



16 October 2014

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged online: www.aemc.gov.au

Dear Mr Pierce,

Draft Rule determination – Distribution Networking Pricing Arrangements (ERC0161)

Origin Energy (Origin) welcomes this opportunity to respond to the Australian Energy Market Commission's (the Commission) draft Rule determination on distribution network pricing arrangements.

Timing for DNSP pricing proposals

Origin supports splitting the process for approving network prices into two stages as this will offer significant scope to improve the notification of network tariffs for the annual pricing proposals.

The proposed framework will result in approved prices being published no later than 6 weeks before they take effect. Origin considers that while this is an improvement over the current framework it should be considered the bare minimum timeframe for retailers to develop products and prices and to integrate these into their systems, especially in Victoria which has an annual commencement date of 1 January.

With respect to this timing, Origin requests confirmation that the obligation for the AER to approve an annual pricing proposal within 30 business days is a fixed requirement that will not be reduced in the event the AER requires a DNSP to resubmit their pricing proposal under clause 6.18.8(b)(1) of the National Electricity Rules (NER).

Origin considers the final Rule should also include a prescribed approval timeframe for a DNSP's initial pricing proposal. The draft Rule requirement for the AER to approve an initial pricing proposal as soon as practicable offers retailers minimal improvement over the existing arrangements.

Under the proposed framework, DNSPs will be required to lodge a Tariff Structure Statement (TSS) in conjunction with their regulatory proposal (17 months before the expiry of the existing determination). The TSS will be subject to the same level of consultation and assessment as a regulatory proposal.

As a result, a DNSP's tariff structures, methodology for calculating tariffs and indicative tariffs will have already been subject to extensive scrutiny by the time the AER makes its final determination. Therefore, the initial pricing proposal should be largely complete and the effort required by a DNSP to update its tariffs to reflect the AER's final decision on the approved revenue allowance relatively straightforward.

Equally, given the TSS will have already been subject to rigorous assessment through the determination process, the approval of the initial pricing proposal by the AER should be a relatively straightforward process that tests compliance with the approved revenue allowance.

Therefore, Origin considers a workable timeframe would be for:

- a DNSP to lodge its initial pricing proposal within 15 business days after the publication of the distribution determination; and
- the AER to approve the initial pricing proposal within 10 business days from the date the DNSP lodges its initial pricing proposal.

This, in turn, would provide retailers with approximately 3 weeks to develop competitive retail products and, where necessary, make changes to billing systems.

Timely notification in the initial year of a new determination period is particularly important given prices in the first year set the trajectory for the next four years. Providing customers with the opportunity to understand changes to their charges and to plan and make efficient consumption and investment decisions stems from having access to timely information in each regulatory year, not just in years two to five.

Transitional arrangements

Origin recognises that most DNSPs will have commenced their next regulatory determination process by the time the Commission's final Rule is made, likely to be in November 2014. Without transitional arrangements the new pricing arrangements would not take effect until 2019/20.

Origin agrees that phasing in or de-coupling the development of the TSS from the regulatory determination process for the first regulatory control period delivers greater benefit compared to delaying the implementation of these reforms until the next reset period. Origin supports the proposed time frame of seven months for DNSPs to develop their initial TSS and to lodge these with the AER by 30 June 2015.

At the Commission's public forum in September 2014, some stakeholders raised concerns with this transitional implementation timeframe, particularly when factoring in the required customer consultation stages. Origin's view is development and customer consultation on the core TSS content could commence before the publication of the Commission's final Rule determination. A Savings and Transitional provision could provide recognition of DNSP consultation undertaken prior to the commencement of the final Rule, with some conditions on refreshing any details subject to differences between the draft and final Rule. DNSPs should always be engaging with retailers on possible tariff structures so the process of consultation should be well progressed. Finding a way to acknowledge consultation undertaken in line with the draft Rule could help address some of this concern.

With respect to the AER's workload, the step up in activity is a transitional challenge, not an ongoing one. As such, we would encourage the AER to start resourcing its teams with the necessary skills and personnel to manage the final Rule's implementation in a timely manner. The consideration for the Commission is the trade off between a short term labour cost for the AER compared to the deferred benefit for electricity consumers of getting greater transparency around distribution tariffs and pricing.

In addition, Origin considers that there are no impediments to the DNSPs adopting the proposed timeframes for the approval of annual pricing proposals prior to the completion of their TSS, particularly for the NSW/ACT businesses. As illustrated in Appendix A, the proposed implementation timeframe for the TSS and annual pricing processes for NSW and the ACT is almost two years (23

months). Bringing forward the submission of the annual pricing proposal in 2015 would at least allow greater transparency for prices for FY16.

This additional transition would require the DNSP submitting their annual pricing proposals 3 months before the commencement of the second and subsequent regulatory years. In addition, the AER would also be required to publish an approved pricing proposal within 30 days from the date of submission.

Providing networks tariffs with sufficient advance notice will provide retailers with a better ability to pass on network pricing signals that can be understood and responded to by consumers.

Consultation

Origin agrees that the DNSPs will need to use different consultation practices to target different stakeholder groups and for this reason it is appropriate that DNSPs have the flexibility to determine the nature and level of consultation.

In providing DNSPs with this flexibility, it is also necessary to recognise that the NER are not prescriptive about consumer engagement, and the AER's Consumer Engagement Guidelines for Network Service Providers is not binding.

Therefore, it is incumbent on the AER to provide stakeholders with confidence that the DNSPs will be held to account to the extent that their stakeholder engagement does not reflect the expectation of stakeholders and that the AER has the power to act against any unacceptable shortcomings.

Sending efficient network pricing signals to customers

The Commission's draft Rule does not specify the method for calculating LRMC. This provides DNSPs with the flexibility to implement LRMC based network tariffs in the way that best suits their network characteristics.

Similarly, the draft Rule also allows DNSPs to recover the difference between LRMC based tariffs and total efficient costs in a way that minimises distortions to consumers' usage decisions.

Origin reiterates the point that it is important that for efficient network pricing signals to be effective, consumers must be able to relate their usage decisions to the tariff structure and be able to decide whether to respond to the signals sent by those tariffs. This requires DNSPs to take into account more than just the efficiency properties of their network tariffs. For example, there is little benefit in sending consumer price signals about the costs of their usage decisions if consumers cannot relate their usage decisions to the price structures and respond to those signals.

Therefore, the types and range of network tariff structures adopted should reflect consumers' understanding and acceptance of complexity so that consumers can participate effectively in the market.

Similarly, it is imperative that retailers have confidence that a DNSP's approach to tariff development will provide certainty and consistency in tariff structures over time and across networks. This is critical to allow retailers confidence to invest in and promote products linked to DNSP pricing. This will not be possible if DNSPs continually change their approach from year to year.

For this reason, Origin considers that small customer network tariff structures should be consistent across the National Electricity Market to support efficient systems and operational procedures for retailers, markets, and network businesses. This will incentivise retailers to develop retail tariff

structures that appropriately reflect network tariff structures and to pass on network pricing signals with confidence in their continuity so that they can be understood and responded to by consumers.

Closing

Origin would be pleased to discuss any matters raised within this response further with the Commission. Please contact Sean Greenup in the first instance on (07) 3867 0620.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'K. Robertson', is centered within a light gray rectangular box.

Keith Robertson
Manager, Wholesale and Retail Regulatory Policy



Appendix A - Implementation of draft distribution Pricing rules

