



29 January 2024

Arek Gulbenkoglu  
General Manager  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Email: [AERresets2024-29@aer.gov.au](mailto:AERresets2024-29@aer.gov.au)

Dear Mr Gulbenkoglu,

**RE: Submission to the NSW and ACT revised regulatory proposals**

Origin Energy (Origin) appreciates the opportunity to provide a response to the AER's draft decisions and revised regulatory proposals lodged by Ausgrid, Endeavour Energy, Essential Energy and Evoenergy for their electricity distribution networks for the period from 1 July 2024 to 30 June 2029.

We support the AER's draft decisions and note that the distribution network service providers (DNSPs) have largely adopted the AER's recommendations and expenditure forecasts.

We broadly support the decision of the DNSPs to modify their proposed tariffs in response to AER and stakeholder feedback, including changes to proposed export tariff arrangements (Essential Energy) and the removal of the proposed residential export tariff (Evoenergy). We generally support the proposed tariff changes but recognise that tariffs will continue to evolve in response to the energy transition and changing consumption patterns.

However, we remain concerned with Ausgrid and Endeavour Energy's proposed new embedded network tariffs.

We consider that Ausgrid and Endeavour Energy have failed to demonstrate that the nature and extent of usage warrants embedded networks being aligned to residential customer tariffs. Further, to the extent that there is sufficient evidence to substantiate a unique embedded network tariff, the National Energy Rules requires that these tariffs reflect the efficient costs of providing the services to the retail customer. We consider that Ausgrid and Endeavour Energy have not demonstrated that the proposed embedded network tariffs reflect the efficient costs of providing these services and are therefore not consistent with the pricing principles set out in the National Electricity Rules.

Finally, Origin acknowledges the comprehensive stakeholder engagement process undertaken by the electricity networks and the AER to inform the network proposals and their assessment. The extensive consultation has resulted in a greater understanding of network proposals and streamlined the assessment process, to the benefit of all parties.

If you have any questions regarding this submission, please contact Gary Davies in the first instance at [REDACTED]

Yours sincerely

A black rectangular box redacting the signature of Sean Greenup.

Sean Greenup  
Group Manager Regulatory Policy

## **Embedded network tariffs**

The DNSPs do not currently have embedded network (EN) specific tariffs. Instead, ENs are assigned to a low voltage medium business network tariff. The DNSPs argue that these current tariff arrangements for EN customers are not efficient or as fair as they could be.

The NER sets out the obligations on a DNSP with respect to tariff classes, how customers are assigned to these tariff classes and the calculation of the tariffs themselves. A key principle of the network pricing objective set out in the NER is that tariffs should reflect the DNSP's efficient costs of providing, services of, or in connection with, a distribution system.<sup>1</sup>

We believe this is at the core of network pricing – DNSPs should be setting a price for the costs imposed on the network at the point of connection. A network should not discriminate based on the activities that sit behind the connection point but should make an objective assessment of the efficient costs imposed on the network as a result of providing efficient services at that connection point.

### *Tariff classes and assignment*

The NER requires that a tariff class must be constituted with regard to the need to group retail customers together on an economically efficient basis.<sup>2</sup> Customers with a similar connection and usage profile should be treated on an equal basis and should be assigned to tariff classes on the basis of the nature and extent of their usage or intended usage.<sup>3</sup>

A key argument of the DNSPs to change in the tariffs of ENs is that their load profile is different to other C&I customers on the same tariffs. The DNSPs argue that the load shape of an EN is more closely aligned with a residential customer than a medium business customer.<sup>4</sup>

To demonstrate this, Ausgrid provided a comparison of a winter profile of an average customer on its low voltage EA305 tariff (a medium business using between 160 and 750 MWh per annum) to the average winter profile of an EN assigned this tariff. Ausgrid argued that the EN has a peakier load shape and a peak that occurs later in the day. It also argued that this load shape is more closely aligned with a residential customer than a medium business customer.

On the assumption that an EN customers' load profile is closer to that of a residential customer, Ausgrid and Endeavour Energy determine an implied cross-subsidy and generate new EN tariffs to address this cross-subsidy. While it may be the case that an EN load profile differs to that of a typical medium business customer, we consider that neither Ausgrid nor Endeavour Energy have provided sufficient evidence to align the proposed EN customer tariffs to residential customer tariffs.

To test the profile of an EN load to other customer types, Origin has examined the winter and calendar year 2022 usage profiles for our EN, C&I and residential loads. Charts 1 and 2 provide the outcomes of our analysis.

---

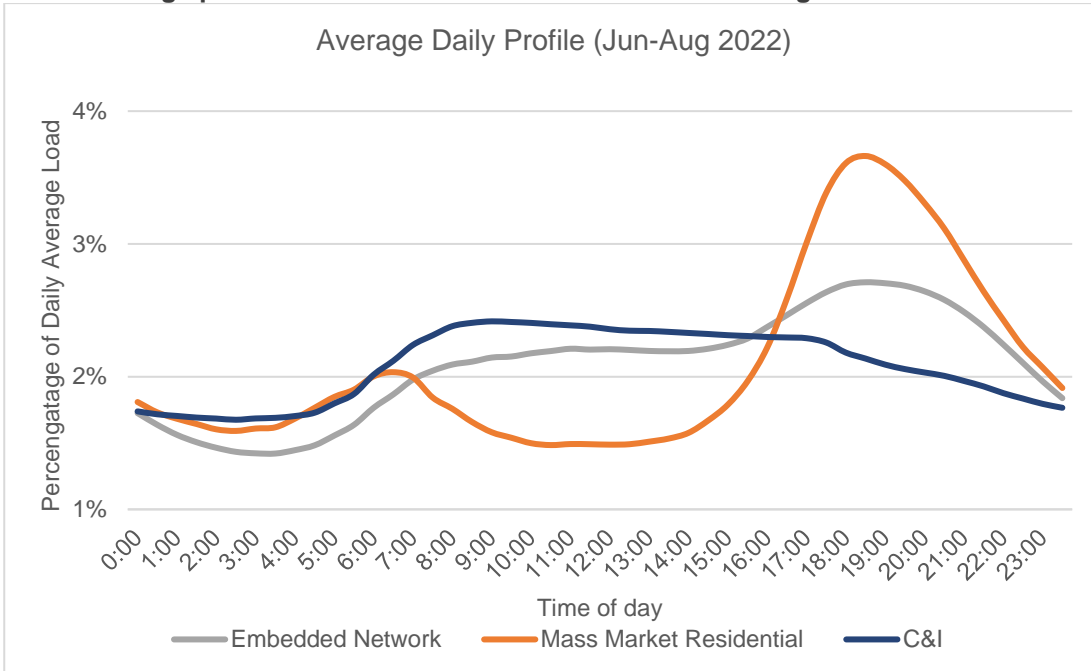
<sup>1</sup> NER, Clause 6.18.5(a).

<sup>2</sup> NER, Clause 6.18.3(d).

<sup>3</sup> NER, Clause 6.18.4.

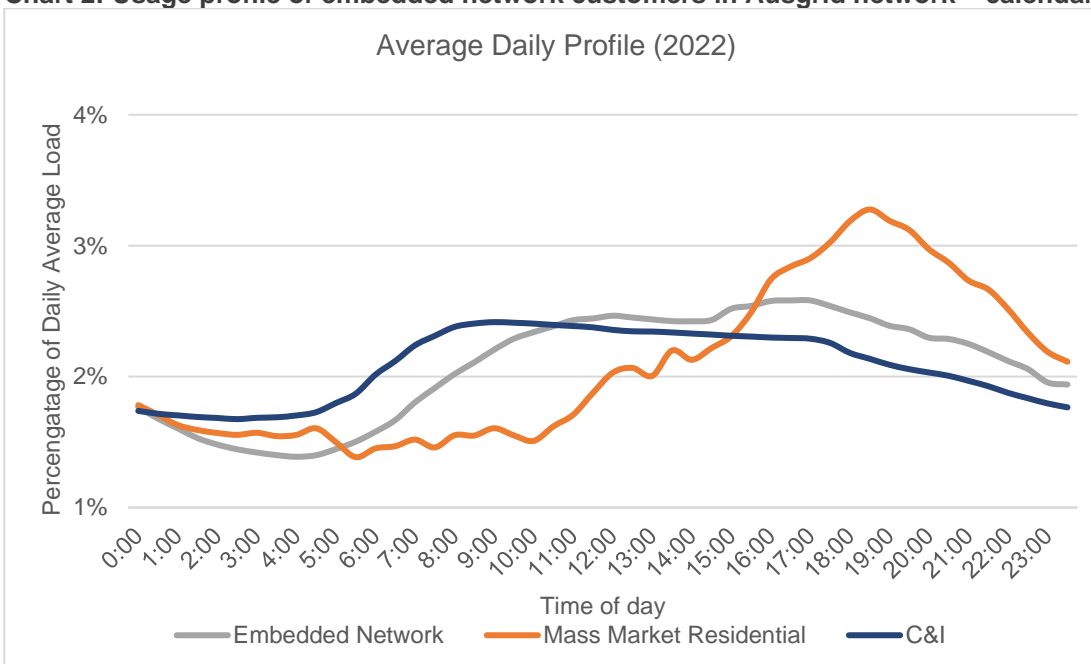
<sup>4</sup> Ausgrid, Our TSS Explanatory Statement for 2024-29, p. 22.

**Chart 1: Usage profile of embedded network customers in Ausgrid network – Winter 2022**



Source: Origin analysis

**Chart 2: Usage profile of embedded network customers in Ausgrid network – calendar 2022**



Source: Origin analysis

Chart 1 suggests that the winter EN load profile is peakier than a C&I but flatter than an average residential tariff profile in the peak evening period. While chart 2 also demonstrates some peakiness in the EN load profile, it is apparent that the calendar year profile is flatter in the evening period compared to the winter profile (chart 1).<sup>5</sup>

<sup>5</sup> Increased electricity demand in the winter months historically reflects high heating load.

Whilst some peakiness is apparent, the above usage analysis provides evidence to infer that the EN load profile is notably different to the average residential load profile.

It is also worth noting that ENs are not entirely made up of residential load but also include common area power and other centralised building services that have a consistently flat profile. Furthermore, the electrification of apartment buildings (e.g. electric heat pumps for centralised hot water heating, and EVs with associated load management systems) will contribute to significantly larger and flatter base load in ENs in future.

The onus is on the DNSPs to demonstrate that the nature and extent of usage is such that EN customers can be aligned to an existing tariff (either the existing medium business tariff or the residential customer tariff) or whether a unique EN tariff is required.

### *Tariff Development*

The NER states that the revenue expected to be recovered from each tariff must reflect the DNSP's 'total efficient costs of serving the retail customers that are assigned to that tariff.'<sup>6</sup>

The NER requires that Ausgrid and Endeavour Energy establish that there is a clear divergence between EN and C&I load profiles such that a separate 'EN tariff' is required (otherwise EN customers should be assigned to a 'similar' tariff class). Where this can be established, the NER requires that those tariffs should reflect the efficient costs of providing the services to the retail customer. It is not sufficient for Ausgrid to simply suggest that EN customers are comparable to residential customers and should therefore incur similar costs; the NER requires a far more rigorous process to establish and assign costs to proposed new tariffs.

Ausgrid's development of an amended capacity charge to apply to EN customers simply seeks to goal-seek the implied revenue difference between the current EN tariff and the residential tariff. This is not appropriate; any new EN tariff should be developed consistent with the pricing principles set out in the NER, not an ill-defined relationship to the revenue derived from the same number of residential customers.

### *Cost subsidies and fairness*

Cross subsidies are inherent in network postage stamp pricing across the low voltage network. Postage stamp pricing builds in cross subsidies that benefit rural and regional customers and penalise urban customers due to the number of assets used to supply each customer. Cross subsidies also exist between dwelling types. On-market apartment customers currently cross-subsidise standalone dwellings which require more network infrastructure per dwelling than apartments. To argue it is 'fair' to increase costs for customers of ENs to match the costs paid by on-market customers is arguing to reinstate an 'unfair' cross-subsidy that already exists for on-market apartment customers.

Ausgrid argues for the new EN tariff based on 'fairness'. Network prices are not based on 'fairness'. Pricing practice embeds cross subsidies between customers. Until there is greater granularity of customer pricing, revenue recovery through broad based tariffs will continue to lack 'fairness' and cross subsidies between customers will continue to exist.

We strongly believe it is the AER's responsibility to make a determination based on the efficient costs at a connection point. It is not the AER's jurisdiction to make equity decisions beyond the distribution network. These are matters of public policy and for the AER to intervene creates unnecessary regulatory risk.

For example, the NSW Government has requested IPART to recommend a maximum price to apply to embedded network customers in NSW. That is appropriate process. It is not a matter for the AER or DNSPs to make fairness judgments beyond their respective bailiwicks. To do so will create market distortions and create greater potential policy challenges.

---

<sup>6</sup> NER Clause 6.18.5 (g)(1).

## *Redistribution of benefits*

Ausgrid proposes to increase the capacity charge for ENs by 50 per cent and its modelling shows that this is likely to contribute between \$12 million and \$26 million of additional revenue from 800 EN customers.<sup>7</sup> The proposed tariff change represents a redistribution of about 0.75 to 1.5 per cent of Ausgrid annual revenues<sup>8</sup> from 800 customers to more than a million residential customers. The financial impact of the proposed tariff change on ENs will be significant, but the improvement in 'fairness' to individual residential customers will be negligible and swamped by cost uplifts proposed by Ausgrid in its regulatory proposal. Given the lack of material benefit to customers and additional administrative costs associated with implementing the proposed tariffs, we question the value of the proposed tariff change.

## *Future financial viability of ENs*

Embedded networks provide many benefits to customers. Customers have historically benefited from more efficient electrical construction and more cost-effective maintenance and operation. Customers of ENs owned and operated by Origin enjoy the same consumer protections as other retail customers and are provided with rates that are well below the Default Market Offer (DMO).

ENs also have a key role to play in the future by enabling access to technology like batteries and PV that are largely inaccessible to those living in apartments or other strata-based precincts. Further, most new apartment buildings require EV charging facilities, but an optimal EV solution requires an embedded network. An excessive network tariff could discourage new ENs and slow take-up of EVs and transition away from gas, impede customer access to new technology and slow the energy transition.

IPART is currently reviewing the prices charged by ENs and has released a draft report with a proposed EN price cap below the DMO (being the median of the lowest charge from the offers of active retailers in the market). Lowering the cap on prices while concurrently increasing network tariffs threatens the viability of new ENs. Origin requests the AER take account of IPART's decision (i.e. delay a decision on network tariffs until after IPART's final decision) to ensure the financial viability of ENs is appropriately considered.

## *Comments on specific tariff design*

Origin does not believe a robust case has been made to support the introduction of an EN tariff. Should the AER disagree, we offer the following comments on the tariff's design:

- We support Endeavour Energy's attempt to account for maintenance and operational cost savings of ENs in the calculation of its EN tariff and suggest Ausgrid take a similar approach.
- We support an uplift to the capacity charge rather than the fixed charge as the capacity charge is better able to differentiate between large and small ENs. A capacity charge acts an incentive to change usage behaviour which should be the objective to remove load from the network at set times. A fixed charge does not provide such an incentive to respond to price signals.
- If an EN tariff is introduced, Origin supports a 5-year transition period as proposed by Ausgrid rather than a 2-year transition period as proposed by Endeavour Energy. This allows for contracts with tenants to be adjusted over time to ensure the financial viability of the business model.

## **Controlled load tariffs**

We support Ausgrid's proposed introduction of a new solar soak controlled load tariff (EA030). Ausgrid indicates that this new tariff will be the default arrangement for customers with smart meters from 1 July 2024. The new solar soak controlled load tariff introduces new switching periods and extends the switching time period beyond that of the existing controlled load tariff. That is, the solar soak option is markedly different to the existing controlled load tariff.

---

<sup>7</sup> Customer numbers taken from Ausgrid's revised proposal and revenue estimates are based on Ausgrid EN model.

<sup>8</sup> Revenue estimates are indicative and based on AER draft determination.

While we support the new tariff, we are concerned that this new arrangement will operate under the same tariff code (EA030) as the existing legacy controlled load arrangement. The key issue is that the market system (MSATS) does not differentiate between the legacy and new controlled load options for EA030: it only recognises a single EA030 identifier. As a result, it is not possible to determine which option is configured at the customer's meter when viewing MSATS. Because of the differences between the existing and new solar soak controlled load options, it will not be possible to inform the customer when their hot water system is on or off with any certainty. The identification of meter configuration is further complicated in the case of inherited meters where a customer churns in from a rival retailer. In the absence of an individual identifier, it is not possible to determine which option the previous retailer or metering provider applied at the customer site.

We consider that new solar soak controlled load tariff requires an individual (unique) tariff code to allow for separate identification within MSATS.

### **Large scale battery tariffs**

In principle, we support the introduction of large-scale battery tariffs. In its revised proposal Essential Energy adjusted the network tariffs for large-scale batteries, including adding a new tariff for small batteries connected to the LV distribution network (with a substantially lower fixed cost component). We support a lower fixed charge for smaller batteries to encourage the deployment of many smaller size batteries which is better for overall network resilience than one large battery in one location.