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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged (online): <http://www.aemc.gov.au>

Annual Network Pricing Arrangements – Rule change request – Consultation paper

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) rule change request consultation on Annual Network Pricing Arrangements.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 36 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 51,000 people and contribute \$16.5 billion directly to the nation's Gross Domestic Product.

The NSW Independent Pricing and Regulatory Tribunal has proposed changes to the Annual Network Pricing Arrangements. There are three broad changes:

- require annual network prices to be approved and notified two months prior to taking effect;
- require consultation on the development of annual network prices; and
- include consistency with statement of expected price trends as a criteria for approval of annual network prices.

Earlier notification

esaa agrees with the AEMC's view that "there is an inherent tension in trying to balance the timing aspect of annual pricing approval process, [as] the process involves a chain of interdependent pricing steps." That said, there does appear to be scope to ensure retailers receive network prices earlier than they currently do.

The ultimate aim of the tariff setting process is well designed cost reflective tariffs for customers. To achieve this each party needs sufficient time to develop their tariffs. As the last step in the process, retailers can have insufficient time to fully develop their tariffs. If retailers are not afforded sufficient time it will limit their ability to design the best tariffs, set tariffs at an efficient level and to engage in the necessary communication with customers about any changes.

The current timeframes can add to a retailers cost, as they have to set prices without full knowledge of network costs, or delay setting prices. This can have a material impact as network tariffs make up 35 per cent to 50 per cent of the overall retail price.

Costs are also added in reorganising system, process and collateral updates at short notice and the cost introduced by errors and compliance breaches, complaints and sub-optimal engagement with customers.

But it is not costless to bring forward the notification of network prices. The further the network price notification is brought forward, the greater the risk of inaccuracies by both distribution network service providers (DNSPs) and transmission network service providers (TNSPs)

The impact on the DNSPs will vary depending on the control mechanism adopted. DNSPs with a revenue cap and TNSPs face limited risks from using estimates to design their network tariffs, as the unders/overs mechanism will balance out the revenue over the regulatory period. However, if errors get too large this may blunt the price signal for customers. Bringing forward the notification process will be more challenging for DNSPs with a weighted average price cap, as they bear more risk in the price setting process.

If the timing requirements are brought forward for DNSPs and TNSPs, arrangements will need to be put in place to ensure retailers do benefit. There will also need to be an obligation on the Australian Energy Regulator to ensure retailers receive network tariffs earlier, otherwise there is no point making any changes.

Consultation

Large unexpected changes in network pricing can present a significant challenge for retailers, particularly a change to a tariff structure, a new tariff or a large rebalancing of tariffs. Any steps that can be taken to limit this will improve the process for setting tariffs, for example, early signalling from DNSPs on the direction they will be taking. As a number of DNSPs already regularly engage with retailers as part of their tariff setting process, the AEMC should look to the current best practice approaches of DNSPs to guide any changes.

As noted in the consultation paper there needs to be a balance between any changes to consultation requirements and the changes to the notification period. As early notice of any changes to network tariffs will best enable retailers to design and implement their tariffs, any balancing between these two issues should be weighted towards providing retailers with early notification of network tariffs.

Expected price trends

To aid stakeholders some core information in the statement of expected price trends could be made more consistent. But DNSPs would need to be able to include other information they feel is necessary.

The esaa does not support including consistency with expected price trends as a criteria for annual network pricing approvals. DNSPs prepare expected price trends documents based on best available information at the time. Like all estimates they can be affected by changing circumstances. Given the document covers a five year period it is not surprising that there will be variations between estimates and actuals.

Any questions about our submission should be addressed to Fergus Pope, by email to fergus.pope@esaa.com.au or by telephone on (03) 9205 3107.

Yours sincerely

A handwritten signature in blue ink that reads "A. Dillon". The signature is written in a cursive style with a large initial 'A'.

Andrew Dillon
General Manager Corporate Affairs