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12 September 2012

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John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
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Dear Mr Pierce,

PROPOSED CHANGES TO ANNUAL NETWORK PRICE SETTING ARRANGEMENTS IN CHAPTERS 6 AND 6A OF THE NATIONAL ELECTRICITY RULES

IPART currently regulates retail electricity prices in NSW. In our experience and in observing the retail market, we consider that changes should be made to the National Electricity Rules (NER) to improve the timing of annual network price setting and to improve retailer and customer engagement in network price setting.

Under the NER, network companies have discretion to set their prices (and components) as long as they meet the average price change and any other pricing principle requirements. The practical outcome is that networks have a high level of discretion in setting prices. This means that they could significantly change the structure and charges to classes of customers from year-to-year.

Currently, the NER require distributors to post network prices on their website by early June for a 1 July implementation, where possible. This timing leaves little time for retailers to understand the changes in network prices and for regulated retail prices to be proposed and approved by jurisdictional regulators and then even less time for the retailers to develop their market offers (often having regard to the regulated retail prices). There is then less time for customers to be notified of prices before they commence.

In developing this Rule change proposal, we met with retailers, network companies, customer groups, regulators and government officials and considered submissions on this matter. There was support to improve the timing of and consultation on network price changes from all stakeholders except Grid Australia, who raised concerns about the changes necessitating greater use of forecasts which could increase transmission price volatility.

As a result we are proposing changes to the NER to set network prices:

- ▼ with greater consultation to allow customers to better understand any proposed changes and to provide retailers with greater opportunity to understand the impact of any network changes on their pricing strategies and to develop their retail prices; and
- ▼ earlier to allow greater consultation on retail price changes and for customers to receive earlier notification of the change to their prices.

We have attached a short report outlining our proposal and have included draft Rules and submissions made to IPART through our consultation process.

Please contact Anna Brakey on 9290 8438 or Alexis van der Weyden on 9290 8460 if you have any queries in relation to this Rule change proposal.

Yours sincerely



Peter J. Boxall, AO
Chairman

Network price changes

IPART's proposed changes to the National Electricity Rules

Rule change proposal to the AEMC
September 2012

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The Tribunal members for this review are:

Dr Peter J Boxall AO, Chairman

Mr James Cox PSM, Chief Executive Officer and Full Time Member

Mr Simon Draper, Part Time Member

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Independent Pricing and Regulatory Tribunal of New South Wales

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1 Introduction

For customers to best respond to price levels and structures, they should be consulted on pricing and have advance notice of changes. End prices for electricity are set by retailers after considering network prices (which are the largest component of the end price).

IPART considers that changes should be made to the National Electricity Rules (NER) to improve the timing of annual network price setting and to improve retailer and customer engagement in network price setting.

Under the NER, network companies have discretion to set their prices (and components) as long as they meet the average price change and any other pricing principle requirements. The practical outcome is that networks have a high level of discretion in setting prices. This means that they could significantly change the structure and charges to classes of customers from year-to-year.¹

Currently, the NER require distributors to post network prices on their website by early June for a 1 July implementation, where possible.² This timing leaves little time for retailers to understand the changes in network prices and for regulated retail prices to be proposed and approved by jurisdictional regulators and then even less time for the retailers to develop their market offers (often having regard to the regulated retail prices). There is then less time for customers to be notified of prices before they commence.

In our submission to the Federal Government's Draft Energy White Paper, we indicated that we would consider making a Rule change proposal relating to the annual network price setting process. Subsequently, we held a meeting with retailers, network companies, customer groups, regulators and government officials to discuss our proposed Rule change and considered submissions on this matter. There was support to improve the timing of network pricing and retailers and customers stated that they saw benefit in being consulted about network price changes in a meaningful manner. However, Grid Australia did not support our proposed Rule change because it is concerned that it will necessitate the greater use of forecasts, possibly resulting in increased transmission price volatility.

As a result we are proposing changes to the NER to set network prices:

- ▼ with greater consultation to allow customers to better understand any proposed changes and to provide retailers with greater opportunity to understand the impact of any network changes on their pricing strategies and to develop their retail prices, and

¹ Within the constraints imposed by the NER.

² Except in Victoria where network prices change on 1 January annually.

- ▼ earlier to allow greater consultation on retail price changes and for customers to receive earlier notification of the change to their prices.

While we consider that similar issues arise in relation to gas pricing, the annual price setting processes are specified in the access arrangements, not in the National Gas Rules. Therefore, we will engage with the Australian Energy Regulator to consider the annual pricing arrangements as part of approving the various revised access arrangements.

2 Current network price setting arrangements

In NSW and most other states, network prices and regulated retail prices and many market prices change on 1 July each year. In Victoria, prices change on 1 January each year.

Electricity network prices are regulated by the Australian Energy Regulator (AER) under the NER. The AER first determines the revenue requirements and then network businesses set their prices in accordance with the applicable regulatory constraints.

2.1 Current provisions

The NER sets out the requirements for the annual network price setting process, including the timing of submitting price changes and notification of price changes.

2.1.1 Current timing requirements

The NER requires that transmission prices are published by 15 May each year.³ Transmission prices are not approved by the AER each year. Rather, at each revenue reset, the AER is required to review the transmission company's proposed Transmission Pricing Methodology and either approve it or amend it so that it can be approved. Transmission companies must develop their annual prices using their approved Transmission Pricing Methodology.

The electricity distributors then include the transmission charges in setting their distribution prices.

³ National Electricity Rules, s6A.24.2(b).

The distributors submit their proposed prices to the AER at least 2 months before the commencement of the regulatory year (ie, prior to the transmission charges being finalised).⁴ The AER must on receipt of a pricing proposal publish the proposal.⁵ The NER set out requirements relating to the pricing proposals and other requirements relating to tariff classes, assigning and reassigning customers, pricing principles, and side constraints, among other things. The NER also set out the requirement for the AER to approve the prices if the proposal complies with the NER requirements and all forecasts associated with the proposal are reasonable.⁶

If the proposal is deficient, the AER may require the distributor to resubmit an amended proposal or may itself make amendments necessary to correct the deficiencies.⁷

The NER requires the distributors to post prices on their websites 20 business days before the commencement of the relevant regulatory year (ie, 1 June for a 1 July price change). It also requires that information about prices and classes of customers, including a statement of expected price trends, be placed on the website 20 business days before the commencement of the prices.⁸ However, the retailers have highlighted that this timetable has not been met because the AER has not been approving the prices in time.

The arrangements are different in the first year of a regulatory period, due to the timing of the determinations. The AER must release both transmission and distribution determinations 2 months before the next regulatory period.^{9,10} This requires special arrangements for setting network prices for the first year of the regulatory period.

In the first year of a regulatory period, the distributor must submit its price proposal to the AER as soon as practicable, and in any case within 15 business days of the publication of the determination.¹¹

2.1.2 Current notification of pricing arrangements

While consultation is required under the NER provisions relating to the economic regulation of distribution services, it focusses around the AER's revenue determination. There are no consultation requirements relating to the annual setting of network prices. It does, however, require publication of certain information.

⁴ National Electricity Rules, s6.18.2(a)(2).

⁵ National Electricity Rules, s6.18.2(c).

⁶ National Electricity Rules, s6.18.8(a).

⁷ National Electricity Rules, s6.18.8(b).

⁸ National Electricity Rules, s6.18.9.

⁹ National Electricity Rules, s6A.13.3.

¹⁰ National Electricity Rules, s6.11.2.

¹¹ National Electricity Rules, s6.18.2(a)(1).

Currently, as required by the NER, the AER publishes a distributor's annual pricing proposal upon receipt.¹² The AER also publishes the approved pricing proposal on its website. This is not currently required under the NER. It does not, however, engage with customers about the annual pricing proposal due to the timing constraints.

The distributors are required to maintain on their website a statement of expected price trends.¹³ This document must be updated for each regulatory year and must give an indication of expected price changes over the regulatory period and the reasons for the expected changes. They are also required to maintain on their websites information about the tariff classes and charges.¹⁴ This information is required to be posted on the website 20 business days (if practicable) before the commencement of the relevant regulatory year.¹⁵

2.2 Problem with current arrangements

Under the current arrangements, retailers and customers do not get adequate notification of network price changes and are not consulted on the development of those prices. In some cases individual network prices move by multiples of the average price change. This problem was highlighted in submissions from AGL, TRUenergy, Origin Energy and the Energy Retailers Association of Australia (ERAA), with the ERAA stating:

The current timetable for network pricing doesn't provide retailers with enough time to set retail prices, with an inadequate period between when determinations are finalised and network prices are notified. This means that retailers are forced to rush retail price setting decisions into a period of several days or alternatively to base pricing decisions on draft determinations and estimated network tariffs.¹⁶

Retailers recover the network charges in their retail price structures. Further, if the network price structure changes and the retailer decides to adopt that price structure, billing systems may need to change. This requires some advance notice of prices. Although network prices are published one month before coming into effect, retailers and arguably customers require greater notice.

TRUenergy highlighted this issue in its submission, saying:

... we are still frequently surprised by last minute changes to tariff level and structure, price increases well above the price path allowances and subsequent appeal processes. This affects retailers for both gas and electricity in all states in the National Electricity Market (NEM) where customers have a choice of retailers.

¹² National Electricity Rules, s6.18.2(c).

¹³ National Electricity Rules, s6.18.9(a)(3).

¹⁴ National Electricity Rules, s6.18.9(a)(1) and s6.18.9(a)(2).

¹⁵ National Electricity Rules, 6.18.9(b).

¹⁶ ERAA submission, August 2012, p 1.

If retailers have no control and forewarning of these costs and little time to accommodate them, then customers are in an even worse position. It is in retailers' interests to set competitive and well-structured prices, have a range of offers available to customers, explain price changes to customers, and to deal effectively with customers in hardship. All of these things are difficult to do under the current network tariff setting and approval timeframes.¹⁷

While retail price regulation still exists, the timing causes difficulties in setting regulated retail prices and disclosing those in sufficient time for second tier retailers to consider in developing their prices. This is a transitional issue, although retailers will still require advance notice of network prices to develop their standard offers when retail price regulation ceases (as is currently the case in Victoria). Alinta Energy noted this in its submission, saying:

However, retailers are in a difficult position given the current timetable for the publication of network pricing, and the subsequent setting of regulated retail pricing does not provide sufficient time for retailers, particularly 2nd tier retailers, to develop and publish their retail market pricing in line with any changes in network and regulated retail pricing. This is particularly the case where there has been a structural (block) change in the network tariff which needs to be reflected in the retail tariff.¹⁸

Further, despite having significant discretion in setting prices, network businesses are not required to engage with retailers or customers about the proposed prices. Customers will have the best idea of how they will respond to different prices. They should be involved in restructuring prices to allow the greatest response at least cost to society. We note that in its *Power of Choice* review, the AEMC is examining 'the role of cost reflective prices in encouraging demand side participation and what is needed for the market to offer such choice for consumers'. Retailers and customer representatives should be involved in that debate and in the development of network prices.

3 How the proposed Rule change will improve the NER

We propose changes to the NER to set network prices earlier and with greater consultation and information provision to retailers and customers. Specifically, we are proposing that:

- ▼ Transmission charges be published by 15 March each year.
- ▼ That distribution charges be set one month earlier than the current arrangements in the NER, meaning that they would be finalised 2 months prior to taking effect.

¹⁷ TRUenergy submission, August 2012, p 1.

¹⁸ Alinta Energy submission, August 2012, p 1.

- ▼ That the AER issue a guideline that sets out what is required to be included in the distribution businesses' statements of expected prices. This guideline would also establish the consultation that must be undertaken in developing and changing this statement and the timing of that statement.
- ▼ The AER would approve network charges where they meet certain requirements (that already exist in the NER) plus that the proposed charges are consistent with the statement of expected prices.
- ▼ The AER will need to approve and publish the final network prices within 20 business days of receiving proposals from the distributors. The distributors would then need to publish the prices and other related information within 5 business days of the AER's approval.

3.1 Costs and benefits of the Rule change proposal

We consider that this package of amendments will provide significant benefits, including:

- ▼ Allowing distribution companies to include final transmission prices in the distribution pricing proposals that they submit to the AER, eliminating the need to submit based on draft transmission prices and then make adjustments to reflect final transmission prices.
- ▼ Improving the retail market by providing retailers with additional time to consider network pricing in developing retail prices, to make changes to billing systems where necessary, and to notify customers of changes to retail prices.
- ▼ Providing a more reasonable timeframe for retail price regulators to approve regulated retail prices, where relevant and for Standing Offers to be determined by retailers in Victoria.
- ▼ Providing for greater input from retailers and customers in developing network prices.
- ▼ Providing a clear price path over the regulatory period to ensure that all stakeholders have access to information on how network prices will move. This can benefit retailers, customers and policy makers.
- ▼ Providing the AER with discretion to determine the most appropriate information to be included in the statement of expected price changes and the consultation that should take place in developing and changing that document. It is more appropriate that this level of detail is included in a guideline rather than the NER so that it can evolve through time according to stakeholder needs and best practice.
- ▼ Providing more certainty that final network prices will be notified in the prescribed timetable by imposing a requirement on the AER to approve final network prices within 20 business days of receiving the proposal from the distribution businesses.

In our consultation process, retailers strongly supported these changes and distribution businesses indicated that they could accommodate network prices being set a month earlier without significant disruption. Essential Energy stated in its submission:

Essential Energy generally supports IPART proposing a Rule change which would facilitate the earlier submission of annual pricing proposals to the Australian Energy Regulator (AER). Although Essential Energy supports the proposed changes outlined in [IPART's consultation] paper, certain important factors should be considered and accounted for in terms of the inputs required for a distribution network service provider's pricing proposal.¹⁹

Essential Energy explained that transmission prices would need to be set earlier and that the timing of interdistributor transfers and audited data would need to be available. The interdistributor transfers are not material and are subject to an unders and overs account, eliminating revenue risk for the distributors. Submitting prices one month earlier, as we propose, will accommodate the timing of audited quantity data. We have brought forward the date for transmission pricing by 2 months while bringing the distribution pricing forward by 1 month to allow a more efficient and streamlined process for assessing distribution prices, where prices do not need to be resubmitted to the regulator to accommodate final transmission price changes.

We recognise that setting transmission and distribution prices earlier in a year will mean that the respective companies will have less actual information when setting network prices for the year ahead.

There is less revenue risk arising from electricity transmission prices due to the unders and overs accounts, held by both the transmission and distribution companies.²⁰ Nevertheless, errors in forecasts can lead to greater balances in the unders and overs account and could (but not necessarily will) make future prices more volatile. This is an issue that was raised by Grid Australia in its submission, stating:

Bringing forward the required transmission pricing publication dates would mean relying more on forecasting and therefore resulting in greater uncertainty and price volatility for TNSPs' directly connected customers, generators and distributors.²¹

Grid Australia pointed out that transmission costs are a relatively small component of a small customer's bill. However, for large customers, transmission is a larger component. It recommended that IPART engage with large customers before proceeding with this Rule change proposal. We have engaged with the Energy Users Association of Australia, which indicated that

¹⁹ Essential Energy submission, August 2012, p 1.

²⁰ This is the case where the distribution company is subject to a weighted average price cap, as is the case in NSW, where the distributor carries volume risk. In other jurisdictions, for example Tasmania, the distribution company is regulated using a revenue cap and therefore does not face volume risk.

²¹ Grid Australia submission, August 2012, p 2.

large customers would prefer longer notification periods to assist with their budgeting, subject to it not materially increasing price volatility.

We consider that price volatility is a cost of this proposal, but that it is not as great as the benefits arising from earlier notification of network prices.

Grid Australia also suggested deferring any Rule change proposal until the AEMC considers the introduction of an inter-regional transmission charge and an optional firm access model. We do not see the benefit of deferring this proposal as the AEMC can consider this proposal in the context of its other reviews.

IPART circulated proposed Rule changes to stakeholders and Grid Australia responded, indicating that it felt that there would not be net benefits if transmission prices were brought forward to 15 March. On the other hand, retailers strongly argued for IPART's proposed timing.

Under the current weighted average price cap, distributors face volume risk for their distribution prices – that is, they bear the risk of actual demand being greater or less than forecast demand. Any change to the timeframes in setting distribution pricing will influence the information that distributors have in setting prices and therefore influence the distributors ability to mitigate volume risk.

Because the current determinations specify the CPI measure that must be used, and most determinations include a March on March CPI, we propose that the Rule change should apply from the start of the next regulatory period for each jurisdiction. However, we encourage an earlier adoption voluntarily if possible (by agreement between the AER and distribution businesses). Not applying the Rule change until the next regulatory period will lessen the cost of the Rule change proposal by making it simpler to implement.

Both AGL and Origin called for improvements to the 'best endeavours' arrangements for publishing network prices, as set out in s6.18.9(b), which currently require the distributors to publish, if practicable, their prices 20 business days before they take effect. However, we note that there is currently no requirement on the AER to *approve* prices within a specified timeframe. In some cases, the AER has approved prices too late for the distributors to be able to comply with their obligations under s6.18.9(b). The late approval by the AER further shortens notification of network price changes.

We recognise that additional requirements surrounding the statement of expected price changes will impose administrative costs on the AER and the distribution businesses.

We consider that there should be a requirement on the AER to conduct its approval process within a specified time. We understand the approval process involves liaison with retailers and consideration by the Commission. IPART undertakes a similar compliance check for regulated prices in NSW (which involves retail tariffs than network tariffs for NSW). For the 1 July 2012 price change we received the prices on 22 June and approved them on 25 June. We consider that this timeframe is too short as it involved significant liaison with the retailers over this short period. We consider that 20 business days is an appropriate length of time. Nevertheless, we would encourage the AER to do it more quickly if possible. To hasten to publication of tariffs, are proposing that the AER publish final prices upon approval. We are maintaining the obligation on the networks to publish tariffs as we think that it is appropriate that a network business publish its prices.

Retailers called for the revenue determination process to be brought forward to provide for greater price notification in the first year of a regulatory period. We have not proposed changes to the NER to accommodate this as the AEMC is considering the economic regulation Rule provisions in a separate process. We recommend that the AEMC consider changing the Rules to allow greater notification of network prices in the first year or to apply price limits in the first year of the regulatory period, as suggested by the retailers.

3.2 How the Rule change proposal better meets the National Electricity Objective and accounting for the revenue and pricing principles

The AEMC may only make a Rule change if it is satisfied that the Rule will or is likely to contribute to the achievement of the National Electricity Objective.²²

The National Electricity Objective is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

1. price, quality, safety, reliability and security of supply of electricity; and
2. the reliability, safety and security of the national electricity system.²³

²² National Electricity Law, Part 7, Division 1, Subdivision 2, s88(1).

²³ National Electricity Law, Section 7.

We consider that our proposed changes better meet the National Electricity Objective by:

- ▼ Improving retailers and customer's ability to respond to price signals. It will also be in the long term interest of customers by allowing for more time for retailers to develop retail pricing structures and to reduce price risk that could otherwise be factored into retail prices. In turn better pricing signals will promote efficient investment in and use of the electricity supply system.
- ▼ Allowing network businesses to understand how customers and retailers will respond to price changes after consulting on the expected price changes document.
- ▼ Allowing retailers to respond to network price signals in developing prices.
- ▼ Allowing customers to better understand prices that they are likely to face.

We have strong support from retailers for our Rule change proposal, with AGL saying:

AGL strongly supports the initiative which IPART has taken on the proposed Rule change.

For some time, AGL has been concerned about the timing of the approval forces for network prices which has had significant financial and operational impact on AGL. The proposed rule change will be a highly positive step forward for the energy retail industry.²⁴

Origin Energy stated:

We do not believe the current pricing approval process to be in the interests of customers. When retailers are forced to base final retail prices on draft distribution prices it is more likely they will look to incorporate pricing risk, which over time may lead to an upward bias in prices and, in many cases, to less innovative pricing offers.²⁵

TRUenergy stated:

... we support the changes being made for [the electricity and gas rules]. We understand that these changes would bring some changes to regulatory timeframes for distribution and transmission businesses and the AER, but believe these won't create any significant ongoing burden. The adjustment process to move from where we are today to ensuring longer periods between network tariff approval and effective dates is worthwhile in the ongoing benefits it will bring to customers.²⁶

In addition, in certain circumstances the AEMC is required to take into account the revenue and pricing principles as required under section 88B of the National Electricity Law. The revenue and pricing principles are set out in Box 3.1. We consider our proposed Rule changes to be consistent with the revenue and pricing principles.

²⁴ AGL submission, August 2012, p 1.

²⁵ Origin submission, August 2012, p 1.

²⁶ TRUenergy submission, August 2012, p 7.

Box 3.1 Revenue and pricing principles specified in the National Electricity Law**7A—Revenue and pricing principles**

- (1) The revenue and pricing principles are the principles set out in subsections (2) to (7).
 - (2) A regulated network service provider should be provided with a reasonable opportunity to recover at least the efficient costs the operator incurs in—
 - (a) providing direct control network services; and
 - (b) complying with a regulatory obligation or requirement or making a regulatory payment.
 - (3) A regulated network service provider should be provided with effective incentives in order to promote economic efficiency with respect to direct control network services the operator provides. The economic efficiency that should be promoted includes—
 - (a) efficient investment in a distribution system or transmission system with which the operator provides direct control network services; and
 - (b) the efficient provision of electricity network services; and
 - (c) the efficient use of the distribution system or transmission system with which the operator provides direct control network services.
 - (4) Regard should be had to the regulatory asset base with respect to a distribution system or transmission system adopted—
 - (a) in any previous—
 - (i) as the case requires, distribution determination or transmission determination; or
 - (ii) determination or decision under the National Electricity Code or jurisdictional electricity legislation regulating the revenue earned, or prices charged, by a person providing services by means of that distribution system or transmission system; or
 - (b) in the Rules.
 - (5) A price or charge for the provision of a direct control network service should allow for a return commensurate with the regulatory and commercial risks involved in providing the direct control network service to which that price or charge relates.
 - (6) Regard should be had to the economic costs and risks of the potential for under and over investment by a regulated network service provider in, as the case requires, a distribution system or transmission system with which the operator provides direct control network services.
 - (7) Regard should be had to the economic costs and risks of the potential for under and over utilisation of a distribution system or transmission system with which a regulated network service provider provides direct control network services.
-

A Attachment A – Proposed Rule changes

Proposed rule change – National Electricity Rules

Part I Distribution Pricing Rules

6.18 Distribution Pricing Rules

6.18.1 Application of this Part

This Part applies to tariffs and *tariff classes* related to *direct control services*.

For the purposes of this Rule 6.18:

Amending Rule means [insert title of amending rule]

Start Date means the date on which the Amending Rule commences.

6.18.2 Pricing proposals

(a) Where the relevant *regulatory control period* in respect of a *Distribution Network Service Provider* commences prior to the *Start Date*, a *Distribution Network Service Provider* must:

- (1) submit to the AER, as soon as practicable, and in any case within 15 *business days*, after *publication* of the distribution determination, a *pricing proposal* (the **initial pricing proposal**) for the first *regulatory year* of the *regulatory control period*; and
- (2) submit to the AER, at least 2 months before the commencement of the second and each subsequent *regulatory year* of the *regulatory control period*, a further *pricing proposal* (an **annual pricing proposal**) for the relevant *regulatory year*.

(a1) Where the relevant *regulatory control period* in respect of a *Distribution Network Service Provider* commences after the *Start Date*, a *Distribution Network Service Provider* must:

- (1) submit to the AER, as soon as practicable, and in any case within 15 *business days*, after *publication* of the distribution determination, a *pricing proposal* (the **initial pricing proposal**) for the first *regulatory year* of the *regulatory control period*; and
- (2) submit to the AER, at least 3 months before the commencement of the second and each subsequent *regulatory year* of the *regulatory control period*, a further *pricing proposal* (an **annual pricing proposal**) for the relevant *regulatory year*.

(b) A *pricing proposal* must:

- (1) set out the *tariff classes* that are to apply for the relevant *regulatory year*; and
- (2) set out the proposed tariffs for each *tariff class*; and
- (3) set out, for each proposed tariff, the *charging parameters* and the elements of service to which each *charging parameter* relates; and

- (4) set out, for each *tariff class* related to *standard control services*, the expected weighted average revenue for the relevant *regulatory year* and also for the current *regulatory year*; and
 - (5) set out the nature of any variation or adjustment to the tariff that could occur during the course of the *regulatory year* and the basis on which it could occur; and
 - (6) set out how *designated pricing proposal charges* are to be passed on to customers and any adjustments to tariffs resulting from over or under recovery of those charges in the previous *regulatory year*; and
 - (6A) set out how *jurisdictional scheme amounts* for each *approved jurisdictional scheme* are to be passed on to customers and any adjustments to tariffs resulting from over or under recovery of those amounts; and
 - (6B) describe how each *approved jurisdictional scheme* that has been amended since the *last jurisdictional scheme approval date* meets the *jurisdictional scheme eligibility criteria*; and
 - (7) demonstrate compliance with the *Rules* and any applicable distribution determination; and
 - (8) describe the nature and extent of change from the previous *regulatory year* and demonstrate that the changes comply with the *Rules* and any applicable distribution determination.
- (c) The AER must on receipt of a *pricing proposal* from a *Distribution Network Service Provider* publish the proposal.

6.18.3 Tariff classes

- (a) A *pricing proposal* must define the *tariff classes* into which *retail customers* for *direct control services* are divided.
- (b) Each customer for *direct control services* must be a member of 1 or more *tariff classes*.
- (c) Separate *tariff classes* must be constituted for *retail customers* to whom *standard control services* are supplied and *retail customers* to whom *alternative control services* are supplied (but a customer for both *standard control services* and *alternative control services* may be a member of 2 or more *tariff classes*).
- (d) A *tariff class* must be constituted with regard to:
 - (1) the need to group *retail customers* together on an economically efficient basis; and
 - (2) the need to avoid unnecessary transaction costs.

6.18.4 Principles governing assignment or re-assignment of retail customers to tariff classes and assessment and review of basis of charging

- (a) In formulating provisions of a distribution determination governing the assignment of *retail customers* to *tariff classes* or the re-assignment of *retail*

customers from one *tariff class* to another, the *AER* must have regard to the following principles:

- (1) *retail customers* should be assigned to *tariff classes* on the basis of one or more of the following factors:
 - (i) the nature and extent of their usage;
 - (ii) the nature of their *connection* to the *network*;
 - (iii) whether remotely-read interval metering or other similar metering technology has been installed at the customer's premises as a result of a *regulatory obligation or requirement*;
- (2) *retail customers* with a similar *connection* and usage profile should be treated on an equal basis;
- (3) however, *retail customers* with micro-generation facilities should be treated no less favourably than *retail customers* without such facilities but with a similar load profile;
- (4) a *Distribution Network Service Provider's* decision to assign a customer to a particular *tariff class*, or to re-assign a customer from one *tariff class* to another should be subject to an effective system of assessment and review.

Note:

If (for example) a customer is assigned (or reassigned) to a *tariff class* on the basis of the customer's actual or assumed *maximum demand*, the system of assessment and review should allow for the reassignment of a customer who demonstrates a reduction or increase in *maximum demand* to a *tariff class* that is more appropriate to the customer's *load* profile.

- (b) If the *charging parameters* for a particular tariff result in a basis of charge that varies according to the usage or load profile of the customer, a distribution determination must contain provisions for an effective system of assessment and review of the basis on which a customer is charged.

6.18.5 Pricing principles

- (a) For each *tariff class*, the revenue expected to be recovered should lie on or between:
 - (1) an upper bound representing the stand alone cost of serving the *retail customers* who belong to that class; and
 - (2) a lower bound representing the avoidable cost of not serving those *retail customers*.
- (b) A tariff, and if it consists of 2 or more *charging parameters*, each *charging parameter* for a *tariff class*:
 - (1) must take into account the long run marginal cost for the service or, in the case of a *charging parameter*, for the element of the service to which the *charging parameter* relates; and
 - (2) must be determined having regard to:
 - (i) transaction costs associated with the tariff or each *charging parameter*; and

- (ii) whether *retail customers* of the relevant *tariff class* are able or likely to respond to price signals.
- (c) If, however, as a result of the operation of paragraph (b), the *Distribution Network Service Provider* may not recover the expected revenue, the provider must adjust its tariffs so as to ensure recovery of expected revenue with minimum distortion to efficient patterns of consumption.

6.18.6 Side constraints on tariffs for standard control services

- (a) This clause applies only to *tariff classes* related to the provision of *standard control services*.
- (b) The expected weighted average revenue to be raised from a *tariff class* for a particular *regulatory year* of a *regulatory control period* must not exceed the corresponding expected weighted average revenue for the preceding *regulatory year* in that *regulatory control period* by more than the permissible percentage.
- (c) The permissible percentage is the greater of the following:
 - (1) the CPI-X limitation on any increase in the *Distribution Network Service Provider's* expected weighted average revenue between the two *regulatory years* plus 2%;
Note:
The calculation is of the form $(1 + \text{CPI})(1 - X)(1 + 2\%)$
 - (2) CPI plus 2%.
Note:
The calculation is of the form $(1 + \text{CPI})(1 + 2\%)$
- (d) In deciding whether the permissible percentage has been exceeded in a particular *regulatory year*, the following are to be disregarded:
 - (1) the recovery of revenue to accommodate a variation to the distribution determination under rule 6.6 or 6.13;
 - (2) the recovery of revenue to accommodate pass through of *designated pricing proposal charges* to *retail customers*; and
 - (3) the recovery of revenue to accommodate pass through of *jurisdictional scheme amounts* for *approved jurisdictional schemes*.
- (e) This clause does not, however, limit the extent a tariff for *retail customers* with remotely-read interval metering or other similar metering technology may vary according to the time or other circumstances of the customer's usage.

6.18.7 Recovery of designated pricing proposal charges

- (a) A *pricing proposal* must provide for tariffs designed to pass on to *retail customers* the *designated pricing proposal charges* to be incurred by the *Distribution Network Service Provider* for *transmission use of system services*.
- (b) The amount to be passed on to *retail customers* for a particular *regulatory year* must not exceed the estimated amount of the *designated pricing*

proposal charges adjusted for over or under recovery in accordance with paragraph (c).

- (c) The over and under recovery amount must be calculated in a way that:
 - (1) subject to subparagraphs (2) and (3) below, is consistent with the method determined by the AER in the relevant distribution determination for the *Distribution Network Service Provider*;
 - (2) ensures a *Distribution Network Service Provider* is able to recover from *retail customers* no more and no less than the *designated pricing proposal charges* it incurs; and
 - (3) adjusts for an appropriate cost of capital that is consistent with the rate of return used in the relevant distribution determination for the relevant *regulatory year*.
- (d) Notwithstanding anything else in this clause 6.18.7, a *Distribution Network Service Provider* may not recover charges under this clause to the extent these are:
 - (1) recovered through the *Distribution Network Service Provider's annual revenue requirement*;
 - (2) recovered under clause 6.18.7A; or
 - (3) recovered from another *Distribution Network Service Provider*.

6.18.7A Recovery of jurisdictional scheme amounts

Pricing Proposal

- (a) A *pricing proposal* must provide for tariffs designed to pass on to customers a *Distribution Network Service Provider's jurisdictional scheme amounts* for *approved jurisdictional schemes*.
- (b) The amount to be passed on to customers for a particular *regulatory year* must not exceed the estimated amount of *jurisdictional scheme amounts* for a *Distribution Network Service Provider's approved jurisdictional schemes* adjusted for over or under recovery in accordance with paragraph (c).
- (c) The over and under recovery amount must be calculated in a way that:
 - (1) subject to subparagraphs (2) and (3) below, is consistent with the method determined by the AER for *jurisdictional scheme amounts* in the relevant distribution determination for the *Distribution Network Service Provider*, or where no such method has been determined, with the method determined by the AER in the relevant distribution determination in respect of *designated pricing proposal charges*;
 - (2) ensures a *Distribution Network Service Provider* is able to recover from customers no more and no less than the *jurisdictional scheme amounts* it incurs; and
 - (3) adjusts for an appropriate cost of capital that is consistent with the rate of return used in the relevant distribution determination for the relevant *regulatory year*.

Jurisdictional schemes

- (d) A scheme is a *jurisdictional scheme* if:
 - (1) the scheme is specified in paragraph (e); or
 - (2) the *AER* has determined under clause paragraph (l) that the scheme is a *jurisdictional scheme*,
and the *AER* has not determined under paragraph (u) that the scheme has ceased to be a *jurisdictional scheme*.
- (e) For the purposes of paragraph (d)(1), the following schemes are *jurisdictional schemes*:
 - (1) schemes established under the following laws of participating jurisdictions:
 - (i) Electricity Feed-in (Renewable Energy Premium) Act 2008 (ACT);
 - (ii) Division 3AB of the Electricity Act 1996 (SA);
 - (iii) Section 44A of the Electricity Act 1994 (Qld);
 - (iv) Electricity Industry Amendment (Premium Solar Feed-in Tariff) Act 2009 (Vic);
 - (2) the Solar Bonus Scheme established under the Electricity Supply Act 1995 (NSW); and
 - (3) the Climate Change Fund established under the Energy and Utilities Administration Act 1987 (NSW).

AER Requested to determine that scheme is a jurisdictional scheme

- (f) Any person may request the *AER* to determine whether a scheme is a *jurisdictional scheme*.
- (g) A request made under paragraph (f) must contain the following information:
 - (1) the name and address of the person making the request;
 - (2) details of the law of a *participating jurisdiction* under which the relevant scheme is established;
 - (3) the commencement date of the relevant scheme; and
 - (4) an explanation of how the relevant scheme meets the *jurisdictional scheme eligibility criteria*.
- (h) The *AER* must as soon as practicable after receiving the request under paragraph (f) *publish* the request.

AER may assess whether a scheme is a jurisdictional scheme

- (i) The *AER* may at any time initiate an assessment of whether a scheme is a *jurisdictional scheme*.
- (j) If the *AER* decides to initiate an assessment under paragraph (i) it must *publish* details of the scheme it is considering and the reasons for initiating the assessment.

AER to determine whether a scheme is a jurisdictional scheme

- (k) Before making a determination under paragraph (l), the *AER* may consult with the relevant *Distribution Network Service Provider* and such other persons as the *AER* considers appropriate, on any matters arising out of the request or the assessment the *AER* considers appropriate.
- (l) The *AER* must within 20 *business days* of:
 - (1) receiving a request under paragraph (f); and
 - (2) *publishing* details of an assessment under paragraph (j),
 determine in accordance with paragraph (n) if the relevant scheme is a *jurisdictional scheme* and *publish* its decision (including the reasons).
- (m) The *AER* may extend the time limit fixed in paragraph (l) if it considers that the difficulty of assessing whether a scheme is a *jurisdictional scheme*, or the complexity of the issues raised during any consultation under paragraph (k), justifies the extension.
- (n) The *AER* must only determine that a scheme is a *jurisdictional scheme* under paragraph (l) if it considers that the scheme meets the *jurisdictional scheme eligibility criteria*.

AER requested to determine that scheme should cease to be a jurisdictional scheme

- (o) Any person may request the *AER* to determine that a scheme is no longer a *jurisdictional scheme*.
- (p) A request made under paragraph (o) must contain the following information:
 - (1) the name and address of the person making the request;
 - (2) the law of a *participating jurisdiction* under which the relevant scheme is established;
 - (3) the commencement date of the relevant scheme; and
 - (4) an explanation of why the scheme no longer meets the *jurisdictional scheme eligibility criteria*.
- (q) The *AER* must as soon as practicable after receiving the request under paragraph (o) *publish* the request.

AER may assess whether a scheme should cease to a jurisdictional scheme

- (r) The *AER* may at any time consider whether a scheme should cease to be a *jurisdictional scheme*.
- (s) If the *AER* decides to initiate an assessment of whether a scheme should cease to be *jurisdictional scheme* under paragraph (r) it must *publish* details of the scheme it is considering and the reasons for initiating the assessment.

AER to determine whether a scheme should cease to be a jurisdictional scheme

- (t) Before making a determination under paragraph (u), the *AER* may consult with the relevant *Distribution Network Service Provider* and such other persons as the *AER* considers appropriate, on any matters arising out of the request or the assessment the *AER* considers appropriate.
- (u) The *AER* must within 20 *business days* of:

- (i) receiving a request under paragraph (o); or
- (ii) *publishing* details of an assessment under paragraph (s),
determine in accordance with paragraph (w) if the relevant scheme should cease to be a *jurisdictional scheme* and *publish* its decision (including the reasons).
- (v) The AER may extend the time limit fixed in paragraph (u) if it considers that the difficulty of assessing whether a scheme should cease to be a *jurisdictional scheme*, or the complexity of the issues raised during any consultation under paragraph (t), justifies the extension.
- (w) The AER must only determine that a scheme has ceased to be a *jurisdictional scheme* under paragraph (u) if it considers that the scheme no longer meets the *jurisdictional scheme eligibility criteria*.

Jurisdictional scheme eligibility criteria

- (x) The following are the *jurisdictional scheme eligibility criteria*:
 - (1) the *jurisdictional scheme obligations* require a *Distribution Network Service Provider* to:
 - (i) pay a person;
 - (ii) pay into a fund established under an Act of a *participating jurisdiction*;
 - (iii) credit against charges payable by a person; or
 - (iv) reimburse a person,
an amount specified in, or determined in accordance with, the *jurisdictional scheme obligations*;
 - (2) the *jurisdictional scheme obligations* are imposed on a *Distribution Network Service Provider* in its capacity as a *Distribution Network Service Provider*;
 - (3) the amount referred to in subparagraph (1) is not in the nature of a fine, penalty or incentive payment for the *Distribution Network Service Provider*; and
 - (4) except as provided in these Rules, the *Distribution Network Service Provider* has no right to recover the amount referred to in subparagraph (1) from any person.

6.18.8 Approval of pricing proposal

- (a) The AER must approve a *pricing proposal* if the AER is satisfied that:
 - (1) the proposal complies with this Part, any relevant clauses in Chapter 11 of the *Rules* and any applicable distribution determination; and
 - (2) all forecasts associated with the proposal are reasonable; and
 - (3) the proposal is consistent with the *Distribution Network Service Provider's* statement of expected price trends.
- (b) If the AER determines that a *pricing proposal* is deficient:

- (1) the *AER* may require the *Distribution Network Service Provider*, within 10 *business days* after receiving notice of the determination, to re-submit the proposal with the amendments necessary to correct the deficiencies identified in the determination and (unless the *AER* permits further amendment) no further amendment; or
 - (2) the *AER* may itself make the amendments necessary to correct the deficiencies.
- (c) If the service provider fails to comply with a requirement under paragraph (b), or the resubmitted proposal fails to correct the deficiencies in the former proposal, the *AER* may itself amend the proposal to bring it into conformity with the requirements of this Part and any applicable distribution determination.
- (d) The *AER* must publish an approved pricing proposal (including any amendments made by the *AER* under this clause 6.18.8) within 20 business days from the date of submission of a pricing proposal by a *Distribution Network Service Provider* under clause 6.18.2.
- (e) An approved pricing proposal takes effect:
- (1) in the case of an initial *pricing proposal* – at the commencement of the first *regulatory year* of the *regulatory control period* for which the distribution determination is made; and
 - (2) in the case of an annual *pricing proposal* – at the commencement of the *regulatory year* to which the proposal relates.

Note:

The operation of this paragraph may, in some instances, be displaced or modified by clause 6.11.3(b).

6.18.9 Publication of information about tariffs and tariff classes

- (a) A *Distribution Network Service Provider* must maintain on its website:
- (1) a statement of the provider's *tariff classes* and the tariffs applicable to each class; and
 - (2) for each tariff – the *charging parameters* and the elements of the service to which each *charging parameter* relates; and
 - (3) a statement of expected price trends (to be updated for each *regulatory year*):
 - (i) giving an indication of how the *Distribution Network Service Provider* expects prices to change over the *regulatory control period* and the reasons for the expected changes; and
 - (ii) which has been developed and updated in accordance with the *customer consultation guidelines* and includes the information specified in the *customer consultation guidelines*.
- (b) The information for a particular *regulatory year* must, if practicable, be posted on the website within 20 business days before the commencement of the relevant *regulatory year* and, if that is not practicable, as soon as practicable thereafter from the date the *AER* publishes an approved pricing

proposal under clause 6.18.8(d) for that *Distribution Network Service Provider*.

6.18.10 AER to develop and publish customer consultation guidelines

The AER must develop and *publish* guidelines setting out:

- (a) the customer consultation to be undertaken by a *Distribution Network Service Provider* in developing and updating its statement of expected price trends; and
- (b) the information required to be provided under clause 6.18.9(a)(3)(ii) regarding the customer consultation undertaken by a *Distribution Network Service Provider* in developing its statement of expected price trends.

[Chapter 10 – Glossary

customer consultation guidelines

The guidelines developed and *published* by the AER under clause 6.18.10 from time to time.

CHAPTER 6A

6A.24.2 Publication of pricing methodology and transmission network prices

(a) Where the relevant *regulatory control period* in respect of a *Transmission Network Service Provider* commences prior to the Start Date, a *Transmission Network Service Provider* must publish:

- (~~ia~~) a current copy of its *pricing methodology* on its website; and
- (~~iib~~) the prices for each of the *categories of prescribed transmission services* to apply for the following *financial year*, by 15 May each year for the purposes of determining *distribution service* prices.

(b) Where the relevant *regulatory control period* in respect of a *Transmission Network Service Provider* commences after the Start Date, a *Transmission Network Service Provider* must publish:

- (i) a current copy of its *pricing methodology* on its website; and
- (ii) the prices for each of the *categories of prescribed transmission services* to apply for the following *financial year*, by 15 March each year for the purposes of determining *distribution service* prices.

(c) For the purposes of this Rule 6A.24.2:

Amending Rule means [*insert title of amending rule*]

Start Date means the date on which the *Amending Rule* commences.

B Consultation undertaken by IPART in developing this Rule change proposal

In March 2012, IPART made a submission to the Commonwealth Government's Draft Energy White paper, stating that we intended to propose changes to the NER to address the timing and consultation arrangements for the annual network price setting process.

In August 2012 IPART held a stakeholder meeting to discuss our Rule change proposal. We distributed a short discussion document to focus the consultation. Additionally, we received 7 submissions, which are attached.

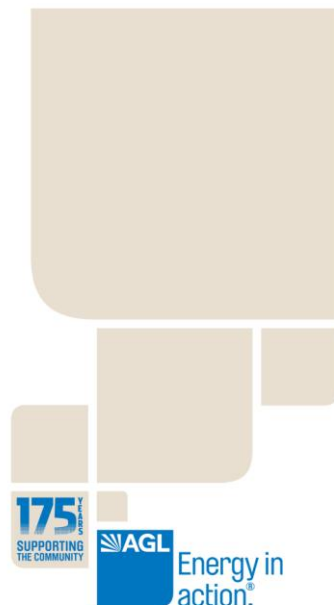
In developing the proposed Rule change we have considered issues raised in the consultation.

Organisations invited to stakeholder meeting:

Table B.1 Organisations invited to stakeholder meeting

Organisation	Status
Lumo	Attended
Australian Power and Gas	Attended
Momentum Energy	Declined
Alinta	Attended
Origin	Attended
AGL	Attended
TRUenergy	Attended
Electricity Retailers Association of Australia	Attended
Electricity Supply Association of Australia	Declined
Interjurisdictional regulators	Attended
Australian Energy Regulator	Attended
Public Interest Advocacy Centre	Attended
NSW Council of Social Services	Declined
Energy Users Association of Australia	Declined
Essential Energy	Attended
Endeavour Energy	Attended
Ausgrid	Attended
Electricity Networks Association	Declined
TransGrid	Attended
Grid Australia	Represented by TransGrid
NSW Government	Attended

C Submissions made to IPART



Dr Peter Boxall AO
Chairman
Independent Pricing and Regulatory Tribunal
PB Box Q290
QVB Post Office NSW 1230

31 August 2012

By email

Annual network pricing rule change proposal

Dear Dr Boxall,

AGL Energy (AGL) welcomes the opportunity to make a submission to IPART's Consultation Paper dated August 2012 on the proposed changes to National Electricity Rules (NER) and National Gas Rules (NGR). AGL strongly supports the initiative which IPART has taken on the proposed rule change.

For some time, AGL has been concerned about the timing of the approval process for network prices which has had significant financial and operational impact on AGL. The proposed rule change will be a highly positive step forward for the energy retail industry. AGL also supports the proposed requirement to consult on the statement of expected price trends.

In the attachment, we have provided AGL's view, in general terms, on the issues raised by IPART in the Consultation Paper.

If you have any further questions, please contact Meng Goh on (02) 9921 2221.

Yours sincerely,

Elizabeth Molyneux
Head of Regulated Pricing

Notice period for network and regulated retail prices

IPART has noted that second tier retailers in NSW tend to reference market offers against regulated prices. As a second tier retailer in the NSW retail electricity market, AGL agrees with this observation and notes that this also occurs in other jurisdictions.

The 1 July price change is a norm in QLD, NSW, ACT and SA for both electricity and gas. As AGL's business activities are organised on a national basis, the 1 July price changes creates a particularly heavy work load at this time of the year, as suggested by the following statistics:

- AGL has 3.5 million electricity and gas customers in New South Wales, Queensland, South Australia and Victoria.
- The mid 2012 price variation process involved over 6,600 individual electricity and gas prices nationally.
- In mid 2012, AGL will send out 1.8 million letters to inform customers on market contracts of price changes.

Given the number of individual price changes and notices to customers, and also taking into account prior notice periods of up to 20 business days, the scheduling of the changes in 2012 results in some market contract prices for NSW customers being implemented in early August, that is, over a month after the regulated prices become effective. In other jurisdictions, the changes in market contracts are as late as 1 September.

The misalignment of timing between regulated retail prices and market contract prices can result in inadequate cost recovery. In some cases, the cost of the delay is reflected by adjusting the market contract prices which could potentially create confusion with customers as the market contract prices will differ from the regulated prices.

To be cost reflective and to avoid confusion, the change in retail prices, both regulated and market contracts, should be aligned with the change in network prices ie 1 January or 1 July. To facilitate this, regulated retail prices should be available at least 30 business days prior to the price change coming into effect. Allowing 2 weeks or 10 business days for regulated retail prices to be prepared, this will mean that approved network prices incorporating transmission and distribution charges should be published, at the latest, about 2 months prior to the effective date ie by 1 May for a 1 July change.

It is important that these timeliness are adhered to. The current AER approval process which operates on a "best endeavours" basis creates operational uncertainty for retailers and accordingly, AGL suggests that the rule change should also require that these timelines are met.

Consultation on network price changes

AGL understands there is no requirement for the distributors to consult with retailers on network price changes. To their credit, a number of distribution businesses currently do conduct genuine consultation on tariff changes with retailers. Other distributors conduct information sessions, as distinct to consultation, and there are some who do not hold any meetings on price changes.

It is clear that distributors and retailers need to co-operate if price signals are to be properly structured and communicated to consumers. In the past, some distributors have made significant changes to tariff structures without consultation, resulting in customer service issues for retailers and complaints to regulators.

Consumers are becoming more aware and sensitive to energy supply issues as energy cost escalates. They are increasingly seeking more information and alternatives to control their consumption and costs. This is a significant shift in the engagement level of the customers with the energy supply system. It provides an opportunity for distributors to work with retailers and consumers when proposing network pricing changes. An effective consultation process would greatly improve the prospect of retailers and consumers embracing new pricings and providing more choices to manage different risk requirements.



In turn, this will enhance the prospect of network achieving its pricing objectives as the efficacy of any pricing signals ultimately depends on the consumers' willingness to respond. For example, ENA has indicated that the rise in peak demand has led to significant increase in network costs which may be moderated by introducing critical peak pricing. For such pricing to be included in the retail prices and operate effectively, it is necessary for the retailers to be involved in its design and implementation. The achievement of these and other outcomes for both distributors and retailers becomes critical as investment in smart grids and smart meters increases in response to both government policies and market reform.

Accordingly, AGL supports IPART's proposal to require distributors to consult with retailers on an annual basis prior to any change to tariff structures or introduction of new tariffs.

Statements of expected price trends

The statements of expected price trends produced by the distributors provide useful information for planning and product development. However, the forecasts contained in these statements have tended to be inconsistent from one year to the next which has limited their usefulness.

AGL understands that circumstances change over time eg weather impact on energy consumption or number of solar PV installations, so there should be a balance between requiring distributors to abide by these expected price trends and allowing distributors the flexibility to review how costs are allocated as conditions change. However, for these statements to be useful, distributors should attempt to be consistent with these statements as far as possible. Material deviations, if necessary, should be clearly explained.

AGL has also noted that the content of these statements vary from one distributor or to another and are therefore not comparable with each other. AGL's view is that the content of these statements should be more specific and prescriptive. Currently, there is no standard for these statements. From a retailer's perspective, these statements should include the following:

- both transmission and distribution costs,
- other pass-through costs eg solar feed-in tariffs,
- specified until the end of the regulatory period,
- assumptions which underlie these projections,
- information in a form which will assist retailers and users to estimate the network price changes when the underlying assumptions change.

Furthermore, it is also important to retailers to know how the tariff components could change over the regulatory period.

To ensure that these statements are meaningful to end users, a range of stakeholders should be consulted on by the AER in relation to the development of the content of these statements. AGL, however, recognises that any requirement for regular stakeholder consultations should not ultimately impose additional costs to the industry.



30 August 2012

Independent Pricing &
Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Independent Pricing and Regulatory Tribunal Network Price Rule Change Proposal

Alinta Energy Retail Sales Pty Ltd (Alinta Energy) welcomes the opportunity to provide comment on the Independent Pricing & Regulatory Tribunal (IPART) proposed changes to the National Electricity Rules and National Gas Rules covering Network Price Changes.

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has about 700,000 retail customers in Western Australia, South Australia and Victoria with a commitment to growth across the National Electricity Market. It also has over 2500MW of generation facilities in Australia (and New Zealand).

Alinta Energy supports IPART's proposed rule change to the National Electricity and National Gas Rules that would facilitate the earlier publication of network prices so as to allow a more appropriate period of time for the approval of regulated retail prices and the subsequent setting of retail market prices.

Alinta Energy recognises the issues around the timing of the network price notification and publication are complex. However, retailers are in a difficult position given the current timetable for the publication of network pricing, and the subsequent setting of regulated retail pricing does not provide sufficient time for retailers, particularly 2nd tier retailers, to develop and publish their retail market pricing in line with any changes in network and regulated retail pricing. This is particularly the case where there has been a structural (block) change in the network tariff which needs to be reflected in the retail tariff. The delay in the recovery of network charges in these circumstances can have a significant negative impact on retailers given network charges account for about 50% of a retailer's costs.

Alinta Energy believes the ultimate solution to the issue of the timing of the announcement of network charges, would be to transition to price deregulation in NSW. The regulated retail pricing regime is a key contributor to the issue raised in the IPART paper and only when retailers are free to set their own tariffs to recover costs will this issue be resolved.

The removal of price regulation facilitating the practice where retailers publish their own standing offer tariffs with IPART having an oversight role, and not an approval role, will, in addition to the proposed rule change, further assist in providing the required time for retailers to develop, publish and communicate their retail market pricing to customers.

Whilst we understand IPART does not control the decision to remove price regulation, we consider the issue of price deregulation needs further consideration as part of a holistic approach to the issue of the timing of price setting arrangements.

In the short term, the proposed rule change to bring forward the publication date will assist in providing retailers with a more reasonable time period within which to develop and publish price variations to customers, which may include an increased notification period for customers.

Should you require any additional information or wish to discuss our submission I may be contacted on (02) 9372 2653 or via email: shaun.ruddy@alintaenergy.com.au

Yours sincerely



Shaun Ruddy

Manager National Retail Regulation



Energy Retailers Association
of Australia Limited

31 August 2012

Annual network pricing rule change proposal
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Submitted online

Dear Sir/Madam

RE: Network price changes – IPART’s proposed changes to National Electricity Rules and National Gas Rules Consultation Paper

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments on Network price changes – IPART’s proposed changes to National Electricity Rules and National Gas Rules Consultation Paper (the Consultation Paper).

The ERAA is the peak body representing the core of Australia’s energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in every State and Territory throughout Australia. These businesses collectively provide electricity to over 98% of customers in the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

The ERAA will only be providing general comments on the Paper and IPART should refer to the individual submissions of our members for comment on more specific issues. This submission should be considered in addition to the comments provided by the ERAA and some members at the IPART Stakeholder meeting on 14 August.

The ERAA supports the proposed changes to the National Electricity Rules and National Gas Rules. The current timetable for network pricing doesn’t provide retailers with enough time to set retail prices, with an inadequate period between when determinations are finalised and network prices are notified. This means that retailers are forced rush retail price setting decisions into a period of several days or alternately to base pricing decisions on draft determinations and estimated network tariffs. The ERAA supports bringing forward the publication date of transmission prices from 15 May to facilitate this change.

Pricing uncertainty is not in the best interest of customers or retailers. As the primary point of contact with customers, the inability of retailers to provide clear pricing messages increases customer confusion and has the potential to reduce customer confidence. This change would provide retailers with more flexibility in how they communicate information to customers on price changes. Whilst this could result in reduced information to inform the network price-setting process, the ERAA considers that these costs would be outweighed by the aforementioned benefits.

Energy Retailers Association of Australia Limited

Suite 3, Level 5, 189 Kent Street, SYDNEY NSW 2000

T (02) 9241 6556 F (02) 9251 5425 www.eraa.com.au

ABN 24 103 742 605

Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Cameron O'Reilly', with a large, stylized loop at the end.

Cameron O'Reilly
Chief Executive Officer
Energy Retailers Association of Australia

Ref: MR:JC:A93479

27 August 2012

Annual Network Pricing Rule Change Proposal
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

www.ipart.nsw.gov.au

Dear Ms Brakey

Network price changes – IPART’s proposed changes to National Electricity Rules and National Gas Rules

Essential Energy appreciates the opportunity to respond to the Independent Pricing and Regulatory Tribunal’s (IPART’s) consultation paper – *Network price changes – IPART’s proposed changes to National Electricity Rules and National Gas Rules* (the paper).

Essential Energy generally supports IPART proposing a Rule change which would facilitate the earlier submission of annual pricing proposals to the Australian Energy Regulatory (AER). Although Essential Energy supports the proposed changes outlined in the paper, certain important factors should be considered and accounted for in terms of the inputs required for a distribution network service provider’s pricing proposal.

In order to facilitate the earlier submission on network price changes consideration needs to be given to the timing of not only transmission prices (as noted in the paper) but also to any inter distributor transfer prices and the availability of audited weighted average price cap data from the previous year. Auditing of the weighted average price cap data is generally complete by mid-March annually. Once all input data is received, a minimum of two weeks is required to finalise the pricing proposal for submission to the AER. Currently the Rules are silent as to the time the AER may take in approving the network proposed pricing change, the only reference to timing is that the information is to be published by the network business, if practicable, 20 business days prior to the commencement of the change. As part of a Rule change it may be appropriate to designate a time allowance for AER approval.

Essential Energy is not opposed to constructive consultation with customers and stakeholders on proposed network price changes. However it is important to understand the needs of the audience when consulting on network price changes with a view to ensure consultative tools and forums are targeted appropriately. The average energy consumer will have very limited knowledge of the electricity supply chain and it is important the consultation does not confuse the distribution price change (an input to retail prices) as being additional to a retail price change.

Essential Energy concurs that it would be beneficial to engage with consumers in order to understand how consumers might respond to particular tariff structures and also for consumers to understand the methodology used by the business in developing the tariff structure. This engagement would also allow the network to work with consumers to develop alternative tariff structures that may have a social benefit.

Essential Energy would be pleased to discuss this matter further. Should you require further information or clarification please feel free to contact Natalie Lindsay on 02 6589 8419

Yours sincerely



Col Ussher
**Executive General Manager
Infrastructure Strategy**

31 August 2012

Annual network pricing Rule change proposal
IPART
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Attention: Ms Anna Brakey

Dear Anna,

Annual network pricing Rule change proposal

Thank you for the opportunity to comment on the Tribunal's consultation paper regarding its intention to lodge with the AEMC a Rule change proposal regarding the timing of, and consultation mechanisms in relation to, how electricity and gas network businesses set their prices.

This submission concerns the price setting processes in relation to electricity only. The focus is on setting transmission prices although it is essential that all the arrangements for changing transmission, distribution and retail prices all function coherently.

Grid Australia recognises the Tribunal's interest in ensuring that the timing and processes for setting network charges provide retailers and customers with a meaningful opportunity to understand the impact of any proposed changes and respond to them. However, any proposals in this regard would need to carefully address the issues set out below.

Timing

As the consultation paper notes, transmission businesses are currently required to publish their network charges to their directly connected customers, generators and distributors, by 15 May each year. In Victoria, SP AusNet levies connection charges while AEMO collects Transmission Use of System (TUOS) charges. The way transmission network charges are set must conform to the Transmission Pricing Methodology approved by the AER at the Transmission Network Service Provider's (TNSP's) most recent revenue reset.

Grid Australia considers that changes to the relevant pricing publication dates should only be pursued where a clear net benefit can be demonstrated. In this respect, Grid Australia agrees with the Tribunal's concern that there is a balance to be struck between delivering pricing information earlier and ensuring that the information provides an accurate picture of the final charges that will eventuate.

The issue of bringing forward the publication date for transmission pricing has recently been extensively canvassed, with the AEMC considering a Rule change proposal by EnergyAustralia in 2009¹. The AEMC's final determination made it clear that it is unreasonable to suggest that the earlier

¹ National Electricity Amendment (Transmission Network Prices Publication Date) Rule 2009, AEMC

publication of prices, with the inherent lower accuracy associated with the use of less certain forecast inputs, will automatically lead to greater certainty for distributors, retailers and major customers. The AEMC's conclusion was that the transmission pricing publication date should not be required to be brought forward but that earlier publication could be agreed between the relevant transmission and distribution parties.

In its first submission regarding that Rule change, Grid Australia raised the following concerns which remain pertinent to the matters raised by the Tribunal. Specifically, changes to the publication dates would cause:

- greater inaccuracy of forecast transmission pricing estimates as a result of the use of less actual data;
- less certainty in the calculation of current year and forecast inter-regional settlement residues;
- less certainty in the calculation of current year revenue recovery for TNSPs; and
- additional price volatility that would impact on TNSPs' 'overs and unders' adjustments leading to unnecessary variation in transmission prices.

These concerns are discussed in terms of the current and potential future constraints on adjustments to the existing timing.

The first current constraint is that charges are set to reflect the maximum allowed revenues (MAR) for the upcoming year. That MAR is based on the previous year's MAR indexed under the CPI-X control mechanism. The CPI is specified by the AER in the TNSPs' relevant revenue determinations as the ABS Consumer Price Index all groups weighted average of eight capital cities. The December to December CPI applies to SP AusNet and the March to March CPI to the other TNSPs².

That CPI information generally becomes available to the TNSPs some four weeks after the start of the quarter (for example, by 30 April for the March to March quarter CPI). Thus, any change to bring forward the current due dates for publishing transmission prices is likely to require amending the quarter to quarter CPI used. This would mean either changes in the AER determinations or possibly via a Rule change.

TNSPs have to make assumptions about the revenues expected to be recovered during the remainder of the financial year before the next price change takes effect, with the differences between the assumptions and out-turn revenues adjusted via the overs and unders mechanism provided in the National Electricity Rules³.

Bringing forward the required transmission pricing publication dates would mean relying more on forecasting and therefore resulting in greater uncertainty and price volatility for TNSPs' directly connected customers, generators and distributors.

² See, for example, the TransGrid transmission determination 2009-10 to 2013-14, AER 2009, page 1.

³ Rules clause 6A.23.3(c)(2)(iii).

In particular, the proceeds of quarterly inter-regional Settlement Residues Auctions (SRAs) become known around two weeks prior to the start of the next quarter (for example, around 15 March for the June quarter). This is the second current constraint. Thus, if the intention was to bring forward the required date for publishing prices by, say, more than six weeks, this would mean:

- estimating the amount of June quarter SRA proceeds — this would impact on calculation of the overs and unders adjustment for the current year; and
- greater uncertainty in estimating prices for the upcoming financial year.

The combination would risk significantly increasing the uncertainty around price variations for directly connected customers and distributors⁴. In addition, any advancement of the publication date would also result in more estimation of intra-regional residues.

For residential and small commercial customers, transmission charges account for a relatively small proportion of their total retail bill. However, for large industrial and commercial customers directly connected to the transmission networks, the proportion is more significant. For these customers, operating in uncertain economic times and potentially on thin margins, an increase in year on year variations may pose a significant commercial risk. The key issue they face is the relative importance of knowing the price for the financial year ahead some weeks earlier than present versus the potential for significant variation between years brought about by the use of forecast data by TNSPs.

Grid Australia strongly encourages the Tribunal to seek the views of directly connected customers, including customers directly connected to distribution sub-transmission systems, regarding this issue prior to finalising any proposal to bring forward the transmission pricing publication deadline.

The two likely future constraints are the potential introduction of an inter-regional transmission charge⁵ and an optional firm access model⁶, both currently being considered by the AEMC. These additional pricing mechanisms would introduce more complexity in the prescribed transmission pricing process. At this stage, it is impossible to quantify the likely financial and timing impacts of both proposed changes. However, given this additional uncertainty, Grid Australia recommends that the Tribunal carefully consider whether it would be more appropriate to delay proposing timing changes until the AEMC's processes are complete and those impacts can be properly understood.

Finally, were the Tribunal to make a Rule change proposing a more aggressive pricing timetable for TNSPs, it should include a similar timetable for distributors to ensure that the timing benefits arising from earlier publication by TNSPs are passed through to all customers in full.

First year issue

With respect to the most appropriate arrangements for network pricing in the first year of a regulatory period, Grid Australia notes that attempting to bring forward the AER's revenue determination process

⁴ By way of indication, over the last two years, TransGrid's SRA proceeds equated to around eight per cent of its MAR

⁵ Inter-regional Transmission Charges Rule change proposal. The AEMC currently expects to publish its Final Determination by 28 February 2013.

⁶ Transmission Frameworks Review. The AEMC recently published its 2nd Interim Report and expects to publish its Final Report in early 2013.

would be a major change to the current revenue and price framework for both transmission and distribution. It would introduce additional forecasting risk and therefore revenue and pricing uncertainty for the networks, retailers and customers. Grid Australia would therefore not support this option.

In addition, the AEMC has recently published its draft determination with respect to the AER and EURCC's economic regulation of network service providers Rule change proposals. That draft determination proposes changes to the revenue reset process. Were the Tribunal, despite Grid Australia's position, nevertheless minded to make a Rule change proposal to bring forward the revenue resetting process, Grid Australia would encourage the Tribunal not to do so until the implications of the AEMC's proposed changes were fully clear.

Additional consultation

While generally supportive of mechanisms that provide opportunities for customers to better understand and engage in the price-setting process, Grid Australia notes that:

- each TNSP already maintains a close dialogue with its small number of directly connected customers (again, for whom transmission charges represent a significant component of their energy bill); and
- for residential and small commercial customers:
 - transmission costs account for a relatively small proportion of the retail bill;
 - realistically, the scope to rebalance those charges across a TNSP's supply area as the result of direct consultation with such a large number of customers and in a satisfactory timeframe is minimal; and
 - the complexity and cost of attempting to do so would clearly outweigh the benefits.

Grid Australia would therefore need to see a well demonstrated case for changes to the current consultation processes before it could support them.

In closing, Grid Australia notes that the Tribunal's consultation paper does not set out a specific model to address the issues raised including arrangements for addressing the "first year" issue. The comments provided above can therefore only be made at an in principle level. Grid Australia would welcome the opportunity to provide feedback on the Tribunal's proposed solution prior to it being lodged with the AEMC.

Should you wish to discuss any aspect of this submission, please do not hesitate to contact Anthony Englund on (02) 9284 3148 or anthony.englund@transgrid.com.au.

Yours sincerely,



Philip Gall
Acting Chairman
Grid Australia Regulatory Managers Group



31st August 2012

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Dear Peter,

RE: Annual network pricing rule change proposal

TRUenergy welcomes the opportunity to make this submission on the consultation paper for IPART's annual network pricing rule change proposal.

Introduction

The current timings pre-date full retail contestability and are simply are not suitable for the competitive markets we have now. Not only are there around ten retailers in most state markets (NSW, QLD, SA and VIC); these retailers have many different offers and may provide both electricity and gas. The network costs and retail tariffs typically change on the 1st July each year in NSW, Queensland, SA and the ACT, while in Victoria they usually change on the 1st January. In this market environment, proper price setting processes, innovative pricing and obsolete product rationalisation are more difficult than in other industries.

The Australian Energy Regulator (AER) regulates network tariffs and retailers have no control and no insight into what the network tariffs will be before they are approved and published even though these tariffs contribute between 35-50% of the customer's overall retail bill. To offset this lack of control it is important to retailers to have more time between obtaining the final approved network tariffs and the date these tariffs take effect. According to the National Electricity Rules (NER), the network tariffs should be published 20 business days in advance, however the actual times can be significantly shorter.

Maintaining contact with distributors on their plans for tariff changes does help somewhat, but we are still frequently surprised by last minute changes to tariff level and structure, price increases well above the price path allowances and subsequent appeal processes. This affects retailers for both gas and electricity in all states in the National Electricity Market (NEM) where customers have a choice of retailers.

If retailers have no control and forewarning of these costs and little time to accommodate them, then customers are in an even worse position. It's in retailers' interests to set competitive and well-structured prices, have a range of offers available to customers, explain price changes to customers, and to deal effectively with customers in hardship. All of these things are difficult to do well under the current network tariff setting and approval timeframes.

A snapshot of the issue

In mid 2012, the AER approved the annual network price proposals for the NSW electricity distributors (Ausgrid, Essential Energy and Endeavour Energy).

- **7th June** - final approved network prices for NSW electricity distribution areas were released publicly
- **15th June** - TRUenergy had 5 business days¹ to prepare and submit a regulated retail tariff pricing proposal to IPART (for the Ausgrid area)
- **22nd June** - IPART approved the regulated retail tariffs after 5 business days
- **1st July** - The regulated retail price changes (Ausgrid area only) as well as all NSW electricity market tariffs were implemented in TRUenergy systems and third party systems prior to the 1st July effective date (i.e. within 5 business days)

The NER (s6.18.9) require distributors to publish their tariffs twenty business days before the commencement of the regulatory year (which is usually the date the new tariffs take effect – the 1st January or the 1st July). For NSW, this year we only had 15 business days.

The 1st July was also the date that all gas and electricity retail prices were effective in all contestable states (VIC, NSW, SA, ACT & QLD), so this was a period of intense activity. Although not all approved network tariffs were received as late as the NSW electricity network tariffs, the usual timeframes for approval of network tariffs put undue pressure on the retail pricing process.

Turnaround times of five business days are simply too short to allow for the detailed data entry, iterative tariff setting, discussions with the regulator, internal review and approval when the decisions relate to annual revenue impacts in the realm of \$250 million.² With only five business days to put these tariffs in multiple systems, update price and product information statements and regulator comparator tools, inform customers and publish tariff notices in newspapers and government gazettes (in some states) it can be very difficult to achieve without errors and meet all regulatory obligations.

In all other respects, we can only do the barest minimum. It's usually the customer related aspects of a price change that take time to do well and therefore these suffer the most – e.g. briefing our call centres to enable consultants to explain the reasons for the increase, begin quoting new tariffs a certain amount ahead of time, take steps to minimise impacts for hardship customers. In this environment, there is a clear disincentive to have a large range of different pricing and offers as it becomes very onerous when these offers are repriced.

Proposed timings

To get these inputs earlier and ensure adequate time for retail pricing processes, there would need to be some adjustments to the regulatory timings and requirements for both distribution and transmission companies.

The outcome we are looking for is to bring forward the network tariff³ dates by at least one month compared to the current timeframes and to change the focus of the NER to ensure that the dates are linked to the network tariff effective date and the obligations on distributors are mandatory.

In particular, that:

- network tariffs submitted to the AER by distributors at least three months ahead of the network tariff effective date; and

¹ The 11th June 2012, was the Queen's Birthday public holiday in NSW.

² Around 700,000 regulated tariff customers, average annual 2011/12 residential bill of \$1,763, business bill of \$2,290 (IPART Price Determination June 2012, page 8/9), 18% increase.

³ The term 'network tariff' in this submission refers to network use of system (NUOS) tariffs.

- the final network tariffs (and other distributor charges such as excluded service and metering charges) are published at least two months ahead of the effective date.

In addition, we would like to see that any changes to network tariffs that occur outside the usual annual cycles also keep to these proposed timeframes. This includes network tariff appeals, and network tariff approvals that result from successful cost pass through applications.

We would ideally like the same timing also in the first year of a regulatory period. There can often be a large step change in the first year and so this is more relevant than in the other years when only an annual price review is done. However if there is an adequate amount of engagement and detailed information from distributors and the AER then this will help significantly. It would also be beneficial to limit network tariff restructuring in the first year of a regulatory period if the proposed timeframes outlined above cannot be met in those years.

Although the National Gas Rules don't specify timings we hope similar changes to network tariff timings could be made to network access arrangements so that the same benefits are gained for retail gas pricing. Many retailers offer gas as well as electricity and there are synergies in retail processing (particular in communicating price changes to customers) if the timeframes for both fuels are the same.

Benefits of earlier approval of network tariffs

1. More flexibility in communicating tariff change information to customers

The current timing constraints in setting retail tariffs based on final network tariffs limit our ability to:

- assess the full customer impacts of regulated and market tariffs during the tariff setting process; and
- to provide briefings and information to our call centre and external channels to answer pricing enquiries.

When retail tariffs change, it is also a good time to review customer payment plans and consider new offers and campaigns for customers to help minimise the impact of price increases. All of this activity is severely restricted at repricing times at present.

It's in each retailer's interests to use any extra time gained in retail tariff setting to address customers' needs such as understanding the reasons for the price change and dealing with any price shocks. If we don't do this satisfactorily then customers are likely to move to another retailer or may have difficulty in paying their bills. The approach to customer engagement shouldn't be prescriptive. Retailers are unlikely to innovate and tailor their approach to individual customer groups if requirements are imposed in this area.

Any new restrictions on the ways or timeframes in which retailers and customer communicate about tariff changes would add to the current burden of regulatory obligations. We also wouldn't like to see any extra timing requirements on retailers to publish prices earlier for customers as this would bring forward the timing of setting prices for retailers and would cut into the time that we would have gained by having network tariffs approved earlier.

2. More time to update tariffs in internal & external systems

Retailers have many times the number of tariffs that distribution companies do and so it's an entirely different matter for retailers (and the external partners who may support our mail house and various sales channels) to update their tariffs in a very short space of time. Network tariffs are also used by retailers to validate network invoices, meaning that network tariffs also have to be updated in systems prior to their effective date.

Table 1 shows the greater number of tariffs needing to be maintained by retailers compared to distributors; outlining how these differences arise from the average number of products and retail tariff types supported per zone for a typical retailer. Numbers are indicative only as there are various ways of defining what an 'individual tariff' is. Note also that Victorian reprices generally occur in January, so the number of tariffs to be updated at any one reprice is usually around half of what is shown below.

Table 1: Comparison of the number of tariffs to be updated annually for typical retailers and distributors in NEM States⁴

Average:	Electricity		Gas	
	Retail	Network	Retail	Network
Number of zones	11	11	16	16
Number of products per zone	5	-	5	-
Number of tariff types per zone	6	28	2	2
Number of individual tariffs	330	308	160	32

Total number of retail tariffs	490
Total number of network tariffs	340

Total tariffs to be updated by a typical retailer = 830

(selling both gas and electricity in NEM states)

Number of tariffs to be updated by a typical electricity distributor = 28

Number of tariffs to be updated by a typical gas distributor = 2

In addition to network tariffs, distributors also update their excluded service and metering charges of which there are approximately 620 commonly used in NEM states (approx. 440 for electricity and 180 for gas). This also places a much greater burden on retailers to maintain all across the country compared to a distributor who only has to update charges for their own network area or areas.

Updating all retail tariffs in retailers' systems as well as all national distribution tariffs and excluded service changes in a very short timeframe at every reprice can result in delays and errors, and extra expense to compress all this activity into a very short period. It can impede other IT and marketing activity for a period of time, which may limit customer offers and service levels for a time.

The addition or reduction of tariff components (i.e. structure changes) or the creation of new tariffs add further difficulties to updating systems in a short period of time (see section 4 below).

3. More able to comply with retail regulatory obligations

There are a large number of regulatory publication requirements for retailers (for price/product listings and comparators) and these usually differ by state. All retail tariffs must be updated in specific formats per state and comply with regulatory timeframes.

⁴ Excludes gas in QLD. Tariff type refers to the different tariffs used for different metering configurations across both business and residential customers – e.g. peak anytime, peak/off peak 8 hr hot water heating, time of use 5 day tariff, etc., the total of 6 equates to there being (conservatively) three 3 business and 3 residential tariff types per zone on average. All approximations are made on the conservative side - when older products, campaign pricing, and the configuration flexibility of some retailer's systems are taken into account, the number of tariffs can be far greater.

- Online regulator comparators
- Price and product information statements
- Newspaper tariff notices
- Gazetted tariff notices
- Timing requirements around customer communications

On a separate topic, it would also be beneficial to streamline these regulatory obligations as much as possible across states. This would free up more time in the retail price setting process and reduce the possibility of errors and non-compliance. When all states bring in the National Energy Consumer Framework (NECF), we will then have moved some way toward streamlining these requirements. However, more could still be done to align or reduce obligations around state regulator comparator tools and customer communications.

4. Improved ability to accommodate unexpected or significant changes in network tariffs

All of the situations below cause extra pressure in the retail price setting process and the proposed network tariff timing changes would enable us to deal more effectively with these situations when they arise.

Errors, late updates and appeals

Final approved network tariffs may differ in level and structure to the draft tariffs, and we commonly experience errors in network tariff publications, revised final network tariffs and appeals to the final network tariff decision. For example, in 2011 in South Australia, ETSA appealed the decision of the AER on their electricity network tariffs.⁵ Although the final decision was published on the 3rd June 2011 with tariffs commencing from the 1st July, the late change in approach resulted in regulated retail tariffs being made effective on the 1st August.⁶

Rebalancing & tariff reassignment

When components of any particular network tariff are altered separately from each other rather than being adjusted by a set percentage (a process we call 'rebalancing') it is usually important for us to follow suit to some degree when setting our retail tariffs. The same effect is also seen when distributors introduce (or remove) an extra tariff threshold as Ausgrid did for their Residential Inclining Block Tariff this year.⁷

A significantly rebalanced retail tariff can lead to dramatic percentage changes across our customer base. Depending on usage profile and level of usage, some customers may see a decrease and others may see a large increase. Identifying and moderating these impacts can take time compared to a straightforward tariff change. The analysis done to assess significant tariff structure changes also provides useful information that can be used to answer customer enquiries about the tariff change. Therefore, it's important that retailers have adequate time to do these assessments and understand the impacts to customers.

New tariffs

At times, distributors propose new tariff structures that are not easy to build in our systems at short notice. Notification of these new tariffs may come in the draft or final network tariff proposals only a month or two before they commence. One recent example was the new SP AusNet smart meter tariffs introduced in Victoria in January 2010.

The addition of new tariffs that contain components such as demand charges or seasonality usage components can be very challenging if there has not been enough

⁵ AER, Approved ETSA Utilities' Annual Pricing Proposal 2011/12, <http://www.aer.gov.au/node/8817>

⁶ The South Australian Government Gazette, 14th July 2011, page 1.

⁷ Ausgrid, Network price list 2012 – 2013, <http://www.ausgrid.com.au/Common/Our-network/Network-prices/Price-lists-and-policy.aspx>

prior consultation on the tariff design, meter data handling, calculation rules, impacted customer groups and the timing or manner in which customers will be transitioned from their existing to the new tariff. Creating a new tariff takes considerably longer in system configuration and testing than updating an existing tariff. To rush this is to risk inaccurately quoting or billing customers.

Part of the issue with network tariffs being rebalanced, reassigned or new tariffs being created is that under the National Electricity Rules (s6.18) there is little that the AER or distributors need to do in the way of assessing the flow on impact of changes to customers. As network tariffs make up a substantial portion of a customer's bills, the short timing, lack of consideration of customer impacts and explanation of these changes required by the NER can really hinder retailers in fully assessing and communicating tariff change information to customers.

Consultation over network prices

Consultation between distributors and customers on pricing is inherently difficult. It's also hard to encourage customer interest and understanding of retail pricing.

The current distributor pricing trends documents are of limited value to retailers as the forward-looking information they contain is usually not accurate for our purposes. Network companies appear to have a different approach to what content they provide in these expected price trends statements. Some companies only restate the price path information with an estimate of CPI for each year; some provide a percentage increase per year by network tariff but for the distribution use of system (DUOS) components only; and for others it can be difficult to find any mention of price trends in any but the current year. Distributors may not have a great deal of visibility over transmission pricing movements nor be able to predict what approach the AER will take in approving their proposal.

We expect these documents would be of even less use to customers. Many customers wouldn't know which network tariff they are on or be able to understand the industry jargon used.

If distributors were to consult more with customers, then they would only be able to make broad statements about what their pricing allows retailers to offer. For example, even though a distributor may have placed the customer on a time of use or peak/off peak tariff, retailers are not obliged to offer a retail tariff with the same structure and may offer the customer a flat tariff.

In our view, the best way to encourage customers to understand pricing trends that affect them is to make network pricing data and trend information more readily available to retailers and bring forward the timing of the publishing of draft network tariffs and approval of these by the AER.

We'd like to see distributors and possibly the AER engaging more with retailers before and during the network price setting process. Some distributors (e.g. Ausgrid, Jemena, Multinet and others) have an annual forum for interested groups to discuss upcoming network price changes. These are useful but if done too late in the process there is a risk that the timing would clash or it wouldn't be impossible to attend all of them. Retailers so informally seek information about draft network tariffs but the information provided is not always reliable.

Therefore, we support there being more requirements on network companies to signal their intentions to retailers 3-4 months prior to the tariff changes effective date on the following:

- new tariffs – including calculation rules, structure details, approximate price level, applicability and method/timing of use with customers
- tariff reassignments affecting more than 5% of any tariff group
- structure changes to existing tariffs – including structure details, approximate price level
- deviation from the price path

Summary

We strongly support the proposal to have changes made to the timings of approval of distribution and transmission tariffs to bring forward the date of approval.

Suitable timeframes for any network tariff setting event (whether the need to change network tariffs arises from the usual annual process, an appeal, or cost pass through application) would entail:

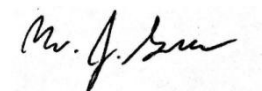
- network tariffs being submitted by distributors to the AER at least three months ahead of the network tariff effective date (the proposal to be publicly available on the AER's website as per the current process); and
- final network tariffs (and other distributor charges such as excluded service and metering charges) being published at least two months ahead of the effective date.

This would create a longer period between network tariff approval and the effective date of these tariffs and enable retailers more than the 15-20 business days we currently have to understand and set our retail tariffs and be able to explain the changes to customers. Network tariffs make up around 35-50% of the total retail price and we typically only change retail prices annually so it's very important to us to get this right. To have more time in setting retail prices will allow us to provide better levels of service to customers in tailoring products, pricing and information.

Whilst the steps to be taken to enable network tariff approvals to be brought forward differ between electricity and gas, we support the changes being made for both fuels. We understand that these changes would bring some changes to regulatory timeframes for distribution and transmission businesses and the AER, but believe these won't create any significant ongoing burden. The adjustment process to move from where we are today to ensuring longer periods between network tariff approval and effective dates is worthwhile in the ongoing benefits it will bring to customers.

If you have any questions on this submission, please call me on (03) 8628 1242.

Yours sincerely



Melinda Green
Regulatory Manager - Pricing
TRUenergy



31 August 2012

Anna Brakey
Program Manager - Energy Retail
Annual network pricing rule change proposal
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Ms Brakey

RE: IPART Rule change proposal on network pricing

Origin appreciates the opportunity to comment on IPART's proposed rule change relating to network price notifications. We commend IPART's initiative in this area and consider it to be of significant importance to retailers and energy consumers.

Retail price deregulation has progressed at varying rates in different jurisdictions, but retail prices are generally becoming more cost-reflective. It is a quirk of the NER as they have evolved that retailers (and their customers) carry the risk associated with delays in the distribution price setting process. Network revenue is a major input to retail prices, with the network component frequently representing between 40 and 50 percent of a retail price. As a result, the price setting process creates considerable challenges for retailers, as they must increase prices to reflect changes in network tariffs or risk making significant losses. Retailers must also understand changes to network tariffs and the structure of network tariffs when formulating retail prices. Yet in many cases retailers do not receive notice of network prices until a matter of days before they must provide notification of their retail prices under jurisdictional requirements.

We do not believe the current pricing approval process to be in the interests of customers. When retailers are forced to base final retail prices on draft distribution prices it is more likely they will look to incorporate pricing risk, which over time may lead to an upward bias in prices and, in many cases, to less innovative pricing offerings. Equally, in situations where the increases in the regulated retail prices need to be amended a month after the network price becomes effective, to recover an unforeseen increase in network prices, 12 months of increased network revenue is recovered over 11 months, leading to larger step price increase for customers than would otherwise be necessary. Also, current settings restrict the extent to which retailers can engage with their customers on prices ahead of when they apply.

As such, we support:

- Amendments to the checks and balances that govern the formulation of network prices, as the current rules do not consistently promote the intent of the final decisions;
- Consultation with retailers on network prices, facilitated by the AER, before network prices are made final;
- A binding obligation on networks to release their final prices in all years (including the first year of the regulatory period) at a minimum 8 full weeks

prior to when these apply and also at least 2 full weeks from the earliest state-based requirement for consultation on retail prices.

- More prescriptive requirements in relation to the network pricing trends document and a requirement to keep this up to date in relation to forthcoming changes such as structural changes, the impacts of unders-and-overs and Tribunal outcomes.

We provide more detail on each of these points below.

Rules governing formulation of network prices

Discrepancies between the X factor and final prices arise due to re-balancing and because there are elements in the price formula other than the X factor. While these additional elements are legitimate and recognised in the price formula, retailers can rarely gauge the quantum of their impact. A primary example is the carryover from previous periods, the quantum of which is typically not made public in advance (the details are frequently contained in confidential appendices), nor is the carryover limited to the first year of the revenue period.

Once revenues are determined, price control rules also create considerable discretion for distribution networks to modify their revenue in ways that may not be consistent with the National Electricity Objective. Specifically:

- Clause 6.18.15(a) of the NER requires that networks show that expected revenue lies between the “stand alone” and “avoidable cost”. These are economic concepts that would never be breached in the course of normal business. This concept places no practical limits on a distribution network’s revenue as proposed in its price proposal.
- Clause 6.18.15(b) requires a DNSP to prove that each charging component reflects long-run marginal cost (LRMC). This is not a practical way to assess whether a price is prudent or reflects cost. Expenditure decisions are more likely to be made at the level of a tariff class than at tariff level, and assessing LRMC at the level of the tariff class would create more scope to assess whether tariffs are prudent.

Furthermore, there are features in the rules that exacerbate the discrepancies between the change as expressed in the weighted average price control formula and the final price outcomes. These include:

- Side constraints: the side constraint is applied to a tariff class (a group of tariff lines) and is less binding on individual tariff lines when each class represents a larger pool of revenue. A tariff that is an outlier in a large class can be increased significantly above the average for that class. Thus, having fewer and larger tariff classes minimises the impact of the two percent constraint. In our view the rules give distribution networks too much discretion to allocate tariffs and customers to tariff classes and thereby to maximise the size of each class. The rules should require that a customer be assigned to a tariff class based on all three of the criteria in the NER (cl.6.18.6), rather than any of those criteria, as is now the case. This will make the side constraint rule more effective.
- Appendix J of the NSW distribution network revenue decision allows for networks to take into account transfers that happen during the pricing year and to be compensated where these will lead to a reduction in revenue. The AER does not apply sufficient scrutiny ex post to statements networks make about the number of customers transferring and the volume implications of these, with the result that networks may over-recover revenue. The rules should require the AER to give close attention to circumstances where there may be double counting of

tariff transfers or nominations of tariff transfers that never occurred, or where volumes are understated.

- Discrepancies also arise at the level of individual tariffs, where rebalancing occurs. The AER has interpreted the NER in such a way that rebalancing constraints cannot apply in the first year of a revenue determination, which means changes in network tariffs are most unpredictable in that year. Equally, while the National Gas Rules (NGR) do not address side constraints, the AER has determined it will adopt the same approach in gas as in electricity. (As an example from the NGR, in July 2011 Envestra increased their supply charge in Queensland by 52 percent, implying a very significant change in the structure in the structure of fixed costs. Retailers cannot anticipate rebalancing on this scale.)

In the context of a rule-change proposal relating to the price making process we see it as appropriate that these short-comings in the rules be addressed, since these weaknesses in the price setting framework directly affect consumers on tariffs less representative of the intent of the AER's final decisions.

Consultation on network prices

Origin believes there is a strong case for consultation with retailers on network prices. Innovative network tariffs are of limited value if retailers cannot apply the intended structures, and in the past networks have structured tariffs in ways that major retailers were unable to bill. The AER cannot be aware of obstacles to effective pricing that arise at the interface of network and retail prices unless retailers have an opportunity to provide feedback on pricing proposals.

We also see value in networks consulting with their customer consultative committees and large users on their proposed prices. Conversely, we see little value in direct consultation on network tariffs with small retail customers. Presenting the bundled price to customers in a way customers find meaningful, and providing helpful information on the implications of the different components of the retail price, are retail functions. A retailer that succeeds in this will maintain and grow its customer base. Australian retail energy markets are intensely competitive and pressure is growing for retailers to engage with their customers more effectively as the market becomes more customer-oriented and spending on energy increases as a proportion of household budgets.

Timing for release of final network prices

Better and timelier knowledge of network prices should allow retailers to communicate with customers ahead of time about their retail tariffs. The current requirement for networks to release prices is a "best endeavours" obligation.¹ This is unworkable from Origin's point of view as the requirement to release has been met very rarely in practice. It is of crucial importance that the obligation on networks to release their final prices be a binding obligation. To the extent that other requirements on transmission networks and the AER must be changed to ensure that a binding obligation can reasonably be fulfilled, these changes should be made.

We believe an adequate time for retailers to integrate and act on network prices is eight weeks. In the event that retailers had eight weeks notice of network prices they could

¹ NER, cl.6.18.9(b)

consider more pro-active communication with customers about upcoming changes in their retail tariffs, ahead of notifications made in line with regulatory obligations at state level. The deadlines for preceding elements in the process - approval of the transmission pricing methodology, the distribution network submitting its pricing proposal to the AER, consultation on network pricing, and the AER determining whether changes are required - would need to be made earlier in order to accommodate the eight week timeline. If requirements at state level were to change dramatically, such that any more than six weeks advance notice of retail prices was required in any jurisdiction, then evidently the eight week advance notice requirement for network prices would need to be revisited. The rule could require the AER to revisit this in the event of a significant change in requirements at the level of jurisdictions, given the important relationship between these dates.

The rules governing notification of prices for gas distribution sit within the access arrangement framework and gas price notification also presents challenges for Origin. We would support a rule change that introduced more prescriptive requirements into the gas rules covering the release of gas network prices and will also raise this in relation to our submissions on gas access determinations.

We are not aware of any significant costs or drawbacks to retailers or networks from introducing a requirement for consultation on network prices and a binding obligation for distribution networks to release final network prices. Key inputs into setting network prices, such as forecast consumption volumes, would rarely (if ever) change dramatically in the space of two to four weeks. For network operators working under a revenue cap we see any small increase in volatility that might arise in the unders and overs account as acceptable, in return for timely and reliable notification of final network prices. Any small increase in volatility would be even less of a concern if changes were also made so that network pricing planning documents were kept up to date in relation to factors such as the impact of unders and overs on future price trajectories.

In relation to the first year of a regulatory period we support changing the review process so that it concludes earlier, allowing sufficient time for final prices to be available to retailers eight weeks ahead of when they apply. We also support amending the rules so that side constraints apply in the first year of the regulatory period (whereas the AER has interpreted the current rules such that these do not apply in the first year).

Network pricing planning documents

The network pricing planning documents are of some use but we agree that the requirements for information should be made more prescriptive, so that distribution businesses:

- Keep the statements up to date, including noting all new elements that will contribute to future price changes as they become aware of these (including but not limited to carry-overs, pass throughs, tribunal decisions);
- Consult on major proposed changes to structure in an on-going way.

We see maintaining an up-to-date pricing planning document as separate from the yearly process of consultation that ought to occur on network prices.

Should you have any questions in relation to this submission please contact me in the first instance.

Yours sincerely

[SIGNED]

Steven Macmillan
Regulatory Manager

From: Anna Brakey [mailto:Anna_Brakey@ipart.nsw.gov.au]
Sent: Tuesday, September 04, 2012 9:57 AM
To: roman.domanski@euaa.com.au
Subject: network price change proposal

Dear Roman,

Following from yesterday's conversation, I wanted to confirm with you that the EUAA generally supports IPART's Rule change proposal to set network prices earlier annually and with greater consultation with customer groups and retailers, as long as it does not lead to a material increase in the volatility of transmission prices.

Is this correct? I will send you our proposed Rule changes once the Tribunal has considered the consultation to date and prior to submitting our Rule change proposal, for your comment.

Kind regards

From: Roman Domanski (Optus) [<mailto:romandomanski@optusnet.com.au>]
Sent: Wednesday, 5 September 2012 11:13 PM
To: Anna Brakey
Subject: RE: network price change proposal

Hi Anna

This is basically correct with the following provisos:

- That the time the AER allows for consultation is not diminished (if it were we may need to reconsider our position).
- That the extended time leads to customers being given greater notice of tariff changes.

Notwithstanding your rule change proposal we would like additional safeguards to customers including:

- A requirement for the regulator and the networks to consult with customers about the tariff implications of their proposals, revised proposals and the draft decision.
- Greater involvement of customers in the tariff setting phase.

Regards and thanks for getting in touch re this.

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