

6 September 2022



Mr Warwick Anderson
General Manager – Network Pricing
Australian Energy Regulator

24–28 Campbell St
Sydney NSW 2000
All mail to
GPO Box 4009
Sydney NSW 2001
T +61 2 131 525
ausgrid.com.au

Dear Warwick

Ausgrid's submission to the AER's Annual pricing process review – Stage 2

Ausgrid is pleased to provide this submission to the Australian Energy Regulator (AER) in response to its Position Paper on Stage 2 of the Annual pricing process review.

Ausgrid operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that covers over 22,000 square kilometres from the Sydney CBD to the Upper Hunter.

Stakeholder usage of outputs

We note that the AER is seeking feedback on ways of changing the standard pricing model, to support the information needs of stakeholders and reduce the burden on AER staff to respond to queries. The consultation also asks whether additional data should be added to the model to assist with enquiries from stakeholders.

We suggest that the future amendments to the model focus on its ability to demonstrate compliance with the pricing principles and that this remains the priority. Even if the model was amended to support additional stakeholder needs, the information it contains remains complex and we anticipate the AER will continue to receive information enquiries from these stakeholders.

Pricing proposal content and presentation

Our preference is that customer-facing pricing proposal documents are not included in the pricing submission to the AER and are only published by the distributor. Our understanding is that customer-facing documents, as described in the consultation paper, include the network price tables within the annual pricing proposal document (as distinct to the prices shown in the compliance spreadsheet).

We do not anticipate that the integrity of the approval process would be undermined if the AER only reviews and approves the prices that appear in the compliance spreadsheet. On this basis we support the removal of the network pricing tables from the annual pricing proposal document.

Model revisions

Ausgrid is broadly supportive of the proposed amendments to the annual pricing model, to the extent that they improve the ability to check input data and to provide clearer outputs. For example, the identification of trial tariff revenues within the model is a welcome improvement.

In 2023/24 NSW distributors will have an additional 2 jurisdictional schemes to administer as part of the NSW Government's Electricity Infrastructure Roadmap. We will need the ability to

Connecting communities,
empowering lives

enter multiple jurisdictional schemes in the compliance model for the next annual price change, and this is an amendment that should be included in the next release of the model.

Year 1 pricing

Ausgrid supports a pre-lodgement process between the AER and electricity distributors for pricing proposals for the first year of a regulatory period. If the AER makes its embargoed data available in March 2024 ahead of the publication of the final determinations, this will allow a preliminary pricing model to be submitted in April.

Side constraint mechanism

Ausgrid welcomes the review of the side constraint formula to ensure it is fit for purpose and achieves the intent of the NER pricing principles. We note that the proposed and alternate side constraint mechanism in the consultation paper appear to be the same mathematically. On this basis we believe that the alternate mechanism does not add any additional improvements to the calculation of the side constraint, other than a different presentation of the input parameters.

We also note that in scenarios when annual tariff volumes are decreasing the existing formula may bind and prevent distributors from recovering allowed revenues. Our review of the proposed side constraint mechanism indicates that while the mechanism may resolve the issue when the volume trends are similar for different tariff classes, it may fall short of achieving this outcome when different tariff classes have different volume trends.

In response to AER's question on scenarios that have not been tested, we would like to propose two additional scenarios to be tested with the new side constraint formula:

- Scenario 4a: Residential consumption increases (e.g., by 10%) while small business consumption decreases (e.g., by 10%)
- Scenario 4b: Residential and small business consumption decreases but with a different rate (e.g., by 5% for residential and 20% for small business)

We note that Ausgrid assigns residential and small business customers to the same tariff class, and that the scenarios above would not see the proposed side constraint limiting our allowable revenue. However, we often see large customer loads move between the high voltage and sub-transmission tariff classes over successive pricing years (such as for data centre upgrades) and this is an example of where the side constraint formulae could become an issue for our pricing submission.

We welcome further discussions with the AER on these issues. If the AER has any questions in relation to this submission, please contact Bill Nixey, Manager Network Pricing, in the first instance on [REDACTED]

Regards,

[REDACTED]

Alex McPherson
Head of Regulation