$244.98			11 or more poles	\$244.98			Over 40 lots	\$489.95				
	Over 40 lots	\$325.95												
Design rechecking	\$82 per hour				\$82 per hour				\$82 per hour				\$98.40 per hour	\$82 or \$98.40 per hour (see Note 2)
Inspection of service work (level 1 work) (see Note 3 & 6)	Grade:	A	B	C	Grade:	A	B	C	Grade:	A	B	C	\$82.00 or \$98.40 per hour plus \$41 flat fee (travel time) (see Note 3 & 6)	\$82.00 or \$98.40 per hour plus \$41 flat fee (travel time) (see Note 3 & 6)
	per lot	per lot	per lot	per pole	per pole	per pole	per pole	per lot	per lot	per lot	per lot			
	First 10 lots:	\$41.00	\$98.40	\$205.00	1-5 poles	\$49.20	\$98.40	\$180.40	First 10 lots	\$41.00	\$98.40	\$205.00		
	Next 40 lots:	\$24.60	\$57.40	\$123.00	6-10 poles	\$41.00	\$82.00	\$162.98	Next 40 lots	\$41.00	\$98.40	\$205.00		
	Remainder:	\$8.20	\$32.80	57.40	11+ poles	\$32.80	\$57.40	\$123.00	Remainder	\$41.00	\$98.40	\$205.00		
					PTs	\$285.96	\$570.93	\$720.58						
	plus \$41 flat fee (travel time)				plus \$41 flat fee (travel time)				plus \$41 flat fee (travel time)					
Access permit	Residential subdivisions: \$27.68 per lot combined fee				\$1210.53 max. per access permit				\$1210.53 max. per access permit				\$1210.53 max. per access permit	\$1210.53 max. per access permit
Substation commissioning					\$908.15 per substation (see Note 7)				\$908.15 per substation (see Note 7)				\$908.15 per substation (see Note 7)	\$908.15 per substation (see Note 7)
Administration	Up to 5 lots	\$197.83			Up to 5 poles:	\$197.83			\$65.60 per hour (max 6 hours)				\$65.60 per hour (max 6 hours)	\$65.60 per hour
	6 - 10 lots	\$264.45			6-10 poles:	\$264.45								
	11 - 40 lots	\$330.05			11 or more poles	\$396.98								
	Over 40 lots	\$396.68												
Notice of arrangement	\$197.83													
Re-inspection (level 1 & 2 work)	\$82.00 per hour (maximum 1 hour per level 2 re-inspection) plus \$41 flat fee (travel time) for level 1 re-inspections, refer to Note 3													
Re-inspection (installation work)	\$82.00 (there is no charge for the initial installation inspection during normal working hours)													
Access (standby person)	\$65.60 per hour													
Authorisation	\$162.98													
Inspection of service (L2) work	All Service connections: (NOSW = Notification of Service Work) (see Note 8)				A Grade : \$20.50 per NOSW				B Grade: \$33.83 per NOSW				C Grade: \$98.40 per NOSW	
Site establishment	\$142.48													

12. Attachments

Attachments have been included with this pricing proposal as follows:

Attachment	Disclosure	Description
A	CONFIDENTIAL	Cost Reflective Network Price (CRNP) Customer Prices
B	CONFIDENTIAL	Customer Bill Information for Public Lighting Customers
C		Price Information for Public Lighting Tariffs
D	CONFIDENTIAL	Completed Compliance Spreadsheet
E		Notification of Climate Change Fund Contribution
F		Procedure on Assignment and Re-assignment of customers to tariffs
G		TransGrid's transmission prices for FY15