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Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520, Melbourne VIC 3001

By email: NSW2019-24@aer.gov.au

Dear Mr Roberts,

Ausgrid Regulatory Determination 2019-2024

I write in relation to the current inquiry by the Australian Energy Regulator into the maximum allowable revenue for Ausgrid for electricity distribution services for the period from July 2019 to June 2024.

The City of Sydney acknowledges the major role that Ausgrid plays in delivering safe secure and reliable electricity to millions of electricity customers in metropolitan and regional NSW and in particular the area governed by the City of Sydney.

The critical contribution that City businesses, residents, workers and visitors make to the economy of the state and the nation depends in no small way on essential services like those provided by Ausgrid. Accordingly, in the City's view, it is essential that Ausgrid be adequately and appropriately funded and operated.

Increase emphasis on demand management

The City commends Ausgrid for its initiatives on demand management. In this respect, the City acknowledges the important work done by the Australian Energy Regulator to review and reinforce the Demand Management Incentive Scheme.

The City is pleased that Ausgrid is considering permanent demand reduction initiatives such as increased customer uptake of distributed generation and investment in energy efficiency. In combination, these measures may mean some future network investments are altogether avoided or reduced in scale, not just temporarily deferred.

The City is particularly pleased to be able to collaborate with Ausgrid on the Permanent Demand Reduction Incentives Program. This will reduce peak demand for electricity by a substantial amount on a permanent basis in the City area. The reduction in demand is being achieved at modest cost on a partnership basis between the City and Ausgrid.

The program is of particular value in the context of Powering Sydney's Future, a joint initiative between Ausgrid and TransGrid, This involves potential expenditure of hundreds of millions of dollars. As a result of the City's and Ausgrid's collaboration, much of this expenditure may be deferred or avoided.

city of villages

The City also notes the inclusion of an option value in Ausgrid's assessment of demand management opportunities. This is innovative and welcome. Detailed work will of course need to be done to subject the option value to scrutiny. However, it is good to see Ausgrid respond proactively to calls to build more flexibility into network planning.

Nonetheless, it is hard to avoid observing that there is still very limited use of demand management in the Ausgrid area compared to some overseas jurisdictions. Hence, the City renews its call to deliver much more in the way of demand management.

Achieve a better balance between cost reduction and cost effectiveness

The City has attended a number of recent forums at which future funding needs for Ausgrid have been discussed. Like all large organisations, there are opportunities for incremental improvement in productivity at Ausgrid, and the City supports the efforts of advocates for electricity consumers to hold Ausgrid to account. However, the debate about value-for-money should not be reduced to a debate about lowest short-term cost.

Safe reliable and secure electricity supply remains a vital public service. The public electricity grid is in a state of transition, and Ausgrid is a major part of that grid. Accordingly, Ausgrid must receive sufficient funding (and apply sufficient funding) to proactively manage the grid's transition to a low-carbon economy.

If taken too far, the doctrine of "not one dollar too soon, not one dollar too many" could be deleterious, when uncertainties and externalities are taken into account.

For example, if businesses are unable to secure new connections to the grid in a timely manner, or if business are unable to upgrade existing connections in a timely manner, the consequences of such bottlenecks may be widespread and costly.

The City is aware of multiple instances of inadequate and untimely responses to connection requests for both public and private projects. The indirect costs of such delays may amount to hundreds of millions of dollars. Further, the relatively low level of distributed renewables in the Ausgrid network (especially the Central Sydney region) makes it all the more important for timely action on connections requests.

Better meet Ausgrid's environmental responsibilities

Another point on which the balance should not swing too far towards least cost is the discharge of environmental responsibilities.

Ausgrid shares the public domain in urban areas with residents, visitors and businesses (and multiple infrastructure providers) and also with what remains of the natural environment. Street trees are a very important contributor to the quality of the urban environment, and important in terms of mitigating urban climate change.

Minimising the adverse impacts of aerial cables on street trees is of much concern to councils, resident and environmental interests. Ausgrid must be adequately funded to be able to undertake priority bundling of aerial services on a collaborative basis with local government. Delays or inaction due to inadequate funding are simply unacceptable.

Accelerate street lighting changeover

The City welcomes Ausgrid's initiative to accelerate replacement of conventional street lights with LEDs. This will achieve greater energy efficiency, better lighting outcomes and reduced costs (notably, reduced costs for maintenance of LED fittings).

Ausgrid must be adequately funded (and allocate adequate funds) to manage the changeover in the most timely and effective manner (noting that the primary cost of changeover is met by local governments like the City of Sydney).

More broadly, Ausgrid, like all other bodies in the electricity supply industry, must do as much possible as soon as possible to bring down greenhouse gas emissions. This benefits all electricity consumers. On this basis, in the City's view, even the substantial 5-year changeover proposed by Ausgrid is not enough.

Specifically, much more work should be done in the coming 5-year regulatory period to replace public lighting on main roads and in commercial centres with LEDs.

Changes to tariffs and charges for customers

Ausgrid should be more proactive in overcoming barriers to sharing electricity between premises. The need for this is demonstrated by the relatively low level of distributed generation in the Ausgrid area.

In particular, innovative tariffs should be made available to facilitate greater take-up of renewables. For example, multi-unit apartments with collective rooftop solar PV should be able to benefit from reduced network charges, given that (at a physical level) electricity generated via roof-top PV is first and foremost consumed on-site.

Small businesses are being asked to pay higher fixed costs as part of a transition to cost-reflective tariffs. There are nearly 100,000 business-based electricity consumers in the City area. Many businesses, especially start-ups, are likely to experience significant increases in fixed costs as a result, without any evident benefit.

Both to overcome barriers to local generation and to give voice to the impact of tariff changes on small and medium businesses, the City should have a seat at the tariff-setting table. This will also give the City an opportunity to voice concern about increasingly complexity in network tariff design.

For example, there is the recently-introduced mismatch between peak charging for volume of use and peak charging for capacity (the hours to which these apply no longer align). This mismatch impedes businesses when it comes to bringing down electricity use and increasing energy efficiency.

Conclusion

In conclusion, the City expresses its appreciation of the role of public consultation in the revenue determination process. Should officers of the AER wish to discuss this submission further with the City, please contact Chris Barrett by phone on 02 9265 9004 or by email at cbarrett@cityofsydney.nsw.gov.au.

Yours sincerely



Kim Woodbury
Chief Executive Officer