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## **Submission to NSW and ACT Distribution Network Service Providers' (DNSP) revenue smoothing participant derogations (ERC0210)**

Energy Consumers Australia thanks the Australian Energy Market Commission (AEMC) for the opportunity to provide comment on its consultation paper for the rule change process considering the proposal to allow revenue smoothing across two five-year regulatory periods.

The proposal is for a change to be made to the National Electricity Rules (NER) that covers these DNSPs on this occasion, known as 'participant derogations'. We understand that a change was considered necessary by the DNSPs for the avoidance of doubt. The NSW DNSPs (Ausgrid, Endeavour Energy and Essential Energy) and ActewAGL are seeking a derogation that would allow any under-recovery of revenue to be spread over the remaining years of the current five-year period and the entire next five-year period.

The proposed derogations seek to avoid the possibility of sharp price increases that may stem from a resolution of the Australian Energy Regulator's (AER) current network revenue determinations for the four DNSPs. Those determinations are currently being considered by the Full Federal Court of Australia. It is possible that by the time the final revenue allowance is settled, all businesses will be in the second last or last year of their determinations. It is understood that under the current NER this means that in the final year DNSPs will need to set prices to recover any shortfall in their revenue for the current regulatory period. This could impact bills significantly, with potentially adverse outcomes for consumers.

ECA supports the intent of the proposed derogations, on the basis that consumers prefer prices to be as stable and predictable as possible. Unanticipated sharp price increases in one year, even if followed by a substantial fall in the following year make it hard for households and small businesses to manage their budgets.

In addition, consumers are increasingly making significant capital outlays in order to manage their energy costs, with more than one million homes having installed rooftop solar PV systems and many also considering installing batteries. Like any investors, consumers have a preference for certainty in relation to important costs.

Consumers are telling us that they are not satisfied with the value for money of their electricity services, and that the value for money ranks behind other utilities including mobile phones, internet and banking. Consumers are also telling us that they are not confident that the market is working in their interests. Price volatility is likely to only further exacerbate consumers' lack of satisfaction and confidence in the energy market.

### **Consultation by the proponents**

The proposals are for a participant derogation that would apply only to the four DNSPs in this instance, rather than a general rule change governing the smoothing of revenue changes following appeals of AER determinations.

Prior to submitting their proposed derogation, the NSW DNSPs engaged extensively with a number of energy consumer advocacy organisations, including Energy Consumers Australia.

During the consultation process, consumer advocates raised various concerns about aspects of the NSW networks' proposal, including that the proposal should take the form of general rule change to apply in future to all DNSPs in these circumstances rather than proposing a change that deals with only this specific instance in NSW and the ACT. We note that the concerns raised by consumers advocates, as well as responses from the NSW networks, is provided at Attachment 2 of DNSPs rule change proposal.<sup>1</sup>

While there is logic in a more general rule change, that could avoid future time and effort should these circumstances re-occur, we appreciate that the AEMC does not have the flexibility to take this approach given the rule change as submitted.

At the same time, we recognise the efforts of the NSW DNSPs to engage with consumer advocates at an early stage in the process, including the responsiveness they showed to advocates' questions and requests.

If you would like to discuss anything related to this matter further, please contact Oliver Derum on (02) 9220 5514 or [oliver.derum@energyconsumersaustralia.com.au](mailto:oliver.derum@energyconsumersaustralia.com.au).

Yours sincerely

*Lynne Gallagher*

**A/g Chief Executive Officer**

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<sup>1</sup> NSW Networks, *Request for rule change (participant derogation) to minimise pricing volatility following Tribunal decision*, 15 July 2016, Attachment 2. Available at: <http://www.aemc.gov.au/Rule-Changes/Participant-derogation-NSW-DNSPs-Revenue-Smoothing>