



2 September 2022

Warwick Anderson
General Manager – Network Pricing
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Email: AERPricing@aer.gov.au

Dear Mr Anderson,

RE: Submission to Annual Pricing Process Review – Stage 2 – Position paper

Origin Energy (Origin) appreciates the opportunity to provide a response to the Australian Energy Regulator's (AER's) review of the annual pricing process for electricity distribution network service providers (distributors).

We support measures to improve the presentation and transparency of pricing proposals and consider that the proposed modifications to the price approval process will result in more customer-friendly proposals that are easier to understand and assess.

We also support measures to improve the timing for submitting and assessing pricing proposals for the first year of the regulatory control period. Under the current arrangements, year 1 pricing proposals are typically not approved by the AER until mid-June. This timing does not allow the AER to incorporate final distribution network prices in its Default Market Offer (DMO) and leaves retailers with limited time to develop market offers or meet customer price change notification obligations. The proposed pre-lodgement process would allow pricing proposals to be approved by mid-May (consistent with other years in the regulatory period) and is strongly supported by Origin.

Stakeholder usage of data and outputs

What data or outputs do you currently use from pricing proposals and/or models?

Key data and outputs currently used include:

- Draft and final pricing proposal decision.
- Pricing models and calculation methodologies.
- Price comparisons, cost movements, charts and the tables tab from the pricing model are also useful.

What data or outputs do you think should be obtainable from pricing proposals and/or models that aren't currently available (noting data and outputs should be related to the compliance exercise being undertaken)?

It would be useful if the flat and time of use network price change comparisons/movements contained in the "cost movements" tabs (showing movements between current and proposed rates) incorporated a manual usage entering option.

Is the current presentation of relevant data and outputs in v1.1 models appropriate and accessible? If not, what could be changed?

The current models are appropriate and accessible.

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)?

The ability to select/separate between flat and time of use tariffs, residential, small and medium enterprise, and commercial and industrial tariffs would be useful and the ability to manually add customer usages.

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)?

Current charts are appropriate.

What other output charts should be available within the models?

Current charts are appropriate.

Pricing proposal content and presentation

Origin supports the development of standardised templates for the pricing proposal documents. Standardised documents will be more accessible for stakeholders and facilitate an improved review and assessment process for both stakeholders and the AER.

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?

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

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

The current process for publishing the proposal documents is acceptable. However, we consider that the process would be enhanced by standardisation of the documents. This would allow stakeholders to easily locate relevant data and facilitate an improved assessment and comparison of the proposals and outputs. We also support the separation of customer and compliance content and agree that this would result in a more customer-friendly document.

Model revisions

We support the proposed model revisions. We are particularly interested in incorporating greater flexibility in the models to allow stakeholders to manually input data (particularly usage data) and allow for scenario analysis. Model validation is critical and any opportunity to automate the validation process would reduce the compliance burden on distributors and streamline the AER's assessment process.

Year 1 pricing

Origin supports the proposed introduction of a formal pre-lodgement engagement process between the AER and electricity distributors to expedite the process for assessing initial pricing proposals for the first year of a regulatory period.

The National Electricity Rules (NER) requires that a distribution network subject to a revenue reset (i.e., the 5-yearly revenue determination) submit its annual prices to the AER for approval within 15 days of the publication of the AER's revenue determination.¹ The AER must publish its final revenue determination no later than 30 April.² This generally results in pricing proposals being approved by the AER in mid-June.

The mid-June approval raises issues for both the AER's DMO and retailer pricing.

¹ NER, r. 6.18.2(a)(1)

² NER, r. 6.11.2

Under the DMO Code the AER is required to publish a DMO determination after the first business day after 25 May.³ Further, rule 46 of the National Energy Retail Rules requires retailers to notify their electricity customers at least 5 business days (10 business days in Queensland) before their energy prices change on 1 July.

With year 1 pricing proposals being approved in mid-June it is not possible for the AER to incorporate final network tariffs in the corresponding DMO. Similarly, the ability for retailers to run internal models to generate market prices, prepare consumer notification material, and to have these out to consumers to meet advance price notification obligations is significantly compromised.

The proposed pre-lodgement process aims to have pricing proposals approved by mid-May, consistent with the timing for other years in the regulatory period. This would provide sufficient time for retailers to develop prices and meet notification obligations and is strongly supported by Origin.

If you have any questions regarding this submission, please contact Gary Davies in the first instance at [REDACTED].

Yours sincerely

[REDACTED]

Sean Greenup
Group Manager Regulatory Policy

[REDACTED]

³ Competition and Consumer (Industry Code—Electricity Retail) Regulations 2019, Section 17(2)(c).