

4 July 2013

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SOUTH SYDNEY NSW 1235  
Lodged online at [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr Pierce

### **Rule change proposal: Annual Network Pricing Arrangements**

ActewAGL Distribution welcomes the opportunity to respond to the AEMC's consultation paper on the Independent Pricing and Regulatory Tribunal of New South Wales (IPART) rule change proposals. ActewAGL Distribution is a public-private partnership owned equally by ACTEW Corporation and SPI (Australia) Assets Pty Ltd via subsidiary companies. ActewAGL Distribution owns the electricity distribution network in the ACT and gas distribution networks in the ACT and the adjoining areas of New South Wales and in Shoalhaven. ActewAGL Distribution is a member of the Energy Networks Association (ENA) and supports the ENA's submission on the consultation paper.

#### **Earlier notification of network prices**

ActewAGL Distribution appreciates the importance of giving retailers, customers and regulators adequate time to respond to changes in network prices. IPART's proposal for earlier notification of network prices would involve moving the submission date for DNSPs' annual pricing proposals from 1 May to 1 April (indicative dates), and placing a time limit on the AER approval process.

ActewAGL Distribution considers that the earlier submission of network pricing proposals is not feasible for year one of each regulatory period, given that the AER's 5 year regulatory determinations are usually not finalised until late April. We strongly oppose the options of either shortening the regulatory determination process, or starting the determination process earlier, to allow distribution prices to be submitted one month earlier. As the AEMC notes in the consultation paper, the regulatory determination process has only recently been extended, as part of the November 2012 rule changes, to allow further opportunities for engagement between the AER, consumers and DNSPs. Shortening the process would not provide optimal outcomes for these parties. Starting the process earlier would increase the risk that forecasts provided as part of the regulatory proposals would be out of date by the time the regulatory control period commences.

For subsequent years of the regulatory period, submitting the pricing proposal one month earlier would be feasible for ActewAGL Distribution under the control mechanism the AER has determined to apply until 30 June 2019 (as it does not require forecasts of demand or customer numbers to be submitted). However, the requirement for earlier notification of transmission prices may result in

greater volatility in transmission charges as key inputs must be based on forecasts. In addition, as the AEMC notes in the consultation paper, the Standing Council on Energy and Resources (SCER) is currently progressing rule change proposals, arising from the Power of Choice review, which would require “more robust consultation and verification applied to the annual network tariff setting process, including consulting on requested changes to the approved statement of network pricing structures”. While the details of these changes are not yet known, to the extent that they impose additional consultation requirements, DNSPs are likely to require more time to prepare their pricing proposals, and submission one month earlier may therefore not be reasonable.

IPART’s proposed rules also specify that the AER would have 20 business days, from the submission date, to publish an approved pricing proposal. ActewAGL Distribution considers that the scope for the AER approval process to be completed in a shorter timeframe should be examined as part of the AEMC’s assessment. Where the proposal is compliant, and no re-submission is required, there may be scope to finalise the process well within the proposed 20 business day limit. This could be reflected in the drafting of rules requiring the AER to publish the approved proposal as soon as practical, but no later than 20 business days after submission.

### **Consultation**

ActewAGL Distribution places great importance on engaging with customers and understanding their preferences. ActewAGL Distribution has devoted considerable efforts to better understanding customer preferences, using state-of-the-art choice modelling studies to understand customers’ willingness to trade changes in the level of network prices with changes in various service attributes relating to supply reliability, supply quality, and undergrounding.

As the AEMC notes in the consultation paper, consultation can take many different forms. ActewAGL Distribution considers that any new consultation requirements should not be overly prescriptive, and should provide DNSPs with flexibility to determine how to best engage with retailers and consumers. The importance of taking into account jurisdictional circumstances when setting consultation requirements was noted by the Australian Government in its June 2013 response to the Productivity Commission’s *Electricity Network Regulatory Frameworks Final Report*.<sup>1</sup> ActewAGL Distribution agrees that the appropriate nature and extent of consultation will depend on the circumstances. The AER’s draft consumer engagement guideline also “allows flexibility in how the service providers develop a better understanding of their consumer base and consumer issues.”<sup>2</sup>

### **Consistency with statement of expected price trends**

ActewAGL Distribution does not support IPART’s proposal to require annual pricing proposals to be consistent with the statement of expected price trends. Under the current rules DNSPs are required to publish a statement of expected price trends for the regulatory period, updated each year. The forecasts in the statement do not include transmission charges, or forecasts of other unforeseen expenses that may be passed through during the regulatory period, so these statements can only be a point in time best estimate of future prices.

During the course of a regulatory period, new issues may arise that require the development of new tariffs or changes to the structure of existing tariffs. Requiring DNSPs’ distribution charges to be consistent with prior estimates would limit the scope to provide innovative network charges and to respond to the changing circumstances during a regulatory period. ActewAGL Distribution opposes any changes to the rules that may constrain innovation or bind DNSPs to their past expectations of price trends.

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<sup>1</sup> Australian Government 2013, *Response to the Productivity Commission Inquiry Report*, June, p. 23

<sup>2</sup> AER 2013, *Explanatory statement to the draft consumer engagement guideline for network service providers*, July, p. 14

ActewAGL Distribution looks forward to continuing engagement with the AEMC on these and other issues vital to the provision of an efficient and reliable electricity network service. Enquiries on this submission should be directed to Mr Chris Bell, Manager Regulatory Affairs, on 026248 3180.

Yours sincerely

A handwritten signature in blue ink, consisting of several fluid, connected strokes that form a stylized representation of the name 'David Graham'.

David Graham  
Director Regulatory Affairs and Pricing