



EnergyAustralia

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Mr Shari Boyd
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

EnergyAustralia Pty Ltd

ABN 99 086 014 968
Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

Lodged electronically

Dear Ms Boyd

RRC0015 Advanced notice of price changes – Draft rule determination

EnergyAustralia is pleased to make this submission to Australian Energy Market Commission's (the Commission) Draft Rule Determination – National Energy Retail Amendments (Advanced notice of price changes) Rule 2018 (draft determination). We are one of Australia's largest energy companies, with over 2.6 million household and business customer accounts in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation facilities across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market.

EnergyAustralia is an advocate for ensuring that customers are aware of upcoming changes to their energy plans and prices. Without compulsion, we are already meeting the Commission's stated primary purpose of advanced notification: "*the consumers right to be informed of price increases before they occur and [to reduce the risk] of bill shock*".¹ It is our common practice to inform customers ahead of any changes to energy tariffs or any benefits associated with their contract because it is in the best interest of customers that they are provided the information they need in a way that is easy to understand.

We agree with the Commission's findings in the draft determination that the primary purpose will be best achieved by a rule that facilitates the delivery of notices that are short, to the point and allow the consumer to decide their next course of action.² To date, retailers have had the flexibility to design and scope our communications with customers in a way that we know (from experience) our customers respond well to. Our research and development of customer communications is ongoing and evolves over time as our customers' preferences change. We support the ongoing level of flexibility around form, content and method of communication that retailers will retain if the draft determination is approved in its current form.

¹ AEMC, Draft Rule Determination, National Energy Retail Amendments (Advance Notice of Prices Changes) Rule 2018, 5 July 2018, p15.

² Ibid.

EnergyAustralia continues to maintain its reservations about the imposition of a specified minimum timeframe within which to provide advanced notice of price changes. We request that Commission give more consideration to the significant compression on timelines which will be caused by imposing fixed days for prior notification to customers. The reasons for our concerns are set out in more detail below.

1. Length of Notice Period

As a retailer who regularly and actively engages with its customers, the frequency and volume of our communications allows us to understand the complexity and limitations of scheduling customer communications on a large scale. Unlike communications to customers for targeted communications (e.g. benefit change notification), the advanced notice of price is generally sent to all customers in SA, QLD and NSW: with over a million pieces of communications rigorous testing is required to ensure the right letters go to the right customers and within the required timeframe. In undertaking such a large campaign, we are keenly aware of the importance of planning each stage of the reprice process and the limitations of our internal processes and systems.

While not currently required under the rules, EnergyAustralia's objective is to notify customers of increases in prices, prior to the effective date (typically 1 July); our internal reprice processes are driven by that date. The size of our customer base means that our mailout has to be staggered over approximately 10 business days to manage impact both on mail house and on our customer contact centres. In most cases in recent years we commence mailout to customers in early to mid-June to provide customers with notice of impending price changes prior to 1 July and within the range of 1 – 10 business days' notice from the date the customer receives their letter.

However, the communication stage of our reprice event cannot commence until the pricing strategy has been approved, which cannot occur until all pricing inputs are received and processed. In the case of gas networks charges, which are not released to a fixed timeframe, there is the potential for our internal reprice activities to be severely compressed. At times, the squeezing of timelines requires amendments to contracts and approvals processes. Imposing a fixed day notification period without appropriate additional flexibility to accommodate delays further compresses our internal processes.

While we have a small level of flexibility to manage internal processes and timelines, there is a point at which meeting a notification timeframe will either potentially impact the quality or cost of our decision-making processes and implementation to the detriment of customers. In extreme cases, we may need to consider altering the date that the price change takes effect. If this decision is made too late, it is expensive as it requires steps that are already underway or complete to be restarted.

Effectively, any slippage in the finalisation of pricing inputs has a direct impact on the timing of notifications to customers. We agree that in many cases five working days prior notification will be possible. However, there are risks of non-compliance in circumstances where there are delays in the receipt of final pricing inputs such as: AER network determinations, major decisions about energy efficiency and renewable schemes and potentially other high impact regulatory changes affecting retail costs or pricing. Our primary concern is with pricing inputs that are outside the control of retailers that frequently affect our repricing projects and communication activities.

2. Delay in notifications caused by network determination

Network tariffs are one of the most significant considerations in the finalisation of our prices as they form around 40% or more of the customer's bill and therefore can have a high impact on retail prices. The later we receive the final network prices from the AER, the later we are able to finalise our retail pricing strategy. This year, we received final determination for Jemena gas network costs on 7 June. This resulted in delays in the finalisation of our pricing strategy. Although, in this instance our final pricing strategy was to make no change to prices for customers in NSW and therefore there was no impact to our communications as notification was unnecessary.

Had there been a retail price increase or decrease, we certainly would not have met the five business days prior notification for gas customers and dual fuel customers in NSW. Under the proposed rule, we would have had to push out the re-price date from 1 July to some other date in August in order to accommodate the five business day notification period. A delay late in the process would require us to re-schedule the mail house who has reserved their machines in advance for our mail out to print and send. The rescheduling alone would have cost \$10,000 if we were not aware until the start of June that a portion of the reprice will be delayed. There also would have been a need to re-shuffle staff to accommodate the impact on call centres of price change letters going out later than first planned. Additional costs incurred as a result of delaying re-price date will ultimately be recovered from customers.

A further consideration is that most gas customers are dual fuel customers, which means we will also delay notification of electricity re-price as our preference (and customer preference) is not to send multiple communications in a short period of time. The cost of mailing these customers separately for electricity and gas will double (and depending on the number of affected customers will be at a cost of between \$1 and \$2 per letter and in the case of NSW gas customers an additional \$300,000 to \$600,000).

The alternative to deferring the date of re-price (or breaching the five-day rule) is for the Commission to include in the rule a level of flexibility over the minimum notification period where finalisation of regulatory pricing inputs have been delayed. For example, to allow for the situation we experienced this year with the late approval of Jemena gas network prices.

3. Options

The Commission has previously acknowledged the importance of retailers receiving "*advance notification of network tariffs so they can consider these in the design of their retail tariffs.*"³ In making a final decision about the publication of final electricity network determinations, the Commission determined that networks should "*publish distribution tariffs earlier, giving retailers at least six weeks' notice of annual network tariffs... . [giving] retailers more time to reflect network tariffs in their retail tariffs.*"⁴ In response to retailer concerns about sufficient timeframes the Commission conceded that where networks "*submit compliant annual pricing proposals to the AER, retailers could have as much as two months notification of network prices.*"⁵

The current draft rule as it is proposed, appears to contradict the Commission's previous position in relation to the importance of retailers having sufficient time to set competitive retail

³ Australian Energy Market Commission, Rule Determination National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 20147, 27 November 2014, p 203.

⁴ Ibid, p 205.

⁵ Ibid, p 159.

prices. In effect, the draft rule reduces retailers advance notification of network tariffs to four weeks and in some cases three weeks (depending on the size of a retailer's customer base and needs to manage commencement of mailout) in order to meet the five day notification period.

While the six weeks notification period rule does not apply to gas network price determinations, the same issues affect retailers.

EnergyAustralia's preference is that there is no specific period for notification to customers of changes ahead of price changes, except that it must occur prior to the effective date. However, if the Commission consider the benefit to customers of advance notification outweighs the potential detriments, then EnergyAustralia is willing to support the rule as drafted if a provision is added to provide flexibility over the five business days notification period in circumstances where there is delay in the publication of final decisions by external inputs such as network determinations or other material regulatory or government decisions. In providing for this level of flexibility, additional costs will be minimised, and customers will not be negatively affected.

An alternative could be: if final network determinations or other regulation are not finalised X weeks prior to their effective date, the five day notification period is reduced by the number of work days that the determination is late.

If this level of flexibility cannot be included, then consideration must be given to imposing a timeframe for the finalisation of gas network determinations, something similar to what is required for electricity determinations which are required to be finalised and published six weeks before they take effect. This solution will provide retailers with far great certainty and increase their capacity to meet five-day notification period.

We note that the National Gas Rules cannot be changed to provide a clear window of time between finalisation of gas network tariffs and their effective dates as the timing is considered under the access arrangements (which are regulated by the AER). We note that the upcoming regulatory period for NSW gas networks are open for consultation now.

4. Conclusion

EnergyAustralia already provides advance notification of price changes to customers. Sometimes we send notifications as much as ten business days in advance, but it would be impossible for us to comply with this rule when final network tariffs are often not available early enough, and we also must take into account processing and mail delivery times.

Customers should have sufficient information about changes to plans and offers, however if retailers are pressured to finalise prices absent final network tariffs, then there will be additional cost of delays and rework.

We strongly believe that retailers are best placed to develop and deliver communications to their customer base. Information about reprice events should be provided to customers at lowest cost and where this is compromised due to delays in regulatory pricing inputs, the advanced notice of price changes rule should provide for flexibility to allow retailers to minimise any additional cost impost or inconvenience to customers.

If the five-business day advance notice period is retained in the final rule, then we ask that the Commission allow for flexibility in the even that network tariffs or other regulatory or government approved rates or cost inputs are approved too late for retailers to comply.

Should you require further information regarding this submission please call me on (03) 8628 1242.

Yours sincerely

Melinda Green

Industry Regulation Leader