19 January 2024

AER Resets
Australian Energy Regulator
By email: AERresets2024-29@aer.gov.au

Dear Colleagues

SUBMISSION ON AUSGRID'S REVISED PROPOSAL 2024-2029

On 30 November 2023, Ausgrid submitted its revised proposal for the 2024-29 regulatory control period. This is a submission on Ausgrid's revised network tariff proposal.

Ausgrid is proposing the introduction of three new tariffs for embedded networks to commence on 1 July 2024. In response to the AER's Draft Decision, Ausgrid state that they have provided further detail on their engagement with stakeholders, have published a model estimating the extent of the 'tariff arbitrage' (attachment 8.13), and have considered whether any network costs are avoided as a result of embedded networks.[1]

Market distortion

Ausgrid's Attachment 8.2 'Explanatory Statement' states that the purpose of the proposed embedded network tariffs is to ensure that embedded networks '*make a fair contribution to residual costs, over a five-year transition period*.' Ausgrid further states that '*At present, the residual cost contribution of embedded network customers is materially different based on whether they connect as an embedded network or as individual connections*.'

The contention that embedded networks should be treated in a materially different manner to other single large customer sites (without any evidence of the difference in usage of network services) is disingenuous. Embedded networks should not be compared to the comparable number of small customers as embedded networks are single sites with a single connection and embedded network operators are responsible for the relevant infrastructure including connections between the gate meter and the individual child meters.[2]

Embedded networks are not distorting the market. Distortion requires artificial manipulation or interference with the status quo. The increase of the number of embedded networks has been foreseeable for a number of years. This is evident from figure 3 of section 4.2 of Ausgrid's Attachment 8.2. The number of embedded networks has increased consistently since FY13. The number of embedded networks has increased naturally in response to the increase in high density housing, the benefits they present, and as a result of factors such as the competition within metering.

Ausgrid contends that the '*cost savings that accrue to ENs must be recovered from other customers*.'

[1] Figure 8.1, Ausgrid's 2024-2029 Revised Proposal.
[2] Refer to the AER's Network service provider registration exemption guideline, https://www.aer.gov.au/industry/registers/resources/guidelines/network-service-provider-registration-exemption-guideline-march-2018

This is incorrect: the operation of distribution networks is not a zero-sum game. Embedded networks can significantly benefit consumers and the wider distribution network via load aggregation and demand reduction.[3]

Pricing Principles

The network pricing objective focuses on the efficient costs of the provision of services to **the** retail customer. The network pricing objective requires a consideration of Ausgrid's total efficient costs of serving the retail customers that are assigned to the relevant tariff, clause 6.18.5. In formulating provisions of a distribution determination regarding assignment and re-assignment of customers to tariff classes, the AER must have regard to the principles set out in clause 6.18.4, including the nature and extent of the customer's usage or intended usage of the distribution services, the nature of the connection, and relevant metering. Retail customers with similar connection and distribution service usage profiles should be treated on an **equal** basis.

Ausgrid's proposal has not shown that embedded networks are not 'similar' in their connection and distribution service usage profiles to comparable business or large customers. Ausgrid has focused on its perception that there is unfairness resulting from there being multiple individual consumers within an embedded network and the alternative being that those individuals were each connected. This is no less unreasonable than asking the AER to consider the number of occupants within a residential premises in the development of a new tariff class. The level of occupancy of a building is not a relevant consideration under the pricing objectives.

Renewable energy generation and consumption

It is well recognised that embedded networks can enable access to renewable generation and other technologies for residents of multistorey apartment blocks (that would otherwise not be possible).

Embedded networks enable renewable energy generation and consumption. The NSW Committee on Law and Safety recently found that embedded networks can future proof developments by facilitating greater access than grid-connected developments to renewable energy and storage and innovative technology, including EV charging. And, further, that they can increase energy efficiency and have decarbonisation benefits, including through increasing access to renewable energy and storage and using excess energy generated across multiple consumers.[4]

Should Ausgrid's proposal be accepted, there will be significantly fewer embedded networks developed and as a result there will be significantly less embedded renewable generation.

Avoided Costs?

We re-assert that independent modelling is required to determine whether embedded networks result in additional costs and any avoided costs i.e. what their actual impact is on the network when

[3] Roberts, M., Bruce, A., & Macgill, I. (2018). Collective prosumerism: Accessing the potential of embedded networks to increase the deployment of distributed generation on Australian apartment buildings. 2018 IEEE International Energy Conference (ENERGYCON), 1-6. https://doi.org/10.1109/ENERGYCON.2018.8398770.

[4] NSW Committee on Law and Safety Report on Embedded Networks in NSW para 2.162 (see https://www.parliament.nsw.gov.au/ladocs/inquiries/2873/Report%20-%20Embedded%20Networks%20in%20New%20South%20Wales.pdf)

compared to other large customers.

Ausgrid appear to have overlooked the benefits of embedded networks, that Endeavour acknowledge. Ausgrid notes that it has '*not identified material benefits as a result of an EN connecting to its network. Our assessment indicates that there are minimal avoided costs resulting from ENs.*'

In contrast, Endeavour Energy notes that '*There are a range of network benefits – and so network tariff savings – that can be obtained by an embedded network, in comparison to directly connected customers. Some of these savings reflect the lower costs imposed on the network by an embedded network while others result from taking advantage of our current tariff design, as presented in Table 5.*'[5] Endeavour Energy recognises that a potential benefit of an embedded network is that '*coincident maximum demand of the aggregate embedded network is lower than the sum of maximum demand for each connection. This results in a lower demand-based charge for the embedded network.*'

While Ausgrid does not say that there are no benefits, the two statements (from Ausgrid and Endeavour) are still inconsistent. Consequently, Ausgrid's submission is flawed and independent analysis is required to assist the AER in understanding whether embedded networks, in fact, present costs savings to distribution businesses.

Law reform is needed.

There is uniform agreement that the regulatory framework for embedded network needs to change to ensure an appropriate level of consumer protection.

Reviews into the regulatory framework are currently being conducted by the AER and by IPART in NSW. Those reviews are the appropriate forum for consideration of changes that may reduce the number of embedded networks or regulate the price that consumers can be charged. A pricing proposal is not an appropriate method of addressing a perceived inequity, particularly when it will simply shift potential savings for embedded network consumers into approved revenue for distribution businesses.

Yours Sincerely,

[redacted]

[5] Endeavour Energy Tariff Structure Explanatory Statement, page 48