

2 September 2022



Warwick Anderson
General Manager – Network Pricing
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Email: AERPricing@aer.gov.au

Dear Mr Anderson

Energy Queensland Limited (Energy Queensland), on behalf of its distribution businesses, Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy), welcomes the opportunity to comment on the Australian Energy Regulator's (AER's) Position paper on the second stage of annual pricing process review and revised versions of the standardised pricing models.

Energy Queensland supports the AER's second-stage review of the annual pricing proposal process and further refinements to the standardised pricing models.

In response to the AER's invitation to provide comments on the AER Position paper Energy Queensland has provided responses to the questions raised in the Position paper in Attachment 1.

We would welcome further engagement with the AER as it progresses with the second stage of the annual pricing process review.

Should you wish to discuss any aspect of this matter further, please feel free to contact either myself on [REDACTED] or Ana Gemmell on [REDACTED].

Yours sincerely

[REDACTED]

Bob Telford
Manager Network Pricing and Tariffs

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Attachment 1: Responses to AER's Position Paper

Position paper feedback question	Energy Queensland response
<p><i>Usage of data and outputs from the pricing proposals</i></p> <ul style="list-style-type: none"> • What data or outputs do you currently use from pricing proposals and/or models? • What data or outputs do you think should be obtainable from pricing proposals and/or models that aren't currently available? • Is the current presentation of relevant data and outputs in v1.1 models appropriate and accessible? If not, what could be changed? • What functionality would you like to see in the model to allow for your own analysis (e.g., in v1.1 models we included mechanisms to allow users to manually enter their own consumption profiles for calculating network costs)? • What data should be presented in default cost movement outputs charts in the model that are used for AER communications (noting we published different charts in the 2022–23 Statement of Reasons than those presented in the models, and have published different charts in recent years)? • What other output charts should be available within the models? 	<p>Energy Queensland currently use the side constraint table and the stand-alone and avoidable cost tables from the standardised pricing model to demonstrate compliance in our pricing proposal documents.</p> <p>Energy Queensland considers that the current presentation of data and outputs in version 1.1 of the standardised pricing model is appropriate and easily accessible. We consider that the complexity and scope of the standardised pricing model should be kept at the minimum level required to demonstrate compliance for the purpose of the annual pricing proposal. In our view, the distributors are best placed to develop additional customer-facing charts and tables (outside the standardised model) based on distributors individual requirements.</p> <p>We recommend adopting consistent charts for the AER's Statement of Reasons and the standardised pricing models as this will increase transparency for stakeholders.</p>
<p><i>Development of standardised pricing proposal document templates</i></p> <ul style="list-style-type: none"> • What data or outputs do you currently use from pricing proposals that may not be present in pricing proposal models? • Is it appropriate for proposed tariffs to be wholly located within the pricing model compliance reviews, and for customer-facing tariff tables to be published without AER review? • Is it appropriate for the distributor to produce customer-facing pricing proposal documents (including network tariff tables) that are not reviewed by the AER? 	<p>Energy Queensland has developed several charts in addition to those in the standardised pricing proposal models for the purpose of our annual pricing proposal document. These charts show transition of customers from legacy tariffs to the cost reflective tariffs and the transition of LRMC based charging parameters to the relevant LRMC estimate. We don't consider inclusion of these outputs in the standardised pricing model to be essential, as such charts are not required for regulatory compliance.</p> <p>We recommend the AER continue to publish the pricing proposal documents and models which are required to demonstrate compliance with the National</p>

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<ul style="list-style-type: none"> Is it appropriate for customer-facing pricing proposal documents to be published only by the distributor or should the AER also publish these? 	<p>Electricity Rules and distributors Tariff Strategy Statements.</p> <p>Further, we consider that it is appropriate for distributors to produce customer-facing documents to support the annual pricing proposal, including publishing distributor specific tariff tables and network tariff guides which are not reviewed by the AER. Such documents are required to meet retailer and customer needs. Individual distributors should have discretion in deciding content and presentation of such customer-facing documents. While we broadly support the development of a standardised pricing proposal document template, we consider it essential to ensure that there is no duplication and/or requirement on distributors to produce both a compliance focused document and a customer-facing focused pricing proposal document.</p>
<p><i>Revisions to the standardised pricing models</i></p> <ul style="list-style-type: none"> We encourage feedback on what should be prioritised. We also encourage suggestions for revision that have not been listed. Other opportunities that may exist for automation that will improve data validation and reduce data input errors, and Tools and/or technology solutions that may further streamline the exchange of information. 	<p>Energy Queensland support the AER's proposed revisions to the standardised pricing models. We recommend prioritising correction of errors identified during the prior pricing proposal process and ensuring changes in revenue cap and side constraint formula set out in the Control Mechanism Final Decision for year 4 are reflected in the models.</p> <p>Further, we support exploring options to automate the model version control and to streamline the model re-submission process when correction of a formulae is required (e.g., if a change is required in the output sheet, we suggest the AER should be responsible for making the required changes; alternatively, if a change is required to the inputs sheets, the distributors should be responsible for making any changes and re-submitting the model).</p>
<p><i>Process for first year pricing</i></p> <ul style="list-style-type: none"> Any issues present in applying the established pre-lodgement engagement process Proposed timelines for submission and approval The availability of data at relevant points in the timeline 	<p>Energy Queensland considers that a rule change to implement shifting of the regulatory determination timelines forward by 1-2 months and/or formally setting prices within the final determination would improve the process for the first-year pricing proposal. Consideration also should be given to bringing forward the</p>

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<ul style="list-style-type: none"> • Whether this timeline produces unreasonable burden or resourcing constraints • Other suggestions that could improve this process. • Feedback on whether this issue may be better addressed through a rule change. 	<p>final determination process in instances where there are no changes required from the initial proposal.</p> <p>In addition, for Alternative Control Services (ACS), we recommend the AER publish a populated and approved ACS pricing model as part of the final determination. This would reduce duplication and help streamline pricing proposal approval process for ACS.</p>
<p><i>Application of the side constraint mechanism</i></p> <ul style="list-style-type: none"> • Is the definition of incremental revenues that we intend to use appropriate? • Does the Q factor appropriately account for changes in quantities from year-to-year? • Is our proposed position on new and trial tariffs appropriate, or should a bespoke adjustment be present to account for these tariffs? • Is the alternate application of the side constraint mechanism appropriate, and is it a preferred approach? • Are the formulae and definitions appropriate, easy to interpret, and accessible? • Are there any scenarios that have not been tested that should be considered? • Are there any other issues that are not addressed and should be considered? 	<p>Energy Queensland considers that the Q factor is appropriate to account for significant changes in quantities. Energy Queensland supports the methodology (option 1), which is broadly reflective of the current approach adopted by Energex and Ergon Energy, with the addition of the Q factor.</p> <p>We support the AER's position on new and trial tariffs as any new customers coming on to new or trial tariffs will be absorbed in the same way new customers on existing tariffs are absorbed into tariff class revenue (i.e., impact will be absorbed at the tariff class level).</p>