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9 September 2022

Warwick Anderson  
General Manager – Network Pricing  
Australian Energy Regulator

Via email: [aerpricing@aer.gov.au](mailto:aerpricing@aer.gov.au)

Dear Warwick

**Submission to the AER's review of the Annual Pricing Review Process - Stage 2**

Essential Energy welcomes the opportunity to respond to the Australian Energy Regulator's (AER's) review of annual pricing proposals.

In general, whilst we largely agree with the introduction of standardised models, there is a concern that the model has now become too complex, and it could be simplified by retaining just the items required for compliance. Further feedback to specific areas of concern is covered in **Attachment 1**.

If you have any queries in relation to this submission, please contact our Network Pricing Manager, Kirsty Whiting on [REDACTED]

Yours sincerely

[REDACTED]

Mary-Clare Crowley  
Acting Head of Regulatory Affairs

## Stakeholder usage of outputs

Essential Energy have no suggestions for further outputs to be used by stakeholders.

## Pricing proposal content and presentation

What data or outputs do you currently use from pricing proposals that may not be present in pricing proposal models?

Pricing proposal data/outputs is currently used for various tables and graphs for the annual pricing report, as well as for internal reports, to Essential Energy's Executive Leadership Team and Board. As these will differ for each distribution network service provider (DNSP), we do not consider they should be included as part of the standard model.

Is it appropriate for proposed tariffs to be wholly located within the pricing model for the purpose of compliance reviews, and for customer-facing tariff tables to be published without AER review?

As each DNSP would have their own company format for these price publications, Essential Energy does not consider that they should be contained within the model.

Is it appropriate for the distributor to produce customer-facing pricing proposal documents (including network tariff tables) that are not reviewed by the AER?

The current format included in the pricing model is too complicated. Essential Energy aims for customer-facing price lists and other proposal documents to be clear and align with company formats. Internal checks to AER approved prices are completed prior to publishing.

Is it appropriate for customer-facing pricing proposal documents to be published only by the distributor or should the AER also publish these?

It would be easier for customer assurance if they are published by both the DNSP and the AER.

## Model revisions

The model is very complex and time intensive to complete. Essential Energy suggests that keeping the compliance side in the model only and having outputs in another model, may be more efficient. This would enable the pricing model (compliance) to be simpler and easier to work with.

We are also unclear of the purpose behind introducing distribution loss factors (DLFs) into the model, as they do not impact network volumes or revenues.

Actual price modelling and balancing of revenues each year is done outside this model and then copied over to the AER's standard model – which already creates additional work for DNSPs. While we support using a standardised model to ensure compliance, reduce workload on the AER and provide stakeholders with consistency in information, it seems this model is overly complex and is trying to achieve too much.

## Year 1 pricing

We agree the timeframe for Year 1 pricing is very tight and consider that submitting a Preliminary Proposal in Year 1 would further add to the time burden.

## Side constraint mechanism

This has become a very complex area of the model and seems to be unnecessary. Essential Energy do not agree with using volumes to weight the revenues for each tariff and tariff class. The impact that customers see is in the actual change to price. Calculating outcomes on the current basis, using the same volumes to determine the price movements and to apply side constraints, provides a more realistic outcome.