

Ausgrid Pricing Directions Paper 2024-29

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About the Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is leading social justice law and policy centre. Established in 1982, we are an independent, non-profit organisation that works with people and communities who are marginalised and facing disadvantage.

PIAC builds a fairer, stronger society by helping to change laws, policies and practices that cause injustice and inequality. Our work combines:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change and public interest outcomes.

Energy and Water Consumers' Advocacy Program

The Energy and Water Consumers' Advocacy Program works for better regulatory and policy outcomes so people's needs are met by clean, resilient and efficient energy and water systems. We ensure consumer protections and assistance limit disadvantage, and people can make meaningful choices in effective markets without experiencing detriment if they cannot participate. PIAC receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

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Public Interest Advocacy Centre



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The Public Interest Advocacy Centre office is located on the land of the Gadigal of the Eora Nation.

1. Introduction

PIAC welcomes the opportunity to respond to Ausgrid's 2024-2029 Pricing Directions Paper. In this submission we set out the role of network tariffs, the purpose of cost-reflectivity, and respond to specific questions posed in the Pricing Directions Paper.

PIAC regards well-designed network tariffs as a crucial enabler of an efficient transition of the energy system. We support a rapid transition (in increments) to more cost reflective network tariffs (CRNT) to promote the long-term interests of consumers.

Retailers and CRNTs

CRNTs are a signal to energy retailers for efficient pricing of network services.

The introduction of CRNTs is effective or successful when:

- The network charges recovered from a retailer for a given customer reflect the cost to serve that customer¹
- Consumers have access to retail tariff options that suit their needs and preferences, such as:
 - Simple two-part tariffs (with fixed and volumetric pricing) for consumers who prefer this.
 - Tariffs that reflect the shape of the underlying network tariff for customers who prefer this.
 - Tariffs and/or rebates that reflect location-specific opt-in network tariffs or rebates, where available, for consumers who prefer this.
- This does not require all retailers to offer all consumers each option. Rather, consumers should be able to find sufficient offerings to meet their needs from whatever combination of retailers serve their area and customer type.
- Consumers can manage or change their energy demand – for example by installing solar and/or batteries, shifting loads away from peak periods, investing in energy efficiency or purchasing an electric vehicle - without requiring cross subsidy from other consumers or going unrewarded for benefits they create for the energy system.
- This does not entail consumers having to reduce or change their energy use in response to pricing. Some consumers (particularly those with peakier loads and/or solar PV) will pay more under cost reflective pricing. Others (particularly those with flatter loads and/or no solar PV) will pay less. Neither should be expected to respond to any price changes.

¹ With the exception of subsidies or transfers resulting from postage stamp pricing for default and standard tariff offering. By and large, consumers are supportive of postage stamp pricing and accept that means consumers in built-up areas pay above their cost-to-serve so those in regional and remote areas can access energy for a similar price.

In the absence of a response to price signals, CRNTs still have the benefit of equitably allocating costs between consumers on a more 'causer pays' basis. Retailers are exposed to network tariffs, and it should be their decision if and how they pass on these charges.

Despite their apparent resistance to CRNT reforms, retailers are well placed to manage the risk associated with being exposed to time-variant network prices while passing on a flat (or otherwise different) charge to consumers, as they do with wholesale costs. Wholesale costs are vastly more volatile and unpredictable than CRNTs.

The view that retailers should be 'passing through' CRNTs is, in PIAC's assessment, ill-conceived. Retailers smearing or absorbing 'peak' price signals is beneficial for consumers who choose those retail products, and beneficial to other consumers as it aligns their incentives to reduce exposure to peak costs with more efficient network outcomes. In the best-case scenario, retailers would seek to manage network price risk in innovative ways, which may include peak time rebates, load control or cost reflective retail tariffs.

2. Response to directions paper questions

1. Do you have any feedback on our pricing principles? Do you agree with them/is anything important missing?

PIAC does not consider fairness to be best expressed as a principle. Principles are traded off against each other. Fairness is an objective, and the principles should all support that objective.

We support rewarding customers for being flexible in how and when they use energy, where they are able to and choose to do so. Including this as a principle requires Ausgrid to ensure flexibility is pursued in a manner that supports scope for choice in retail tariffs for end consumers. However, pursuing flexibility for its own sake or in the name of 'empowerment' or 'choice' may undermine basic consumer protections and confuse the purpose of CRNTs.

Mandating the transition to cost reflective network tariffs provides scope and flexibility to retailers to offer greater choice to customers. It allows retailers flexibility in how they respond to the signals CRNTs provide them with. CRNTs encourage retailers to develop product offerings that cater to a broad spectrum of customers from ones that are highly engaged and wish to respond to more dynamic or complex price signals to others who value predictability and stability and prefer simpler, flatter pricing. Flexibility should not imply that Ausgrid is seeking to provide retailers with flexibility in the tariffs they are exposed to.

Ausgrid's principles should be explicit on this, particularly given this also reflects the values expressed by their consumers.

2. How should Ausgrid recover Roadmap scheme costs? Should we send a cost reflective price signal (eg. A demand charge) for the recovery of costs, or recover them in the same way as the existing climate change fund (eg. As an energy charge).

PIAC considers Roadmap costs would be more appropriately recovered through Transmission Network Service Providers, or from the NSW Government budget.

Where Roadmap scheme costs continue to be recovered by DNSPs, PIAC recommends:

- The LTESA-related portion of costs should be recovered through volumetric charges. The consumer benefit of LTESAs is downward pressure on energy wholesale costs, so recovering this through fixed charges would mean lower energy users are paying more than their fair share, and higher energy users are paying less.
- The cost of new transmission under the Roadmap would ideally be recovered from the generators for whom it is built. Whatever costs are passed through to consumers should be recovered in the same way as other Transmission Use of System charges: a combination of volumetric and fixed charges, weighted towards volumetric charges.

3. What are your views on how Ausgrid should set prices for hydrogen electrolyzers in 2024-29 to provide them with the 90% discount on network charges? Should we introduce a dynamic tariff for large load customers such as hydrogen electrolyzers?

In PIAC's opinion, the decision to discount network tariffs for hydrogen producers is not consistent with Ausgrid's tariff principles, the NER network pricing principles, or the long-term interests of energy users. Any subsidy for hydrogen production should be provided directly by the NSW or Commonwealth Government, not other energy users. PIAC would strongly support Ausgrid seeking a change to NSW Government policy to that effect.

In the absence of a change to this policy, and given the original intent of the policy was to improve utilisation of the existing network, in PIAC's view the 90% discount should be conditional on the hydrogen producer imposing the need for little or no network augmentation. A combination of fixed and critical peak charges would be an effective tariff for a new hydrogen producer, and the 90% discount should be reflected in the fixed component, such that:

- If they require no network augmentation in normal operation, they pay a fixed charge equal to 10% of the network costs they would otherwise pay
- If they require the reduction of load at network peak times to avoid augmentation, a critical peak charge should apply to any demand triggering the need for network upgrades. This should be over and above the fixed charge.

4. Do you think our overall approach for introducing an export pricing structure is appropriate? Are there any changes you think we should make? If so why?

PIAC supports export pricing that efficiently responds to the identified issues of accommodating solar and fairly and efficiently sharing solar export capacity and the costs of accommodating it, minimising the need for network augmentation, and improving the balance between individual household and systemic benefit from solar exports. Accordingly, PIAC supports:

- Setting a 'free' export limit for all households based on the intrinsic hosting capacity of the network, with this export limit based on kW rather than kWh. This kW limit may be calculated as the highest kWh exported in any single 30-minute interval. PIAC regards a basic export limit expressed volumetrically (in cumulative kWh) to not be cost reflective or appropriately linked to the identified issues, such as voltage management and excess export during peak

generation periods. Due to loads programmed to operate during solar generation, such as batteries, EVs and heat pumps, cumulative kWh measurements over a longer period are not a reliable proxy for kW demand.

- Having a charge and reward component to export tariffs so that exports during peak export periods (above the basic level) attract a charge, and exports during the peak demand periods attract a reward payment at times and locations where exports help avoid or delay network upgrades or reduce the need for load shedding.
- Applying the tariff structure to all residential customers (new and existing) on cost reflective tariffs (with DER assets) equally, on a postage-stamp basis, except for rewards for export which should be locationally and temporally specific.
- Implementing the tariff as the default tariff no later than 1 July 2025, with no opportunity for retailers to opt-out of the tariff.

PIAC recommends Ausgrid alter their proposed approach to the tariff to better reflect the purpose of export charging, implementing the basic export level, and export charging on a kW basis.

Do you agree we should apply the export pricing structure to all new and existing residential and small business customers on cost reflective tariffs from July 2025? Should an opt-out option be available for the export pricing structure?

PIAC supports applying the export pricing structure to all new and existing customers from 1 July 2025, with no ability for energy retailers to opt-out of this tariff. PIAC also considers it inappropriate to change overall bill outcomes so they are more favourable for customers with large solar systems as this would reduce the cost reflectivity of these tariffs and put an unfair burden on customers without solar.

Do you think there is merit in exploring a 1-2 hour gap between the export charge window and export reward window?

PIAC supports exploring a gap between export charging and reward windows. This may help avoid unintended consequences for energy users and the energy system.

Should we consider aligning more closely with the other NSW distributors on export tariffs?

Tariff structures that are consistent across NSW are generally desirable and would be simpler for both consumers and retailers. However, consistency should not come at the expense of a slower transition to cost reflective and efficient pricing. Lowest common denominator tariff design should not be an option.

5. Do you support a consistent 6-hour peak charging window in summer and winter for residential and small business customers?

PIAC does not support a consistent 6-hour peak window for summer and winter. There is no demonstrated need for a peak charging window to exceed 4 hours in duration. We consider It

materially harder for households to respond to peak tariffs longer than 3 or 4 hours, and that most peaks in most parts of Ausgrid's network can be captured in a 4-hour period.

Significantly limiting the capacity of households across Ausgrid's entire network to manage their exposure to peak pricing in order to capture the peak period of a relatively small portion of the network is not a reasonable trade-off. Particularly if only a minor subset of that smaller portion of the network is facing any constraints. PIAC generally supports consistency of peak charging windows between seasons where this is an accurate reflection of network peak demand, and where there is no material difference between seasons.

Do you support moving peak charging windows to later in the day, so it applies from 3pm-9pm?

PIAC does not support moving the peak charging windows to apply from 3-9pm. The proposal is in part predicated on the increasing penetration of Electric Vehicles (EV), rather than existing issues with systemic peak demand. PIAC does not regard this response as fair, efficient, or supportive of consumer interests or preferences, where consumers consistently indicate people should not be penalised for using energy when they cannot avoid it. Further, PIAC does not regard the proposal as necessary where there has not been an effort to optimise the charging of EVs during off-peak times with EV-specific tariffs.

Should we have the option to move the peak charging windows to 4pm to 10pm during the 2024-29 period, if we encounter new peaks in demand or increasing minimum system load costs in the afternoons?

PIAC does not support this option and considers it unnecessary. This option is predicated on the higher potential penetration of electric vehicles. It is not fair, efficient, necessary, or supportive of consumer interests or preferences to make the peak later rather than seeking to optimise the charging of EVs during off-peak times with EV-specific tariffs and/or location-specific incentives.

Should we extend the seasonal peak charging window to weekends for residential customers? If not, how do we address the localised demand peaks on the weekend, which are most common in highly residential areas?

PIAC has not seen sufficient evidence that extending peak windows to weekends is necessary, or on balance, in consumers' interest. This proposal would limit the capacity of households across Ausgrid's entire network to manage their exposure to peak pricing in the interest of capturing the peak period of a relatively small portion of the network. This is not a reasonable trade-off, particularly if only a minor subset of that smaller portion of the network is facing any constraints or has materially higher peak demand on weekends.

6. Will our proposed changes to switching times retain the relevance of controlled load tariffs for our customers?

How else could controlled load tariffs be reformed to respond to new loads such as electric vehicles?

Controlled load tariffs and associated enabling technology should support different technology types including EVs, heat pumps, pool pumps and batteries.

7. Do you agree we should introduce embedded network (EN) tariffs? Is this an appropriate response to address the tariff inequity between EN operators and other network users?

PIAC supports the introduction of EN tariffs and regards this as an appropriate response by Ausgrid to help address issues of inequitable and inefficient cost recovery between ENs and other network users. However, we question why the proposed EN tariffs are not designed to recover the full amount of existing inequity in cost recovery identified by Ausgrid.

PIAC recommends implementing EN tariffs designed to fully restore equitable cost recovery between ENs and other network users. Implementation of these tariffs should be undertaken through a transition 'glide-path' over the course of the 2024-29 determination period. It is necessary to clearly signal the end point to provide certainty and transparency to EN operators and provide opportunity for EN arrangements to be unwound where this is desirable.

We note that action by Ausgrid to address the inequity in cost-recovery between ENs and other network users will not resolve all the issues created by the existing embedded network arrangements. However, PIAC regards addressing the cost-recovery inequity as a crucial step and encourages Ausgrid to identify issues that will need to be addressed as a result of their proposal, including ensuring effective access to default pricing in embedded networks.

Should minimum consumption thresholds be applied to allow for exemptions to the proposed EN tariffs?

PIAC broadly supports the application of minimum consumption thresholds (at least in this period) to allow for exemptions for the proposed tariffs for very small operators. Ausgrid should explore options to address these operators in future, including where regulatory reform or Government action may be required.

8. Do the current transitional Time of Use (TOU) tariffs provide any benefits to customers?

PIAC does not consider the transitional TOU tariffs to be an appropriate 'step' towards demand tariffs due to the fundamental differences between how consumers respond to the different tariffs.

Do you support the withdrawal of the introductory demand tariffs? Do they provide any benefits to customers, or do they create an unnecessary step as customers move to demand tariffs?

PIAC supports a faster transition to more cost reflective network tariffs, including demand tariffs, and would support the withdrawal of existing introductory and transitional tariffs where this is part of a co-ordinated strategy to move towards demand tariffs being a standard tariff.

Are there currently sufficient choices available for customers who want to opt out of demand tariffs?

As noted in our introductory comments, retailers offer different tariff structures to consumers and PIAC expects a sufficient number of retailers will continue to offer a range of simple retail tariffs while incurring demand tariffs themselves. PIAC does not consider it appropriate for retailers to be able to opt out of cost reflective network tariffs, including demand tariffs.

10. Are our demand and TOU tariffs suitable for customers who charge their EVs at their home?

PIAC does not consider the proposed demand and TOU tariffs suitable for enabling efficient integration of EV home charging. Tariffs should help incentivise EV owners to improve utilisation of the network and not impose new avoidable peak demand. To this end, retailers for households with EV's should be offered – and ultimately be required to have – wider peak windows and lower overnight peak charges compared to other time variant tariffs.

Should technology specific tariffs (such as for EV charging stations) be considered?

PIAC strongly supports technology specific tariffs for EVs and EV charging stations. We do not consider technology neutrality is consistent with Ausgrid's tariff principles, the NER tariff principles, or the interest of consumers. While EVs share some characteristics with other technology, the nature of vehicles and the way they are used makes them distinct.

How can our network tariffs facilitate EV charging in apartment buildings?

EV chargers should be separately metered where possible. Where EV chargers are not separately metered and are on the common meter, this meter should be subject to an EV-specific tariff noted above.

13. Should Ausgrid trial new tariffs in response to the expected high growth in EV uptake over the 2024-29 period and beyond.

EV tariffs should be introduced as a standard tariff at the earliest possibility. Any EV tariff trials should be undertaken to enable this.

14. How should we continue to build and test our capability and market interest in dynamic network pricing through the 2024-29 period, including through trial tariffs?

PIAC strongly supports Ausgrid building and testing capability to effectively implement dynamic network pricing in the 2024-2029 period, including through tariff trials.