

16 May 2023

Reset Coordination Team
Australian Energy Regulator
By email: AERresets2024-29@aer.gov.au

Dear Colleagues,

SUBMISSION ON AUSGRID'S DRAFT PLAN 2024-2029

Thank you for the opportunity to lodge a submission to the Australian Energy Regulator on Ausgrid's Draft Plan 2024-2029. Our submission examines Ausgrid's proposed embedded network tariffs.

Ausgrid has identified what it says is an unfair arbitrage situation in embedded networks. We say that Ausgrid seeks to address concerns that are properly dealt with by the legislative and executive arms of government (by bodies such as the AER and the AEMC), not by a regulated business. The tariff review process was not intended to operate, and should not be used, as a means for changing the shape or function of the energy market. Driving reform by increasing pricing has and always will hurt those who can least afford it.

Impact on consumers

Higher network charges for embedded network operators will likely be passed through to end consumers within embedded networks, increasing their energy bills.

We note that there may be an assumption behind the proposal that embedded network consumers are being charged the DMO and, therefore, any increase in the gate meter supply charges will simply reduce the margin of the embedded network operator. That assumption is not correct where embedded network operators are charging less than the DMO or in certain types of embedded networks such as those governed by the Residential (Land Lease) Communities Act. While Ausgrid notes their prices are subject to a revenue cap and revenue neutrality, higher charges for some will mean lower charges for others – the question is who benefits and who is disadvantaged.

Inadequate analysis

The proposed tariffs do not consider the benefits embedded networks provide, such as avoiding or deferring future network investments. Higher charges are proposed irrespective of whether the embedded network reduces or increases costs for Ausgrid. In this regard, a 'one-size-fits-all' approach is taken.

For an adequate assessment to be conducted, we submit that:

- a. Modelling needs to be undertaken by independent experts engaged by the AER;
- b. Such independent modelling needs to examine load profiles across all Ausgrid embedded networks across different seasons; and
- c. Such independent modelling needs to examine and quantify:

- i. avoided costs (for Ausgrid) resulting from the private embedded network operators having responsibility for the internal infrastructure, wiring, private poles, tree trimming, etc;
- ii. the costs (for Consumers) of 'reverse retrofitting.' Reverse retrofitting is a term we use to refer to the process of abolishing an embedded network and reconnecting all child meters to the wider distribution system. Substantial costs may be incurred by consumers, and Ausgrid, in such a process as each embedded network child connection point is converted into a NMI/ market-connected meter, including re-wiring of the switch board. The likelihood of reverse retrofitting resulting from the proposed embedded network tariffs is very high as not all embedded network operators will not be able to absorb a ~30% increase in their costs at the gate meter; and
- iii. the likelihood of embedded network operator failure from these increased costs and consequences for consumers i.e. where smaller embedded network operators are placed into administration. This should be considered noting that there is no established RoLR scheme for exempt embedded network operators.

Impact on the market and on innovation

Significantly higher capacity charges will discourage further investment in embedded networks, impacting future customers who may benefit from an embedded network's services, it will also stifle innovation.

The introduction of the proposed embedded network tariffs will result in stifled innovation and the potential benefits of embedded networks in terms of the uptake of on-site generation, EV charging, and storage and 'services' that embedded networks can offer to consumers and to the wider distribution system.

Some of the most innovative on-site generation and storage arrangements in the NEM are found within embedded networks. Embedded networks have the potential to operate independently of the wider distribution system and to reduce pressures on the wider distribution system.

Areas where further evidence is required:

We say that:

- Ausgrid has not undertaken or cited independent analysis quantifying the actual 'tariff arbitrage' and whether it leads to cross-subsidies for other customers. Assertions are made but evidence is not provided.
- The load profile analysis comparing embedded networks to standard business tariffs is high-level. Further technical analysis could explore the diversity between different embedded networks and how their load profiles actually differ.
- Alternatives to the proposed tariffs, such as introducing more cost-reflective, tailored tariffs or additional transitional arrangements have not been quantitatively assessed. The costs and benefits of options have not been weighed up.
- The customer impacts of the new tariffs, including end customers within embedded networks, do not appear to have been specifically surveyed or researched beyond high-level bill impact analysis.

- Interactions with other regulatory changes, such as the AER's review of the authorisation and exemption framework, have not been fully considered.
- Unintended consequences may result including in relation to consumers who have 'opted out' of an embedded network and are being charged 'network only' tariffs by their retailer or by the embedded network operator.

Recommendations

We recommend that Ausgrid's proposed embedded network tariffs be rejected by the AER.

Yours faithfully,



Connor James

Principal
Compliance Quarter

Email: 