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Australian Energy Regulator
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Melbourne Vic 3001

Submitted electronically via AERpricing@aer.gov.au

AER Annual Pricing Process Review – Position Paper August 2021

Essential Energy welcomes the opportunity to provide a submission in response to the Australian Energy Regulators (AER) position paper regarding the Annual Pricing Process Review.

In general, we agree with having a uniform model to be used by all Distribution Network Service Providers (DNSPs) and appreciate the benefits that would result in terms of improved accuracy of pricing proposal submissions, but also in comparability and consistency.

While we also agree in principle to the timeframes suggested by the AER and introducing a pre lodgement process in February, there are some challenges which require consideration, such as accuracy and availability of some data inputs and a DNSP's own internal governance processes.

Our responses to some of the points of interest the AER are seeking feedback on as follows.

Proposed timelines for pre-lodgement engagement

Essential Energy values engagement with the AER prior to submission of the annual pricing proposal and have taken the opportunity to do this in the past. We understand that the proposed pre-lodgement engagement would allow for inputs and formulas to be checked and also provide the AER with early visibility of unit forecasts for the pricing year.

However, consideration of draft input data is required given many inputs are not known at this early stage and any changes from a preliminary pricing proposal to the final pricing proposal would require additional effort to explain and justify. DNSP internal governance processes also require consideration given many of the inputs will require quality assurance checks and internal approval prior to release of information to the AER. These internal governance processes will require even earlier estimates of key inputs which further compromises the accuracy of the preliminary pricing proposal.

The availability of data at the proposed preliminary pricing proposal submission date, and how much (and what) data could be expected to change between preliminary and final pricing proposal submissions

Almost all inputs would be estimates in February (and earlier to account for internal processes), including:

- > Summer actual sales, which influence current year forecast of sales and the unders and overs accounts;
- > TransGrid and other Transmission Use of System (TUoS) charges for pricing year;
- > Jurisdictional scheme amounts for pricing year;

- > Service Target Performance Incentive Scheme (STPIS) penalties or benefits for pricing year; and
- > Return on Debt rates

Our experience internally in explaining movements between preliminary and final pricing proposals, and the impact to customers, can be time consuming and complex.

An alternative may be to for DNSPs to meet with or provide the AER pricing team with the basis for forecasting all estimated inputs, in particular consumption and demand, for the pricing year.

Whether a guideline should be in place for estimating year t-1 demand and revenues (e.g. we propose actual data is to be used for the first 6 months, and estimated data used for the final 6 months)

Essential Energy suggests this approach may be too prescriptive. The DNSPs are best placed to provide a preliminary forecast if required. As discussed above, provision of the basis of forecasting approaches may be a suitable alternative.

Whether the pre-filling of inputs would be beneficial to distributors or cause additional burden

The pre-filling of many components such as CPI, WACC/RoD rates to apply to unders and overs account and STPIS amounts would be beneficial and eliminate some of the elements the AER are required to check and approve.

Benefit of standardised model template

Essential Energy is supportive of a standard model for all DNSPs to use for their annual pricing proposals and agree this would provide many benefits not the least of which is ensuring control mechanism formulas are applied in the correct manner.

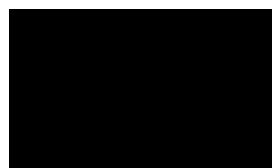
The DRAFT model provided includes all annual pricing items such as Public Lighting, Ancillary Services and Metering in addition to Network Use of System (NUoS) tariffs. While some of these areas do use the same inputs such as CPI, Essential Energy considers that separation of these areas may reduce model complexity, increase stability and improve efficiencies.

Given the model is quite large with many inputs it might be more efficient to manage and be more stable if the various areas are completed in separate files. In addition, the combined model may present challenges if rework of a pricing proposal is required, for example if all the Alternative Control services are correct and capable of being approved but NUoS requires adjustments, the whole suite of prices would need to be resubmitted and re checked. This may lead to additional effort and time delays.

Essential Energy generally support the idea of improving and standardising the annual pricing process and template, and look forward to working with the AER as this is developed. We also look forward to the next phase of your review and standardising the pricing proposal documents.

If you have any questions in relation to our submission, please contact me directly via phone [REDACTED] or Cathy Waddell, Network Pricing Manager, on [REDACTED].

Yours sincerely,



Natalie Lindsay
Head of Regulatory Affairs