

5th July 2013

Australian Energy Markets Commission
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Sydney South NSW 1235
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Dear Sir/Madam,

Reference-ERC0149-National Electricity Amendment Annual Network Pricing Arrangements rule change

This submission represents the views of the Energy Users Association of Australia's (EUAA) members on the Independent Pricing and Regulatory Tribunal (IPART) rule change on annual network pricing arrangements. The EUAA represents some of Australia's largest consumers of gas and electricity. The significant increases in electricity prices over the past 5 years have largely been from network price increases. The current arrangements for notifying customers of price changes have been inadequate resulting in bill shocks for electricity users.

We support IPART's rule change in principle and would like to see more notice provided to electricity users of changes in their retail tariffs through improvements in the network pricing arrangements. The rest of our submission deals with specific questions asked by the AEMC in the issues paper.

Consultation on proposed network prices

The EUAA supports increased consultation and increased consumer and retailer involvement in setting network tariffs in principle. The practice has not been undertaken in the National Electricity Market to any significant degree however consumer and other stakeholder involvement in network regulation has been operating in the United States of America for some time. Network regulation in Australia has used the public interest theory where regulators play a strong role whereas the public choice theory has been prevalent in the United States¹. The public choice theory involves negotiated settlements between service providers and customers

¹ "Meaningfully engaging users in the regulation of Australia's energy markets" Bruce Mountain presentation at EUAA National Energy Market Update 23rd May 2013.

with regulation working as a backstop². The regulator's involvement would facilitate settlement by providing analysis, advice and deal broking³. This process would take time to develop as the principles have not been formalized in Australia.

As network prices are derived from the network revenue review process there is consumer involvement in the submissions process however consumer involvement is limited due to the complexities in setting network revenues. We note that there have been moves towards consumer engagement by the Australian Energy Regulator (AER) through their consumer reference group (CRG). The CRG should provide a platform for greater consumer involvement in the setting of network tariffs; however the wider issue of a choice between the public interest network regulation and public choice network regulation is some way off but should be examined by the AEMC.

Statement of Expected Price Trends

We support the proposed rule change to have network prices set by the AER closer to the *statement of expected price trend* as it would go some way in informing electricity users of likely price changes.

We have examined the price trend statements for the distribution networks in New South Wales and South Australia and found there is a lack of consistency between them. In our view the most informative statements were from Ausgrid, Essential Energy and which included tariff changes for each of their tariffs classes in cents per kilowatt hour terms and percentages. The least impressive was Endeavour Energy's statement which just had the X factors (or real price changes) which is inaccurate given the add-ons which influence network charges.

This component of the rule change would be improved by establishing a uniform format consistent with the price trend statements from Ausgrid, Essential Energy and SA Power Networks which we view as being more informative. The network prices and *statement of expected price trends* are difficult to find on the respective websites, making these prominent would also enhance the rule change.

The rule change will need to take account of events that could not be reasonably foreseen such as regulatory changes or natural disasters where the costs are passed through to users. If such events occur then they should be accounted for in the *statement of expected price trends*.

Information Issues

We agree that if network prices are set earlier prices may be set with less accurate information; however this risk can occur at anytime during a regulatory period and should not be used as an excuse not to set tariffs earlier; furthermore the biggest components of network tariffs such as the X factor and add-ons are set for five year periods. The revenue under or over collection of revenue is an issue for those networks under a revenue cap but this can be muted through more accurate demand forecasting. Demand forecasting is an imprecise activity and should not be an excuse to not set tariffs earlier than they currently are.

There is a risk that unforeseen events occur that impacts network prices; however these risks can occur at anytime and must be managed by the networks whether they occur during or outside the tariff setting timeline.

² Ibid.

³ Ibid.

Should the AER have a set timeframe to assess pricing proposals

The AER should have a set timeframe to assess pricing proposals however we do not have an opinion the proposed 20 day timeframe which may be too short or too long.

The 20 day timeframe maybe appropriate if the approval of network prices is not a protracted analysis of the annual pricing proposals. The 20 day timeframe may not be appropriate if there are resource or information constraints that prevent the AER from approving the proposals within IPART's proposed timeframe.

Ideally users would like to see network tariffs set longer than two months as budgets for large energy users are set well in advance but we acknowledge that there are limitations in achieving this. The *statement of price trends* provides advance notice of tariff changes as long as they represent a reasonable estimate of future price changes.

Sincerely,

Energy Users Association of Australia