



4 July 2013

Australian Energy Market Commission  
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Dear Zaeen,

**Re: Lodge electronically-ERC0149**

United Energy (UE) appreciates the opportunity to respond on the IPART rule change proposal seeking changes to how the annual electricity network prices are approved and notified. Based on the consultation paper, UE understand that the proposal will be applied across the NEM and is proposing that:

- TNSPs finalise their pricing two months earlier;
- DNSPs finalise their pricing proposal 1 month earlier, bringing the Victorian distributors proposal to a 1 October submission date (as opposed to 31 October);
- The AER approve the DNSP pricing proposals within 20 business days, ie by 1 November (as opposed to around mid December); and
- Allowing two months for IPART to establish retail prices in NSW or allowing two months for Victorian retailers to have final network prices (DUOS and TUOS) for input into retail standing offers for gazettal in Victoria one month before the retail prices take effect.

UE have provided a response to each of the questions in the Attachment. In summary, UE are not opposed to the rule change proposal subject to the annual tariff proposal being revised for actual CPI for the September quarter by UE, with any further rebalancing also being undertaken. UE do have some reservations on the value of an earlier proposal followed by a revised proposal and the potential for confusion.

The timing of the initial pricing proposal and the AER approval timeframe will need to be carefully managed to ensure that the revision process can be accurately managed if the 1 November approval date by the AER is maintained.

UE consider that there are significant changes in the regulatory framework which are already reviewing and providing guidance on consultation processes. These arrangements should be progressed first before adding any further administrative processes.

Should you have any questions in relation to this response please do not hesitate to call (03) 8846 9856.

Yours sincerely

Verity Watson  
Manager Regulatory Strategy

## Attachment

### **Question 1 Is the assessment framework presented in this consultation paper appropriate for assessing this rule change request?**

The AEMC assessment framework proposes the following criteria:

- Promotes efficient allocation of risks;
- Provides appropriate stakeholder engagement;
- Minimises undue regulatory burden; and
- Provides predictability and stability in the regulatory framework and outcomes.

The AEMC will be considering whether the proposed rule

- promotes efficient allocation of risks between DNSPs, TNSP, retailers, consumers and the AER;
- consultation on development of the network prices will result in better pricing outcomes for stakeholders;
- the additional regulatory burden or administrative costs are minimised and proportionate to the expected benefits; and
- the degree to which the changes support predictable and stable outcomes for all stakeholders.

UE does not disagree with the proposed framework and criteria being considered from each of the financially impacted stakeholders perspectives– TNSP, DNSP, retailers and consumers. Any assessment also needs to consider the differences between jurisdictions in relation to private vs public ownership and the challenges faced by DNSP's on price cap vs revenue cap.

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

UE broadly agree with the inputs outlined by the AEMC:

September quarter CPI is only available around 20-25 October for input into the annual pricing proposal. This allows DNSPs in Victoria about a week to finalise pricing proposals, gain internal management sign off and provide to the AER and retailers by 31 October.

Other key inputs are available in the RIN which is available by April, transmission charges are available in May.

If the annual pricing submission were due by 30 September, then estimated CPI data would need to be used and 4 weeks later a revised version of the pricing proposal would be required using actual CPI data. This revised submission may be able to be limited to an update of tables and network tariffs rates, although tariff rebalancing may also be required to ensure compliance with the price controls. Using a different CPI value would be inconsistent with the price control mechanisms in place for UE. There are also consequences for the RAB roll forward processes which affect the value of UE's assets, rolling forward the RAB indexed on estimated inflation would not be appropriate or consistent with the NER. UE also consider the provision of multiple sets of data may be confusing for consumers and retailers. The licence fees paid by UE for services undertaken by the ESC are also not available until September/October in line with the current timing of the Victorian DNSPs annual tariff proposals. This may be able to be addressed by receipt of the ESC fees earlier if this were possible for the Victorian Treasury or by amending the L factor formula to cater for the time value of money and carrying the licences fees forward for recovery in the following year.

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

The UE Use of System Agreement (UOSA) provides that UE must notify all retailers of proposed tariff changes within 2 business days of advising the regulator and must also advise the retailers within 2 business days once the Regulator has approved the network tariffs. The UOSA also provides that retailers are provided at least 3 months notice of changes in network tariff structure. UE consults with retailers on tariff changes each year and where new tariffs structures are being considered advises retailers of the strategy and actively seeks retailers input commencing from forums in April-May through to the time that tariff rebalancing is being undertaken and the annual tariff submission is being prepared for submission on 31 October.

Victorian DNSPs operate under a price capped model which means that there is no unders/overs arrangement which can be used to true up estimated CPI data which is incorrect.

UE note that there are recommendations to move to retail price deregulation in electricity in other jurisdictions by 2015. IPART have requested this rule change proposal because their timing is squeezed for retail price setting in NSW. This IPART proposal shifts the time pressures experienced by IPART onto the AER.

Bringing forward the network pricing approvals is not the only option to address some of the retailers concerns. In Victoria if the AER were to approve the network pricing proposals in the 20 business days it may be beneficial, subject to adequate customer notification, allowing retailers to gazette prices 10-15 business days before they take effect rather than 20 business days. This could allow retailers to use the approved network tariffs in their retail cost build ups to develop retail tariffs as opposed to the proposed network tariffs. If the AER required reallocation of transmission costs or make other significant changes during their review process then this may be of benefit to ensure that retail tariffs are more appropriately set.

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

Bringing forward the annual tariff submission date may be confusing for retailers (and consumers) if a provisional submission was provided at the end of September and then refreshed once the actual CPI value becomes available near the end of October. Whether this extra month with a provisional pricing proposal and data was valuable to the AER or not remains to be seen. There may be benefit in waiting to see how beneficial this approach is in gas as there will be two submissions (initial and updated with CPI) from 2013 onwards in this GAAR period.

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

In Victoria, the AER will be receiving the gas pricing proposals 50 business days prior to the end of the regulatory year (where there are no new tariffs being proposed) so they are able to have more time to assess these proposals. Where there is a new tariff being proposed or a new tariff component then the gas pricing proposal needs to be provided 60 business days prior to the end of the regulatory year. The

AER has 30 business days to review these annual gas pricing proposals. If it is the same AER staff working on the electricity pricing proposals then possibly the extra month will be of minimal benefit.

UE agree with the AEMC's sentiments that the AER requires adequate time to assess each proposal individually and follow up issues with relevant DNSPs where necessary. Rather than a hard 20 business days or else approved, consideration could also be given to a best endeavours obligation to the AER to approve with a stop the clock where more information is required.

UE agree that the AER should have flexibility to undertake detailed review of the DNSP proposals that warrant further assessment of compliance. At the same time UE is also sympathetic to retailers needs for finalised network prices to establish retailer's prices and gazette. Both retailers and DNSPs need time to update websites and internal IT systems and to have the appropriate sign off processes to ensure that the tariffs are keyed in accurately.

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

It may be possible for the AER to approve tariff submissions where the review is fairly routine within the 20 business day period and cater for changes in tariff structure via a separate AER notification process.

**Question 7 How much time do retailers and jurisdictional regulators require for notification of network prices before finalising retail tariffs and notifying customers?**

UE considers that changes in network tariff structure are introduced with significantly more notice and consultation with retailers than is required under the UOSA. UE consider that the notification timeframes for the annual pricing proposal and network price increases and the network tariff structure changes should be treated differently. UE recognise that there are costs to implement new network tariff structures in billing systems, the lead times are quite different and retailers will face very similar issues. It should also be noted that IT system capability and actively offering new tariff structures can occur (or be delivered after) later than 1 January.

UE has no further comments.

**Question 8 Is the proposed notification of two months sufficient?**

UE consider that providing 2 months for retailers to finalise their retail prices and gazette the prices is extremely generous given that retailers have been notified of indicative network prices prior to the end of October submission and retailers also have a copy of the pricing proposal given to the AER at the end of October. UE recognise that retailers need some time to update approved network prices in their models to finalise their retail prices, although it is across 5 DNSP's this should be fairly routine.

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

UE understand that the AER Better Regulation Program is developing a Service Provider Engagement Guideline and is also considering the network tariff setting arrangements and consultation processes as part of its Power of Choice, Better Regulationworkstream. The AER have issued the Draft Service

Provider Engagement Guideline for consultation at the end of June 2013 with a view to making these new guidelines effective by the end of this year.

Whilst consumers may be interested in the extent of price increases and reasoning, changes in tariff structures etc, UE is conscious that small consumers may have limited knowledge of network tariffs per say and retailers are under no obligation to provide a consistent retail tariff structure as an overlay on the network tariff structure. Small consumers ultimately see the retail prices and may have limited understanding of their network tariff.

UE do not consider that this rule change proposal needs to also deal with these matters which are already being addressed through the AER work program.

#### **Question 10 How much scope would there be for consultation on proposed annual network prices?**

A number of items which impact prices are essentially a pass through of other costs or part of the control mechanism;

- annual price increases are based on CPI movements and X factors in the price control formula;
  - transmission use of system costs;
  - jurisdictional schemes for feed in tariffs;
  - approved cost pass throughs (retailer ROLR payments or Distributor pass throughs),
- with little scope to influence price increases.

As a result, consultation may be more beneficial in relation to network tariff structure.

#### **Question 11 How useful is the current statement of expected price trends to retailers and consumers?**

UE provides direction of price increases or decreases in its annual tariff submission and has never had any comments on the table.

#### **Question 12 What influences the statement of expected price trends?**

The cost of supply model or long run marginal costs influences the network tariff price increases or decreases. Possibly the best opportunity to influence the cost of supply, reliability, incentives trade offs is at the time of the 5 year regulatory review as opposed to the annual pricing proposals. UE expects to price its tariffs between the stand alone and avoided cost inter period.

#### **Question 13 Should a DNSP's approval of its annual prices be linked to how accurately it can track the statement?**

The statement is part of a 5 year proposal and will be dependent on the accuracy of energy consumed in the distribution area and the accuracy of the forecast profile of energy consumed across the day/year. UE consider that this statement is a guideline only and may be developed up to 7 years prior to the last pricing proposal in the regulatory control period. Influences of peak demand growth, solar uptake, other technology or product uptake etc (EV, battery storage, A/C load control etc) can all influence how actual track against the original estimates.

**Question 14 What are the key dates in the initial year pricing process of TNSPs and DNSPs?**

The time between the AER final determination for a 5 year review and the annual pricing proposal is key to ensure that the September quarter CPI is available, the EDPR final decision, any rebalancing required as a result of changes to the pricing etc. Given the size of an AER Final Determination, generally 4 weeks is desirable to allow the development of the annual tariff proposal. Often if the EDPR determination runs late, the initial pricing proposal is also late.

**Question 15 What is the best option to manage the first year pricing issue? Is it necessary to keep timings for the first year and subsequent years the same?**

The timing for the first year and the subsequent years does not need to be the same although this is desirable. Whilst the regulatory control pricing formulas and EDPR determinations impact the Vic DNSPs, UE recognise that the same yearly processes apply to retailers in terms of retail tariff gazettals and notifications to customers. It is important that network price increases or decreases for year 1 are able to be finalised and flow on to customers from the 1 January in an efficient manner.