

5 September 2022

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

Dear Mr Anderson,

**Re: Annual pricing process review – Stage 2 – Position paper**

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to comment on the Australian Energy Regulator's review into improving the annual pricing process for electricity distribution network service providers (DNSP).

Timely determinations and greater transparency for the market about the likely direction of network tariffs are particularly important in the context of the Default Market Offer (DMO). It is vital that the AER include as close to final network costs in the DMO as possible. Approved network tariffs should reflect stakeholder consultation and also the impact of any network incentive schemes; this has not always been the case, which may be a function of the current process. Furthermore, retailers need adequate lead time to develop their pricing strategies, finalise their retail service offerings and provide notice of price changes to their customers in line with regulatory obligations and consumer expectations.

Therefore, we support any proposal that offers more transparency about tariff proposals and streamlines the AER's determination process. On the whole, we consider there are aspects of the annual pricing process review process that can be improved. In fact, we consider there is scope for the information provided in both the pricing proposals documents and the pricing models to be delivered in a more simple, coherent and consistent manner. As such, the focus of the review should be on ensuring information in the annual pricing process is delivered in a simple and consistent manner rather than introducing new information to improve the process.

Below, we comment on the various parts of the AER's Stage 2 review process which could be improved.

**Stakeholders usage of outputs**

On balance, we consider there is scope to improve the presentation of data and outputs in the pricing models. Information in the pricing models is important to retailers as we use it to develop our retail offers and prepare retail price notifications. Given this, we support the AER's proposal to further explore and develop the pricing models in a manner that would allow stakeholders to more easily interact directly with them. In our view, the proposal to revise the standardised pricing models and to highlight and provide important data outputs represents a positive step in the right direction.

We therefore look forward to viewing the new versions of the pricing models in December 2022 following the feedback from broader stakeholders in this process.

### **Pricing proposal content and presentation**

The content and presentation of the pricing proposal documents can be improved to make them easier to understand and accessible by all interested stakeholders. Based on our experience, the pricing proposal documents lack clarity, delivering too much information in an inconsistent manner across DNSPs.

There is scope for improvement in the delivery of information in the pricing proposal documents. Below, we provide some suggested improvements for the AER's consideration including the requirement for:

- an overarching summary in the pricing proposals documents that includes the highlights of the pricing proposal
- commentary that compares the movements in the price path across all of the different DNSPs
- an explanation of the key drivers of the pricing proposal submitted by the DNSP
- an explanation of how the DNSP clearly meets each component of the pricing principles
- a description of any customer or retailer feedback that the DNSP may have had on their pricing proposal
- the publication of tariffs across all DNSPs in a consistent manner processable by text editing programming. This should be presented in a table or some other tabular format instead of free text (e.g. Jemena). It is unfortunate, but under the current pricing proposal documents:
  - some DNSPs reference NUOS while others refer to DUOS in their pricing proposals
  - it is challenging to find time definitions year on year in some DNSP pricing proposals year on year. So it would be useful for DNSP to provide a paper with time pricing definitions.

### **Revisions to pricing model**

While not objecting to the AER's proposal to revise the standardised pricing models to correct for errors encountered in the 2022-23 pricing process, we do not see that there is a need to develop more sophisticated functionality of certain parts of the pricing models. We note that the AER does intend to add functionality to the pricing models.

However, based on our experience, we do not consider there is a need for additional 'bells and whistles' to be added to the model. The focus of this review should be to improve the clarity, consistency and the delivery of information included in the pricing model. proposal. As such, we urge the AER to make this focus of its reform.

### **Year 1 pricing**

In essence, we would support any reasonable action which is undertaken by the AER that will allow pricing proposals to be assessed and approved earlier on in any calendar year. From a retailers' perspective, this provides us more time to develop our retail offers and retail price notifications to our customers.

We therefore support the AER's proposal to introduce a variation to the established pre-lodgement process in Year 1 of the regulatory control period. In short, the revised process would improve the procedure for assessing pricing proposals in the first year of the regulatory period and allow the AER review and approval by mid-May.

To operationalise this process, the AER would be required to provide its final inputs to DNSPs in March which includes embargoed data ahead of the publication of the final determinations. This would allow the DNSPs to submit their formal proposals when the AER's final determination is made allowing the AER to approve it by mid-May. Importantly, this adjustment would ensure that the first year of the pricing proposals and the subsequent years end up being on a similar timeline.

### **Side constraint mechanism**

While not ideal, we do not object to the AER's revision of the side constraint mechanism. As we understand it, the side constraint mechanism has the potential to conflict with the revenue cap. Therefore, when volumes are significantly reduced in a specific customer class the corresponding tariffs will need to increase, breaching the side constraint mechanism for the DNSP to recover its regulated revenues.

Red and Lumo prefer that the side constraint mechanism remains in place and DNSP retrieves any revenue that they had not recovered at the time value of money in the following year. This approach would reduce the potential for any tariff shock and ensure DNSPs are no worse off financially. If the AER decides to revise the side constraint mechanism as proposed, then retailers would like to see it both reflected in the DMO and retain the right to pass on any additional charges to their customers.

### **About Red and Lumo**

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, South Australia, New South Wales, Queensland and the ACT to over 1.2 million customers.

Red and Lumo thank AER for the opportunity to respond to this consultation. Should you wish to discuss, please call Con Noutso, Regulatory Manager on [REDACTED].

Yours sincerely,

A large black rectangular redaction box covering the signature area.

**Stefanie Monaco**  
Manager - Regulatory Affairs  
**Red Energy Pty Ltd**  
**Lumo Energy (Australia) Pty Ltd**