

4 July 2013

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
Level 5, 201 Elizabeth Street  
Sydney NSW 2000

Dear Mr Pierce

**The NSW DNSP's Response to the *Consultation Paper – National Electricity Amendment (Annual Network Pricing Arrangements) Rule 2013*.**

The NSW Distribution Network Service Providers, Ausgrid, Endeavour Energy and Essential Energy (the NSW DNSPs) welcome the opportunity to provide this joint submission in response to the *Consultation Paper – National Electricity Amendment (Annual Network Pricing Arrangements) Rule 2013*.

This rule change request has been submitted by IPART to address three perceived problems with the current network pricing process in the *National Electricity Rules* (the Rules), namely:

- The notification timeframe creates difficulties for retailers in passing on annual changes in network prices to consumers;
- There is no opportunity for consultation on the development of network prices; and
- The annual pricing process lacks certainty with regard to future network prices.

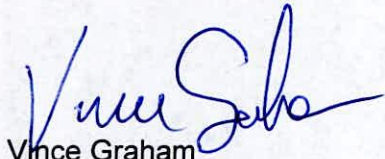
The NSW DNSPs are committed to resolving the concerns of retailers and other external stakeholders in relation to the current notification timing of the publication of network tariffs. In this respect, we are supportive of the proposal to require annual network prices to be approved and notified two months prior to taking effect. We note that this would require a level of commitment by TNSPs, DNSPs and the AER to adhere to this timeframe to ensure the efficacy of the pricing approval process.

However, we note that owing to the April 2014 and 2015 timing for the AER's final determination for the NSW DNSPs' 2014-19 regulatory period (covering both a one year transitional period and four year subsequent period) there may be a need for transitional annual pricing approval arrangements for NSW DNSPs in the 2014-15 and 2015-16 regulatory years.

In terms of the opportunity for consultation on the development of network prices, we believe that the most appropriate time to do this is during the regulatory determination process. Accordingly, we propose that DNSPs produce a network tariff strategy statement (which would replace the statement of expected price trends) which outlines expected price levels and tariff structures over the regulatory period in relation to the DNSP's longer term tariff reform strategy. The AER could request the DNSP to justify any deviation from its tariff strategy statement as part of the annual pricing process. We believe that this would provide more certainty for retailers and market participants on future network prices, and that tariff reform generally is in the long term interests of electricity consumers.

If you would like to discuss this matter further, please contact Mr Mike Martinson, Group Manager Regulation at Networks NSW on (02) 9249-3120 or via email at [michael.martinson@endeavourenergy.com.au](mailto:michael.martinson@endeavourenergy.com.au).

Yours sincerely,



Vince Graham

**Chief Executive Officer**  
**Ausgrid, Endeavour Energy and Essential Energy**

## **Attachment A - Responses to the Consultation Paper Questions**

### **Question 1**

Is the assessment framework presented in this consultation paper appropriate for assessing this rule change request?

The assessment framework is broadly appropriate, but would benefit from a wider focus. Specifically, the AEMC should ensure that its assessment framework is consistent with the 'control mechanisms for direct control services' assessment framework specified in clause 6.2.5 of the Rules. This is because this framework (which determines the form of control mechanism for DNSP prices and/or revenues) is based on sound economic principles sourced from the National Electricity Objective (NEO) and allows other relevant factors to be considered. For example, in its March 2013 Stage 1 Framework and Approach Paper<sup>1</sup>, the AER had regard to other factors it considered relevant in assessing the most appropriate control mechanism. Notably, it considered the need for pricing flexibility to allow DNSPs the opportunity to recover efficient costs by restructuring and reforming existing tariffs and/or introduce charges for new services.

Pricing flexibility is an important economic consideration because improvements in economic welfare (which are in the long term best interests of electricity consumers) can be enhanced through sensible reforms to tariff structures, tariff re-balancing and tariff transfers, which by their very nature, will result in some individual customers receiving different network bill outcomes. However, the economic need for flexibility doesn't have to come at the cost of certainty about how future prices may change. For example, if DNSPs produced a tariff strategy statement at the commencement of the regulatory determination process which outlines the indicative tariff structures over the regulatory period, market participants would be provided with more predictable outcomes.

### **Question 2**

Are there any other key dates or inputs in the pricing process for TNSPs and DNSPs?

The key dates and inputs have generally been captured. We note that the revised timeline is premised on TNSPs being required to publish their prices by 15 March (rather than 15 May) each year. DNSPs are supportive of this change, but note that any 'slippage' on the availability of TNSP prices would impact on the DNSP annual network pricing timeline. While there may be unforeseen circumstances where the TNSP is unable to provide prices by this date, there needs to be provisions in the Rules/AER Guidelines to cover this situation.

TNSPs will argue that they are not able to access settlement residue auction (SRA) proceeds, a key input to transmission prices, until after 15 March, which would make IPART's timetable problematic. A workable solution to incorporating SRA proceeds may address TNSPs' timing concerns.

In terms of unforeseen delays to other inputs that DNSPs require to submit their annual pricing proposal to the AER, it is likely that estimated values will have to be used in those instances.

<sup>1</sup> Stage 1 Framework and Approach – NSW electricity distribution network service providers, p 47

As the AEMC notes, DNSPs would have to manage any associated revenue risk (i.e. the associated risk of differences between estimates and actuals) through the use of its 'under-and overs' account. This can lead to the risk of price volatility to customers in subsequent years and therefore reduce price stability.

However, we would submit that this is less likely to undermine the predictability of prices if DNSPs published a tariff strategy statement as part of its regulatory proposal submission. A tariff strategy statement would provide market participants and other stakeholders with greater certainty as it would set out indicative tariff structures for the regulatory period as well as provide information on the DNSP's overall pricing strategy in terms of tariff reform.

One additional consideration which can impact on the pricing process in terms of implementing new prices and communicating these to customers is the timing of other regulatory decisions, for example, jurisdictional regulators' determinations on feed-in tariffs. We would submit that where practical, these determinations should have regard to the notification timing of the publication of network tariffs to ensure that the original intent of IPART's rule change proposal is preserved.

### Question 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?

No comment.

### Question 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?

Refer to the response to question 2.

### Question 5

Should the AER have a set timeframe in which to assess all DNSP annual pricing proposals?

The AER should have a set timeframe to assess DNSP annual pricing proposals. We would submit that the proposal to publish the approved network prices within 20 business days of receiving pricing proposals is appropriate. This is because we consider that the appropriate opportunity for AER consultation with stakeholders is the regulatory determination process. As the AEMC notes, it provides for a consolidated consultation with all relevant stakeholders in the one process, thereby minimising regulatory burden on the AER and stakeholders<sup>2</sup>. Moreover, if DNSPs produced a tariff strategy statement at the commencement of the regulatory determination process (in consultation with stakeholders), it would obviate the need for the AER to consult with stakeholders annually on the annual pricing process, which would be impractical given the 20 business day timeframe.

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<sup>2</sup> AEMC Consultation Paper, p 19

**Question 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?

No comment.

**Question 7**

How much time do retailers and jurisdictional regulators require for notification of network prices before finalising retail tariffs and notifying customers?

The NSW DNSPs consider that the proposed notification of two months sufficient time for the finalisation of retail tariffs. The publication of a network strategy statement as part of the regulatory determination process will provide sufficient indication to retailers and customers as to both the level of prices and indicative tariff structures over the regulatory period.

**Question 8**

Is the proposed notification of two months sufficient?

Refer to the response to question 7.

**Question 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?

The NSW DNSPs are committed to engaging with the consumers to ensure that network prices reflect the views of the community and to this end, we are actively pursuing how to enhance our engagement with our customers. The NSW DNSPs discuss pricing arrangements with their respective customer consultative committees, regularly meet with customers and customer representatives and are active participants in the AER's development of customer engagement guidelines. In addition, Ausgrid holds an annual retailer information forum, which has provided an effective two-way communication on how network prices impact on retailers. These forums have explained to retailers, and large industrial customers, the reasons for changes and explained their structure and operation.

We also note that as an outcome of its Power of Choice review, the AEMC recommended a new requirement for DNSPs to consult with retailers and consumer groups on a statement of proposed network pricing structures as part of their regulatory proposals. The NSW DNSPs are generally supportive of this proposal and advocate the publication of a network tariff strategy statement as part of the regulatory determination process.

We think that it is important that retailers and consumer groups have an understanding of the basis and structure of proposed network tariffs as well as how they fit with the DNSPs' wider tariff reform program. We believe this to be a more preferable outcome than the proponent's proposal to require the AER to issue guidelines on what DNSPs should include in their statement of expected price trends. As we note in our response to question 11, the statement of expected price trends is of limited use to retailers and consumers.

**Question 10**

How much scope would there be for consultation on proposed annual network prices?

The NSW DNSPs agree with the AEMC's recommendation in the Power of Choice review that DNSPs should include a statement of proposed network pricing structures as part of their regulatory proposal.

We also agree that the appropriate place for consultation on the statement of proposed network pricing structures is the regulatory determination process (through the proposed tariff strategy statement). As the AEMC notes, it provides for a consolidated consultation with all relevant stakeholders in one process, thereby minimising regulatory burden on the AER and stakeholders. It would not be practical for the AER to provide for additional consultation in the 20 business day pricing approval process.

In terms of the annual pricing process, Ausgrid sees the running of a retailer information forum as beneficial. In addition, Ausgrid, Endeavour Energy and Essential Energy will continue to engage with customers and their representatives both as part of the annual pricing process and in the development of its five yearly regulatory proposals. The NSW DNSPs will also continue to participate in the customer consultative committees to advise of changes to tariff structures and levels on an annual basis. This approach to engagement has been well received by retailers and other external stakeholders to date.

**Question 11**

How useful is the current statement of expected price trends to retailers and consumers?

The statement of expected price trends is a limited source of information to retailers and consumers. This is because it provides no information on proposed tariff structures over the regulatory period or information on broader network tariff strategic reform. In addition, the unpredictability and uncontrollability of the many factors that influence the expected price trends (for example, volumes, locations and patterns of consumptions) means that it also has little relevance as a compliance assessment framework or wider information resource. Accordingly, the NSW DNSPs do not support IPART's proposal that the AER must approve a pricing proposal if it is satisfied that it is consistent with the DNSP's statement of expected price trends.

**Question 12**

What influences the statement of expected price trends?

Please see our response to Question 11.

**Question 13**

Should a DNSP's approval of its annual prices be linked to how accurately it can track the statement?

As noted above, the NSW DNSPs believe that the statement of expected price trends adds very little to the annual pricing process as it provides no information on network tariff structures or wider tariff reform. It would therefore be counter-intuitive to amend the approval criteria of

network prices to include consistency with the DNSP's statement of expected price trends as advocated by IPART in the rule change proposal.

Moreover, linking the approval of the pricing proposal to the expected prices in the statement of expected price trends is effectively a change in the control mechanism. This is inappropriate as DNSPs must retain the ability to respond to unanticipated developments in its volume environment by pursuing tariff reforms, subject to side constraints and the X-factor constraint under the control mechanism. To add another layer of control over the setting of prices may undermine the broader objective of serving the long term interests of electricity consumers. This is because improvements in economic welfare will be enhanced through longer term tariff reform.

The NSW DNSPs believe that the statement of expected price trends should be replaced with a network tariff strategy statement which would be developed in consultation with stakeholders at the beginning of the five year regulatory determination process. The AER may request the DNSP to justify any deviation from its strategy statement as part of the annual pricing process.

The tariff strategy statement would include information on proposed tariff structures, new and innovative tariffs, re-balancing arrangements and customer transfers between tariffs. In this respect, it goes further than the Power of Choice recommendation for the inclusion of a statement of proposed network pricing structures as part of the regulatory proposal. The inclusion of this requirement will provide greater certainty on how network prices will change over the regulatory period.

#### **Question 14**

What are the key dates in the initial year pricing process of TNSPs and DNSPs?

There are timeframes specified in clause 6.18.2 of the Rules relating to the submission of the initial pricing proposal. The NSW DNSPs maintain that it is appropriate that the Rules make a distinction between the timing of a pricing proposal made in the first year following a distribution network regulatory determination (initial pricing proposal), and a pricing proposal made in a subsequent year in a regulatory period (annual pricing proposal). As noted by the AEMC, it may be impractical to increase the level of notification in respect of the initial pricing proposal.

It is also important for the AEMC to recognise that the current five year NSW distribution regulatory control period concludes on 30 June 2014. As such, the NSW DNSPs are currently preparing their 2014-19 regulatory submissions for the AER. However, recent changes to the Rules establish a one year transitional regulatory period, commencing 1 July 2014 and ending 30 June 2015 and a subsequent regulatory period from 1 July 2015 to 30 June 2019. The AER will therefore issue its final determinations for the transitional and subsequent regulatory periods in April 2014 and 2015 respectively. The timing of these decisions may impact on the annual pricing process outlined in the draft proposal. As a result, there may be a need for transitional annual pricing approval arrangements for NSW DNSPs in the 2014-15 and 2015-16 regulatory years.

#### **Question 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?

Please see our response to Question 14.