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

24th December, 2013

By submission online

Re: Rule Change – Distribution Network Pricing Arrangements

Dear Mr Pierce

Energy Action is one of the leading energy management companies in Australia. We provide client solutions across the broad spectrum of energy management services including energy procurement, energy management and reporting and sustainability solutions. With offices in Sydney, Melbourne, Perth, Brisbane, Adelaide and Newcastle we employ over ninety people and have a history of ten years experience in working with clients to service their needs within the Australian energy market

A large part of our business is involved with the procurement of electricity supply contracts on behalf of our corporate clients. In 2012/13 we procured approximately 7 million MWhs on behalf of our customers for sites both above and below 100MWh annual consumption and for a total of over 9,000 NMIs. As a consequence we have gained significant experience of the issues facing this sector of the market with this experience being gained independently of the established retailers. It is therefore with considerable interest that we have followed the rule consultation processes accompanying the Distribution Network Pricing Arrangements rule change requests.

It is out experience that the principal areas of concern for small businesses pertinent to this rule change are:

- The lead time notification of tariff changes.
- Consultation over tariff structures and tariff rates.
- The range of annual cost increases for individual customers.

These factors often act in concert, with individual issues compounding to deliver an outcome that cannot then be attributed to any single cause. Consequently it is important that the review process consider the holistic impact of both these areas of concern and those other pertinent areas raised by other respondents. In preparing this submission we have elected to address the principles that we believe should govern development of the NER in order to address its current shortcomings with regard to the Pricing Arrangements. The following sections address each of our principal concerns in turn.

1. The lead time notification of tariff changes.

From a customer's perspective communication of tariff rate and structure changes is effectively nil. The majority of our customers receive no advance warning of a tariff change with their first knowledge being receipt of the first bill under the new regime. This gives rise to a number of problems. Firstly,

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budgeting cannot be undertaken properly without reasonably accurate cost forecasts. In the case of small businesses the problems created by un-notified network rate changes can be particularly acute. Small business have small budgets, and these can be significantly affected by network price changes of the magnitude that we have observed over recent years. As we shall describe later, the foreshadowed reduction in allowable revenue increases for the forthcoming regulatory period is no guarantee that annual price shocks will be less prevalent. Secondly, and has been described already in previous retailer submissions, publication of the annual network tariffs set a number of processes in motion which must then be managed closely until their completion. A prime example is updating of billing systems. The shorter the time frame allowed for this the more likely that service delivery standards will be impacted for some customers. This is equally true for energy management companies as it is for electricity retailers. In the case of Victoria where network tariffs change co-incident with the Christmas/New Year period the compression effect can be particularly acute.

The consultation paper includes much by way of commentary as to the difficulties in bringing forward the timetable for publication of network tariffs including the additional difficulties specific to the first year of the regulatory period. Nonetheless, we believe that this should not stand in the way of timetable improvements even though this may involve some compromise for the regulatory period's first year.

2. Consultation over tariff structures and tariff rates.

This represents one of the most substantial opportunities for improvement of the regulatory framework to the benefit of consumers. The trend in declining aggregate demand which has become established over the last several years is widely acknowledged as providing challenges to the DNSPs in the recovery of regulated revenues under existing tariff structures. The more recent discussions concerning critical peak pricing tariff structures are a welcome contribution to this debate. Consumer acceptance of new tariff structures will be a key requirement if the network cost recovery problem is to be resolved in a manner that levies network costs upon customers in an equitable manner. It is difficult to see how this can be achieved without customer consultation during both the regulatory determination and the annual price determination time frames.

In order to achieve this outcome three issues will have to be resolved. Firstly customer groups would have to be engaged in the review process. This would best be undertaken throughout the process, but most critically at its outset. Secondly, the consultation would have to be meaningful, that is the DNSPs would have to take customer opinion into consideration in a meaningful way when drawing up their tariffs. Any consultation undertaken as a process whereby consumers were "educated" or given more "information" so that they could "understand" why their bill was changing would be fruitless. Thirdly, the subject matter of the consultation would have to be defined. Would this cover the tariff structures as well as the tariff prices? Were the NEM to move towards a trade-off mechanism whereby a lower quality of supply was accepted in return for lower prices would the parameters around this be part of the subject matter? And so on.

The proposal put forward by SCER in its rule change request for the introduction of a Pricing Structures Statement represents one approach whereby meaningful and continuing consultation might be achieved. As has been described in previous consultation papers, such a report could serve the dual function of providing a link between the DNSPs' needs to set tariff structures and rates that provide it with reasonable revenue certainty and the customers' needs to have their reasonable requirements brought into this tariff setting process. To this end we would support a PSS that was published initially prior to the five year revenue determination period and then annually as part of the

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network pricing process. In both cases there should be a requirement to consult with customers following the publication of the PSS, to report on the results of that consultation and to demonstrate how customers' requirements have been incorporated into the draft regulatory proposals, and if not why not. Further requirements could be for demonstration that the impact of customers' proposals had been evaluated against the alternative methods of implementation. The intention here would not be to bind the DNSP into justifying each and every part of its tariff and price setting proposals but rather to provide that they demonstrate that reasonable measures have been taken to accommodate customer requirements. This may require some form of facilitation between customer representatives and the DNSPs such that reasonable requests are identified properly, are recognised by the DNSPs as requiring treatment and that unreasonable requests are struck out. Whilst I shall not go further into the detail of how this might be achieved it may be that the National Consumer Advocacy Body has a role to play here.

Specific subject matter for the PSS would be the tariff structures, the tariff prices, and the path under which the prices were anticipated to evolve over the duration of the regulatory period. It may not be that the projections put forward and agreed in the initial PSS are held to precisely for the duration. Revisions in prices both upwards and downwards may be necessary as circumstances change over time if these can be justified. However, in preparing the PSS the DNSPs ought to rely on their own estimates of future load on their networks when determining capital and operational expenditures. It is not unreasonable for them to do as the party best placed to undertake this. Furthermore, if the customer is underwriting the DNSPs revenue requirements, including unforseen variations, then it is fully understandable that the DNSP put forward statement of what these costs may be based upon their estimate of network demand, stand by these demand and cost estimates and explain any later significant variations.

3. The dispersion of annual cost increases for individual customers.

The final point that we wish to raise demonstrates how current arrangements are failing to provide credible pricing results for business. Within limits DNSPs have discretion over the manner in which they adjust their tariff rates year on year. One way in which they exercise this discretion is in the setting of rates for individual tariffs within a tariff class. Under the current arrangements side constraint provisions apply which seek to limit year on year price changes. Presumably the underlying reason for this is to limit yearly changes in the total network bill to a customer (assuming that his consumption and demand remain unchanged). This is not so for a significant minority of business customers. We have observed cases where increases in an individual customer's network bill has ranged from under 15% to over 40% whilst the average increase for that tariff has been 24%. Clearly some customers are highly sensitive to changes in their tariffs.

It may be argued that these kinds of outcomes are rare occurrences and are not representative of the experience of the great majority of network customers. Nevertheless, for the individual customers in question it is 100% of their experience as the ones suffering or benefiting in a seemingly random manner. Furthermore, if these outcomes are indeed rare then it should be of little consequence to remedy them. Such a remedy could be delivered by the adoption of an overarching constraint on tariff prices such that no customer would suffer an overall increase in the price of network services when expressed in \$/MWh terms other than where this increase was due to a change in consumption behaviour. In practical terms we would prefer to see this constraint stated relative to the average price increase over all DNSP customers. Thus if the average increase was in the region of 24% a +5% constraint may be appropriate. Nothing in this constraint rule would prevent the average price increase from settling at whatever level was effectively determined by the year on year increase in allowable

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revenue. Neither would it prevent average prices from increasing across successive years if that was the AER's determination. It would however prevent a small minority of customers from falling foul of extreme and unintended outcomes of the annual tariff setting process.

Conclusions

In summary, Energy Action believes that both the SCER's as IPART's rule change requests contain considerable merit. In order to more fully recognise the interests of business customers we propose the following:

- That a shortening of the lead time for publication of annual network tariffs be investigated further and that particular reference be given to future arrangements for publishing network tariffs in Victoria.
- That the development of a Pricing Structures Statement be considered further and including:
  - The means by which meaningful consultation with customers may be achieved.
  - That the PSS include tariff structures, tariff prices and medium term estimates of price paths.
  - That deviations from estimated tariff prices be justified to the AER as part of the annual approval process.
- That consideration be given to limiting the maximum dollar cost increase to individual customers to a maximum of 5 percentage points above the average increase for all customers of that DNSP in order to prevent unintended high cost outcomes from falling on individual customers.

Energy Action is supportive of the current review of Distribution Network Pricing Arrangements being undertaken by the AEMC and looks forward to participating further in the consultation process.

Scott Wooldridge
CEO
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