

4 July 2013

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By email: aemc@aemc.gov.au

Dear Sir/Madam,

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

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments on the *National Electricity Amendment (Annual Network Pricing Arrangements) Rule 2013 Consultation Paper* (the Consultation Paper).

The ERAA represents the organisations providing electricity and gas to almost 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the national electricity market (NEM) and are the first point of contact for end use customers of both electricity and gas.

The ERAA strongly supports the rule change proposed by the Independent Pricing and Regulatory Tribunal (IPART). The ERAA has previously outlined this support in response to IPART's *Network price changes – IPART's proposed changes to National Electricity Rules and National Gas Rules Consultation Paper*. This previous submission, dated 31 August 2012, is included as **Attachment A** to this document.

Current arrangements

The current annual network pricing arrangements do not provide certainty for retailers, customers or regulators. The National Electricity Rules (NER) only allow one month between the finalisation of determinations and the notification of network prices. Retailers closely follow any changes to network prices and usually aim to update retail prices at the same time that network prices take effect. If there are no delays and the final network prices are very similar to the draft prices (in level and structure), they are usually released in very late May or early June (except in Victoria where they are released in very late November or early December). This timing can leave a mere week for tariff setting and two to three weeks for IT system updates. If there are delays then retailers must fit their re-pricing activities into a much shorter amount of time. Even if final network prices are received at the earliest possible date, retailers still must rush retail price setting decisions, delay the date that retail prices come into effect or alternately base pricing decisions on draft network tariffs.

Under the Competition and Consumer Act 2010 (Cth), the ERAA is not permitted to share or discuss information within the Association in relation to prices and the mechanisms for setting prices. As such, the ERAA refers to the submissions of our Members for more detailed explanations of the network and retail pricing timeframes and the issues associated with setting prices, implementing system changes, meeting regulatory obligations and undertaking customer engagement activities.

Pricing uncertainty is not in the best interests of consumers

The ERAA does not believe the current arrangements are consistent with the National Electricity Objective (NEO). Pricing uncertainty is not in the best interest of customers as it



introduces a risk that retailers will not set efficient and cost-reflective prices. This risk is ultimately passed on to customers in the form of higher prices. The ERAA does not believe that this is the most efficient allocation of risk. These short timeframes reduce the ability of retailers to provide clear pricing messages, potentially increasing customer confusion and reducing customer confidence. Allowing for a reasonable timeframe would mean retailers would be able to better communicate information on price changes to customers.

The negative impacts of the current arrangements have become larger over time as the retail energy market has evolved. This has resulted in an environment where:

- retailers are no longer integrated with distributors
- more retailers are operating in multiple contestable jurisdictions within the NEM
- contestable retail markets are becoming increasingly competitive and retailers must consider pricing attractiveness and competitive position as well as input costs
- regulatory requirements around retail pricing have been changing and increasing in most states
- network pricing approvals more often are delayed, complex or result in appeals due in part to the increasing focus on network price increases and the introduction of new tariffs.

Proposed changes

The ERAA agrees that the proposed notification of two months is a sufficient timeframe. Additionally, the ERAA does not believe that distributors should be able to resubmit annual network pricing proposals (under National Electricity Rule 6.18.2 (a)(2)).

On 16 April 2013 the ERAA wrote to the Australian Energy Regulator (AER) to suggest a number of changes to facilitate the approval of network tariffs. Both this letter (**Attachment B**) and the response from the AER (**Attachment C**) are included as part of this submission.

Consultation on the development of network prices

As network costs make up approximately 35-50 per cent of retail energy bills for small customers, retailers need to maintain close working relationships with networks to understand costs and obtain timely and reliable information on network pricing. However, many distributors are restricted or prohibited from discussing the details of network tariff reviews undertaken with the AER. This restricts the ability of retailers to appropriately respond to the adverse impacts of delays to the approval of network pricing.

As a general principle, distributors should have to share more information, and consultation on network prices should be an ongoing process – this could be done ahead of the distribution pricing process and need not to take any additional time in the annual pricing process. For example, distributors could publish their statement of expected price trends in a standard format on their websites. Retail pricing risk could be reduced if the pricing trends statements contained more information on pricing strategy, rebalancing approach and planned changes to tariffs.

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,



Cameron O'Reilly
CEO
Energy Retailers Association of Australia



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, looping flourish at the end.

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

16 April 2013

Mr Andrew Reeves
Chairman
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

By email: Andrew.Reeves@aer.gov.au

Dear Andrew

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.

Our members have been concerned for some time about the increasing impact that the timing of network tariff approvals has on retail pricing. There is no certainty for retailers, customers or other regulators as to the date that the final network tariffs will be approved and published. This is a particular issue as the National Electricity Rules (NER) allow an inadequate period of one month between the dates that the determinations are finalised and network prices are notified. Similar timeframes apply to gas network tariffs through the gas access arrangements. These timeframes are frequently reduced by a week or more and don't provide retailers with enough time to set retail prices. This means that retailers are forced to rush retail price setting decisions into a period of several days or alternately to base pricing decisions on draft determinations and estimated network tariffs, when to do so creates significant risk for the retailer.

Pricing uncertainty is not in the best interest of customers or retailers as it creates a significant risk for retailers in setting prices. This pricing risk is ultimately passed on to consumers in the form of higher prices. These very tight timeframes also reduce the ability of retailers to provide clear pricing messages, which increases customer confusion and has the potential to reduce customer confidence. Making final network tariff information available earlier would provide retailers with more flexibility in how they communicate information to customers on price changes.

For these reasons, the ERAA and its members support the change proposal to the National Electricity Rules raised by IPART in September 2012. The ERAA understands that the AEMC intend to commence the review for this rule change proposal later in 2013.¹

A rule change is not required for gas as the rules relating to tariff variation are included in the gas access arrangements determined by the AER. Consistent with the electricity rule change proposal submitted by IPART,² the ERAA and its members request the AER to mandate a two month time frame between the date of the approval of final network tariffs and the date

¹ http://www.ipart.nsw.gov.au/Home/Quicklinks/IPART_Submissions_to_External_Reviews/IPART_Submission_-_Proposed_changes_to_Annual_Network_Price_Setting_Arrangements_-_September_2012

² Ibid, page 5



the new tariffs take effect. These updates could be made as new gas access arrangements are made by the AER.

As network costs make up approximately 35-50% of a typical energy bill for small customers, it is vitally important for retailers to maintain close working relationships with distributors to understand network costs and get timely and reliable information on network pricing. However, opportunities for obtaining this information are limited when it comes to network tariff reviews. Many distributors are restricted or prohibited from discussing matters under review with the AER. Retailers therefore cannot always mitigate the negative impacts created by uncertainty and delays in approving network prices.

These issues lead to increased errors and regulatory issues for retailers, increased final energy prices for customers and limit the ability of retailers to consider and engage with customers on pricing-related matters. Such impacts have become worse over time as:

- retailers are no longer integrated with distributors.
- more retailers are operating in more of the contestable states within the National Electricity Market.
- these markets are becoming increasingly competitive and retailers must consider pricing attractiveness and competitive position as well as input costs.
- regulatory requirements around retail pricing have been changing and increasing in most states.³
- network pricing approvals more often are delayed, complex or result in appeals due, in part, to the increasing focus on network price increases and the introduction of new tariffs.

Unfortunately, it may be some time before the outcome of the network price setting rule change proposal will be known and before updates to gas access arrangements can be made. In the meantime, ERAA member EnergyAustralia has sought other options to address this issue. Recently, they met with John Skinner (Director, Network Regulation) and Ben Davis at the AER to discuss the particular issues that late notification of network tariffs creates for retailers and what may be done about this.⁴

Some straightforward and interim steps that the AER may be able to consider to facilitate the earlier approval of network tariffs without any change to the NER or gas access arrangements are:

1. Aligning the publication process for gas network tariffs with electricity tariffs. Currently draft gas network tariffs are not published.
2. Ensuring that publication of final and draft network tariffs occurs as soon as possible and at least within 24 hours of being provided or approved.
3. If updates to draft network tariffs initially published by the AER are provided by distribution businesses on a confidential basis, then we request the AER to publish at least the same level of detail as in the original draft network tariff proposal. This will allow retailers and customers to be informed of the most up-to-date information being considered for approval by the AER and will minimise the

³ (e.g. introduction of NECF, requirement to provide 20 business advance notice of price changes to customers with smart meters in Victoria)

⁴ A summarised version of the presentation pack provided to the AER is attached.

dramatic changes that can occur between the original draft and final network tariffs.

4. Publishing dates on the AER website that particular network tariff approvals will be considered by the AER board at least a week in advance.
5. Allowing the network tariffs for each state or fuel to be approved and released separately when ready rather than to wait for all tariffs to be approved at the same board meeting.

We urge the AER to consider the above suggestions and any other steps in the approval and communication process around network tariff approvals that could ease the timing and cost pressures on retailers and other stakeholders who are dependent on this information. Ensuring that adequate time is available for the retail price setting processes will help to remove costs from retail tariffs and will aid competition between retailers. Both of these outcomes are aligned to the National Gas and Electricity Objectives and will have a positive effect on customer satisfaction.

Should you wish to discuss the details of this letter further, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,



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

Cc AER: Chris Pattas, John Skinner, Ben Davis, Warwick Anderson
AEMC: John Pierce

Our Ref: 50195, 51107
Contact Officer: John Skinner
Contact Phone: (02) 9230 3855

14 May 2013

Mr Cameron O'Reilly
Chief Executive Officer
Energy Retailers Association of Australia
Suite 3, Level 5, 189 Kent Street
Sydney, NSW 2000

By email: coreilly@eraa.com.au
CC: john.pierce@aemc.gov.au

Dear Mr O'Reilly 

Annual network tariff variations for gas and electricity

Thank you for your letter, dated 16 April 2013, which sets out the Energy Retailers Association of Australia's (ERAA) concerns about the increasing impact that the timing of network tariff approvals has on retail pricing. In your letter, you indicate that ERAA members are concerned the timeframes associated with the approval processes for gas and electricity tariffs do not provide retailers with enough time to set retail prices. I acknowledge that this results in pricing uncertainty and is not in the best interests of customers or retailers.

In your letter you indicate that the ERAA is supportive of the proposed change to network price setting under the National Electricity Rules (NER), as raised by the Independent Pricing and Regulatory Tribunal (IPART) in September 2012. The proposed rule change would make sure there is a two month time frame between the date of approval of final network tariffs and the date the new tariffs take effect.

You have also suggested that the Australian Energy Regulator (AER) adopt a similar approach for annual gas tariff variations. Given this change will require amendment to individual access arrangements we will revisit this issue at the commencement of the next access arrangement processes in late 2013. Revisiting the issue at this time will allow the AER to take into consideration any other regulatory processes that may impact on the tariff approval process. This includes possible changes to the network tariff consultation rules coming out of the AEMC's Power of Choice review.

As any changes to the NER or existing gas access arrangements are likely to take some time, your letter sets out five interim steps the AER may be able to consider to facilitate the earlier approval of network tariffs.

We have considered these interim steps and make the following comments:

1. *Aligning the publication for gas network tariffs with electricity tariffs*

We have changed our procedures and now publish, on receipt, all annual tariff proposals submitted by gas services providers. This ensures we apply a consistent approach to the publication of both gas and electricity tariff proposals.

2. *Ensuring publication of final and draft network tariffs occurs as soon as possible and at least within 24 hours of being provided or approved.*

We have reviewed our internal procedures and will publish final and draft network tariffs as soon as possible after approval/receipt. We will use best endeavours to ensure that this happens within one business day.

3. *If updates to draft network tariffs initially published by the AER are provided by distribution businesses on a confidential basis, then it is requested that the AER publish the same level of detail as the original draft network tariff proposal.*

We intend to request non-confidential versions of any updated pricing proposals submitted in the 2013–14 pricing process.

4. *Publishing dates on the AER website that particular network tariff approvals will be considered by the AER Board at least a week in advance.*

We intend to state on our website an approximate decision time after an initial assessment of each DNSP's pricing proposal. We expect to publish this approximate decision time soon after final transmission prices are provided on 15 May.

5. *Allowing the network tariffs for each state or fuel to be approved and released separately when ready rather than to wait for all tariffs to be approved at the same board meeting.*

AER staff intend to recommend that the AER approve gas and electricity tariffs in 'batches', rather than having all gas and electricity tariffs approved in one go. This will allow some gas and electricity tariffs to be approved more quickly than would otherwise be the case.

If you wish to discuss this matter, please contact Mr John Skinner on (02) 9230 3855.

Yours sincerely



Michelle Groves
CEO
Australian Energy Regulator

Cc: Mr John Pierce, Australian Energy Market Commission

16 April 2013

Mr Andrew Reeves
Chairman
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

By email: Andrew.Reeves@aer.gov.au

Dear Andrew

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Our members have been concerned for some time about the increasing impact that the timing of network tariff approvals has on retail pricing. There is no certainty for retailers, customers or other regulators as to the date that the final network tariffs will be approved and published. This is a particular issue as the National Electricity Rules (NER) allow an inadequate period of one month between the dates that the determinations are finalised and network prices are notified. Similar timeframes apply to gas network tariffs through the gas access arrangements. These timeframes are frequently reduced by a week or more and don't provide retailers with enough time to set retail prices. This means that retailers are forced to rush retail price setting decisions into a period of several days or alternately to base pricing decisions on draft determinations and estimated network tariffs, when to do so creates significant risk for the retailer.

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For these reasons, the ERAA and its members support the change proposal to the National Electricity Rules raised by IPART in September 2012. The ERAA understands that the AEMC intend to commence the review for this rule change proposal later in 2013.¹

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the new tariffs take effect. These updates could be made as new gas access arrangements are made by the AER.

As network costs make up approximately 35-50% of a typical energy bill for small customers, it is vitally important for retailers to maintain close working relationships with distributors to understand network costs and get timely and reliable information on network pricing. However, opportunities for obtaining this information are limited when it comes to network tariff reviews. Many distributors are restricted or prohibited from discussing matters under review with the AER. Retailers therefore cannot always mitigate the negative impacts created by uncertainty and delays in approving network prices.

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5. Allowing the network tariffs for each state or fuel to be approved and released separately when ready rather than to wait for all tariffs to be approved at the same board meeting.

We urge the AER to consider the above suggestions and any other steps in the approval and communication process around network tariff approvals that could ease the timing and cost pressures on retailers and other stakeholders who are dependent on this information. Ensuring that adequate time is available for the retail price setting processes will help to remove costs from retail tariffs and will aid competition between retailers. Both of these outcomes are aligned to the National Gas and Electricity Objectives and will have a positive effect on customer satisfaction.

Should you wish to discuss the details of this letter further, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,



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

Cc AER: Chris Pattas, John Skinner, Ben Davis, Warwick Anderson
AEMC: John Pierce