

5 January 2020

Dear AER, Ausgrid & others,

As I am unable to attend the meeting on Jan 15 regarding Ausgrid's embedded network tariff proposal, I am writing to send apologies and to provide a brief summary of my concerns. I am interested in hearing all views on Ausgrid's embedded network tariff proposal. My contact information is included below. Thank you for inviting me to participate in this discussion.

I note that the AER has already rejected Ausgrid's proposal of 'placeholder tariffs' in its current Tariff Structure Statement. It was good to see the AER defend consumers' right to confidence in future prices and pricing structures in that decision. The Tariff Structure Statement provides confidence to consumers and other market participants about the tariffs and prices they will face in the coming years. Allowing Ausgrid to implement tariffs through this 'backdoor' would therefore reduce the value of the TSS in promoting efficient investment, and be inconsistent with the AER's previous decision on this matter.

Should the AER approve this proposal, it may open the floodgates for similar proposals from other DNSPs. I imagine that DNSPs would all prefer to make tariff proposals outside of the official TSS. It would effectively allow DNSPs to implement tariffs without transparent public debate and possibly without proper modelling. This would not only stifle efficient investment decisions on a much broader scale (NEM-wide), but could also lead to a 'regulatory nightmare' disaster scenario, leaving the AER under-resourced.

Public debate is necessary before implementation of these tariffs because they do not clearly and obviously satisfy the Rules. Rule 6.18.5(g)(iii) requires tariffs to be 'cost reflective', providing correct price signals for efficient usage of the network during times of congestion. There has been no public discussion regarding the proposed tariffs, and it looks like the end-user behind an embedded network does not receive correct price signals under the proposed structure.

My understanding is that Ausgrid's claim that its capacity tariffs are cost-reflective is based primarily on the claim that the tariff's capacity charge drives efficient investment decisions. Even if this were shown to be true, the AER's approval of this out-of-tempo proposal would risk stifling efficient investment on a much greater scale, for the reasons outlined above. The AER should strongly reject Ausgrid's proposed changes to the current Tariff Structure Statement. Thank you again.

Best regards,

John Herbst

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