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Australian Energy Regulator (AER)
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Submitted by email: AERpricing@aer.gov.au

ANNUAL PRICING PROCESS REVIEW – POSITION PAPER STAGE 2 (AER 213041)

Endeavour Energy appreciates this opportunity to provide feedback to Stage 2 of the AER's *Annual Pricing Process Review* position paper (position paper). We are supportive of the AER's objective to develop a process to facilitate more timely, accurate and accessible pricing proposals and approvals.

In support of this, Endeavour Energy offers the following feedback on the AER's position paper:

Stakeholder usage of outputs

The AER is seeking feedback on changes to the standardised model to better support the data needs of stakeholders and reduce the burden on AER staff in responding to stakeholder queries.

Endeavour Energy believes the primary function of the standardised pricing model is to demonstrate compliance with the Pricing Principles contained within the National Electricity Rules (the Rules). Understandably, under Stage 1 of this process the AER structured the standardised model to achieve this outcome.

It is possible that stakeholder responses to Stage 2 may reveal that the model format required to demonstrate compliance with the Rules is not necessarily the best format to satisfy the bespoke requirements of different stakeholders.

Endeavour Energy looks forward to better understanding stakeholder usage of the standardised model outputs. We note, however, that while changes to the model will almost certainly increase the administrative burden on distribution businesses over and above that which is required to demonstrate compliance, it is not yet clear that any changes will necessarily act to reduce the burden on the AER.

Pricing proposal content and presentation

The AER is considering the development of standardised templates for the pricing proposal documents to streamline compliance reviews. This includes:

- Developing standardised compliance templates for tariff structure compliance
- Increased reliance on outputs of the standardised model
- Differentiating content intended to demonstrate compliance with content intended for consumers and other stakeholders.

While Endeavour Energy would be supportive of a collaboratively developed standardised document template, we would not be supportive of a process that requires the submission of all customer facing pricing documents to the AER as part of an annual pricing proposal.

The information provided by distribution businesses in their customer facing pricing documents generally provides stakeholders with a simplified table structure of approved prices and tariff codes. These documents also often include additional information on operational and administrative processes related to pricing application, business contacts and billing systems. This information is important to some stakeholders, such as retailers, but is not directly relevant to the demonstration of annual pricing compliance with the Rules.

It is not clear what framework the AER would use to assess the compliance or otherwise of this material as part of an annual pricing proposal as it does not relate to compliance with the Rules, and we note that increasing the amount of information submitted to the AER would only increase the administrative burden on AER staff.

We would also note that a distribution business may need to update customer facing documents throughout the year as clarifications, corrections, new items, changing contact details etc arise. If the annual pricing process is changed to require all customer facing documents to be submitted to the AER, then these administrative changes may require AER approval, increasing the administrative burden on AER staff and adding an unnecessary delay in information updates for stakeholders.

From a distribution business perspective, requiring additional information a part of an annual pricing proposal may create unnecessary duplication of information already available to stakeholders, particularly if this existing information is required in multiple formats.

Customer facing documents are frequently created and finalised after the submission of the annual pricing proposal. Submission to the AER would require the preparation of these documents to be finalised up to six weeks earlier and in a time when resources are been devoted to the annual pricing proposal.

Model revisions

Endeavour Energy is supportive of amendments to the standardised pricing model that correct for errors and improve the overall usability and utility of the model. Specifically, Endeavour Energy would support:

- A clearer summary of the overs and unders account in a single table format similar to the example provided in Table 13.1 of the AER's 2019 Draft Decision for Endeavour Energy.
- The ability to enter and track multiple jurisdictional schemes.
- Clearer identification of trial tariff revenues.

Year 1 pricing

Endeavour Energy would be supportive of an abridged pre-lodgement process. Under the current process, distribution businesses submit a non-binding, preliminary pricing proposal to the AER on 18 February and a formal pricing proposal by 1 April. The formal proposal is submitted 13 calendar days after the AER releases the final annual pricing inputs to the distribution business (18 March).

In years 2-5 of a regulatory control period a meaningful preliminary proposal can be developed by 18 February and the formal pricing proposal can be developed and internally endorsed in the 13 calendar days to 31 March. In these pricing years, tariff structures are known, and key inputs can be reasonably forecast prior to their release by the AER on 18 March.

Endeavour Energy believes that the lack of meaningful pricing information prior to 18 February renders the preparation and review of a preliminary pricing proposal in year 1 of the regulatory control period an administratively costly process with little value for distribution businesses, the AER or other stakeholders. In years 2-5 the AER can use the preliminary pricing proposal process to review tariff level energy volume forecasts and alternate control service price caps. However, in year 1, the potential for tariff structure changes and tariff assignment policy changes will reduce the value of a volume forecast review at the tariff level and alternate control price caps will not be known.

In year 1 of the regulatory control period, the Rules provide distribution business 15 business days following the release of the AER final distribution determination to submit a pricing proposal. The additional time is required to incorporate any material and potentially, unforeseen changes impacting prices following the release of the AER's final decision.

Endeavour Energy supports the submission of the formal annual pricing proposal in year 1 of the regulatory control period within 15 business days of receiving the required pricing proposal inputs under

embargo from the AER. This will allow the distribution business the required time to update the final determination inputs, including tariff structures and volume forecasts in their models and to seek internal approval to submit a pricing proposal to the AER.

Due to the need for annual pricing proposal inputs unrelated to the AER's final decision, such as transmission and jurisdictional scheme amounts, irrespective of the time the AER releases an embargoed copy of their final decision, an annual pricing proposal could not be submitted prior to 31 March.

Side constraint mechanism

Endeavour Energy welcomes the review of the side constraint formula. We believe the proposed revision represents a preferable specification of the side constraint mechanism.

Although the alternate approach performs the same mathematical function as the proposed approach, we found the alternate presentation to be more difficult to conceptualise and understand. It is not clear how the alternate approach makes the side constraint mechanism more transparent as the same adjustment factors are included in both options. For this reason, our preference is the proposed side constraint specification of the formula.

If you have any queries or wish to discuss our submission please contact [REDACTED]

Yours sincerely

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Head of Network Regulation