19 December 2013

positive energy

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

Dear Mr Pierce

Response to AEMC Consultation Paper - National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014

Energex Limited (Energex) welcomes the opportunity to provide a submission in response to the AEMC's Consultation Paper on two distribution pricing rules change requests submitted by the Independent Pricing and Regulatory Tribunal (IPART) and Standing Council on Energy and Resources (SCER).

Energex's response to the questions raised in the consultation paper is provided in **Attachment 1**.

Energex is supportive of the underlying objective of the rules change requests, which is to strengthen the ability of consumers to engage in the energy supply chain, including through the provision of more efficient network pricing signals. Over recent years, Energex has invested resources in facilitating stronger demand side participation in its network and will continue to build on this investment in the forthcoming 2015-20 regulatory control period.

In a general sense, Energex considers that facilitating stronger demand side participation in energy networks will require Distribution Network Service Providers (DNSPs) to utilise a range of tools, including tariff and non-tariff mechanisms and improved customer engagement and information exchange.

In addition, the Australian electricity supply market is rapidly evolving due to frequent national and jurisdictional policy and regulatory changes (including metering), technological advances and a more empowered customer base.

This will require a regulatory framework that allows DNSPs to respond flexibly to these changes, including beyond the boundaries of the distribution pricing rules. Failure to provide this flexibility will increase the likelihood of network pricing structures becoming obsolete or being inefficient, encouraging consumption behaviour that exacerbates network peaks, or creating barriers to entry for alternative energy technologies.

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Given this background, Energex is particularly concerned that the likely impact of the rules change requests and the AEMC's interpretation of those requests as set out in the Consultation Paper, would be to significantly increase the prescriptiveness of the distribution pricing rules. Moreover, the narrow focus of the SCER rule change request in prescribing a long run marginal cost (LRMC) pricing rule is highly unlikely to achieve its intended objective because it fails to reflect the practical realities and complexities of network and retail electricity pricing.

In Energex's view, the current suite of obligations in the NER relating to the setting and approval of distribution network prices is broadly appropriate as it effectively balances the need to set efficient network prices whilst ensuring an appropriate level of flexibility for DNSPs and protection of consumers. It also provides significant powers to the Australian Energy Regulator (AER) in terms of its ability to approve or not approve network prices which are cost reflective and efficient.

Energex therefore does not support mandating an LRMC pricing rule as it would reduce network pricing flexibility with questionable demonstrable benefits to consumers compared to the existing LRMC requirements in the rules. The existing rules requirements in relation to LRMC effectively provide for it to be taken into account in setting each network tariff where a DNSP and the AER consider that it would be efficient to do so. In Energex's view this appropriately balances the objective of achieving efficient network pricing with the practical constraints in setting such prices, including smart meter penetration and retail price regulation.

In terms of IPART's rule change request, Energex notes that the proposed requirement to impose on DNSPs the preparation of a Pricing Structures Statement (PPS) represents (in part) a duplication of current requirements in relation to the preparation of Annual Pricing Proposals. Furthermore the Consultation Paper fails to recognise the recent revisions to the NER that require a DNSP to demonstrate to the AER that it has engaged with stakeholders to understand their expectations and concerns and to take them into consideration, including in relation to network pricing.

In Energex's view, it is important that stakeholder consultation is appropriately structured and targeted because for many consumers, it is the electricity retailer with whom they have the primary and direct pricing relationship. Consequently, retailers also have a key role to play in informing customers regarding network prices. Any changes to the regulatory framework should be mindful of the extent to which a DNSP's pricing signals are visible to customers (particularly residential customers) and whether increased levels of customer engagement by DNSPs will actually deliver an increased level of understanding of the underlying drivers of retail electricity prices.

Historically, retailers have sometimes been reluctant to reflect network pricing signals in retail tariffs. This can be attributed to a number of factors, such as jurisdictional policies (i.e. gazetted tariffs) and different commercial drivers (including managing wholesale market risks). It is important that the AEMC understands this issue, particularly in regards to additional obligations being placed on the DNSPs to consult more on pricing and the potential for genuine retail price innovation.

Finally, Energex is sympathetic to the intent of the IPART rule change request for retailers to receive earlier notification of network use of system (NUOS) prices. However, this should not be at the expense of creating new risks for DNSPs in terms of the recovery of allowable revenues.

Energex looks forward to further participating in this important rules change request process.

Should you have any enquiries regarding our submission, please contact Raquel Flynn, Acting Network Pricing Manager on (07) 3664 5539.

Yours sincerely

Kevin Kehl
Executive General Manager
Customer and Corporate Relations

ATTACHMENT 1

Issues for Consultation	Energex Response
Question 1:	
What other considerations should be included in the assessment framework?	Energex agrees with the facilitation of efficient network pricing, allocation of risks and regulatory burden as assessment criteria. However, it considers that the stakeholder engagement criterion should be broadened and the principle of predictability removed. *Demand side participation* Whilst Energex supports stakeholder engagement, it believes the principle should be broadened to address Demand Side Participation. This is because improved demand side participation is the key efficiency outcome of any network tariff reform not stakeholder engagement, which is likely to be necessary but not sufficient to achieve that outcome. Furthermore, it is important that stakeholder consultation is appropriately structured and targeted as it is not reasonable to assume that consumers, especially residential consumers whose pricing relationship is with the retailer not distributor, understand the difference between the various signals being promoted by participants in the electricity supply market. Energex considers that requirements for greater information exchange needs to be shared throughout the entire electricity supply chain, recognising who is best placed to provide that exchange. The distributional impacts of moving to more cost reflective network tariffs will also raise important policy issues that appear to have been ignored in SCER's Rule Change Request. Finally, the information that the customer receives should be consistent regardless of which market participant has contributed. Market participants have different and often competing objectives, so it is possible that conflicting messages are received by consumers. This is clearly not in keeping with the goal of increasing customer understanding of the final electricity tariff. *Predictability* Energex considers that the predictability criterion should be removed. The issues identified by the AEMC under section 5.3 of the Consultation Paper in relation to predictability can be addressed under the other proposed criteria.
Question 2:	
Does figure 6.1 reflect the key components of how network tariff structures and pricing levels determined by DNSPs?	Figure 6.1 reflects the key components of how network tariff structures and pricing levels are determined at a high level. However, it makes no reference to considerations outside of the pricing principles e.g. stability.

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Question 3:	
How often are network tariff structures likely to change during a regulatory period and what are some of the reasons for that change?	During the current regulatory control period Energex has had to adjust its network tariff structures due to changes in the policy sphere (e.g. introduction of the Queensland Solar Bonus Scheme), jurisdictional reviews (e.g. Review of Electricity Pricing and Tariff Structures) and market circumstances (e.g. consumer behaviour i.e. responding to energy efficiency incentives and the adoption of alternative energy technologies). The types of changes made during the current regulatory control period and the rationale for each change is summarised in the table below.

Year	Changes	Reason for change
2010/11	• Tariff Structure change – removal of tariffs: NTC9250 (Streetlights Rate 1 Major), NTC9350 (Streetlights Rate 2 Major) • Price Level change – introduction of kVA power factor adjustment for ICC, CAC & EG customers	• Simplification through consolidation of tariffs • Sends correct price signal, cost reflective prices
2011/12	• Price Level change – increase the kVA power factor adjustment for ICC, CAC & EG customers	• Sends correct price signal, cost reflective prices
2012/13	• Tariff Structure change – new tariff : NTC8900 (Residential ToU) • Tariff Structure change – removal of tariffs: NTC8200 (SAC Demand – Medium), NTC8600 (Business Medium - Flat), NTC8700 (Business Small - ToU), NTC9400 (Streetlights), NTC9500 (watchman lights) • Price Level change – increase the kVA power factor adjustment for ICC, CAC & EG customers	• Sends correct price signal, cost reflective prices; originally introduced to complement IBT • Simplification through consolidation of tariffs • Sends correct price signal, cost reflective prices
2013/14	• Price Level change – straight kVA pricing for ICC, CAC and EGs for DUOS only • Tariff Structure change – new tariff : PeakSmart ToU	• Sends correct price signal, cost reflective prices • Sends correct price signal, cost reflective prices,

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	Individually and/or collectively these events have materially impacted the assumptions applied to determine network pricing levels. Furthermore the majority of these events could not have been foreseen at the time of the 2010-15 distribution determination. The electricity supply market is continually evolving due to regulatory changes (including metering), technological advances and a more empowered customer base. This trend is expected to continue and in some instances it is expected to accelerate over the medium term. The regulatory framework therefore needs to provide Distribution Network Service Providers (DNSPs) with sufficient levels of flexibility to adequately respond. Failure to provide this flexibility will increase the likelihood of the network pricing structures being inefficient, encouraging consumption behaviours that exacerbate network peaks or create barriers to entry for alternative energy technologies.
Question 4:	
What level of information on network tariff structures and network tariff pricing levels should be included in a network tariff structures document to assist retailers and consumers to understand and respond effectively to changing prices and structures over the regulatory period?	As noted by the AEMC, there is a trade-off between the level of information provided on network prices and the flexibility afforded to DNSPs to respond to changing market conditions. However, the position presented in the Consultation Paper understates the impact that detailed information requirements (in particular binding obligations) would have on DNSPs and overstates the benefits to retailers and consumers. *Impact on DNSPs* Requiring DNSPs to commit in advance to a particular network tariff pricing level as part of a Pricing Structures Statement (PSS) would reduce price flexibility and ultimately increase the financial risk profile for the DNSP. As shown through the introduction of the Solar Bonus Scheme in Queensland and similar feed-in tariff schemes across the National Electricity Market (NEM), the full impact of these schemes was not foreseen at the time of implementation. This is most clearly demonstrated through the subsequent applications to the Australian Energy Regulator (AER) for positive pass throughs. For example the AER approved a $78,560,900 ($Dec 2013) pass through for Energex associated with higher than forecast feed–in tariff payments made during the 2011–12 regulatory year[1]. Furthermore feed-in tariffs have had a material impact on DNSP operations and some of the underlying assumptions used in setting prices (i.e. energy volume). An inability to adjust network tariff pricing structures and levels during the regulatory control period would adversely impact cost reflectivity, and due to the rapidly changing market pricing structures will be technical

[1] This trend has continued, as seen with Energex's recent application to the AER for a positive pass through of $185,613,842 for costs incurred in the 2012-13 regulatory year.

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	obsolescent. First, through increased levels of unders/overs during the regulatory control period, which at an aggregate level dilute cost reflectivity. Second, the efficiency of the tariff structure would decline as the underlying 'signals' become less relevant due to contemporary market circumstances and over time, may incentivise behaviour which is detrimental to network performance. It is also not possible to provide information on network tariffs (structures and levels) in advance of the annual pricing process with any certainty as a number of key inputs for the pricing setting process are not known until just prior to the relevant year e.g. energy volumes. *Impact on Retailers and Consumers* More easily accessible information on network tariffs may assist consumers and retailers to respond to signals incorporated in the tariffs. However, information on its own will not deliver retail price innovation or desired changes in consumer behaviour if DNSPs and retailers have different commercial drivers. Whilst it is important that network pricing signals are transparent to consumers (as they represent approximately 50 % of a residential consumer's electricity bill), it should be acknowledged they are just one of a wider range of parties seeking to send signals to the consumer. In some instances the various 'signals' may be in conflict with each other or have different time profiles, i.e. peak periods in the wholesale market and distribution network (in aggregate or at specific locations) do not necessarily align. Also network prices are just one component of the delivered cost of energy. If there is to be a PSS, Energex considers that it should be a high level document aimed at encouraging informed dialogue between all stakeholders. The PSS could include information on the following: • network tariffs to apply over the regulatory period (e.g. residential flat) and cost reflectivity of the allocation of revenue; • expected price changes over the course of the regulatory period and the indicative impact on key customer classes; • the stakeholder consultation process; • policies for each network tariff, including who can access the tariff and under which conditions; and • how the DNSP intends to evolve tariff structures over the duration of the regulatory period. Energex notes that much of this information is currently made available under the existing Chapter 6 distribution pricing rules, i.e. through the Annual Pricing Proposal and Statement of Expected Price Trends.

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	Energex also strongly believes that any PSS should not be required to demonstrate compliance with the pricing principles as this would represent a duplication of regulatory obligations, as a similar obligation currently exists for a DNSP's annual pricing proposal.
Question 5:	
Should DNSPs be able to vary their network tariff structures during the regulatory period? Why or why not?	Yes, this would appear to be a fundamental feature of facilitating the provision of efficient network tariffs. Networks should have the flexibility to adjust tariff structures to promote efficient pricing and address revenue recovery within a period. Prohibiting the ability of a DNSP to change network tariff structures has the potential to restrict networks from adapting their tariffs to efficiently respond to a continually evolving energy supply market. It also has the potential to make it harder for a DNSP to recover its approved Annual Revenue Requirement. It could also stifle innovation in network pricing structures as DNSPs will find it difficult to trial alternative tariffs and/or to make adjustments to the parameters of the trial during the regulatory control period. It is not appropriate to draw comparisons between Transmission Network Service Providers (TNSP) and DNSPs regarding the suitability of setting the pricing methodology at the start of the regulatory period because pricing is a far more complex task for DNSPs. This is due to their significantly larger number of customers and material distributional impacts of the Network Use of System (NUOS) tariff.
Question 6:	
If a document on network tariff structures is put in place, should this be an indicative document or should the DNSPs be required to apply it in their annual pricing proposals?	Energex currently has established practices covering the development, consultation, testing and implementation of tariff structures. This process is supported through regulatory and legislative obligations and the resulting tariffs are subject to regulatory approval by the AER. For example, Energex conducted a lengthy consultation and trial billing process in relation to the introduction of kVA tariffs for Individually Calculated Customers (ICC) and Connection Asset Customers (CAC) customers to allow these customers to understand the impact of the new tariff prior to its implementation. The development of a PSS, irrespective of its structure or legislative obligations, represents (in part) a duplication of current practices and obligations. In Energex's view, the intended purpose of the PPS could be achieved under the existing annual pricing proposal process. Consequently, if a PSS obligation is introduced, it should be an indicative statement only and not binding on annual pricing proposals. DNSPs should be given the ability to amend the PSS over time due to the associated risks identified in Question 4 and that customer engagement may not have occurred at the time of submitting

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	the associated documentation. This is likely to be the case for later periods in the regulatory control period. It is important that DNSPs are able to respond in a timely manner to consumer feedback. The annual approval of network tariffs should continue to be the single key annual compliance obligation in relation to prices to protect the integrity of DNSP's tariff setting process.
Question 7:	
If a document on network tariff structures is binding on the DNSP, should it be able to be varied and under what circumstances? If so, should it be varied outside or within the annual network pricing process?	As noted in the response to Question 6, Energex does not support a binding PSS. If a PSS were to be implemented and binding, there must be scope to periodically vary it for the reasons outlined in the response to Question 4. Approval to vary the PSS should be sought from the AER, who would be required to adhere to a set of overarching principles detailed in the National Electricity Rules. Energex notes that a binding PSS will create a new compliance obligation with material additional administrative costs.
Question 8:	
Should DNSPs be required to consult with stakeholders before submitting their proposed pricing structures statement to the AER for approval through the regulatory determination process?	Yes, however there should not be separate guideline for consultation with customers on network tariffs. Failure to implement an integrated consultative and stakeholder engagement process, including network pricing, will place further strain on the consultative resources of all stakeholders, increase compliance costs for DNSPs for no benefit and contribute to consultative fatigue for consumers. The AER's Better Regulation Customer Engagement Guideline could be leveraged and/or adapted to include consultation with retailers on pricing in the regulatory determination process as the principles could be similar. The AER's approval of the PSS should be against defined criteria such as the PSS fulfilling information and stakeholder engagement requirements, and not whether the PSS demonstrates compliance with the pricing principles.
Question 9:	
Is consultation necessary if DNSPs seek to amend their approved pricing structures statement during the regulatory period, as opposed to at the time of the regulatory determination? Are there any circumstances where amendments to the network tariff	DNSPs should not be required to seek approval to amend their proposed PSS during the regulatory period. However, it could be appropriate that networks be required to update and amend their PSS to keep it consistent with the tariff structures and network pricing levels advanced in the annual pricing proposals. Consultation with stakeholders would also be conducted, preferably in advance of the annual pricing proposal

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structures in the annual pricing process should be exempt from consultation on amendments to the previously approved pricing structures statement?	being approved. An exemption from the need to conduct consultation should apply to any amendments caused by a jurisdictional scheme change or change in how the DNSP responds to a jurisdictional scheme.
Question 10:	
Is it necessary for the AER (as opposed to the DNSP) to consult with stakeholders before approving any proposed amendments to the pricing structure statement sought by the DNSP?	If consultation is done adequately by the DNSP, it will not be necessary for the AER to consult with stakeholders before approving amendments to the PSS. Duplication of the consultative task is excessive. If consultation is not conducted satisfactorily there may be merit in the AER consulting with stakeholders on the initial PSS as part of the regulatory determination process.
Question 11:	
Should the AER be required to provide guidance on the consultation process for DNSPs? Should the guidelines be binding on the DNSPs?	Under the AER's Better Regulation program the AER has just released a Consumer Engagement Guideline and Explanatory Statement that reflects intensive discussions between consumers, the AER and industry on best practice consumer engagement principles. It would be highly duplicative and inefficient to include any requirement for the AER, industry and consumers to reproduce this work. The guideline itself was developed with the clear view that setting and designing tariffs would be one of the matters it would cover (see Section 3.3. AER Consumer Engagement Guideline). It is not appropriate for the guideline to be binding as: • a binding guideline is equivalent to a rule and rules should be subject to the rule making process; • the AER is not established to be a rule making body, rather it applies the Rules; • the AER's Consumer Engagement Guideline is deliberately designed to be facilitative and directed at promoting cultural changes and not compliance-based engagement; and • the DNSP may be prohibited from consulting on certain jurisdictional schemes.
Question 12:	
Does the PSS need to be approved?	As noted in the response to Question 8, the AER's approval of the PSS should be against defined criteria, such as the PSS fulfilling information and stakeholder engagement requirements, and as part of the distribution

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	determination.
Question 13:	
Should the AER be able to amend a DNSP's PSS? If the AER does not approve a DNSP's proposed pricing structures statement, what arrangements would be suitable for default network tariff structures?	It is not appropriate for the AER to amend a DNSP's PSS. The PSS should be a high level document that assists retailers and consumers to understand and respond to network tariffs. The role of the AER is to ensure market participants adhere to the Rules. In the case of the PSS, it would be the AER's responsibility to ensure the PSS meets the approval criteria. Furthermore, the Rules only afford the AER the right to set specific parameters in extraordinary circumstances i.e. when the service provider has failed on various accounts to address the AER's concerns based on its interpretation of the Rules.
Question 14:	
What are the risks to the annual pricing process if DNSPs do not comply with their approved pricing structures statement or are late submitting a full pricing proposal?	Energex believes a PSS should be separate to the annual pricing proposal process. However, as noted previously, Energex currently consults with stakeholders on current and future pricing trends and would see the introduction of the PSS as a formalisation of current practices. Furthermore, as it is in the interests of DNSPs to assist retailers and consumers to understand network tariffs and changes that may be made within the regulatory period, DNSPs would be incentivised to maintain consistency with the PSS and the annual pricing proposal. Energex is sympathetic to the views outlined on the importance of the timely approval of network prices and the need to submit adequate pricing proposals to the AER. However, these are two separate issues in the sense that one is a legislative obligation that relates to the recovery of regulated revenues in the most efficient way, while the other is aimed at providing guidance on the approach used, to determine network prices, and the anticipated future direction of network pricing. Furthermore, it should be acknowledged that there may be extenuating circumstances that have contributed to a delay in setting network prices, for example changes in Government policy. Such changes are outside the control on the DNSP and typically cannot be foreseen at the time of the distribution determination.
Question 15:	
How should DNSPs be incentivised to comply with their approved pricing structures statement in their annual pricing proposals?	Energex does not support regulatory measures aimed at incentivising compliance as it believes a PSS should

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How should compliance incentives be balanced against the financial risks for DNSPs and certainty for stakeholders?	be non-binding and that the pricing levels contained in the PSS should be indicative only.
Question 16:	
Should DNSPs include forecasts for their expected changes in network tariff pricing levels in the pricing structures statement?	Forecasts could be provided on expected changes in network tariff levels in the PSS, but these changes would be indicative due to the volatility of energy and demand forecasts and changes in consumer behaviour.
Question 17:	
Should any changes to the network tariff pricing levels included in the pricing structures statement be subject to consultation? If so, what level of materiality should apply to the change?	Energex does not believe changes to tariff levels should be subject to further consultation, as the PSS is a high level indicative statement on pricing over the medium term.
Question 18:	
Should a pricing structures statement process be introduced as soon as possible? If so, what risks are there from having it in place before the next regulatory determination period?	If the PPS is introduced in a binding manner, significantly greater time for implementation would be required. The requirement for a PSS should apply to determination processes commencing after approval of the Rule change process, as occurred with the significant network rules changes made in late 2012.
Question 19:	
Does the AER consultation guideline need to be in place before a PSS can be implemented?	Refer to response to Question 11.
Question 20:	
If a PSS framework were implemented, would this reduce the timing pressures for the DNSPs, the AER and retailers that have arisen from the first year and subsequent year annual pricing process?	No, it is not possible to provide detailed information on network tariffs (structures and levels) in advance of the annual pricing process, with any certainty. Therefore, it is not possible for the PSS framework to reduce the timing pressure in the annual pricing process, unless it is assumed that there is considerable stability in the factors that impact on network tariff structures and pricing levels. This is not currently the case in light of current trends around energy demand and consumption, and the uptake of alternative energy technologies. In principle, Energex is supportive of the proposal for the earlier finalisation of network prices. However this support is subject to final transmission prices being made available to the DNSPs earlier than currently, the

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	definition of CPI being adjusted accordingly to reflect the new timeframe, as well as ensuring that no new financial risks are created for DNSPs in relation to cost recovery.
Question 21:	
What would be the likely impacts on customers of making an LRMC approach mandatory?	Energex currently incorporates capacity and/or demand-based charges into its ICC, CAC and SAC Demand tariff classes. These charging components are intended to reflect the costs associated with providing network capacity on a long term basis (the capacity charge) and the actual maximum demand of a customer (the demand charge). Hence, price signals are already built into the existing tariff structure for non-residential customers regarding the impact their expected or actual maximum demand places on the existing capacity of the network. This is not the case for SAC non-demand (residential and small business) customers. The impact on consumers of mandating an LRMC approach will depend on whether the price signal is visible and they are able to respond to it. As a number of residential and small business tariff classes are not currently exposed to charging components that are intended to reflect the costs associated with providing network capacity on a long term basis, there could be a significant impact on pricing structure and levels, but only if these pricing signals are reflected in the relevant retail tariffs.
Question 22:	
What would be the impacts on DNSPs of making an LRMC approach mandatory? Does it result in increased compliance risk?	Energex does not support making an LRMC approach mandatory and considers that the existing arrangement (NER 6.18.5(b)(1) whereby the DNSP is required to demonstrate its tariffs and tariff components have had regard for long run marginal cost, is appropriate to facilitate a flexible approach to network pricing. The AER is responsible for ensuring that DNSPs comply with this obligation. Furthermore as noted in the response to Question 29, DNSPs may be prohibited or substantially restricted in their ability to accommodate a mandatory approach and/or 'carve outs' will need to be established in Chapter 6 to avoid any such conflicts. Prescribing the use of LRMC, rather than the need to have regard to it, will clearly increase compliance risk for DNSPs. If the regulatory framework associated with prescribing the use of LRMC is highly prescriptive and granular (i.e. requires a certain approach to be adopted and is locational specific), it will take time to develop pricing solutions which satisfy the proposed regulatory obligations given organisational and external constraints (i.e. systems, implementation period, data availability, metering and customer awareness). Depending on the prescribed LRMC specification, DNSPs may need to acquire new operational and systems capability, which could justify transitional arrangements. Failure to provide DNSPs with sufficient time to effectively implement changes to their billing system may result in significant financial, operational,

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	compliance and reputational risks. In terms of the rational for LRMC pricing, it should be noted that such price signals are forward looking as they usually relate to the costs of the next capacity augmentation and provide no assistance in the recovery of sunken asset costs. Sunk costs should be recovered in the least distortionary way possible but price signalling (i.e. LRMC) is irrelevant to this task, Therefore DNSPs need to carefully balance these two objectives in any tariff reform it undertakes. A task that can be difficult to achieve in practice, especially when there are practical limitations and low levels of customer responsiveness. The practical limitations to achieving efficient pricing include penetration of smart meters and the need to undertake information exchange. Internal system capability/capacity, particularly in terms of billing capability, can also restrict the range of LRMC pricing options available at a point in time. More generally, LRMC will only send a weak price signal if there is no or limited augmentation likely to occur in the foreseeable future. Consequently, recovery of sunken network costs ('residual costs') are expected to be a more important feature of Energex's tariffs in the medium term with far greater distributional impacts on customers. The extent to which LRMC based price signals are reflected in network tariffs should also have regard to the extent to which such a price signal will be visible to the affected customers and that there is a reasonable expectation that they will respond to the signal. All these factors support a flexible rather than rigid application of LRMC across network tariff classes.
Question 23:	
How limited will DNSPs be in basing prices at LRMC if they must first comply with jurisdictional instruments?	Energex is effectively precluded from considering locational pricing for the majority of its customers (i.e. residential and small business) due to the Queensland Uniform Tariff Policy. Under this policy, customers in regional Queensland pay an equivalent price for electricity as customers in South East Queensland.
Question 24:	
Should LRMC be defined? If so, what level of detail would be appropriate?	Refer to Question 22. Whilst Energex is supportive of the underlying objective of the rule change, Energex does not support the mandating of the LRMC and considers the current approach appropriate. LRMC is a well understood economic concept and does not need to be defined, however, there may be merit in developing a guideline to provide more clarity for businesses whether the LRMC is mandated or not. For example, identifying appropriate LRMC methodologies, particularly if the AER deemed a methodology

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	inappropriate; including identifying at what level of the network they should be estimated. Of the options identified in the Consultation Paper, the development of a guideline by the AER is preferred. DNSPs should therefore be provided the flexibility to identify the best approach and be required to demonstrate to the AER how their approach meets the guideline.
Question 25:	
Should one methodology apply to calculating LRMC or should multiple methodologies be allowed? What is/are the most appropriate methodology(ies)?	Refer to Question 24. Due to the complexity of the task, all acceptable LRMC methodologies should be outlined in the AER's guideline. DNSP's should be permitted to select the methodology that best meets its unique network constraints and associated jurisdictional schemes.
Question 26:	
Should the AER be required through a guideline to specify the methodology or methodologies of calculating and applying LRMC?	See the response to Question 25.
Question 27:	
What is the impact of coincident peak demand on network costs and how are these additional costs currently recovered in network tariffs?	In accordance with Energex's approved cost allocation model, a share of the shared network cost are allocated to individual tariff classes, based on the tariff class's coincident demand at the time of peak demand. Coincident peak demand is quite volatile and for this reason, Energex averages coincident peak demand over the three peak days (i.e. entire days not three points in time) in the prior calendar year.
Question 28:	
How should LRMC pricing reflect additional costs associated with coincident peak demand and what are the practical impediments to DNSPs adopting tariffs that reflect coincident peak demand?	Substations differ greatly in the times that they peak, and vary between winter evening peaking, summer day time peaking, industrial load peaking or residential peaking. Furthermore most consumers are connected to multiple substations depending on network configuration. In light of these factors, it would be very difficult to determine the degree to which smaller customers contribute to locational augmentation or locational demand placed on the network.

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Question 29:	
How important are locational pricing signals for distributional networks? Are locational pricing signals for some types of customers more important than others?	Energex is all but precluded from introducing locational pricing for small customers due to the Uniform Tariff Policy operating in Queensland. However, it should be acknowledged that if this restriction was removed, it would be difficult to achieve locational charging for small consumers given Energex's relatively dense network. ICC currently pay locational TUOS charges and their DUOS charges reflect the location of demand by comparing the consumers' demand profile with that of the substation(s) they are connected to. Other large customers receive locational signals through the Large Customer Connections framework, whereby customers pay for the connection assets required to connect to the network and the necessary upstream augmentation as a result. This achieves the purpose of signalling to large customers the cost of connecting to different locations in the network without having to introduce locational tariff charge elements.
Question 30:	
What are the practical impediments to DNSPs adopting tariffs that reflect locational pricing signals?	Refer to responses to Questions 27 and 29.
Question 31:	
Is an additional principle required to further encourage network prices which are based on the drivers of network costs to the maximum extent possible?	No additional principles are required. The existing Distribution Pricing Rules are appropriate.
Question 32:	
What are the pros and cons of using a Ramsey pricing approach or a postage stamp pricing approach?	Ramsey pricing would essentially entail the recovery of sunken network costs on the basis of the price elasticity of demand of different customers or tariff classes not on the allocation of costs. Hence, if demand in the residential customer market is more inelastic, network prices for these customers should increase relative to those for business customers. In practice, Ramsey pricing will require detailed analysis of customers' demand sensitivity and is unlikely to be palatable given current political sensitivities about electricity pricing. Energex notes that it does not currently apply a Ramsay pricing approach in setting its network tariffs but rather uses a fully distributed cost model to allocate total sunk costs first to each voltage level in the network

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	and then to individual tariff classes. The nature of charging components (e.g. fixed, variable, demand and capacity) differs across tariff classes depending on the type of customer and the relevant tariff is then set to recover the allocated costs. Energex considers this approach provides a reasonably efficient and equitable approach to recovery of sunk costs and should remain open to DNSPs. Postage stamp pricing is a simple way of recovering sunken asset costs, based on an average price set across either individual tariff classes or the whole customer base. Energex broadly adopts postage stamp pricing across individual tariff classes. To move away from this to apply an average price across all customers would represent a materially different approach with distributional customer impacts. However, the most sensitive issue in applying postage stamp pricing would be whether to express the postage stamp price on a fixed or variable basis (c/kWh or c/kVA) because this decision would have materially different customer distributional impacts.
Question 33:	
Are there any other pricing approaches that should be considered to recover residual network costs?	Refer to response to Question 32. As previously stated, Energex is opposed to unnecessary prescription in the Distribution Pricing Rules.
Question 34:	
Should an approach or approaches be specified in the NER or an AER guideline?	No, the current regulatory obligations are sufficient.
Question 35:	
What jurisdictional instruments or requirements could limit the ability of a DNSP to comply with any requirements to base tariffs on LRMC (including where that LRMC may vary with customer location or with different local peak demands)?	The Uniform Tariff Policy limits the ability of a DNSP to comply with any requirements to base tariffs on LRMC, if it is calculated at the locational level.
Question 36:	
What are the potential impacts of a NER requirement for DNSPs to comply with jurisdictional instruments?	None, other than it effectively being a duplication of regulatory/policy obligations and one that a well-run DNSP should not need to be directed to comply with.

Issues for Consultation	Energex Response
Question 37:	
Should a requirement for DNSPs to take into account the impact of tariffs on consumers be included in the pricing principles?	DNSPs are currently subject to a number of rules requirements aimed at minimising the impact on consumers. For example the requirement for each tariff class that the revenue expected to be recovered should lie on or between stand alone and avoidable cost (NER clause 6.18.5) plus meeting side constraints (NER clause 6.18.6). Any additional requirement must be clearly identified and defined in a guideline issued by the AER so DNSPs understand exactly how they are to take into account the impact of tariffs on customers and the AER has a clear framework to evaluate compliance with the regulatory obligation.
Question 38:	
If a requirement is included, does the proposed principle provide enough guidance on how it is to be complied with, or would an AER guideline be useful?	See response to Question 37.
Question 39:	
If a requirement is included, does the proposed principle conflict with other principles within the NER?	Energex is not aware of any potential conflicts, but questions the need for an additional requirement.
Question 40:	
Should network tariffs reflect transmission pricing signals? If so, what would the most appropriate way achieve this for different types of network customers?	Energex queries what signals are currently being incorporated in the TUOS prices it receives beyond the locational component of the charges. For example, it does not appear that there is an LRMC price signal or any other forward looking pricing signal built into TUOS. Rather the tariff is primarily intended to recover sunken asset costs. In Energex's view the best proxy for allocating transmission costs is in proportion to the share of demand for each tariff class and recover those allocated costs using tariff charge elements that match the distribution tariff charge elements.
Question 41:	
Is the change to a mandatory requirement to group customers into tariff classes likely to achieve the desired outcomes?	In Energex's view, mandating the requirement will no more achieve the desired outcomes than retaining the flexibility that DNSPs currently have to be economically efficient and take account of unnecessary transaction costs in determining tariff classes.

Issues for Consultation	Energex Response
	In practice, mandating these two requirements will only achieve a better outcome if DNSPs are not currently ignoring them. There is no evidence presented in the Consultation Paper to suggest that this is the case.
Question 42:	
Is the change to a mandatory requirement to group customers into tariff classes likely to result in inconsistencies within the NER or with any jurisdictional instruments or requirements?	Energex does not support a mandatory requirement being imposed.
Question 43:	
Is the proposal to apply side constraints across regulatory periods likely to materially benefit consumers by protecting them from price shocks?	If the approved annual revenue requirement stemming from a distribution determination implies a price shock, it is not clear that the side constraint should stop that happening given the presumption that the ARR reflects efficient building block costs.
Question 44:	
Is the proposal to apply side constraints across regulatory periods likely to lead to inconsistencies with other requirements in the NER?	Further to the response to Question 43, yes, it would hinder step changes in annual revenue requirements across regulatory periods. Consequently it would appear to be inconsistent with the intent of Part C of Chapter 6 of the NER.
Question 45:	
Are there likely to be implementation issues in applying side constraints across regulatory periods?	See responses to Questions 43 and 44.
Question 46:	
Should network tariffs of customers with interval meters or other types of time-based meters be subject to side constraints? Matt, this question is confusing can we please discuss?	Energex supports the removal of any ambiguity in the treatment of customers with interval meters. There is no reason why customers with interval meters or other types of time-based meters should not be subject to the same side constrains as other customers.