

Vince Graham
CEO
Networks NSW
By email

CC
Paula Conboy
Chair
Michelle Groves
CEO
Australian Energy Regulator

7 August 2015

Dear Mr Graham,

Tariff Structure Statement Consultation

The Total Environment Centre and Public Interest Advocacy Centre are writing to you to inquire about what Networks NSW plans are in relation to consultation for the three network businesses' Tariff Structure Statements (TSSs).

It is our understanding that the NSW networks (NNSW) are required to submit their proposed TSSs in November. We understand the networks in all jurisdictions other than Tasmania have commenced formal consultations, in many cases extensively. As far as we are aware, the NSW distribution network businesses have not yet commenced consultations.

NNSW's intention to move towards declining block tariffs was discussed briefly at an event for stakeholders on 16 June, and about 15 minutes was devoted to a short Q&A about what attendees would like to see in a consultation process. We have not received any written material arising from that event, and we also await advice about how NNSW intends the consultation process to be undertaken. We note that networks in other NEM jurisdictions have set up consultative groups, held workshops, produced consumer-friendly consultation papers and conducted research on consumer impacts.

Given the inherent complexity of network tariff design and the steps required to engage properly, we are concerned that NNSW has not allowed sufficient time to properly engage with consumers and consumer groups. This could suggest, and we hope that this impression is incorrect, that NNSW has already decided what new tariffs it intends to introduce, and that consumer consultation will be cursory.

This is especially concerning in view of the NSW networks' introduction of declining block tariffs in their 2015-16 tariffs, and NNSW's stated intention of continuing these in the three TSS for 2016-19. Prima facie, declining block tariffs do not appear to comply with the requirement of the new Rule 6.18.5(f) requiring network tariffs to be based on the long run marginal cost of providing services, since they encourage high consumption

rather than sending a price signal to consumers related to the cost of future network augmentation. NNSW will need to allow sufficient time and resources to explaining how declining block tariffs comply with this requirement, and should not assume consumers and consumer groups will support this proposal.

Nevertheless, we are willing and able to work with NNSW to ensure that there is effective consumer consultation in the limited time available. To this end, we would refer you to the AER's Consumer Engagement Guideline, and in particular to its expectation that networks will provide clear, accurate and timely communication and be accessible, inclusive, transparent and measurable.

In particular, we would request that NNSW outline at the start of the TSS consultation what the intended process for consultation will be. This would include key meeting dates, consultation objectives, proposed organisations to be consulted and timelines. In relation to transparency, we also consider it essential for the process to include provision of:

- easy to understand definitions about key terms to be used;
- graphs showing each network's peak demand periods for different customer types;
- baseline data that documents previous and current prices for all classes of consumers as well as key assumptions underlying each tariff and explanations of how the data was derived for each tariff;
- details about who will pay more and who will pay less under each tariff, based on the baseline data set; and
- modelling undertaken in relation to consumers with different load profiles to arrive at these conclusions.

We look forward to clarification from you about the matters raised in this letter to enable our informed and active engagement in TSS consultations.

Yours sincerely,



Jeff Angel
Executive Director
Total Environment Centre



Edward Santow
CEO
Public Interest Advocacy Centre