

23 September 2021

Mr Warwick Anderson  
General Manager, Network Pricing  
Australian Energy Regulator

Dear Mr Anderson



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### **Submission to Annual Pricing Process Review Position Paper**

Thank you for the opportunity to provide comments on the AER's Annual Pricing Process Review Position Paper (Position Paper). We support the intent of the AER's proposal for the development of a pre-lodgement engagement process and the implementation from 2022/23 of a standardised pricing model template to be used in annual price changes.

We agree with the AER that a consistent treatment of data by distributors through a standardised pricing model template could reduce potential for errors, create efficiencies for reviewing and approving models, and improve transparency for external stakeholders.

We look forward to working with the AER on the process. Please refer to the Attachment for our further detailed comments. If you have any further questions regarding the submission, please contact Bill Nixey, Network Pricing Manager on [REDACTED]

Yours sincerely,

[REDACTED]

Alex McPherson  
Head of Regulation

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## Attachment

### Feedback on the pre-lodgement engagement:

- **proposed timelines for pre-lodgement engagement**

The proposed timeline for pre-lodgement engagement is reasonable and aligns with our schedule for the pricing proposal submission. We would like to suggest that the dates 18 February 2022 and 18 March 2022 remain flexible and non-binding for distributors as they are not subject to compliance with Chapter 6 of the National Electricity Rules.

- **the availability of data at the proposed preliminary pricing proposal submission date**

We will be able to provide the data and placeholder inputs at the proposed preliminary pricing proposal submission date for the pricing proposal standardised model at 18 February 2022. These will reflect our best estimates if actual data is unknown at the time of submission.

- **how much (and what) data could be expected to change between preliminary and final pricing proposal submissions**

As more accurate actual data becomes available, we may update the volume forecast and other inputs accordingly. Also, the final Designated Pricing Proposal Charges (TUOS) are expected from TransGrid in mid-March 2022 and the pricing submission will be amended accordingly.

- **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)**

A guideline is not required as we have an established procedure for preparation of t-1 demand and revenue volumes. We suggest that the most up to date volume data be included at the time of pre-lodgement. This approach is likely to capture more of the summer months which are subject to seasonal changes. We may also seek to update these volumes in the March submission to provide further accuracy of tariff transfer estimates and year t forecasts. We also note that most residential and small business customers are quarterly billed, and that some actual data in the first six months of t-1 may not be available.

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

The pre-filling of inputs would be beneficial to distributors and would provide additional verification that the numbers we use are aligned with the AER's expectations. If required, we will amend pre-filled inputs and provide an explanation for any changes.

- **other suggestions that could improve the pre-lodgement process**

We welcome continued collaboration and discussions with the AER and other distributors and stakeholders throughout the pre-lodgement process to improve the overall annual pricing proposal process.

- **preliminary thoughts on options for pre-lodgement processes in the first year of the regulatory control period**

Our preliminary thoughts are that the AER could incorporate the pre-lodgement process in the first year of the regulatory control period with the distribution determination process. The preliminary pre-filled inputs would be unapproved indicative values and we anticipate that there could be changes between the preliminary and final year 1 pricing proposal submissions.

- **preliminary thoughts on other options mentioned in relation to managing the relationship of initial pricing timelines and other processes.**

We are available to work with the AER to facilitate the implementation of the options.

#### **Feedback on standardising the model:**

- **the draft standardised model template:**
  - **functionality and layout**
  - **proposed inputs**
  - **application of mechanisms and calculations within the model outputs and reporting**
  - **built-in compliance and error checks**

Our initial thoughts on the draft standardised model in terms of the functionality and layout and proposed inputs is that it contains the fundamental elements required of a pricing compliance model. We will provide further comments when the model is fully functional and operational in respect to the application of the price control mechanisms and other calculations.

- **the indicative timelines and two-stage process (set out in section 5)**

The indicative timelines and two-stage process are reasonable and should align with our schedule around our pricing proposal process. We request postponing the second stage to July 2022 as June is the period when network pricing teams are implementing pricing changes for 1 July.

- **the intended approach to cost movements analysis**

We agree that a common approach will provide more consistent reporting which will create greater transparency for stakeholders. We would require more details on the intended approach to cost movements analysis before providing any further comments and feedback.

- **the application of side constraints in pricing proposals for the current regulatory period**

We are in favour of the AER's proposal for some flexibility regarding the application of side constraints for the 2022/23 approval process. We would like to review the results of the external consultation on the side constraint mechanism before providing a comment on the application of the side constraints in pricing proposals for the current regulatory period.

- **the intention to develop standardised templates for the main pricing proposal document at a later stage.**

We support the AER's intention to develop standardised templates for the main pricing proposal document as it will provide consistent reporting and transparency for our stakeholders.