

**Ergon Energy Corporation Limited  
and  
Ergon Energy Queensland Pty Ltd**

**Confidential submission on the *Annual  
Network Pricing Arrangements*  
Consultation Paper  
Australian Energy Market Commission  
4 July 2013**





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This submission is made by:

Ergon Energy Corporation Limited and Ergon Energy Queensland Pty Ltd  
PO Box 264  
FORTITUDE VALLEY QLD 4006

**This submission contains confidential information and must not be released publicly. A separate public submission has been prepared.**

Enquiries or further communications should be directed to:

Jenny Doyle  
Group Manager Regulatory Affairs  
Ergon Energy Corporation Limited  
Email: [jenny.doyle@ergon.com.au](mailto:jenny.doyle@ergon.com.au)  
Ph: (07) 4092 9813  
Mobile: 0427 156 897





## 1. INTRODUCTION

Ergon Energy Corporation Limited (EECL) and Ergon Energy Queensland Pty Ltd (EEQ) welcome the opportunity to provide comment to the Australian Energy Market Commission (AEMC) on its *Annual Network Pricing Arrangements* Consultation Paper (Consultation Paper).

This submission is provided by:

- EECL, in its capacity as a Distribution Network Service Provider (DNSP) in Queensland; and
- EEQ, in its capacity as a non-competing area retail entity in Queensland.

In this submission, EECL and EEQ are collectively referred to as 'Ergon Energy'.

Ergon Energy suggests that the AEMC carefully evaluate the costs and benefits to all parties in assessing the rule change proposed by the Independent Pricing and Regulatory Tribunal of New South Wales (IPART). As it stands, the proposed rule change focuses on the benefits to retailers and customers without considering the impacts on DNSPs and the Australian Energy Regulator (AER) (e.g. extra resourcing and administration costs for increased consultation).

In summary, we are generally supportive of the proposed timeframes for submitting and approving Pricing Proposals, where it is determined that other options are unable to address stakeholders' concerns. We do not support a prescribed consultation process as DNSPs are best placed to decide what type and level of consultation is required. Further, Ergon Energy does not support the proposal to amend the assessment criteria of network prices to include consistency with the previous year's statement of expected price trends due to the inherent uncertainties involved in forecasting future prices.

Ergon Energy has structured this submission as follows:

- Section 2 outlines specific comments on certain aspects of the proposed rule change; and
- Section 3 provides our detailed comments in relation to the questions posed by the AEMC.

This submission contains confidential information and must not be released publicly. Confidential information has been highlighted yellow (i.e. **example**).

[Redacted] Ergon Energy has prepared and lodged a separate public submission.

Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the AEMC require.

**Note:**  
Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA) and sections 31 and 108 of the National Electricity Law.





## 2. SPECIFIC COMMENTS

### 2.1. Publishing the AER-approved network prices

#### 2.1.1 AER obligation

Ergon Energy notes that “the AER must publish the approved network prices within 20 business days of receiving pricing proposals from DNSPs”.<sup>1</sup> Currently, the AER does not publish the approved network prices; rather the AER is required to publish the DNSPs’ Pricing Proposals upon their receipt.<sup>2</sup>

Ergon Energy seeks clarification on the intention of this proposed rule. That is, it is intended that:

- The AER assess and approve the network prices within 20 business days – this appears to be the focus of the Consultation Paper; or
- The AER publish the approved network prices within this timeframe.

Ergon Energy does not believe it is necessary for the AER to publish the approved network prices on their website. Instead, the AER should continue to issue a notice advising the Pricing Proposal, as submitted on a specific date and available on the AER’s website, has been approved. Therefore, we suggest that the AER should be required to assess and approve the network prices within the set timeframe (subject to our comments in Section 3 below) and publish a notice upon approval.

#### 2.1.2 DNSP obligation

Under clause 6.18.9 of the National Electricity Rules (Rules), DNSPs are required to publish on their website 20 business days before the commencement of the relevant regulatory year, and if that is not practicable, as soon as practicable thereafter:

- A statement of the tariff classes and tariffs applicable to each class;
- The charging parameters and the elements of the service to which each charging parameter relates; and
- A statement of expected price trends.

For the 2013–14 pricing year, EECL was unable to meet the 20 business days’ timeframe as we did not receive AER-approval until 7 June 2013. Once the Pricing Proposal was approved, we uploaded this information onto our website within two business days. Therefore, Ergon Energy does not object to the rule change proposal requiring DNSPs to publish the annual network prices for the upcoming pricing year within five business days of the AER approving (not publishing) the Pricing Proposal.

For a timeframe to publish the statement of expected price trends, please refer to our comments in Section 2.2.3 below.

### 2.2. Statement of expected price trends

#### 2.2.1 Guidelines

Ergon Energy sees merit in establishing guidelines on what DNSPs should include in their statement of expected price trends given the varying information provided by DNSPs. The guidelines should not be overly prescriptive and should provide DNSPs with flexibility to update the statement as required after its initial development (e.g. to include new tariffs being considered).

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<sup>1</sup> p3 of the Consultation Paper. Also refer to IPART’s draft rule changes.

<sup>2</sup> Clause 6.18.2(c) of the Rules.



If guidelines on the statement of expected price trends are established, Ergon Energy believes that the following provision in the Rules needs to be taken into account:

- (a) "Subject to the [National Electricity] Law and the Rules, all information about a Service Applicant or Distribution Network User used by DNSPs for the purposes of distribution service pricing is confidential information.
- (b) No requirement in this Chapter 6 to publish information about a tariff class is to be construed as requiring publication of information about an individual retail customer".<sup>3</sup>

That is, individual retail customer information should not be disclosed.

### 2.2.2 Consultation

Ergon Energy does not support consultation on the statement of expected price trends when it is initially developed by the DNSP or each time it is changed. Stakeholders will have sufficient opportunity to express their views on the scope of the statement during consultation on the development of the guidelines. Further, specific, targeted and calibrated consultation on any structural changes can occur consistent with sound industry business practice.

In relation to the level of prices, Ergon Energy believes consultation on this is best undertaken during the regulatory determination process. This is because prices for a regulatory control period are largely determined by our revenue allowance approved by the AER at the time of a Distribution Determination, as well as the formulas which are to be applied in recalculating Annual Revenue Requirements each year under the Standard Control Services control mechanism (which are also set during this process). That is, it is the Distribution Determination that imposes controls over the level of revenue and prices that we may recover in any given regulatory year.

### 2.2.3 Timing

With respect to setting a timeframe, Ergon Energy recommends unbundling the statement of expected price trends from the annual Pricing Proposal preparation and submission process. By doing this, DNSPs can prepare and publish the statement closer to the commencement of the upcoming pricing year. This will improve the accuracy of the statement and provide greater confidence to retailers and customers. It will also provide retailers with sufficient time to incorporate any structural or price level changes in the development of retail tariffs.

Ergon Energy suggests a publication date of 1 December each year (and 1 July each year for Victorian DNSPs). By this time, DNSPs are likely to have audited information on most inputs into the revenue calculation (e.g. unders and overs, and cost pass through amount) and are likely to have developed preliminary customer and energy forecasts for the upcoming pricing year. Further, Queensland DNSPs will have produced indicative network prices for use in the QCA's Notified Prices determination process around the same time.

While Ergon Energy does not support consultation on the statement, we believe this timeframe would better accommodate a consultation process and place less pressure on DNSPs during the Pricing Proposal preparation process.

## 2.3. Implementation and overlapping issues

If the proposed rule change (or preferred rule) is adopted, Ergon Energy recommends that the changes should apply from the commencement of the next regulatory control period for each DNSP (e.g. 1 July 2015 for Queensland DNSPs). This will allow for consultation on any associated changes to the Rules and the development of the guidelines.

The AEMC should also consult directly with the AER to assess whether the process changes needed (e.g. change of submission date of the Distribution Loss Factors (DLFs), approval of the s-factor and using December quarter Consumer Price Index (CPI) in Queensland's Distribution Determination) are viable. If they are not, this will impact the options available to the AEMC.

<sup>3</sup> Clause 6.19.2 of the Rules.



### 3. TABLE OF DETAILED COMMENTS

Question(s)	Ergon Energy Response
<i>Assessment framework</i>	
<p>1. Is the assessment framework presented in this consultation paper appropriate for assessing this rule change request?</p>	<p>Ergon Energy supports the assessment framework proposed by the AEMC. This framework is important in ensuring the costs and benefits for all parties are considered equally.</p> <p>In relation to the efficient allocation of risks, Ergon Energy believes that the AEMC should also consider the impact of increased consultation on a DNSP's ability to effectively respond to changes in the network pricing environment in a timely manner.</p> <p>In assessing the regulatory burden, we suggest that the AEMC take into consideration the following resourcing and administration costs:</p> <ul style="list-style-type: none"> <li>• Extra resources required by the AER to approve Pricing Proposals within the set timeframe;</li> <li>• DNSP resources and costs associated with undertaking increased consultation with stakeholders on the level and structure of network tariffs; and</li> <li>• Costs to DNSPs and Transmission Network Service Providers (TNSPs) to renegotiate any agreements. [REDACTED]</li> </ul> <p>Other factors that should be taken into consideration include:</p> <ul style="list-style-type: none"> <li>• The likely outcomes of the consultation activity – as noted above, revenue to be recovered is not going to change through the consultation process. Therefore, the focus turns to the allocation of revenue to particular customers/network user groups. Ergon Energy considers that the existing process, Rules and AER oversight are designed to address this. Further, we believe that there is a risk that this process will result in outcomes or debate/discussion which are inconsistent with the Rules (thus limiting a DNSP's ability to act) and/or in those groups that are best resourced to advocate outcomes leveraging the consultation activity to progress their particular interests at the cost of other network users; and</li> <li>• The limited expertise, time and benefit to participate in the consultation process for the majority of customers. Will the proposed changes result in materially better, different or fairer outcomes?</li> </ul>

**Note:** Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA) and sections 31 and 108 of the National Electricity Law.



<i>Notification of annual network price changes</i>	
2. Are there any other key dates or inputs in the pricing process for TNSPs and DNSPs?	<p><u>DNSP inputs</u> Ergon Energy agrees with the inputs needed before a DNSP can submit their annual Pricing Proposal.</p> <p><u>TNSP inputs</u> [REDACTED]</p> <p><u>Key dates</u> [REDACTED]</p> <p>Other key dates in the Pricing Proposal process include:</p> <ul style="list-style-type: none"><li>• AER-approval of the s-factor, which generally occurs in April each year;</li><li>• AER-approval of EECL's cost pass through application for the Queensland Government Solar Bonus Scheme, which is approved in January each year; and</li><li>• Submission of EECL's proposed DLFs by the end of the second week in March each year for AER-approval. There is no timeframe in which the AER must approve the DLFs. However, the Australian Energy Market Operator must publish the approved DLFs on their website by 1 April each year.</li></ul> <p><u>Notification of proposed price changes and approved price changes</u> The National Energy Customer Framework does not currently apply in Queensland. This means EECL is not required to notify retailers of proposed price changes or approved price changes within the timeframes set out in the National Energy Retail Law. However, a similar obligation currently exists under the default Queensland Coordination Agreement made under the Electricity Industry Code. Under this agreement, EECL must provide to retailers and publish in the public domain our price list. We are also required to provide retailers with notice of:</p> <ul style="list-style-type: none"><li>• Any proposed structural changes to the price list, at the time an application for structural change is made to the AER; and</li><li>• Any other changes to the price list, which notice must be reasonable taking into account the nature and scope of the changes.</li></ul> <p>In any event, EECL must provide retailers with notice no later than two days after approval</p>

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	of the changes by the AER.
3. Other than the question of timing, are there any other differences in the regulatory arrangements in Victoria which are relevant for the purposes of this rule change request?	Nil comment.
4. What are the risks in requiring TNSPs and in particular, DNSPs to publish their annual prices earlier than currently required? What are the consequences of these risks and can these risks be adequately managed if the proposed rule is made?	<p>Ergon Energy interprets this question as the risks involved in requiring DNSPs to <u>submit</u>, not publish, our annual prices earlier than expected.</p> <p>Ergon Energy does not object to bringing forward the submission date of the annual Pricing Proposal to 1 April each year. We recognise that doing so will allow retailers to better prepare for the upcoming pricing year. However, we agree that the AEMC should take into consideration risks to DNSPs as outlined in the Consultation Paper. Ergon Energy believes these risks can be adequately managed by making adjustments to other processes and Rules (where necessary), and taking into account the revised submission date when setting DNSPs' Distribution Determinations (e.g. for CPI). Ergon Energy is not aware of any other risks.</p>
5. Should the AER have a set timeframe in which to assess all DNSP annual pricing proposals?	<p>Ergon Energy is generally supportive of the introduction of a set timeframe in which the AER must assess all DNSP Pricing Proposals and agrees with the proposed timeframe of 20 business days. The proposed timeframe will allow for the publication of the network prices two months prior to taking effect.</p> <p>However, we believe the Rules should provide for an extension of this timeframe if a DNSP is required to resubmit their Pricing Proposal under clause 6.18.8(b) of the Rules. In this case, Ergon Energy suggests a 'stop-the-clock' mechanism could be adopted until the DNSP resubmits the Pricing Proposal. Alternatively, an extension of 10 business days to account for the maximum amount of time the DNSP has to resubmit their Pricing Proposal would be reasonable.</p> <p>There might also be value in extending the timeframe in extenuating circumstances where the DNSP needs to resubmit their Pricing Proposal on their own accord (e.g. due to identifying a material error after original submission, or implementing a ministerial direction or Australian Competition Tribunal decision received after the original submission, but before the AER completes its assessment).</p>
6. Is anything else involved in the AER approving a DNSP's annual pricing proposal? How much time should be allocated to the AER for this assessment/approval?	Please refer to our response to Question 5 above.



<p>7. How much time do retailers and jurisdictional regulators require for notification of network prices before finalising retail tariffs and notifying customers?</p>	<p><u>Notification process</u></p> <p>EECL provides the QCA with indicative network prices and information on proposed network tariff structures for incorporation in their Draft Determination on Notified Prices.<sup>4</sup> As the Draft Determination is due to be released by 13 December each year,<sup>5</sup> retailers have access to this information six months prior to the commencement of the upcoming pricing year.</p> <p>We also provide the QCA with the network prices contained in our Pricing Proposal on 30 April each year (two months before the commencement of the pricing year) for incorporation in their Final Determination (due for release by 31 May each year). Where changes are made to network prices before the release of the Final Determination, these are forwarded to the QCA as soon as practicable.</p> <p>In addition, EECL intends to engage with the AER on proposed network tariff structure changes arising from our Network Tariff Strategy review prior to the submission of our Pricing Proposal. This is likely to minimise any risks involved in the AER's approval of the changes and will provide greater confidence to retailers that the information provided as part of the Notified Prices determination process will eventuate.</p> <p><u>Time required</u></p> <p>As a non-competing retailer, EEQ does not set retail electricity prices. Instead, EEQ is restricted to offering Notified Prices determined by the QCA, under Delegation from the Queensland Minister for Energy and Water Supply. This means EEQ is dependent on the QCA's Final Determination before finalising retail tariffs and notifying customers. As highlighted above, the QCA's Final Determination is due to be released by 31 May in the 2014–15 and 2015–16 pricing years.</p> <p>Ergon Energy therefore suggests that the final network prices should be approved at least five business days before 31 May each year. The earlier submission date and the proposed timeframe to assess and approve the Pricing Proposal within 20 business days of receipt will achieve this.</p>
<p>8. Is the proposed notification of two months sufficient?</p>	<p>Ergon Energy agrees that the proposed notification of two months is sufficient. This will provide certainty to retailers regarding tariff structures and prices, allowing retailers to more effectively engage with customers, modify systems and processes and train staff.</p>

<sup>4</sup> Currently, Ergon Energy's network tariffs are used as the basis for determining Notified Prices for very large customers (i.e. those consuming 4 GWh or more per annum), large business customers (i.e. those consuming 100 MWh or more per annum) and street lighting customers (i.e. Councils and the Department of Transport and Main Roads).

<sup>5</sup> As per the Queensland Minister for Energy and Water Supply's Delegation to the QCA for 2014–15 and 2015–16.

*Consultation on development of network prices*

9. What type of consultation on level and structure of network prices would be useful to consumers/consumer groups and what benefit would there be?

Ergon Energy agrees that consultation on the development of network tariffs, especially where a change in a network tariff structure or eligibility is being considered by DNSPs, is beneficial to consumers and retailers.

However, we do not believe it is necessary to introduce guidelines to facilitate this dialogue. This is because:

- DNSPs consult with stakeholders when major structural changes are proposed. For example, as part of our Network Tariff Strategy, Ergon Energy will consult with our stakeholders on possible tariff structures (e.g. kVA, demand-based and time-of-use network tariffs together with less reliance on variable kWh charges) and transitional pathways. To date, we have held discussions with some peak industry bodies to gauge their views and have recently released a public consultation paper for comment. We will continue to work with our stakeholders throughout the process to ensure that customers, retailers and interested parties are aware of the development of new tariffs and are cognisant of changes likely to affect them. This may alleviate some of the risk to retailers from an unexpected material change in network tariffs.
- Ergon Energy currently provides indicative network prices to major market customers to assist in their business planning processes. This typically occurs in March each year. We also liaise directly with major customers on site-specific tariffs that are likely to have significant price increases in the upcoming pricing year as the result of changes in their underlying connection characteristics.
- For non-market customers, indicative network prices are visible to customers and retailers through the QCA's Notified Prices Draft Determination.
- Ergon Energy has a number of pricing documents publicly available which aim to assist customers, retailers and other interested parties understand how network charges are developed and applied. These documents are updated annually.

Ergon Energy strongly believes that guidelines will increase administration and resourcing costs, and create timing constraints in the pricing process. DNSPs should be responsible for deciding what degree of consultation is required and how often this should occur.

If consultation is mandated, we prefer the AEMC's Power of Choice recommendation to consult only on network tariff structures and for this to occur during the regulatory determination process (noting that structures may change in future years and will be subject to additional specific, targeted and calibrated consultation consistent with sound industry business practice).

	<p>If the AEMC chooses to introduce guidelines instead, we believe that the type and level of consultation should be proportionate to the significance of the change. For example, the introduction of a new network tariff structure, a significant change in the differential between network tariffs or within a network tariff, or a change in network tariff eligibility have a far greater impact on retailers and customers than a moderate price increase to an existing network tariff. From a retailer perspective, these types of changes necessitate modifications to retailer systems and processes, increased training of staff, greater communication with customers and possible variations to retail products.</p> <p>The guidelines should not be too prescriptive and should allow DNSPs some flexibility to choose the most appropriate consultation method, while not limiting the effectiveness of the consultation process. The guidelines may require DNSPs to include advice on the consultation process undertaken in the annual Pricing Proposal.</p>
<p>10. How much scope would there be for consultation on proposed annual network prices?</p>	<p>Please refer to our response to Question 9 above.</p>
<p><i>Statement of expected price trends</i></p>	
<p>11. How useful is the current statement of expected price trends to retailers and consumers?</p>	<p>As noted by the AEMC, the level of detail provided in the statement of expected price trends varies between DNSPs (e.g. percentage change between years versus nominal cents per kWh for future years, and broken down by tariff class versus price change for the portfolio). EEQ would find indicative price changes for each tariff class beneficial.</p> <p>Ergon Energy also considers that DNSPs should be required to update the statement of expected price trends to reflect any substantial changes to network structures once known (e.g. the introduction of a new network tariff).</p>
<p>12. What influences the statement of expected price trends?</p>	<p>Ergon Energy agrees with the influences highlighted in the AEMC's Consultation Paper. Additionally, the following factors will be unknown at the time of preparing the statement:</p> <ul style="list-style-type: none"> <li>• Actual CPI;</li> <li>• S-factor;</li> <li>• The difference between actual and forecast capital contributions;</li> <li>• Pass throughs (e.g. Solar Bonus Scheme);</li> <li>• Jurisdictional scheme amounts; and</li> <li>• Any government interventions as the result of market and regulatory reform.</li> </ul> <p>If the statement of expected price trends includes information on proposed structural changes, we note that the statement would be subject to other influences too.</p>



<p>13. Should a DNSP's approval of its annual prices be linked to how accurately it can track the statement?</p>	<p>Ergon Energy does not support IPART's proposal to amend the assessment criteria of network prices to include consistency with the DNSP's statement of expected price trends. As noted above, there are too many uncertain factors which influence a DNSP's ability to forecast future prices. The statement should be clearly positioned to reflect this uncertainty, thus enabling customers and other stakeholders to factor this into their decision-making. Ergon Energy suggests that it may be more beneficial to require the DNSP to explain why a deviation from the statement has occurred. This will place the onus on the DNSP to manage inconsistencies with their statement of expected price trends more effectively.</p>
<p><i>Initial year network pricing</i></p>	
<p>14. What are the key dates in the initial year pricing process of TNSPs and DNSPs?</p>	<p>In general, the key dates in the initial pricing process are the same as the subsequent pricing years, with the exception of the release of the Distribution Determination on 30 April 2015 and the requirement to submit the Pricing Proposal within 15 business days.</p>
<p>15. What is the best option to manage the first year pricing issue? Is it necessary to keep timings for the first year and subsequent years the same?</p>	<p>Ergon Energy agrees that bringing forward the notification period of the network tariffs for the initial year of the regulatory control period would compromise the regulatory determination process. Therefore, it is appropriate to have different timings for the publication of network tariffs for the first and subsequent years.</p>