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RE: Ausgrid's Proposed Embedded Network Tariff 2019-2024

We welcome the opportunity to provide feedback in response to the public consultation forum on Tuesday 17 September and associated slide packs. We note that this feedback is not extensive, but we trust it will be of assistance in setting Ausgrid's approach to an application to amend their TSS. We also acknowledge that our submission is close to the deadline of 30 September by which Ausgrid is required to make its amendment application to the AER. Given that this information was only made public in the forum that was held on the 17th of September, the timeline required for us to formulate a submission has been quite tight. It's difficult for us to see how these matters can be adequately resolved in the 2-week consultation timeframe provided. We're only hopeful that the AER consultative process for the amendment of the TSS is more formal and exhaustive.

We have made a previous submission on this matter to the AER during the consultation for Ausgrid's Revised Regulatory Proposal 2019-2014. In that submission we noted that claims originally made by Ausgrid that embedded networks apply undue cost to other regulated network customers are unsubstantiated. Indeed, the only justification of the introduction of a new tariff class should only be reflective of actual differential in costs incurred by the network for the connection points they apply to. The main argument being put forward by Ausgrid in the consumer consultative forum slide pack is that embedded networks in general have a different load factor to traditional loads associated with large C&I customers. Whilst this may well be the case, the differential in load factor should already be accounted for by the existing demand charge components of those tariffs. Whilst we cautiously support any attempt by DNSP to adjusted tariffing to be more cost reflective and we believe that the model proposed here of a flat rate per child customer is a poor reflection of true network cost.

Certainly, there are fixed costs per customer related to some NSP services in operating embedded networks. These costs are operational in nature however and, in our view, have entirely been transferred to the new Embedded Network Manager ('ENM') role under a contestable framework. We note that Networks NSW have been strongly supportive of the transfer of those roles in their public submissions during the ENM rule change process. This includes the following:

"... we support making it clear in the National Electricity Rules (NER) that while the Local Network Service Provider (LNSP) or DNSP is responsible for electricity supply to the parent connection point of an embedded network it is not responsible for supply to an on-market or off-market child connection point within an embedded network. Accordingly, the LNSP/DNSP has no operational responsibility for

an embedded network; instead it will be the ENM who has the obligation to support NEM activities for customers within embedded networks. This includes:

- the obligation to set up and maintain the MSATS standing data for an embedded network;*
- responsibility for ensuring that data on life support customers within embedded networks is maintained;*
- performing the NEM processes for the transfer of embedded network customers between retailers, particularly between the Embedded Network Operator (ENO) and a registered retailer;*
- determining who has access to embedded network customers' metering data; and responsibility for metering for embedded network customers.”¹*

The cost associated with these services are now being borne by embedded networks in their engagement with accredited ENMs. We would expect Ausgrid to be cognisant of the cost associated with ENM services as they currently provide those services via their subsidiary, PLUS ES which is an accredited ENM.

We require clarification on how the determination of this tariff measurement unit ('child customer numbers') is proposed to work. Ausgrid require actual embedded network child numbers to determine the appropriate charge to apply. We have concern about the level of discretion such a charging methodology gives Ausgrid in its position as a regulated monopoly. The number of child customers within an embedded network can change over time as tenancies are amalgamated or abolished. It's the role of the ENM to manage a record of these numbers the cost of which is already being passed onto the network. Given Networks NSW previous position of not wanting anything to do with the connection points beyond the parent meter, its hard to see how Ausgrid can establish a clear and transparent processes for determining actual child numbers. Additionally, any approach to tariffing that affords Ausgrid the opportunity to effectively determine their own measurement unit in consultation with another party, should be accompanied with a clear and transport dispute resolution procedure. The administration of such a process is likely to require additional regulatory oversight that will be unnecessarily time-consuming, burdensome and costly. We don't believe Ausgrid's current proposal adequately demonstrates how that process is supposed to play out.

We suggest that Ausgrid abandon the approach of applying additional tariffs on a cost per child connection charge as it is not reflective of true costs. If Ausgrid believe there is a true variation in cost between the load factors of embedded network and other C&I connection profiles, then they should focus on realigning the tariff component best placed to cover that cost component – the demand charge.

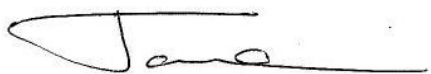
¹ ***NSW DNSPs Response to the National Electricity Amendment (Embedded Networks) Rule 2015 consultation paper (ERC0179).***

Regarding grandfathering and exempting certain customer types, we advise Ausgrid to tread cautiously in attempting to discriminate different customer classes via the application of regulated tariffs. Should the proposed tariff be required due a variation in true cost to the network, then there should be no requirement to grandfather existing sites or exempt certain customers types such as “small caravan parks”. We expect it to be a tall order for Ausgrid to demonstrate that these different customer types have different demand, usage or connection characteristic to meet the requirements of the NER clause 6.18.4 (a)(1)(i) and (ii).

Finally, we would like to encourage haste in Ausgrid’s approach to lifting tariffs generally. Regardless of the stated intent of aligning cross-subsidies, the nett effect of introducing this new tariff – all else being equal – is likely to be to increase cost which will be in turn passed onto consumers. Energy consumers across Australia have been bearing the brunt of network price escalation over recent decades. WINconnect maintains that the most effective approach to ensuring better outcomes for consumers in the NEM is via free and frictionless competition. This includes retail competition within embedded networks as well competition in the market for embedded network services. Additional cost driven by increased network tariffs does nothing to assist that. In this light, we are supportive of the AEMC’s approach to regulatory reform driven by competitive markets. Historically - and before these reforms - retail competition in embedded networks has only been successful based on good faith efforts by DNSPs in jurisdictions like Victoria. Certainly, before the introduction of the ENM role, the real failure in the ability to provide consumer choice in NSW embedded networks was driven DNSPs not being willing to provide the same services their counterparts did in other states. Now that those roles have been transition to a contestable framework that is starting to deliver results (as ENM, WINconnect has allocated 285 new on market child NMIs in 2019, alone) it’s somewhat surprising that Ausgrid are now proposing to extract additional revenue from embedded networks.

Unfortunately, the perception here is that Ausgrid is asking for more to do less. It’s disappointing that Ausgrid seems to have seen a good-willed and sensible approach to regulatory reform in embedded networks as an opportunity to further boost its revenue. This is the sort of message that is likely to be passed on to embedded network consumers potentially facing further cost increases because of this proposal.

Regards,



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