

4 September 2018

Mr Warwick Anderson
General Manager: Network Finance and Reporting
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Via email: [REDACTED]

Dear Mr Anderson,

Draft Decision: Rate of Return Guideline Review

Simply Energy welcomes the opportunity to provide feedback on the Draft Decision: Rate of Return Guideline Review.

Simply Energy is a leading second-tier retailer with over 660,000 customer accounts across the National Electricity Market. In promoting the interests of its customers, Simply Energy is committed to proactively engaging with electricity distribution companies so our customers have a voice in these processes and their needs are taken into account.

Simply Energy would like to take this opportunity to express its support for the role the Australian Energy Regulator (AER) plays in promoting efficient network expenditure. Simply Energy appreciates the challenges involved in balancing electricity affordability and system reliability in meeting the long-term interests of energy consumers.

A changing focus

Simply Energy supports the work the AER undertakes to ensure that distributors only receive economically efficient revenue to maintain system safety and reliability. As highlighted in submissions made to the AER, affordability and reliability of supply continue to be a primary concern for energy consumers. Simply Energy is a strong supporter of distributors providing transparency through ongoing consultation with retailers and the community, as these processes are essential in ensuring pricing accountability.

Interested consumer representatives, the Consumer Challenge Panel (CCP) and Consumer Reference Group (CRG), have drawn attention to the large stake that the community has in ensuring that the assets of the regulated entities are maintained; this makes clear that the interests of consumers and the network businesses are aligned in this regard, even if the paths leading to this point are divergent.

The consumer representatives have provided information that indicates that the method used to determine the business risk faced by regulated network businesses overstates this risk. This is because the risk exposure assessment includes both regulated and unregulated businesses. This could have been addressed in the 2013 Guideline, but it was not. This creates an inaccurate portrayal of the actual risks borne by regulated network businesses and presents a view of greater risk exposure than is naturally the case. Simply Energy would support reviewing the legitimacy of continued use of such surrogate data. In any case, the current draft determination appears to retain a high return for the low risk business model of regulated networks. Giving consideration to the

current view of the industry, and the need to understand consumers' energy costs as an outcome of the total value-chain, allowing a higher than necessary rate of return to regulated businesses will not be in the long-term interests of our end customers.

The future

With the continued development of distributed energy resources, Simply Energy considers that it is imperative for networks to work more closely with the retail sector to maximise the efficiency of the grid, in order to ensure that customers' long term-interests are met, and that those who are already vulnerable to higher energy prices are not increasingly adversely affected. If greater efficiencies are to be gained, the electricity sector needs to be viewed as an entire value chain with individual actors working together to promote the needs and wants of an increasingly more engaged and technologically sophisticated consumer base, while maintaining value-for-money services for those who are less engaged.

Concluding remarks

If you would like to further engage with Simply Energy, please contact Courtney Markham, Regulatory Analyst on [REDACTED] or at [REDACTED].

Yours sincerely

[REDACTED]

James Barton
General Manager, Regulation