

9 September 2022

Mr Warwick Anderson  
General Manager – Network Pricing  
Australian Energy Regulator

By email to: [AERPricing@aer.gov.au](mailto:AERPricing@aer.gov.au)

Dear Mr Anderson

## **Evoenergy submission on Annual Pricing Process Review – Stage 2**

Evoenergy welcomes the opportunity to provide a submission to the Australian Energy Regulator (AER) on the second stage review of the electricity network annual pricing process. This submission sets out Evoenergy's feedback on:

- the stakeholder usage of outputs;
- pricing proposal content and presentation;
- model revisions;
- year one pricing;
- the side constraint mechanism; and
- other related matters.

### **Stakeholder usage of outputs**

Evoenergy understands the principal purpose of the AER pricing compliance model (hereafter 'compliance model') is for distribution network service providers (DNSPs) to demonstrate compliance with the National Electricity Rules (NER), particularly clause 6.18.

Given the complexity, size and detail contained in the compliance model, other network pricing documents may be better suited to meet the needs of stakeholders. These documents include the following.

- Annual schedules of charges
- Annual pricing proposal
- Annual Statement of tariff classes and tariffs
- Tariff Structure Statement (TSS) and accompanying indicative pricing schedule
- Regulatory Information Notice (RIN)

If the purpose of the compliance model is to be extended to accommodate broader stakeholder use, it is important that any model refinements maintain the core purpose of the model, that is, demonstrating compliance with the NER.

### Pricing proposal content

Evoenergy agrees that a well-developed standardised pricing proposal template which reduces the duplication of information between annual pricing proposals and the other pricing documents, such as the TSS, would improve the presentation of annual pricing proposals for all stakeholders.

Noting the AER is considering this change, Evoenergy encourages engagement with DNSPs on the structure, content and format of a standardised template. This will enable DNSPs to provide informed input to the template development to achieve a standardised template that is fit for the AER, DNSPs and other stakeholders.

It is important that the standardised template is sufficiently flexible to allow DNSPs to present material that may be unique to their network. For example, Evoenergy may seek to continue presenting separate under/over accounts for different components of jurisdictional schemes. In addition, the pricing proposal template should be relatively easy to use and populate. Information provided in past pricing proposals (and relied on by stakeholders) should remain accessible in the standardised template to ensure consistency of information with past pricing proposals.

Due to the time and effort required to develop, review and incorporate stakeholder feedback, the introduction of a standardised pricing proposal template would be best implemented from 2024/25, at the commencement of several DNSPs' next regulatory period.

### Model revisions

The current version of the compliance model is complex, partly due to the detailed data contained in the model and the multiple, linked sheets. Improvements to the compliance model should aim to improve the transparency and user-friendliness of the model, and reduce complexity of the model. In its position paper, the AER suggests a range of potential revisions to the compliance model to which Evoenergy provides comments in Table 1 below.

**Table 1: Evoenergy position in relation to AER suggested revisions**

| AER suggested revisions   | Evoenergy position  |
|---|---|
| <p>Further develop cost movement analysis:</p> <ul style="list-style-type: none"> <li>• Ensure manually entered consumption profiles interact correctly with block tariffs</li> <li>• Ensure correct functionality for controlled load tariffs</li> </ul> | <p>Evoenergy supports these changes provided they improve the transparency and usability of the compliance model and do not result in additional complexity of the model.</p> |

| AER suggested revisions  | Evoenergy position  |
|--|---|
| <ul style="list-style-type: none"> <li>• Better draw out controlled load data</li> <li>• Add functionality for demand charging components</li> <li>• Revise cost movement output charts</li> </ul>   |   |
| <p>Consider an extra 'control' worksheet:</p> <ul style="list-style-type: none"> <li>• Ability for distributors to adjust proposed prices using this worksheet</li> <li>• Ability to apply blanket movements against similar charging components or tariffs</li> <li>• Provides detail on movements in prices for each charging component</li> </ul> | <p>The key purpose of the compliance model is to report the network prices proposed for the upcoming year. The compliance model is not designed to make adjustments to prices. Hence, the introduction of an extra 'control' sheet does not appear to align with the purpose of the compliance model.</p> <p>Evoenergy does not support providing detail on the movements of each tariff charging component.</p> <p>Several adjustments are typically made in the process of preparing annual network prices. Some adjustments are uniformly applied across all tariff components, while others are designed to improve customer bill impacts and equity of pricing. Providing detail on the reasoning behind each charging component would require significant time for DNSPs to complete and the AER to review.</p> <p>Alternatively, the modelled customer bill impacts (as set out in the existing 'Charts' sheet) provides a more appropriate tool to determine whether proposed prices are appropriate.</p> |
| <p>Consider an extra worksheet to produce detailed data for use in databases or similar.</p>   | <p>It is important that any additional worksheets improve the transparency and usability of the model and do not result in additional complexity. Without visibility of the proposed changes, Evoenergy is concerned that adding an extra worksheet to produce detailed data may add unnecessary complexity to the model.</p>   |
| <p>Add functionality for prices and mechanisms for multiple jurisdictional schemes.</p>  | <p>Evoenergy supports the addition of mechanisms to manage multiple jurisdictional schemes. This would assist Evoenergy to separately report 'unders and overs' accounts for the ACT large-scale feed-in tariff (LFIT) scheme and the remaining ACT jurisdictional schemes ('other JS'). The separation of under/over accounts improves transparency of jurisdictional schemes.</p> <p>Evoenergy does not propose to develop separate charges to recover LFIT and 'other JS' revenue, as this would add unnecessary complexity to ACT</p>   |

| AER suggested revisions   | Evoenergy position   |
|---|--|
|   | <p>network pricing, without delivering any benefits. Instead, Evoenergy intends to continue setting one JS charge for each relevant tariff component.</p>  |
| <p>Add analysis on consumption forecasts and movements.</p>   | <p>Evoenergy considers that the current approach to consumption forecasts is appropriate.</p> <p>It is important to consider whether the proposed additional analysis will return a material benefit. To provide informed feedback on the proposed additional analysis, Evoenergy would require further information about the proposed analysis.</p>   |
| <p>Review the interaction of trial tariffs with compliance mechanisms.</p>  | <p>Evoenergy supports a review of the interaction of tariff trials with the compliance mechanisms.</p> <p>In 2022/23, adding new trial tariffs to the compliance model required adding new rows and columns to multiple sheets, and ensuring they were linked correctly. The functionality to easily add trial tariffs would be a welcome improvement to the compliance model, especially as tariff trials become more common.</p> <p>Evoenergy also observed an issue with the compliance model that tariff trials required t-1 prices, which may not exist for tariff trials that are in the first year of commencement.</p> |
| <p>Review formulae throughout the models and simplify where possible (e.g., removing INDEX/MATCH functionality as they may not work where tariff names are duplicated across tariff classes).</p> | <p>Evoenergy supports the removal of the INDEX/MATCH functionality to improve the user-friendliness of the model.</p> <p>Evoenergy encountered problems with the INDEX/MATCH functionality during the 2022/23 annual pricing process for the reasons provided by the AER, and because inputs to the compliance model were generally linked from external Excel files.</p>  |
| <p>Consider revising how inputs are grouped and/or displayed.</p>   | <p>Evoenergy acknowledges that the current layout of inputs requires navigating across multiple Excel sheets and ensuring data is linking correctly. Hence, the revision of input groups may improve model usability. However, Evoenergy is unable to provide informed feedback on the proposed change without further detail.</p>   |

| AER suggested revisions   | Evoenergy position   |
|---|--|
| <p>Explore opportunities to automate version control and/or identifying updated data.</p> | <p>Evoenergy would prefer compliance model revisions be made as a list of revisions that DNSPs can make to the 'master' version of the compliance model.</p> <p>The alternative approach of releasing new versions of the compliance model requires DNSPs to re-link internal data to the compliance model each time a new version is released. This is because the compliance model is typically linked to internal models. This approach adds burden for DNSPs (via re-linking all inputs) and increases the potential for input errors.</p> <p>For these reasons, the number of revisions to the model should be minimised. Revisions should only be made where it is necessary to maintain the accuracy, rather than, for example, aesthetic reasons.</p> <p>Care should be taken in implementing any automation so as not to cause unexpected model outcomes which may require DNSPs and the AER to invest significant time reviewing model inputs and verifying results.</p> |
| <p>Develop more automated checks and validations within the models.</p>                   | <p>In the 2022/23 pricing process, Evoenergy found that the compliance model relied on automated checks to ensure compliance, rather than flagging potential data entry errors. Evoenergy supports the use of automated checks to flag when manual review of inputs and outputs are required, to prevent data entry error and simple non-compliance. However, where outputs do not meet the automated checks for a valid reason, a manual review should be undertaken to investigate prima-facie non-compliance.</p>   |
| <p>Add more descriptive labelling where relevant.</p>                                     | <p>Evoenergy supports the addition of clearer labelling of input cells, output cells, and results.</p>   |
| <p>Develop a thorough compliance report to be relied on in compliance reviews.</p>        | <p>Evoenergy supports changes that improve transparency and/or the user-friendliness of the compliance model. Evoenergy would need the opportunity to review the proposed compliance report</p>  |

| AER suggested revisions | Evoenergy position   |
|-------------------------|--|
|                         | template to provide informed feedback on this proposal.  |
| <b>Other</b>            | <p>The modelled customer bill impacts in the 'Charts' tab of the compliance model could include the tariffs to which customers are assigned by default.</p> <p>The compliance model contains several sheets and requires detailed pricing and advanced Excel modelling experience to navigate. The model also has limited instructions. A comprehensive model updating guide and explanation would assist model users.</p> |

### Year 1 pricing

As per the AER's position paper and subsequent discussions, Evoenergy understands the AER is considering the provision of embargoed data for the purpose of preparing year 1 pricing proposals. Evoenergy understands the purpose of this change is to allow DNSPs and the AER more time to prepare and review the year 1 annual pricing proposal. Provided this proposal is within the NER compliance framework, Evoenergy supports this change.

### Side constraint mechanism

Evoenergy considers that the AER's proposed revisions to the side constraint mechanism are appropriate. Table 2 below provides specific responses to each of the AER's questions in the 'Opportunities for feedback' section of the 'Side constraint mechanism' section of the AER's position paper.

**Table 2: Evoenergy responses to AER feedback opportunities**

| AER questions  | Evoenergy responses  |
|--|--|
| Is the definition of incremental revenues that we intend to use appropriate? | <p>The AER's definition of incremental revenue is only appropriate given the introduction of both the D factor and Q factor together.</p> <p>This view is supported by the AER's consultant, who stated that the AER's current interpretation of incremental is only appropriate when properly accounting for changes in quantities through other components of the permissible price change, i.e., the D and Q factors.<sup>1</sup></p> |

<sup>1</sup> Argyle Consulting, *Analysis of the side constraint*, June 2022, p 7.

| AER questions   | Evoenergy responses   |
|---|---|
| <p>Does the Q factor appropriately account for changes in quantities from year-to-year?</p>   | <p>The Q factor appropriately accounts for changes in quantities only when the D factor is also included in the calculation of the permissible price change.</p> <p>The AER stated that ‘the omission of the D factor will provide tighter thresholds when quantities are decreasing’<sup>2</sup> indicating that some of the intended additional two per cent flexibility is required to recover total allowable revenue when the D factor is not included.</p> <p>By way of example, removing the D factor from the calculation of the side constraint in scenario 4, i.e., where quantities are decreasing, results in a permissible price change that is only 1.57 per cent larger (in magnitude) than the required change in price to recover total allowable revenue.</p> <p>The full two per cent flexibility is only available when the D and Q factors are both included. This is consistent with the intended objective of the side constraint. As such, the D factor is a necessary inclusion to ensure that changes in quantities are appropriately accounted for in the AER’s proposed approach.</p> |
| <p>Is our proposed position on new and trial tariffs appropriate, or should a bespoke adjustment be present to account for these tariffs?</p> | <p>While the AER’s comment that ‘revenue generally moves within the tariff class as customers move from existing tariffs to new tariffs’<sup>3</sup> is correct, the calculation of the weighted average price change requires prices in both the current and preceding year.</p> <p>New tariffs and tariff trials may not have a price in the preceding year for use in the side constraint calculation. The AER should provide clear guidance for how the lack of prices in the preceding year for new tariffs and tariff trials should be addressed in the side constraint mechanism.</p>  |
| <p>Is the alternate application of the side constraint mechanism appropriate, and is it a preferred approach?</p>                             | <p>The alternate application of the side constraint appears to be a rearrangement of the formula for the proposed application. As the alternate approach is conceptually more different to the AER’s current approach than the proposed approach, the proposed approach is preferred over the alternate approach in the interest of simplicity and consistency.</p>   |
| <p>Are the formulae and definitions appropriate, easy to interpret, and accessible?</p>   | <p>The formulae and definitions are appropriate. Given the complexity of the side constraint mechanism itself, the explanation of the AER’s position is appropriately accessible.</p>   |
| <p>Are there any scenarios that have not been</p>   | <p>Evoenergy’s circumstance in the 2021/22 annual pricing proposal caused issues with the side constraint restricting recovery of total allowable revenue. This specific situation involved a starting balance of under-recovery in 2020/21 (year t-1) that increased over the course of that year,</p>   |

<sup>2</sup> AER, *Annual Pricing Process Review | Position Paper – Stage 2*, August 2022, p 11.

<sup>3</sup> AER, *Annual Pricing Process Review | Position Paper – Stage 2*, August 2022, p 11.

| AER questions  | Evoenergy responses   |
|--|---|
| <p>tested that should be considered?</p>   | <p>followed by a decrease in quantities in 2021/22 (year t) relative to 2020/21 (year t-1).</p> <p>The most similar example provided by the AER is scenario 4, except there is a starting balance of under-recovery in year t-1 rather than a starting balance of over-recovery in year t-1.</p> <p>Evoenergy analysed an altered scenario 4 to reflect this position and is confident that the proposed approach would facilitate the recovery of total allowable revenue in this situation.</p>   |
| <p>Are there any other issues that are not addressed and should be considered?</p> | <p>The AER's proposed approach is inappropriate for the first year of the regulatory control period, as the revenue allowance does not follow a 'CPI-X' movement in this year. We understand that the side constraint will not apply in the first year of the regulatory control period and hence this issue will never materialise. We suggest that the AER make this clear in the guidance.</p> <p>Evoenergy calculated the side constraint for all previous years of its current regulatory control period using the proposed approach. While the resulting permissible price change in each year facilitated total allowable revenue recovery, the additional flexibility above the price change required to recover total allowable revenue fluctuated above and below the intended two per cent.</p> <p>These fluctuations are only relatively small around the intended two per cent and so do not appear to impact the ability to recover total allowable revenue. However, this indicates that the AER's proposed approach does not perfectly align with the objective of the side constraint to provide the intended additional two per cent flexibility.</p> <p>Evoenergy acknowledges that this shortcoming is relatively minor in comparison to the issues with the current approach, which has the potential to restrict the ability to recover total allowable revenue. As such, Evoenergy supports the AER's proposed approach.</p> |



## **Other matters**

### Timing of revised compliance model

Evoenergy is concerned that the indicative timeline set out on page 3 of the AER's position paper will not allow sufficient time for DNSPs to prepare for the submission of a preliminary compliance model in mid-February. This is particularly apparent for DNSPs, like Evoenergy, who are due to submit their five-year revenue proposal and TSS at the end of January.

The AER has indicated (through discussion) that the revised compliance model may be available in November 2022 for consultation, which would be helpful to provide earlier visibility of the model. Evoenergy urges the AER to consider the provision of the revised compliance model as early as possible to allow more time for DNSPs to prepare for the 2023/24 annual pricing submission. Evoenergy also appreciates the AER's willingness to consider DNSPs' concerns that may be raised through this formal submission process or through less formal conversations.

### ACT Large-scale Feed-in-Tariff scheme arrangements

Evoenergy's experience with the pricing compliance model during the 2022/23 pricing process highlighted the challenge of balancing the development of a compliance model that is standardised across all distributors, with the affording of flexibility to accommodate distributors' unique circumstances.

Evoenergy is required (under ACT legislation) to administer the ACT LFiT scheme. To provide transparency and achieve compliance with the ACT legislation that establishes the scheme, Evoenergy maintains a separate under/overs account for this scheme in accordance with that legislation. The ACT legislation allows for smoothing of under or over recoveries (related to the scheme) over a period of up to five years as determined by the Minister in the relevant Reasonable Costs Determination(s). Where the Minister determines, in the Reasonable Costs Determination(s), that under or over recoveries are to be repaid or recovered over 2 or more years, this under/overs account is required by that legislation to have a non-zero balance (for all but the final year of the smoothing period). In 2022/23 pricing, this resulted in a forecast over-recovery at the close of 2022/23, which was initially deemed to be 'non-compliant' in the compliance model, (despite the non-zero balance being consistent with ACT legislation).

For the 2022/23 pricing process, Evoenergy's version of the compliance model required adjustments to meet the obligations of the ACT legislation establishing the LFiT scheme and meet compliance requirements within the compliance model. Evoenergy welcomes advance consideration of this matter in preparation for the 2023/24 annual pricing process, as it anticipates this same issue will arise, again, in respect of 2023/24. In addition, Evoenergy considers it imperative that the compliance model maintains flexibility to accommodate the unique (often jurisdictional) circumstances of distributors.

Evoenergy appreciates the AER's consultation on its the review of the annual pricing process. Please do not hesitate to contact Emily Brown on [REDACTED] for further information.

Yours sincerely



Peter Billing  
General Manager Evoenergy