**EnergyAustralia Pty Ltd**
ABN 99 086 014 968
Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

4th July 2013

Zaeen Khan
Senior Advisor
The Australian Energy Market Commission
PO Box A2449
Sydney South
NSW 1235

Submitted online at aemc@aemc.gov.au

Dear Mr Khan

**Project reference: ERC 0149: Response to the Consultation Paper on National Electricity Amendment (Annual Network Pricing Arrangements) Rule 2013**

EnergyAustralia welcomes the opportunity to make a submission on the paper released by the AEMC for the National Electricity Amendment (Annual Network Pricing Arrangements) Rule 2013 (Consultation Paper).

EnergyAustralia is one of Australia's largest energy companies, providing gas and electricity to over 2.7 million residential and business customers. EnergyAustralia owns and operates a multi-billion dollar portfolio of energy generation and storage facilities across Australia including coal, gas and wind assets with control of over 5,600 MW of generation in the National Electricity Market (NEM).

We have been operating in all contestable retail markets in the NEM since they opened up to competition and therefore have a great deal of experience with the issues that have resulted in the Independent Pricing and Regulatory Tribunal (IPART) proposing this rule change to annual network pricing arrangements. The current network pricing arrangements allow, at best, one month between the approval of final network prices and the date the new prices take effect.

Over the years since the timing rules for network price approvals were originally set up, an increasing number of critical retail pricing tasks have arisen and new regulatory obligations created. The network timeframes are simply inadequate for retail pricing requirements. The actual situation is often made worse by the network prices being finalised later than the best case timeframes. In recent years, we've only had two or three weeks to complete all our repricing activities at times. To accommodate these tasks and obligations requires us to cut corners, make assumptions, and change our plans at short notice. However, we cannot do this without incurring additional costs and creating a less than optimal experience for customers.

We strongly support the proposed rule change and are willing to work with network companies to find a suitable solution to the timing issues and improve retailer and customer consultation on network prices. We have attempted to put forward constructive suggestions as to how this can be achieved while still finding the right balance on timeframes and requirements of network companies.

If you would like more information on this submission, please contact me on (03) 8628 1242.

Yours sincerely

**Melinda Green**
Regulatory Manager - Pricing

# EnergyAustralia response to the AEMC for the

# Consultation Paper on National Electricity Amendment Rule 2013 (Annual Network Pricing Arrangements)

**4th July 2013**

## Contents

# 1. Executive Summary

The established timeframes for setting and approving transmission and distribution pricing allow for all key inputs to be obtained, price proposals to be created, to be subsequently reviewed and approved by the AER and appealed by the network company if there are any issues. The timeframes are flexible and can be extended if required, although efforts are made to have network pricing finalised ahead of the annual price change date – either the 1st January or 1st July. If all goes well, then final network prices are published a month before the price change date.

As network prices make up a large proportion of the retail price, retailers have a commercial and competitive interest in setting new retail prices at the same time network prices change. However, retailers only have up to a month (and frequently less time than this) between receiving final network prices and having to set their own retail prices. A month is insufficient time for retailers, particularly when they have additional tasks and regulatory obligations to fulfil before the new prices take effect. The pressure on retailers adds to costs, detracts from customer engagement activities and is not in the interests of the National Electricity Objective.

We therefore strongly support this IPART rule change proposal to allow a firm two month period between the finalisation and effective dates for network tariffs. Our submission attempts to show how the timeframes allowed for network and retail pricing could be altered so that risk and costs are more evenly shared across the industry and customer outcomes are improved.

As part of this rule change, we believe that improvements could also be made to the consultation processes of distribution companies with retailers and other stakeholders, including consumer groups. We also suggest some changes to the Statement of Expected Price Trends documents prepared annually by distributors. These changes align with the consultation process. This additional information provision and consultation can be undertaken before or after the network pricing process and should not impinge on the extra network price notification period of two months.

# 2. Introduction

## 2.1. Outline of the network pricing issues that retailers experience

EnergyAustralia believes the current annual network pricing arrangements have been an increasing issue in recent years and now leave an inadequate amount of time for the retail pricing process. In our original submission to IPART on this topic, we discussed the issues that annual network pricing arrangements create for retailers in general.[1]

### 2.1.1. How the network pricing approval process results in additional costs for customers

Under the current network pricing arrangements, retailers must squeeze all repricing tasks into a very short period of time. These repricing activities (see table 1) require input from a large group of people and affect a significant portion of our retail business. Therefore the costs of repricing events are significant and inefficiencies created by network pricing processes introduces an increase in retail operating costs that are passed onto customers in retail prices.

**Table 1: Retail tariff setting & implementation tasks per phase**

| Phase | Retail tariff setting & implementation tasks |
|---|---|
| 1 -Preparation | • Assess network tariffs – price levels, structure changes , rebalancing, new/obsolete tariffs<br>• Competitor benchmarking and price positioning assessment<br>• Price modelling & analysis<br>• Pricing strategy creation<br>• Prepare indicative prices, revenue/margin estimates |
| 2 - Tariff setting | • Check final network tariff changes, update pricing models<br>• Set all regulated and market-based tariffs - considering tariff rebalancing and competitive position<br>  ○ Management & executive sign-off - MD approval for market tariffs<br>  ○ Answer questions from IPART and re-do tariff setting if required<br>• Finalise IT specifications & test plans<br>• Put final network prices & miscellaneous service charges into IT templates |
| 3 - Finalise regulated tariffs<br>*(where applicable)* | • Prepare price sheets for upload to IPART website & Energy Made Easy (AER)<br>• Prepare newspaper notices for regulated tariffs |
| 4 - Implementation | • Put final retail prices into IT templates<br>• IT update all prices, c, correct and deal with any issues<br>• Prepare mail merge & mail house processes where individual letters are required<br>• Prepare analysis of customer price impacts for call centre<br>• Create price fact sheets<br>• Update price lists & documentation on own website |

Costs also arise due to the fact that there is a short and unknown period between the approval of the network tariffs and those tariffs taking effect. This introduces inefficiencies for retailers who can either choose to:

[1] TRUenergy, Submission to IPART on Proposed Changes to Annual Network Pricing Arrangements, August 2012

1. Change their retail prices on the same day that network prices change even though this means that they may end up setting retail prices without accurate knowledge of the costs that can make up about half the retail price; or
2. Wait until network prices are approved before setting retail prices. This also introduces extra costs as retailers generally plan to change their prices on the 1st January or 1st July when network prices change, but as the network pricing approval process is delayed, they incur additional costs due to the rescheduling and duplication of effort in price change activities.

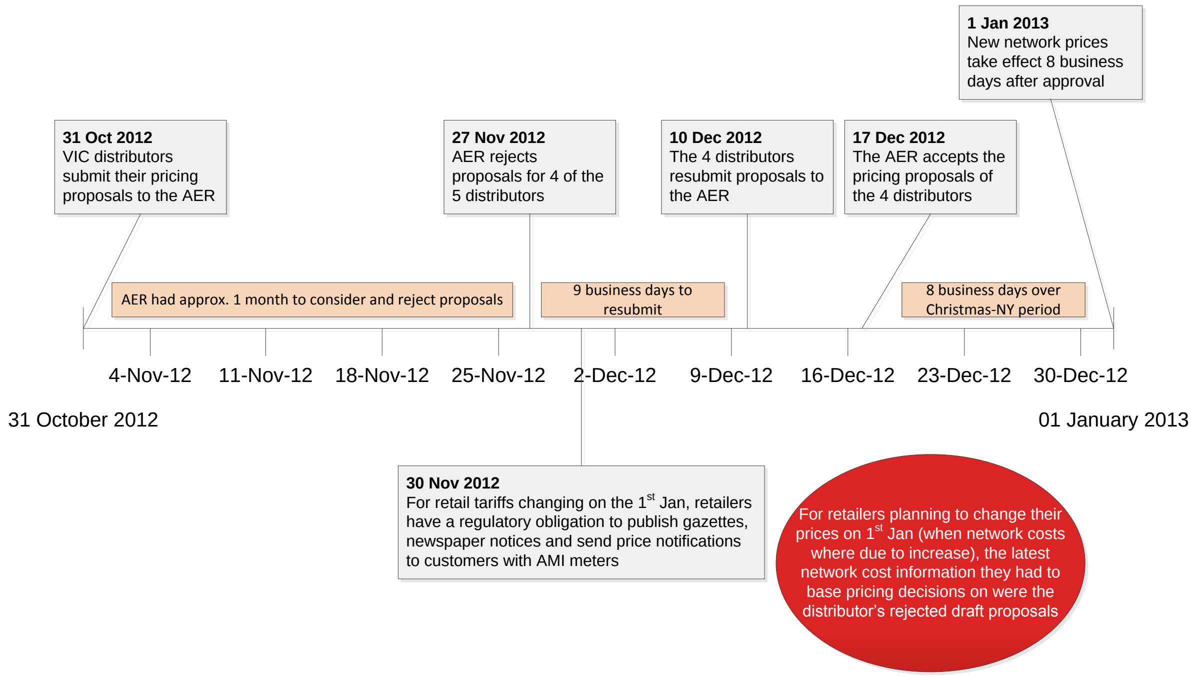
Therefore, retailers incur cost whichever approach they take and a risk premium is thus introduced into prices. If network prices changes are small or negative, then option 1 is a better option than if price increases are significant. We rely on distribution price path information, the Statements of Expected Price Trends and our own discussions with distribution network service providers (DNSPs); however, we are frequently surprised by the magnitude and nature of distribution price changes. This information doesn't allow us to minimise the costs resulting from network pricing approval processes. Thus, extra costs are being passed onto customers unnecessarily.

Ensuring that adequate time is available for the retail price setting processes will help to remove costs from retail pricing processes and will aid competition by allowing more time for customer communications and engagement. Both of these outcomes are aligned to the National Electricity Objective (NEO) and will have a positive effect on customer satisfaction.

### 2.1.2. The Victorian network tariff approval process in late 2012

The issue that the approval of network can create for retailers was clearly demonstrated in Victoria in late 2012.[2] The timeline of events is shown below.

**Figure 1: Network pricing delays in Victoria in late 2012**




[2] For more information see for example the commentary under each date listed for the SP AusNet tariff proposal review on the AER's website: http://www.aer.gov.au/node/18375

Retailers in Victoria do are not yet governed by the National Energy Customer Framework (NECF), but do have other additional pricing notification obligations compared with other states. Some the main obligation dates required to meet a retail price change date of 1st January 2013 were:

- 30th November 2012 – Date of gazettal of standing offer retail prices one month prior to their effective date, including published variation in a state wide newspaper.
- 30th November 2012 - 20 business days' notice of any variation to the amount and/or structure of retailer's tariffs that affects a customer with a smart meter installed.

On the 27th November 2012, we found out that the Australian Energy Regulator (AER) required significant changes to most of the DNSPs' pricing proposals, only several days before we expected the final prices to be released. We decided to take a risk and still set prices for small business customers on the 1st January 2013, however, we delayed the effective date for the residential electricity prices by another week (to the 7th January 2013). This created a large amount of internal replanning, additional effort and long hours, and extra costs to achieve.

If we had waited until network pricing was approved to set prices we would not have been able to make our retail prices effective until later in January. So the trade-off we faced meant that we either had to significantly replan and delay our price changes, or risk going early and base our retail prices on the wrong network costs. In either case there was a financial impact, and this impact could only be quantified after the fact (once network prices and all costs were known). That is, we were not in a position to avoid these costs or even assess the most cost effective option at the time we had to make the decision.

We note that other retailers (who predominantly delayed their retail price changes) also appear to have been faced with the same dilemma. Retailers face these issues in all contestable markets[3] whether they have price regulation or not.

### 2.1.3. The impacts on retail pricing in markets with price regulation

Jurisdictional regulators, such as IPART, are also affected by the current network pricing arrangements. Essentially, regulated retail prices are usually set on a similar timetable to market-based retail prices except that an extra step is introduced whereby the regulator sets or approves the final regulated retail prices. Regulated retail prices have a firm effective date (usually the 1st July each year) that is only pushed out in exceptional circumstances.

Jurisdictions differ in the way they approach network price inputs into regulated pricing. In NSW, Standard Retailers must wait to receive final network tariffs before submitting regulated retail prices to IPART for approval. Whereas, in Queensland, the Queensland Competition Authority (QCA) base the final regulated retail prices on draft network tariffs. This places retailers at risk that there is little time for the jurisdictional regulator to make pricing decisions considering the price level and structure of regulated prices, and that regulated prices set for the year ahead may be based on the wrong costs.

[3] EnergyAustralia does not operate in non-contestable markets in Tasmania, Western Australia or the Northern Territory and is not familiar with the issues associated with annual network pricing arrangements in these markets.

## 2.2. Why network pricing arrangements are putting more pressure on retailers

We have experienced frustration with annual network pricing arrangements for many years, but find that the issues are escalating and have a greater negative impact than before. The main reasons that we see that the problems are becoming worse are that:

- retailers are generally no longer integrated with DNSPs and can't easily access detailed network pricing information from DNSPs due to issues of competitive neutrality;
- network pricing approvals more often are delayed and complex – this is due, in part, to the increasing focus on network price increases and the introduction of new prices (e.g. time-of use prices) and moving customers between prices and this can create issues and result in approval delays (as evidenced in Victoria in late 2012[4]);
- network pricing approvals and determinations can be appealed and often deviate from the price path set at the beginning of the regulatory period meaning that retailers get late notice of higher than expected prices – see for example: the successful appeal by ETSA Utilities affecting 2011/12 prices,[5] SP AusNet receiving an unexpectedly high S factor for 2010 prices[6];
- more retailers are operating in more states within the NEM and must set prices in a greater number of contestable markets;
- these markets are becoming increasing competitive and retailers must consider pricing attractiveness and competitive position as well as input costs. This takes more time than simple price-setting approaches that only consider input costs; and
- regulatory requirements around retail pricing have been changing and increasing in most states meaning that retailers require additional time to undertake repricing activities than before (see section 2.2.1).

### 2.2.1. Impacts of recent changes to retail pricing regulations

In states where the NECF has been introduced, retailers are required to publish notification of variation of standing offer tariffs in newspaper circulating in the participating jurisdiction(s) within 10 business days before they take effect.[7] In addition, retailers must publish pricing information on the AER's comparator website, *Energy Made Easy,* and its own website within two days of the effective date. Clearly, these timeframes are extremely difficult for retailers to meet in some cases (or may even be completely unfeasible). This NECF requirement for price publication puts additional pressure on retailers to base retail pricing decisions on draft network prices or to delay the effective date of the retail prices.

The situation is worse in Victoria due to the requirements to gazette standing offer tariffs 20 business days before they take effect and to provide 20 business days' advance written notice of price changes to customers with smart meters in Victoria (see figure 1).[8] This requirement applies to more customers as the smart meter rollout progresses and will apply to all Victorian mass market sites when the rollout of smart meters completes at the end of 2013.

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[4] See for example, the commentary under the Decision 27th November 2012 on the AER's site for the SP AusNet proposal: http://www.aer.gov.au/node/18375, "On 22 November 2012, the AER decided that four of these DNSP's (CitiPower, Powercor, SP AusNet and United Energy) pricing proposals, relating to their 2013 forecasts for the take-up of flexible tariffs, were not reasonable."

[5] http://www.aer.gov.au/node/8817

[6] http://www.aer.gov.au/node/8671, approved pricing proposal, page 60

[7] National Energy Retail Law s.23(3)

[8] Victorian Energy Retail Code (version 10) s.26.4

Victoria and all states that have introduced the NECF (ACT, Tasmania, South Australia and NSW) also have a requirement that retail standing offer tariffs cannot be updated more than once every six months. This creates an extra risk for retailers who set prices based on draft network tariffs if the final network prices are significantly higher or lower than expected. Retailers would then be unable to reset standing offer prices again for another six months. While some retailers don't have many customers on standing offer prices, these prices are often contractually set up as base prices for market offers. Therefore, repricing could potentially be delayed for six months for market offer prices as well.

In light of these regulatory obligations, retailers face the choice between breaching the conditions of their retail authorisation of licence and being exposed to considerable costs and uncertainty. A decision to knowingly breach a regulatory obligation is not one that would be taken lightly by most retailers. This is in conflict with the long-term price interests of customers and thus does not contribute to the National Electricity Objective.

### 2.3. Steps taken to address network pricing arrangement issues

Earlier this year, we were actively involved in liaising with the AER and DNSPs in an attempt to improve and streamline the annual network pricing processes for electricity and gas. As part of these initiatives, the Energy Retailers Association of Australia (ERAA) wrote to the AER to propose the following steps for future gas and electricity network pricing approval processes:

1. Aligning the AER publication process for gas network tariffs with electricity tariffs. Currently draft gas network tariffs are not published.

2. Ensuring that the AER publication of final and draft network tariffs occurs as soon as possible and at least within 24 hours of being provided or approved.

3. If updates to draft network tariffs initially published by the AER are provided by distribution businesses on a confidential basis, then we request the AER to publish at least the same level of detail as in the original draft network tariff proposal. (This allows retailers and customers to be informed of the most up-to-date information being considered for approval by the AER and will minimise the dramatic changes that can occur between the original draft and final network tariffs.)

4. Publishing dates on the AER website that particular network tariff approvals will be considered by the AER board at least a week in advance.

5. Allowing the network tariffs for each state or fuel to be approved and released by the AER separately when ready rather than to wait for all tariffs to be approved at the same AER board meeting.

The AER responded that that they had reviewed and put in place some of these steps and were also intending to make the other proposed changes. These steps did help to improve the process for retailers in the mid 2013 network pricing process. However, they are only interim steps and that changes to the National Electricity Rules are necessary to see any substantial benefits.

Notably, even with these steps in place, retailers still received less than a month's notice of final electricity network tariffs ahead of the 1st July 2013 for Ausgrid, Ergon Energy and SA

Power Networks.[9] Tariffs for these networks were approved on the 7th June 2013. Notably, Ausgrid resubmitted their draft pricing proposal to the AER on the 16th May and at one stage the AER had scheduled the approval of the Ausgrid network tariffs for the 14th June (only 10 business days before the 1st July). We appreciate that the AER were ultimately able to complete their approval of Ausgrid's tariffs by the 7th June.

As these five steps above cannot address the core issue for retailers and customers, we see that the solution must involve having a fixed and immovable period of two months between approval and effective date for final network tariffs. We ideally would like to see a workable solution to these issues so that distribution and transmission companies and the AER are impacted to the least degree possible.

[9] http://www.aer.gov.au/node/20190, http://www.aer.gov.au/node/20176, http://www.aer.gov.au/node/20180

# 3. Assessment Framework

## 3.1. Efficient allocation of risks

### 3.1.1. The current situation for retailers

As outlined in the introduction, retailers are often unable to base retail prices on final network tariffs and, if so are likely to be unable to do this from the date the network prices become effective. Allocative efficiency in retail pricing is therefore frequently not achieved under the current annual network pricing arrangements.

Productive efficiency is also not possible as retailers and jurisdictional regulators face risks from the current annual network pricing arrangements, which add to costs faced by customers. The sources of the additional costs that retailers incur under the current arrangements are listed in table 2.

**Table 2: How retailers repricing risks lead to cost impacts for customers**

| Category | Risks to retailers | Impact to customers |
|---|---|---|
| Uncertainty of timings & short period available for all repricing tasks | • Higher rates for after hours, weekend work (from third party vendors and own staff overtime) or to be available where dates are subject to change and are out of retailer's control | Premium always included in retail costs as this risk can never be avoided under the current arrangements |
| Delays or appeals to network price approvals | • Additional replanning effort required<br>• Lost opportunity - other initiatives postponed<br>• Late appeals can result in very late withdrawal of prices, or a commercial need to reprice again as soon as possible | Additional retail cost impacts if these risks eventuate |
| Timing impacts | • Network prices go up weeks or months before the retailer puts prices up | Incremental network costs are recovered in the prices across the rest of the period |
| Retail price structures are not cost-reflective | • Leads to under-recovery on some tariffs and over-recovery on others<br>• Competitors 'cherry pick' customers on over-recovering tariffs, leading to a higher likelihood of under-recovery across all tariffs | Additional retail cost impacts if this risk eventuates |
| Retail prices are based on draft network tariffs | • Extremely risky as final network prices have at times been substantially higher than draft prices[10]<br>• Retail prices may be set too high or too low<br>• Competitors 'cherry pick' customers on over-recovering tariffs, leading to a higher likelihood of under-recovery across all tariffs<br>• Increases commercial need to reprice again as soon as possible – this could result in a risk to reputation and must be weighed up against potential customer losses | Additional retail cost impacts if these risks eventuate<br><br>*(Note – this risk typically eventuates every year in Queensland for the regulated retail prices[11])* |

[10]

[11] QCA, Final Determination: Regulated Retail Electricity Prices 2013-14, May 2013, page 74

| Category | Risks to retailers | Impact to customers |
|---|---|---|
| Negative customer outcomes | • Decline in customer satisfaction and increase in customers changing retailers if they are disengaged by the process or are unhappy with the new prices<br>• Customers are especially likely to leave retailer if they experience:<br>  ○ bill shock if not given information or assistance to manage future bill payments<br>  ○ an error in billing or quoting<br>• Higher than usual call volumes & complaints<br>• Additional payments or discounts may be provided to retain customers | Additional retail cost impacts if these risks eventuate<br><br>*(Note – this risk can eventuate for other reasons too – e.g. in recent years due to high network price increases in many states)* |
| Non-compliance with retail regulations and law | • Extra work and customer payments to rectify billing and quoting errors<br>• Increased payments to ombudsmen arising from errors and breaches<br>• Possible fines if regulatory comparator sites or other pricing collateral is not updated by the required date (often in advance of the date the prices are effective)<br>• Additional audit requirements if there are a high number of breaches | Additional retail cost impacts if these risks eventuate |

The uncertainty of network price approval time frames is an ever-present issue that adds costs to all annual retail repricing events. The other risks may or may not eventuate, but as discussed in the introduction, retailers cannot quantify the impact of these risks at the time they are required to commit to their repricing approach so there is some trade-off on the risks faced. This means that retailers are not in a position to minimise the additional costs that are eventually passed on to customers in the form of higher prices. As noted earlier,[12] we have observed more frequent delays in approval of network pricing in recent years and expect that resulting cost impacts to customers will be higher in future.

We also note that these costs do not depend on the number of customers that the retailer has; instead they escalate with the number of retailers being affected by the network pricing issues (e.g. changes being made to multiple IT systems, multiples sets of customer collateral). Therefore, a market with a higher number of retailers will incur higher overall costs than a market with only one retailer.

Since network prices make up approximately 35-50% of retail prices, there is a great deal of potential for retail prices to be set inefficiently in the aforementioned circumstances. It is difficult to think of another industry that has such a great proportion of uncontrollable costs and needs to make significant commercial pricing decisions (usually twice a year[13]) without full knowledge of what those uncontrollable costs will be.

### 3.1.2. The situation for network companies under the rule change proposal

Weighing up the risks that network companies would face if the network tariff approval dates were to be brought forward, we believe that acceptable changes could be made to meet the dates detailed in the proposed rule change.

[12] Section 2.2

[13] The Victorian reprice often occurs in January, and all other states are usually reprices in July.

### *Bringing forward transmission pricing*

Transmission pricing does not need to be approved by the AER so there appears to be some flexibility in the way that transmission tariffs are set compared to distribution tariffs. It is apparent that it may be difficult for transmission companies (outside of Victoria) to set their prices by the 15th March when they are (or will be) due to receive information on the proceeds of settlement residue auctions published on the 15th March annually and inter-regional transmission use of service (TUOS) charges on 15th March (from 2015). However, we note that the latter inter-regional TUOS charges are only expected to make up 1-6% of the allowed transmission network service provider (TNSP) revenues, and that transmission charges make up only around 8% of the prices paid by an average residential customer.[14] It seems that in setting transmission tariffs there is some possibility of including these inputs very soon after received, or basing the prices on draft assumptions, as the price impacts are likely to be small in comparison with other transmission price inputs.

For the other inputs into transmission tariffs, it may be possible to enable prices to be set by 15th March each year by:

- accounting for any impacts in the unders and overs adjustments; or
- moving the reference dates (e.g. those that specify which quarterly CPI value to use) by setting up a transition approach.

### *Bringing forward distribution pricing*

While we don't have full insight into DNSP price-setting processes we believe that it's likely that DNSPs and the AER can make adjustments to accommodate the new timings outlined in the rule change proposal. After looking into the timing of inputs for DNSP's pricing proposals, we suggest changes that appear feasible (table 3).

**Table 3: Possible changes to timing of distribution pricing inputs**

| Distribution pricing input[15] | Possible changes to meet proposed timeframes |
|---|---|
| Transmission prices | Discussed in section above |
| Adjustments to DNSPs annual revenue requirement for any unders and overs approved by AER | Timing could be modified by agreement between the DNSP and AER if required. |
| Cost pass throughs and contingency projects mechanism adjustments to the annual revenue requirement approved by the AER | Timing could be modified by agreement between the DNSP and AER if required.<br>Any material lack of data currency could be addressed in the unders and overs process in the following year. |
| CPI determined by the AER as part of the revenue determination[16] | The CPI for an earlier period could be used [17] |
| Loss factors advised by AEMO | AEMO publishes national distribution and marginal loss factors by 1st April each year, therefore changes to NER 3.6.1 (f), 3.6.2 (f1) and (h), 3.6.3 (i) and 3.13.3 (n) are required to bring this date forward. |

[14] AEMC, Information sheet: Inter-regional transmission charging, 28th Feb 2013, http://www.aemc.gov.au/electricity/rule-changes/completed/inter-regional-transmission-charging.html

[15] AEMC, Consultation Paper, pages 12-13

[16] CPI: Consumer price index

[17] National Electricity Rules (NER), Chapter 10, CPI definition: *"As at a particular time, the Consumer Price Index: All Groups Index Number, weighted average of eight capital cities published by the Australian Bureau of Statistics for the most recent quarter that precedes that particular time and for which the index referred to has been published by the Australian Bureau of Statistics as at that time."*

| Distribution pricing input[15] | Possible changes to meet proposed timeframes |
|---|---|
| Jurisdictional scheme costs (e.g. feed-in schemes) | We understand this data is available within each DNSP and therefore date of availability could be brought forward if not already suitable.[18] |
| Other adjustments advised by the AER that relate to the control mechanism, such as D/S/F factors and the efficiency benefit sharing scheme adjustments | Timing could be modified by agreement between the DNSP and AER if required. |
| Audited regulatory accounts | Timing could be modified if required. This may necessitate once-off system changes for some DNSPs depending on the timing of their financial year and the timing of the production of regulatory accounts. |

Based on our observations of DNSPs' responses to rejected pricing proposals and updated inputs being received, it appears that DNSPs are able to incorporate late or updated inputs into their pricing proposals within a week or two. DNSPs don't have the same time pressures to carry out additional repricing tasks that retailers do, so we believe that some streamlining could be done.

### 3.2. Stakeholder engagement

Given the repricing time pressures on retailers, we only have a little time to consider and adjust the effects of rebalanced (retail or network) tariffs on different customer groups. This can lead to detrimental outcomes for particular customer groups.

The current network pricing arrangements also impede the way in which we communicate price changes to customers. Under the timelines discussed in the introduction, we focus heavily on:

- meeting regulatory commitments in our price change activities,
- making all changes across all channels and systems by the required date, and
- avoiding errors.

Customer engagement activities often focus on briefing the call centre to answer customer questions over phone or electronically. We rarely engage with consumer groups during our price setting process. Consumer groups also have very little time to assess network prices once approved and in the past have rarely been engaged in network or retail price setting discussions. Even with changes underway to improve consumer engagement on network pricing through the Power of Choice Review and the AER's Better Regulation Program we see that there will be little additional time to consider input from customers and consumer groups unless the network pricing arrangements are changed.

These very tight network pricing timeframes also reduce the ability of retailers to provide clear pricing messages around the reasons for the reprice and the impact of the change to customers. This increases customer confusion and has the potential to reduce customer confidence in the energy industry. Making final network tariff information available earlier would provide retailers with more flexibility in how they communicate information to customers on price changes. With more focus being given to network costs, and the involvement of customers in network pricing decisions we believe it is critical that the timing issues around network price setting are addressed sooner than later.

[18] We would expect that while the impact of these schemes may remain substantial (as the AEMC suggests in the Consultation paper), the costs will be more predictable than in the past due to many of the schemes being wound back.

### 3.3. Regulatory burden

In sections 1, 3.1.1 and 3.2, we have discussed how the current regulatory timeframes negatively impact retailers and how this flows on to increase customer prices and hinders engagement in electricity pricing. It appears the main regulatory burden for network companies would arise from the once-off transition mechanism to a new set of earlier dates for collecting input and submitting price proposals to the AER.

### 3.4. Predictability and stability

The changes considered as part of this rule change proposal may create some transition issues that need to be overcome, but we do not see that the network pricing issues can be easily alleviated in any other way than by ensuring final network prices are available earlier. There is currently a large imbalance in the regulatory certainty experienced by network companies compared to retailers. The lack of predictability of network price approval dates and price levels has been impacting the costs and quality of service that retailers provide customers and should be addressed as soon as possible.

| Question 1 – Is the assessment framework presented in this consultation paper appropriate for assessing this rule change request? |
| --- |

Yes, the assessment framework outlined in the Consultation Paper is appropriate.

# 4. Key issues

## 4.1. Notification of annual network price changes

Question 2 – Are there any other key dates or inputs in the pricing process for TNSPs and DNSPs?

There are no other major categories of inputs we are aware of that TNSPs or DNSPs require on an ongoing basis in setting network prices annually.

However, there are two jurisdictional specific inputs that may need to be considered:

- In Victoria, we note that DNSPs currently have AMI (advanced metering infrastructure) metering charges approved separately by the AER by the 31st October each year during the current regulatory period. However, for the next regulatory period starting in January 2016, we expect that this process will be included within the annual pricing process for each DNSP.
- In NSW, the NSW Government administers the Climate Change Levy, which is collected by DNSPs. We are aware that these inputs are made available confidentially to the NSW DNSPs, but are not familiar with any possible issues with receiving these earlier if required.

Question 3 – Other than the question of timing, are there any other differences in the regulatory arrangements in Victoria which are relevant for the purposes of this rule change request?

Some pricing inputs required by TNSPs and DNSPs arrive early in the calendar year (e.g. losses from AEMO) and so are received in ample time for Victorian network companies to develop their annual pricing proposals to the new dates proposed under this rule change. The only different factors that we understand would cause difficulty in Victoria compared to other states in the NEM are:

- the AMI metering charges discussed in response to question 2;
- retailers have additional price notification obligations in Victoria as note in sections 2.1.2 and 2.2.1; and
- the fact that retailers receive the final network tariffs very shortly before the Christmas/New Year period. This adds to the costs of all system change work (including any replanning or rework required) and also makes it very difficult to change prices whilst meeting customer and regulatory requirements by early January when network prices change.

Question 4 – What are the risks in requiring TNSPs and in particular, DNSPs to publish their annual prices earlier than currently required? What are the consequences of these risks and can these risks be adequately managed if the proposed rule is made?

These risks are detailed to the best of our knowledge in section 3.1.2. We believe these risks can be adequately managed if the proposed rule is made.

#### 4.1.1. Role of and impact on the AER

| |
|---|
| Question 5 – Should the AER have a set timeframe in which to assess all DNSP annual pricing proposals? |

There is a problem with the current distribution pricing process in that there is little incentive for the DNSPs or the AER to complete the process in the least amount of time.

Currently, the AER has some flexibility in approval timeframes, so can allocate adequate time to review DNSPs pricing proposals. Ultimately, the AER can extend the effective date and override DNSPs prices if they determine it is appropriate to do so. They are able to wait until they have a full understanding of all key inputs before making their decision on distribution pricing. As the AEMC notes: [19]

> "the flexibility provided under the NER allowing the AER to allocate adequate time for the detailed assessments to be made, as necessitated by the circumstances of each individual proposal"

However, this amenity of the AER often impacts heavily on the time and completeness of the retail pricing process for retailers and jurisdictional regulators. The AEMC also notes in the Consultation Paper that it may not be a desirable outcome (in terms of regulatory transparency and accountability) if the AER uses its power to make the necessary amendments to the DNSP's pricing schedule itself.[19] While this is true, it's not currently an option that is available to jurisdictional regulators.

Therefore, we believe the time available for network pricing needs to be balanced with the time available for retail pricing and that the AER should be given a fixed date by which they can approve or reject prices. We suggest that DNSPs will respond effectively to the threat of having deficiencies in their proposal amended directly by the AER and therefore that a fixed deadline for approval is a suitable option.

In our view, a stronger incentive should be created for DNSPs to submit complete and compliant pricing proposals to the AER early enough for AER to do a full assessment in the shortest possible time. This incentive doesn't exist currently.

We agree with the approval timeframe of 20 business days for the AER to approve DNSP's pricing proposals put forward by IPART for this rule change.

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| Question 6 – Is anything else involved in the AER approving a DNSP's annual pricing proposal? How much time should be allocated to the AER for this assessment/approval? |

The network appeals process also causes issues to retail pricing timeframes. If a fixed deadline is set for the AER to approve distribution pricing, then the dates and timeframes associated with the appeals process should ideally be considered at the same time.

DNSPs should also not be allowed to resubmit their pricing proposals to the AER as this slows down the approval process. One of the main reasons that DNSPs resubmit appears to be the late receipt of transmission prices.[20] This issue of DNSPs revising their price proposals later could presumably be addressed if transmission pricing timeframes are altered as part of this rule change.

[19] AEMC, Consultation Paper, page 16

[20] Ausgrid have revised their last two annual network pricing proposals in mid-May, around two weeks after the initial proposal was due: http://www.aer.gov.au/node/15544 and http://www.aer.gov.au/node/20190

#### 4.1.2. Impacts on jurisdictional regulators and retailers

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| Question 7 – How much time do retailers and jurisdictional regulators require for notification of network prices before finalising retail tariffs and notifying customers?<br><br>Question 8 – Is the proposed notification of two months sufficient? |

Two months between the release of final network prices and the date that network and retail prices take effect is a sufficient time period in the current (and foreseeable) regulatory and market environment. This should ideally be a two month period with very little chance of having the effective date altered unless there are exceptional circumstances.

Retailers have all the inputs they need to update market prices at any point in time except for cost related inputs that are set by regulators and AEMO. For example, these inputs include:

- Network costs (AER)
- Renewable power percentage (Clean Energy Regulator)
- Small-scale technology percentage- STP (Clean Energy Regulator)
- Losses (AEMO)
- State-based energy efficiency scheme costs (jurisdictional regulators)

These only become an issue when they are unpredictable and make up a large and component of retail price (like the network costs) or are unpredictable or are finalised several months after the costs are effective (as has occurred with the STP in recent years). Therefore the main cost issue for retailers are network costs. Network costs are large, unpredictable costs which the retailer has no control over and which often change in structure as well.

Retailers require sufficient time to set retail prices once final network tariffs are received. In addition retailers also require time for implementing and delivering customer and pricing collateral associated with a price change. With many retailers operating in multiple, competitive NEM states, and the introduction of new regulatory obligations, two months is a necessary window of time to ensure that customers are not negatively impacted as they are now.

In states with pricing regulation, a two month time window is also necessary. Retailers still have similar obligations to other states but regulators and incumbent (or standard) retailers must go through the additional steps required for setting, updating and communicating regulated prices.

### 4.2. Consultation on development of network prices

There is a limited amount of consultation on network prices at the moment, but this consultation is driven from only some DNSPs. Other DNSPs are reluctant to engage with retailers or are very guarded about the information they provide. At times, some DNSPs have provided us with out-dated information on their plans which have been misleading. Retailers therefore need to be cautious with any information received from DNSPs and cannot currently set prices and make firm plans around this information.

Part of the reluctance of DNSPs to engage with retailers before (or through) the distribution pricing process is that they don't wish to prematurely discuss any details that are subject to the AER's review. Even though we realise that the AER's decision may alter the DNSPs proposal, it would still be very useful for us to be engaged on the DNSPs intentions for tariff structures, price levels and rebalancing plans as a preliminary input into our retail price setting process.

The consultation processes used by Ausgrid, United Energy and Energex to engage the industry on network tariff have been useful, but are not always sufficient for allowing retailers to get good information on price levels for the upcoming year.

Question 9 – What type of consultation on level and structure of network prices would be useful to consumers/consumer groups and what benefit would there be?

***Desired level of consultation on network prices***

We would like to see that all DNSPs provide periodic (at least annual) information on the following:

- long-term tariffs strategies;
- where input costs are going and if the DNSP expects prices to be set at the price path level or if, not approximately how much higher or lower do they expect the price change to be;
- immediate price-setting approaches and rebalancing – for example:
    - does the DNSP have a focus on increasing fixed costs or are these already relatively cost-reflective,
    - do they expect higher or lower than average price increases for any particular tariffs,
    - will they be reducing and or adding blocks and, if so, what thresholds will be used,
    - will they be applying any constraints or widening the gap between peak and off peak price levels,
    - will any tariffs be priced preferentially to others, etc.
- tariff plans for new or closed tariffs – particularly:
    - what the structure of new tariffs look like – and will this include any new elements such as time-of-use, seasonal, critical peak pricing, or capacity charges,
    - how any new tariffs were derived, and
    - the expected benefits of the new tariff,
    - when and how the new tariff will be implemented (including any changes to metering or meter data);
- movement of customers expected between different tariffs during the next year or two – for example:
    - will customers on an obsolete tariff be transitioned gradually to another common tariffs,
    - if so, over what period and will customers be moved preferentially based on consumption level or consumption patterns,
    - will retailers be able to request or reject any tariff movements?
- any issues or challenges that the DNSP is facing with changing customer behaviour or with retailers’ processes and to discuss with stakeholders how these can be addressed.

This information could be provided in a document or a presentation session (or both) and could be made accessible to consumer groups as well as retailers. The sessions and visits conducted by Ausgrid, United Energy and Energex in the past do not seem to have been difficult to run. We believe that customers, consumer groups and other stakeholders would also be interested in this type of information, but may benefit from having it presented in a simpler format than used for retailers.

These sessions, or this information, could be provided slightly ahead of the DNSP's annual price-setting process and further email updates could be provided once the DNSP has collected all inputs and has finalised its proposal to the AER. Often a lot of this information is available in the DNSP's proposal document, but this is usually very much focussed on the needs of the AER and doesn't always contain all the information that retailers and consumers may need. Ideally, any information or topics covered earlier should be updated if any plans have materially changed.

***Benefits for customers***

This extra consultation would also improve the knowledge of customers, consumer groups and other stakeholders and give them a greater appreciation of how network costs are set and how customer behaviour can potentially have a large impact on the structure and level of these costs. Some of these issues have been more recently discussed in the media, but public understanding of this area is limited and is perhaps hindering greater actions being taken for public benefit.

***Benefits for retailers***

This information would also be enormously useful to retailers as it would allow more certainty on what the flow on effects to rebalancing, price level, and tariff movements might be to retail prices. Draft retail pricing could be prepared in detail for each DNSP area which required very little change once final network tariffs are received. This would allow more time for retailers to focus on customer engagement initiatives and for these to be based on more accurate information. Errors, compliance breaches and implementation costs could be reduced as well.

IT system updates required to implement new, closed and restructured tariffs can be substantial. These changes are usually required for both the network tariffs as well as the retail prices. Depending on the type of tariff changes we can find these updates to be extremely challenging to implement and test properly. If a new charge element such as a capacity or demand charge or a critical peak price were to be included in a new or altered tariff we would ideally like to receive at least six months lead time. Not only would this enable us to reliably implement and test the change in our systems, we would also be able to establish a better communication approach with customers and make updates to relevant collateral and tools on time.

Under the current approach, we sometimes receive notice of tariff structure changes that take effect in a matter of weeks. In the past, we have usually been able to implement simple structure changes (e.g. new or removed tariff blocks), at times incurring delays and additional costs. However, with DNSPs increasingly looking to implement new and different tariff structures we are concerned that we could be left in a situation where we are unable to bill customers for months afterwards. The billing and meter data systems between retailers differ somewhat and this makes some retailers more or less able to deal with any particular tariff structure changes. With some of the new types of network tariffs being discussed, we believe it will put pressure on many retailers if the changes are pushed through at short notice.

It is in DNSPs' interests to consult with retailers and provide sufficient time to retailers to implement tariff changes if they want network price signals passed on fully to customers. We are more likely to implement retail price structures that reflect the network tariffs if radical and unexpected changes are **not** made frequently to structure and price level of each component.

Retailers are also often able to provide useful information to DNSPs on customer needs and are often willing to participate in trials of new technology and tariffs. For example, EnergyAustralia is currently engaged in a major initiative with Ausgrid, Smart Grid Smart City, which is a trial of new metering, new tariff designs and customer engagement mechanisms.[21]

| Question 10 – How much scope would there be for consultation on proposed annual network prices? |
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Since the consultation process described under question 9 does not need to be conducted during the DNSPs annual pricing process, we believe there is sufficient scope for DNSPs to engage in this level of consultation.

### 4.3. Statement of expected price trends (SEPT)

The AEMC notes that consultation on the SEPT would occur concurrently with the regulatory determination process under the recommendations made by the Power of Choice review.[22] We acknowledge that there is some overlap between these recommendations and the IPART rule change proposal; however, in this area the intent of both is to improve customer engagement. In this submission, we have tried to suggest changes that are appropriate for the annual network timing issue as well as the Power of Choice recommendations.

| Question 11 – How useful is the current statement of expected prices trends to retailers and consumers? |
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The discussion for question 9 outlines the type of information that we seek from DNSPs on network pricing. We use the SEPT (amongst other avenues) to find information on any of these topics that we can. We value information on both tariff level and structure as well as a number of other related topics listed earlier (question 9). The SEPT is useful, but some of the information just reflects the DNSP's regulatory price path and we know this can often be an incorrect reflection of the final percentage change to network prices allowed by the AER.

We don't know if the SEPT is useful to customers. Given the difficulty in finding these statements on DNSPs' websites and the technical terms used, we wouldn't be surprised if very few customers and consumer groups see this information or are able to make use of it.

There is good potential for the SEPT to be more useful if the following changes are made:

- The statement is a separate document and easily available on the DNSP's website.
- The SEPT is updated prior to the DNSP's annual pricing process and is updated during or after the process if, material changes occur following assessment by the AER.
- The layout and content of the SEPT is standardised nationally.
- The SEPT contains additional information – that is, covers many of the topics listed in for question 9.
- The SEPT should cover the next two years at a minimum even when the DNSP is coming to the end of a regulatory period.

[21] http://www.smartgridsmartcity.com.au/

[22] AEMC, Consultation Paper, pages 18-19

The SEPT could be a very useful adjunct to the improved consultation process described in response to question 9.

| Question 12 – What influences the statement of expected price trends? |
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We are not aware of any other factors that influence DNSP statements of expected price trends other than those listed in the Consultation Paper.[23]

| Question 13 – Should a DNSP's approval of its annual prices be linked to how accurately it can track the statement? |
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It is understandable that DNSPs will find it difficult to track to the SEPT every year for reasons outside of its control. Therefore, the approval of the DNSP's pricing proposal should not be strongly quantitatively linked to compliance with the price level changes outlined in the SEPT. However, we would like to see the AER have the power to reject any DNSP proposals that do not comply with the DNSP's own long-term pricing strategy or deviates from other key elements that the DNSP has consulted on and detailed in the SEPT prior to the start of the annual pricing process. For example, rebalancing intentions, movement of customers between tariffs and major structure changes, new or closed tariffs should be set well in advance of the pricing approval process and not altered by the DNSP in their proposal. We recognise, however, that the AER still needs to retain the ability to require the DNSP to change any of these strategies or approaches if any are unreasonable and cannot be accepted by the AER.

### 4.4. Interaction between various components of the proposed rule

Under the suggestions we have put forward to improve the consultation process on DNSP pricing approach, we have considered how this may impact on the timeframes of DNSPs and the AER to facilitate earlier approval of network tariffs. As the consultation and updates to the SEPT can be done ahead of time and only updated during or after the regulatory pricing process, then we don't believe that there will be any significant trade-off between greater consultation and a greater window of time for retail pricing processes.

### 4.5. Initial year network pricing

| Question 14 – What are the key dates in the initial year pricing process of TNSPs & DNSPs?<br><br>Question 15 – What is the best option to manage the first year pricing issue? Is it necessary to keep timings for the first year and subsequent years the same? |
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We are less familiar with the network pricing processes that occur in the initial year of the distribution and transmission regulatory periods. There may be greater challenges in allowing for a two month window between final network price approval and effective date at the start of the regulatory period. This is a concern for retailers as the start of the regulatory period is more likely to bring greater changes to network price levels and structures than other years during the regulatory period. Our responses to the earlier questions also apply to the first year of the regulatory period; however we are willing to discuss alternative options if a workable solution cannot be found.

[23] AEMC, Consultation Paper, page 20