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UNITED ENERGY

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Australian Energy Market Commission
Attention: Zaeen Khan
Level 5
201 Elizabeth Street
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Dear Zaeen

RE: Distribution Network Pricing Arrangements – Reference Number ERC0161

United Energy (UE) welcomes the opportunity to lodge this submission in response to the Commission's consultation paper in relation to Distribution Pricing Arrangement - AEMC reference: ERC0161. In addition, UE wishes to draw the Commission's attention to the submission lodged by the Energy Networks Association (ENA), which we fully support. We note that the ENA submission includes detailed answers to the issues raised for the Commission's consideration.

The consultation proposes that principles should be adjusted to encourage distribution prices to be set on a more cost reflective basis, which in turn will provide more efficient pricing signals to customers. UE supports this principle and has already introduced a pricing structure that goes some way towards achieving that aim. For example a number of time of use tariffs are in place for residential consumers and demand based tariffs are in place for larger customers. The reality however is that large parts of our revenue base is made up of flat rate charges rather than capacity based or time of use based charges and the tariffs have been set on an average for each customer type rather than different pricing zones within the network.

A fundamental change to the pricing principles has the potential of providing price shock to customers. For example the "average" UE customer has a distribution charge of $300 per annum, approximately 30 per cent of the total customer electricity invoice. This charge has been based on the cost of service as determined by the AER in the five yearly pricing approvals. As an example UE has two customers one with solar panels and one without. Both consumers have the same peak usage and the same overall usage, however the solar customer is able to purchase less energy due to their solar panel. The table below provides a comparison of the network charges for these two customers.

House 1 with 1.5 kW solar		**Current Tariff**
	Peak Demand kW	2
	Energy Usage kWh/pa	5000
	Solar Contribution kWh/pa	1000
	Net Energy kWh/pa	4000
	DUOS Bill Fixed	$21.90
	DUOS Bill Variable	$247.20
	Sub-total	$269.10

House 2 no solar		
	Peak Demand kW	2
	Energy Usage	5000
	Solar Contribution	0
	Net Energy	5000
	DUOS Bill Fixed	$21.90
	DUOS Bill Variable	$309.00
	Sub-total	$330.90
	Total	$600.00

This example shows that UE recovers its cost of service of $600 over these two customers however the customer with solar panels pays $269 compared to $331 to the customer with no solar. Given that both customers have the same peak usage, based on a capacity based tariff each customer would pay $300 in the short term - a 30% price shock to the customer with solar panels. Whilst UE agrees that capacity based pricing is more reflective of recovering efficient network costs there are potential issues on the customer side in the short term. Any proposed rule change should have regard to a workable solution for both the businesses and their customers. In Victoria there was some delay in introducing time of use tariffs due to customer concerns relating to change in the current pricing structure.

In addition it is worth noting that UE's annual revenue requirement is approximately $340m in the 2011 to 2015 period. Also during this period UE will spend a total of approximately $900m of capital of which approximately $200m relates to the reinforcement (i.e. addressing peak demand) of the network. Therefore approximately 6 per cent of the total annual revenue requirement recovers the cost of providing peak demand – the rest recovering sunk costs of the network and replacement of an ageing network.

In UE's view the consultation paper focusses too narrowly on long run marginal costs (LRMC). The consultation should focus on establishing pricing signals to customers that recover the efficient cost of providing the service at the margin. Focussing narrowly on LMRC potentially will prevent the outcome being sought by the Commission. Businesses should be encouraged to price tariffs in a way that is equitable and sends signals to customers that will either directly reduce the cost of providing the service or otherwise charge that customer that is willing to pay. Businesses should not be locked into a straight-jacketed approach to setting prices based on LRMC. Also on this point UE notes that AEMO has been tasked by the Standing Council on Energy and Resources (SCER) to design, implement the Multiple Trading Relationships and Embedded Network changes. This process will require some flexibility in pricing in order to achieve the SCER's Power of Choice recommendations.

Lastly the Commission has introduced a concept of "residual" costs. As demonstrated earlier UE potentially has a large component of so called residual costs. These costs are legitimate costs of providing a safe and reliable network and should not be dismissed as being "residual". It is unclear how these residual costs will be treated in the future - this should be clarified.

Should you have any queries on this submission please feel free to call me on (03) 8846 860 to discuss.

Yours sincerely

Andrew Schille
General Manager Regulation and Corporate Affairs