

24 September 2021

Mr. Warwick Anderson
General Manager, Network Pricing
Australian Energy Regulator
GPO Box 3131, Canberra ACT 2601

Dear Mr Anderson

Evoenergy submission on AER Annual Pricing Process Review

Evoenergy welcomes the opportunity to provide a submission to the Australian Energy Regulator (AER) on their review of the electricity network annual pricing process. This submission sets out Evoenergy's feedback on the AER's proposed pre-lodgement engagement and standardised model template as set out in the AER's position paper.

Pre-lodgement engagement

Evoenergy agrees that a formal pre-lodgement would streamline the annual pricing process. Evoenergy notes this is a significant change to the pricing process, as inputs and processes have historically been geared towards annual pricing submissions due at the end of March. The proposed earlier pre-lodgement will require a shift in resources and planning to achieve the pre-lodgement outcomes. To this end, Evoenergy seeks flexibility and understanding from the AER regarding timing, quality and the reliability of the pre-lodgement submission, particularly in the first year. The following two sections address some of the items listed in the 'Opportunities for feedback' sections of the 'Proposed pre-lodgement process' and 'Standardised model template' chapters of the AER's position paper.

Proposed timelines for pre-lodgement engagement

Evoenergy's feedback on the proposed timelines for pre-lodgement engagement are outlined below.

Before 4 February – AER to provide model template with pre-filled inputs: Evoenergy considers this would be very helpful to the pricing process.

Before 18 February – Distributors submit preliminary pricing proposal: There are some aspects of the pricing proposal that can be readily submitted by this date, including preliminary volumes data and Alternative Control Service (including metering) prices. Evoenergy's Standard Control Service (SCS) prices will be highly indicative at this point in time, and could potentially change substantially between the preliminary and final annual pricing proposal. This is due to the limited availability of pricing proposal inputs by mid-February (see next subsection for details).

Between 18 February and 18 March – AER to review and engage on preliminary pricing proposal:

It is important that engagement on the preliminary pricing proposal is undertaken well in advance of the final submission (31 March) to ensure there is sufficient time for distributors to incorporate AER feedback in the final submission.

Evoenergy typically finalises its annual pricing proposal by approximately 24 March (one week prior to submission due date) to allow for final review and internal approval. Receiving feedback from the AER towards the 18 March date would potentially be too late in Evoenergy's process to properly implement that feedback. Hence, Evoenergy considers that substantial AER feedback should be provided early in the 18 February to 18 March window.

Further, Evoenergy submits its gas network tariff variation notice to the AER in mid-March each year.¹ Simultaneously, the pricing team prepares pricing submissions for regulated ACT water and sewerage services. The electricity network subthreshold tariff notification (for tariff trials) is also due at the end of February. The proposed changes to the annual electricity pricing process will add to the pricing teams' tasks during that high-pressure period.

Before 18 March – AER to provide a template with finalised inputs: As stated above, finalised inputs at this late stage of the pricing process poses a risk that distributors may be resource-constrained to implement changes at this late stage of the process. Evoenergy considers that finalised inputs be provided by the AER one week earlier, that is, before 11 March.²

Before 1 April – distributors submit pricing proposal: The AER position paper states “We expect that estimated and forecast demand are unchanged from the preliminary pricing proposal except in response to the AER's queries”.³ Given that the preliminary pricing proposal is to be provided by 18 February, this means that estimated and forecast demand will be 4-6 weeks out-of-date when the final pricing proposal is submitted. Evoenergy suggests that distributors have the opportunity to update demand forecasts in the final pricing proposal to reflect the latest demand data. (Further details are provided in the next subsection.)

Availability of data for preliminary pricing proposal

Distribution

Most of the preliminary inputs for distribution prices are generally available by 18 February. In past years, the STPIS inputs have been calculated later than 18 February. Evoenergy expects this input may be provided by 4 February in the AER's pre-filled model.

Transmission

The two key inputs to Evoenergy's pricing for transmission are:

- net transmission charges paid to transmission network service providers (TNSPs); and

¹ The exception to this is the first year of the Access Arrangement period.

² Evoenergy notes Transgrid pricing is typically provided mid-March, and so this input could be provided later than 11 March.

³ AER, Annual Pricing Process Review – Position Paper, August 2021, page 11

- prescribed (transmission) services (in Evoenergy's case this refers to its dual function assets).

While the prescribed (transmission) services data is available by 18 February, the net financial transfers is not be available until mid-March when Transgrid provide their pricing for the upcoming year. Given the net financial transfers are provided relatively late in the process, Evoenergy typically assumes that this input will be similar to the previous year. This assumption could be applied in the preliminary pricing proposal. However, this assumption does not always hold. This was the case in 2021/22, when this input was 42% higher than 2020/21.

Jurisdictional schemes amounts (JSA)

The majority of JSA recovered by Evoenergy is for payments made under the ACT Government's large-scale Feed-in Tariff ("LFiT") scheme. In accordance with ACT legislation, Evoenergy is required to apply to the ACT Government for a determination of the reasonable costs associated with LFiT each year. The Reasonable Costs Determination (RCD) specifies the revenue that Evoenergy can recover in respect of the LFiT scheme and associated administration costs, for the upcoming regulatory year. Evoenergy submits an RCD application to the ACT Government in December, and the Government responds with an RCD by the end of February. As such, Evoenergy is not certain of the LFiT revenue allowance until late February. In the preliminary pricing proposal, Evoenergy could use LFiT revenue requested in the RCD application as a proxy.

The LFiT revenue recovered by Evoenergy has grown substantially in recent years. In 2021/22, LFiT revenue was \$127m, which equated to 36 per cent of network revenue⁴. Uncertainty around this substantial proportion of network revenue has the potential to require major rebalancing of prices between the preliminary and final pricing proposals.

Estimated and forecast volumes⁵

Evoenergy updates volume forecasts on a monthly basis. By approximately 15-20th of each month, volume data from the previous month is available. The previous months' data is not complete but is sufficient to provide an indication of volumes for that month. Typically, when Evoenergy submits a pricing proposal at the end of March, it includes robust data up to the end of January and indicative data for the month of February.

Under the proposed pre-lodgement process, Evoenergy's preliminary pricing proposal (due before 18 February) would include data to the end of December. This is because the indicative January data would be available around the same time as the preliminary submission (18 February), and there would be insufficient time to incorporate the indicative January data into the preliminary pricing proposal.

⁴ 'Network revenue' refers to the summation of distribution, transmission and JSA revenue.

⁵ 'Volumes' refers to customer numbers, consumption and demand forecasts used in the pricing process.

If the volume forecasts from the preliminary pricing proposal were unchanged in the final pricing proposal, the annual pricing would be based on data up to December (six months of the current year) rather than January (seven months of the current year) and indicative February data. Given that summer months typically drive peak demand and exhibit high consumption (and export) loads, it is important to include as much summer demand data as possible in the pricing process.

How much (and what) data could be expected to change between preliminary and final submissions?

As indicated above, the key elements of Evoenergy’s pricing proposal that are subject to change between the preliminary and final pricing proposal submission include:

- the LFiT component of JSA;
- net financial transfer payment to TNSPs (included in transmission charges); and
- volume forecasts.

The degree to which changes in volumes between February and March may impact on revenue is difficult to calculate. However, an indication of the amount by which the LFiT and transmission elements may change are shown in the table below, based on the experience in 2021. It shows that at least 42 per cent of Evoenergy’s network revenue would have been subject to change if the pre-lodgement process had been in place in 2021. This level of change highlights the importance of flexibility in the pre-lodgement engagement process, to enable distributors to submit a final pricing proposal that reflects final, up-to-date inputs, even though they may vary (in some cases substantially) from the preliminary pricing proposal.

Table 1 Variations in 2021/22 revenue allowances between February and March

	Mid-February 2021	End-March 2021	Variation	Proportion of total network revenue (final submission)
LFiT	\$143.1m*	\$127.3m	\$6.6m (41%)	6%
Net financial transfers	\$16.2m**	\$22.8m	-\$15.8m (11%)	36%

*Based on the RCD application

** Estimated as the 2020/21 value adjusted by CPI.

A guideline for estimating demand and revenues

Evoenergy does not consider it necessary to establish a guideline for estimating demand and revenues. To date, Evoenergy has estimated these variables using up to seven months of actual data and five months of forecast data, in the pricing proposal submission. (Evoenergy notes the

AER position paper indicates that under the proposed pre-lodgement approach, this may change to six months of actual and six months of forecast data.)

Evoenergy's annual pricing proposals currently includes a section explaining the volume forecasting methodology. To improve transparency, the 'actual' and 'forecast' data contained in the 'estimated' year could be made explicit in this section.

Given the different billing (and other) systems and processes across distributors, it may be challenging to align the approach taken to estimate demand and revenue.

Pre-filled inputs

Evoenergy considers that it would be beneficial for the AER to pre-fill the standardised model template with the inputs to distributor's pricing submissions.

Options for pre-lodgement process in the first year

Evoenergy is open to changes in the regulatory determination timelines. Any changes to the timelines need to factor in distributor's opportunities to engage with consumers on their regulatory proposal and Tariff Structure Statements (TSS). Specifically, it is unrealistic to expect consumers will engage deeply on some regulatory matters if the timeframes are tightened, and if key milestone dates fall during periods when consumers are typically unavailable for engagement (such as the Christmas period).

Standardised model template

Evoenergy agrees that a standardised model template will streamline the AER's review process and enable stakeholders to utilise and compare distributor's pricing compliance models more easily. The following subsections address the 'Opportunities for feedback' section of the 'Standardised Model Templates' section of the AER's position paper.

Draft standardised model template

Functionality and layout

Evoenergy has reviewed the draft version of model provided by the AER on 27 August 2021, and considers this to be a well-researched model that appears to capture the key elements of the annual pricing process. Evoenergy appreciates the opportunity to review this model in advance of the annual pricing process.

The model is well labelled and the use of colour-coding helps users to navigate the model. Below are some specific suggestions to improve the model.

1. Add number references to each tab.
2. Reference all years in financial year terms (e.g. 2021/22).
3. Identify actual (i.e. historic), estimate (i.e. current), and forecast years.
4. Consider options to reduce the model size (which is currently 11MB).

More generally, it would be useful to understand the AER's appetite for distributors to make model changes to uniquely cater for distributors' inputs and outputs. For example, Evoenergy has two JSA under/over accounts yet the model template only allows for a single account. Guidance from the AER about the degree to which distributors have discretion to change the model would be helpful.

Furthermore, Evoenergy notes that there is considerable work involved in linking distributor's in-house pricing models to the standardised model. Any update to the standardised model (including those proposed at the beginning of each regulatory period) should consider the resourcing requirements to re-link in-house models to the standardised model. A preferable approach is to send step-by-step procedures to update/revise the existing standardised model. Evoenergy considers that the consultation process may resolve these matters.

Proposed inputs

Given that each distributor has presented annual pricing process information differently, standardising the process requires communication about the requirements of distributions to populate the correct model inputs. A manual for interpreting and populating inputs would help to ensure that distributors populate the model correctly. For example, some of the variables and terminology used in the draft standardised model is not uniform across distributors. Specifically, in the 'Actuals' sheet, rows 22-24 contain 'PFiT', 'TFiT' and 'ESV levy', whereas Evoenergy does not use these variables factors, but rather uses JSA factors such as 'LFiT', and 'UNFT'.

Application of mechanisms and calculations

Evoenergy is currently reviewing the draft standardised model, and will continue to provide feedback to the AER as the review develops over the coming months. One of the draft model's mechanism that appears to be inconsistent with Evoenergy's suite of tariffs is the application of demand charges. Specifically, the draft model calculates demand over 365 days (a full year) to calculate revenue. An input that allows distributors to select the time period over which the demand charge is calculated would appear to resolve this matter. For example, Evoenergy's demand charges (in the tariff trials) are calculated based on the number of days in a high or low season.

Outputs and reporting; Built-in compliance and error checks

Evoenergy awaits the next version of the model to provide feedback on these elements of the model.

Indicative timelines

Evoenergy is concerned that the second stage of the review is to be conducted June-December 2022 when NSW, ACT, NT and Tasmanian distributors will be finalising their regulatory proposals and TSS'. Evoenergy considers that the second stage review may be shortened so that it is finalised around September 2022 to enable these distributors to focus on the finalisation of their regulatory proposals and TSS'.

Cost movement approach

Evoenergy agrees that the calculation of customer bill impacts reported by distributors and the AER should be consistent. This will reduce confusion for customers and other stakeholders. An aligned approach to bill impact analysis between the AER and distributors will also mean that bill impacts can be compared across distributors in a uniform manner.

Evoenergy also considers that the presentation of uniform bill impacts may be considered. In addition to the bill impacts being referenced in the text of pricing proposals or media releases, the bill impacts could also be presented either graphically or in tabular format. There may be an opportunity to consider this presentation of bill impacts to further enhance stakeholders' understanding of bill impacts.

Application of side constraints

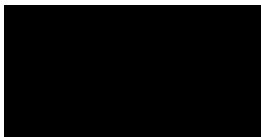
Evoenergy welcomes a review of the side constraint mechanism. Evoenergy is open to discussing the application of the side constraint and is keen to be involved in the AER's review.

Intention to develop standardised templates for pricing proposal documents

Evoenergy is open to the development of standardised templates for pricing proposal documents. There is value in standardising these documents to enable stakeholders to review and compare like-for-like documents. Evoenergy notes the considerable variation in the current pricing proposal documents across distributors.

Evoenergy appreciates the early and thorough AER consultation planned for the review of the annual pricing process. Please don't hesitate to contact Emily Brown on [REDACTED] for further information.

Yours sincerely



Peter Billing
General Manager Evoenergy