

24 September 2021



Australian Energy Regulator (AER)
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Submitted by email: AERPricing@aer.gov.au

ANNUAL PRICING PROCESS REVIEW – POSITION PAPER (AER213041)

Endeavour Energy appreciates this opportunity to provide feedback to the AER's *Annual Pricing Process Review* position paper (position paper). We are supportive of the AER's objective to develop a process to facilitate more timely and accurate pricing approvals through the development of a formalised pre-lodgement process and standardised pricing model template.

Endeavour Energy offers the following feedback on the AER's position paper:

Pre-lodgement Engagement

The proposed pre-lodgement process will require DNSP's to submit a preliminary proposal prior to 18 February (at least 6 weeks prior to final submission). The preliminary proposal is to include:

- Actual year t-2 data
- Best estimate year t-1 data based on first 6-months of the year
- Forecast year t data
- Placeholder inputs where inputs are not known.

The position paper notes (page 11) that the AER expects no changes in estimate (t-1) and forecast (t) consumption volumes, between preliminary and final submissions.

Volume estimates and forecasts

We acknowledge the AER's position on estimate and forecast volumes attempts to strike a balance between assessment certainty and accuracy.

Historically, we have submitted our annual pricing proposal based on volume estimates (t-1) and forecasts (t) using 7-months of actual data in year t-1. That is, we have submitted based on YTD January rather than YTD December estimates.

While we accept the AER's proposal to move to estimates and forecast volumes based on YTD December actuals is designed to improve their ability to assess volume inputs to a pricing proposal we note that it comes at a cost to accuracy and pricing variability.

Endeavour Energy is a summer peaking network with volume and demand that is subject to seasonal fluctuation. The inclusion of January actuals ultimately results in a more accurate assessment of t-1 over/under recovery and a resulting reduction in annual fluctuation in revenue requirement (and therefore pricing) caused by over/under account variability.

We believe the AER could limit this impact by allowing a DNSP to submit revised volume estimates and forecasts if the variance between the estimate of January volumes provided under the preliminary proposal and actual January outcomes can be demonstrated by the DNSP to meet a materiality threshold impact on overs and unders account in the final submission.

Forecast year t data and placeholder estimates

Given the proposed timing of the preliminary proposal, a significant number of key inputs to an annual pricing proposal will require placeholder estimates.

We note that at this time the following inputs are unavailable and would need to be submitted under a placeholder assumption:

- WACC / X-factor (Annual Debt Update)
- STPIS and DMIS Amounts
- Designated Pricing Proposal Charges (Transmission costs)
- Jurisdictional Scheme amounts

This creates a situation in which the accuracy of the preliminary prices (forecast year t data) provided under the proposed pre-lodgement process will be directly impacted by the accuracy of the placeholder assumptions made. We are concerned that submitting preliminary prices under placeholder assumptions risks administrative duplication for the AER who will ultimately review prices twice, both under assumed placeholder estimates and again using final inputs. Under the proposal, additional administrative burden is also created for DNSP's who will be required to develop two pricing proposals (preliminary and final) and unless clarified by the AER to the contrary, may be required to explain variances between preliminary prices and submission prices.

Endeavour Energy understands that preliminary prices are needed to test the operation of the standardised model, ensure tariff structures are compliant with the TSS and to allow the AER to conduct a high-level assessment, however, we believe the AER could more clearly clarify the role of preliminary prices in their assessment of submission prices. Without this clarification, there is a risk that DNSP's will require higher level internal approvals to submit preliminary prices to the AER.

This clarification could include:

- Specific acknowledgment that preliminary prices do not constitute submission prices under the Rules (6.18.2).
- Specific acknowledgment that DNSP's will not be required to explain differences between preliminary prices and submission prices as part of their Annual Pricing Proposal.
- An explicit option for DNSP's to submit a simple, uniform 'X%' change to all tariff components at the preliminary pricing phase.

This will allow the AER and DNSP to focus on t-2 inputs, estimate and forecast volumes, tariff structures, tariff offerings, standardised model functionality, and indicative high-level pricing impacts without the need to scrutinise individual tariff component level pricing that will ultimately change between preliminary and final proposals.

Standardised Model Template

Endeavour Energy supports the AER's development of the standardised pricing model and have administrative comments only at this stage.

Treatment of future Model updates

While the AER has outlined a comprehensive process for the initial development and finalisation of the standardised model, we believe ongoing updates and revisions are inevitable in future years. We believe it would be helpful for the AER to consider and outline a process and timeline of review and consultation that will be provided to DNSP's should an update be required in future years (beyond December 2022). To allow DNSP's adequate time to review, comment and update links to the standardised model, we believe that any update and review period would need to be completed by the December prior to the commencement of the pre-lodgement process.

Miscellaneous Model Feedback

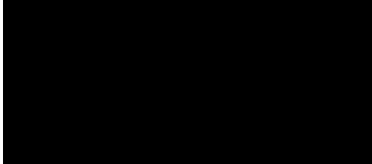
By way of operational feedback only:

- We note the unpopulated standardised model file size is large (11MB), any possible reduction to the size of the model would be beneficial from a usability perspective.
- On opening the draft model, a message is generated that states that external links within the model are not available. We believe the final model should be 'standalone' without external links to AER files that the DNSP cannot access.

- We note that confidential and non-confidential tariffs have been separated within the model. We would like the AER to clarify if the DNSP is required to submit a confidential and non-confidential version of this model.

If you have any queries or wish to discuss our submission please contact Daniel Bubb, Manager Economic Strategy at Endeavour Energy at [REDACTED]

Yours sincerely



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Manager Network Regulation