

4 July 2013

The Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Electronic submission: lodged online via www.aemc.gov.au

Dear Sir/Madam

RE: Consultation Paper: National Electricity Amendment (Annual Network Pricing Arrangements) Rule 2013

Momentum Energy welcomes the opportunity to provide comments on the National Electricity Amendment (Annual Network Pricing Arrangements) Rule 2013 Consultation Paper (the Consultation Paper).

Momentum Energy is a second tier retailer with current retail electricity licences in Victoria, New South Wales, South Australia, Queensland and the Australian Capital Territory. Momentum Energy is fully owned by Hydro Tasmania, one of the largest clean energy producers in Australia.

Summary

Momentum Energy supports the rule change proposed by the Independent Pricing and Regulatory Tribunal (IPART). Momentum's position is as follows:

1. The National Electricity Rules (NER) should specify a minimum period between approval/notification of final annual network tariffs and their effective date;
2. IPART's proposed timeline, whereby transmission businesses would be required to finalise their prices two months earlier than they currently do and distribution businesses would be required to submit their pricing proposals to the Australian Energy Regulator (AER) one month earlier than they currently do, is appropriate;
3. The AER should be required to approve a distribution business's annual network pricing proposal within a month of its submission, and, to facilitate this, any disadvantage stemming from inadequate provision of information in a distribution business's proposal to the AER should be borne by the distribution business;
4. Distribution businesses should be required to share more information with retailers, as part of an ongoing process of consultation regarding changes to network tariffs, and IPART's proposal that the AER develop relevant guidelines is appropriate; and
5. The statement of expected pricing trends should be standardised and made more comprehensive, in order to increase certainty and reduce retail pricing risk for the benefit of retailers and consumers.

Momentum believes that the making of this rule change would be consistent with the National Energy Objective (NEO). Specifically, the efficient operation and use of electricity services for the long term interests

of consumers of electricity with respect to price would be enhanced. This is because implementation of this rule change would alleviate the upward impact on retail prices resulting from delayed finalisation of network prices and the concomitant uncertainty and risk that retailers must cover in their pricing.

Benefits to consumers

Network tariffs are a key component of retail price setting (approximately 35-50% of retail electricity bills for small customers). It is a common and appropriate practice for retailers to implement changes to retail price levels and/or structure at the same time as new network tariffs come into effect. As a consequence, retailers closely monitor network tariff processes.

Retail business and their customers have long suffered the consequences of network determinations being finalised very close to the commencement of new tariffs taking effect. Distribution businesses face, under section 6.18.9(b) of the NER, a within 20 days before commencement and only 'if practicable' requirement for publishing network prices, while there is currently no requirement on the AER to approve prices within a specified timeframe.

Currently, the date of finalisation of distribution businesses' annual network tariffs is sometimes significantly less than a month before the date these take effect. When distribution businesses finalise their network tariffs a matter of weeks before those network tariffs will take effect – commonly around the end of May or November – this gives retailers insufficient time to analyse the implications of the price changes, make the necessary system changes so they are able to quote and bill customers, update pricing websites and fact sheets and provide customers with sufficient notice of such changes as outlined in their contracts.

Where final network tariffs diverge from the draft determination in price and/or structure, that pressure is exacerbated. This situation is strained further in jurisdictions with regulated pricing because retailers have regard to regulated prices in developing their market offers. And this situation is even more tight for retailers in jurisdictions subject to the National Energy Retail Rules, under which retailers (1) must publish standing offer price variations at least 10 days before they come into effect (eg by 21 June of the relevant year) and (2) cannot vary a standing offer price more than once every six months. Most often in markets where the Standing Offer is not regulated, retailers either have to take a risk that the final prices are more or less in line with the draft determination or alternatively delay the variation of their prices at significant cost. Unfortunately, where a distribution business's final price determination is delayed, no equivalent delay is applied to the date the distribution business begins to invoice the retailer the new network charges.

If this rule change is not approved, retailers, customers and regulators will continue to face annual network pricing arrangements that do not provide certainty or predictability. This situation leads to consumers receiving late notification of price changes and it works against cost reflective retail pricing, reducing the extent to which the relevant electricity market is efficient and competitive.

Conversely, competition within retail electricity markets is enhanced by retailers having appropriate time to build their pricing of their market offers. A new requirement that annual network prices be approved and notified two months prior to taking effect would provide appropriate time. In setting a retail price, a retailer necessarily manages (and prices) uncertainty and risk as to cost changes during the life of the retail price. This rule change proposal provides an opportunity for there to be less uncertainty attached to a significant component of any customer's bill and a growing cost that retailers must cover in setting a retail price. Such a positive impact on the cost reflectiveness of the prices faced by consumers would be consistent with the NEO.

While a delay to when customers are notified of a price change is unlikely to lessen the acute sensitivity within the community about rising energy prices, having additional time would at least provide retailers, distribution businesses and regulators with additional time to better explain what is driving the increases.

A further consideration is that business electricity consumers, whether they are large or small, need visibility on electricity prices as soon as possible for the purpose of budgeting for the imminent financial year.

Objections to the rule change

While it is understandable that, because NEM electricity distribution businesses have significant risks to manage, they wish to maximise the amount of time they have at their disposal between the date they receive transmission pricing and the date they finalise their annual network tariffs, the following considerations should be kept in mind while assessing this rule change request.

Firstly, if a final network tariff turns out to be insufficient for a distribution business to recover its allowed revenue in respect of the particular network, that distribution business is able to recover the shortfall in the following period.

Secondly, the concern that the AER could be left with insufficient time to properly assess and approve a distribution business's network pricing proposal as a result of a need to seek further information from the distribution business because that distribution business's original proposal did not include required information should be dealt with by adjusting the regulatory regime such that the party that suffers disadvantage in such a situation is the distribution business that caused the situation, not the AER and not the relevant retailers. Distribution businesses ought not to need an iterative process with the AER – they should meet relevant deadlines and do so with comprehensive information that allows the AER to make determinations without having to seek further information. Momentum recognises that there may from time to time be a need to provide the AER with some additional flexibility when making distribution determinations due to their complexity, however a 'best endeavours' approach would have no regard for the implications of the late finalisation of new distribution tariffs for retailers or customers.

Thirdly, a situation where a transmission business holds up the process by providing inadequate information to the AER such that the AER must obtain further information from the transmission business in order to make its determination should be dealt with in the same manner. Again, iterative processes with the AER ought not to be required. If they suffer costs from failing to do so, transmission and distribution businesses will be more likely to submit comprehensive proposals first up, leading to a lessening of the regulatory burden on retailers, a more orderly process for regulators and a more predictable regulatory environment.

Consultation on development of network prices

Momentum supports IPART's proposal that the AER be required to develop guidelines that outline how distribution businesses should consult with retailers and consumers in developing their network prices and their statement of expected price trends. Such a guideline would need to align with the AER's final Consumer engagement guideline for network service providers, which is currently in draft form.

Momentum agrees with the submission of the Energy Retailers Association of Australia that the statement of expected pricing trends should be published in a standard format and made more comprehensive, in order to reduce retail pricing risk for the benefit of retailers and consumers. This would be as a separate document on each distribution business's website, containing more information on pricing strategy, rebalancing approach

and planned changes to tariffs (eg introduction of new tariffs, tariff closures, changes to tariff structures, etc).

If you would like to discuss this submission or any other matter, please contact Momentum's Regulatory Manager Luke Brown on (03) 8612 6437 or luke.brown@momentum.com.au.

Yours sincerely

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