

A few
words.

12 July 2013

Mr John Pierce

Australian Energy Market Commission

Level 5 , 201 Elizabeth Street

Sydney NSW 2000

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



Dear Mr Pierce

AEMC 2013, Annual Network Pricing Arrangements, Consultation Paper (Reference ERC0149)

AGL Energy (AGL) welcomes the opportunity to comment on the Annual Network Pricing Arrangements Consultation Paper released by the AEMC on 6 June 2013.

AGL operates across the energy supply chain and has investments in gas and electricity retailing, and coal-fired electricity generation, gas-fired electricity generation, renewables and upstream gas extraction.

AGL has previously expressed its concerns about the timing of approval processes for annual network prices as these can have a significant financial and operational impact on AGL and its customers. AGL considers that, the proposed rule change will be a positive step in addressing these issues and providing a mechanism for retailers to effectively design and implement retail tariffs in a timely manner.

Notification of Annual Network Price Changes

AGL agrees with IPART that under the current framework, retailers and customers do not receive adequate notification of annual network price changes.

As the reset of annual network prices takes effect on either 1 July or 1 January, AGL needs to change its retail prices around the same time to recover the new network costs from its customers. Currently, AGL generally receives the final network prices around a month before these dates. This is insufficient time for AGL to re-price, change its systems and notify its customers before changing prices.

The timing problem is exacerbated when there is a change in the structure of the network prices or a delay in the release of the final network prices. To mitigate the risk of not recovering the new network costs, AGL may have to use draft or estimated network costs or shorten the time period to change prices. In some instances, AGL has had to delay the release of new prices when more time has been needed to make the necessary system changes. The timing uncertainty poses a significant risk to AGL (and presumably other retailers) of not recovering network costs. Further, if retailers have made subsequent adjustments to retail charges to address this, because of differences between draft and final network prices, this could create customer confusion.

- > Being selected as a member of the Dow Jones Sustainability Index 2006/07
- > Gaining accreditation under the National GreenPower Accreditation Program for AGL Green Energy®, AGL Green Living® and AGL Green Spirit
- > Being selected as a constituent of the FTSE4Good Index Series

AGL operates a National Electricity Market (NEM) wide retail business - responding to changes on network prices involves over 3.5 million customers. AGL considers that it is in the best interests of its customers if approved network prices are finalised at least two months prior to the effective date with no further changes to network prices allowed after that date. This timing is particularly important when there are material changes in the structure and re-balancing of network prices. This outcome will allow AGL to effectively set prices reflective of the structure and level of the new network prices. More importantly, it will provide an orderly transition to new prices supported by a clear communication of changes to customers.

To this end, AGL supports the following rule changes proposed by IPART:

- Transmission Network Service Providers (TNSPs) must publish their prices by 15 March each year;
- Distribution Network Service Providers' (DNSP) network prices are required to be finalised and published two months prior to taking effect;
- The AER must publish the approved network prices within 20 business days of receiving pricing proposals from DNSPs; and
- DNSPs must publish the annual network prices within five business days of the publication of the approved pricing proposal by the Australian Energy Regulator.

Consultation on Proposed Network Prices

AGL also supports IPART's proposed rule change to require consultation on the development of annual network prices.

It is important that stakeholders, including electricity retailers, are consulted on proposed changes to the structure of network prices or new network prices before they are finalised. From AGL's perspective, this approach would allow retailers to consider the impacts of proposed tariff changes and prepare for information technology system changes before going live.

AGL notes that a number of DNSPs are already consulting, or informing retailers in varying degrees, of material changes to network tariffs. For instance, some are providing information sessions and others are conducting more detailed discussions. AGL considers that there is merit in having a standard approach and a consistent definition of consultation with a minimum standard, and quality, of information exchange. AGL therefore supports IPART's proposed rule change to require the AER to develop guidelines for consultations.

Statement of expected price trends

The statement of expected price trends produced by DNSPs provide useful information for planning and product development for retailers. They are also useful for budgeting purposes for customers. In particular, AGL has often received requests from commercial and industrial customers for information on future price changes.

AGL understands that circumstances change over time for reasons which the Consultation Paper has highlighted, so there should be a balance between requiring distributors to abide by these expected price trends and allowing distributors the flexibility to review how costs are allocated as conditions change.

AGL's view is that the content of these statements should be more consistent across the DNSPs. There is currently no standard for these statements, so the content of these statements vary from one distributor to another and are therefore not comparable with each other.

From a retailer's perspective, these statements should include the following:



- both transmission and distribution costs;
- other pass-through costs e.g. solar feed-in tariffs;
- assumptions which underlie these projections; and
- information in a form which will assist retailers and users to estimate the network price changes when the underlying assumptions change.

Furthermore, it is also important to retailers to know how each individual component could change over the regulatory period.

Please contact me on 03 8633 6077 or Kong Min Yip on 03 8633 6988 if you wish to discuss this matter further.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Beth Griggs', is positioned above the typed name.

Beth Griggs
Head of Energy Market Regulation

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