

8 August 2018

Mr Sebastian Roberts
General Manager, Networks
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Via email: NSW2019-24@aer.gov.au

Dear Mr Roberts,

NSW electricity distribution revenues for 2019-24

Simply Energy welcomes the opportunity to provide feedback on the regulatory proposals received from New South Wales electricity distributors Ausgrid, Endeavour Energy and Essential Energy.

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 to ensure consumers have a voice and their needs are taken into account.

The following submission is not intended to challenge the detail of the proposals or the calculated cost-stacks put forward by the distribution businesses. Rather 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. In view of this, Simply Energy looks forward to thoroughly assessing the AER's draft decisions before making more substantive comments about the regulated revenues being sought.

A changing focus

Over recent years, there has been considerable changes to the network revenue determination processes and how the AER performs its regulatory functions. Simply Energy is pleased to note that these changes are having a positive effect and that each of the revenue proposals, if approved, will deliver relatively stable revenues and distribution tariffs over the five-year determination period from 1 July 2019.

Simply Energy supports the work the AER undertakes to ensure that distributors only receive economically efficient revenue to maintain system safety and reliability. Ensuring efficient levels of investment is particularly important in New South Wales where network investment has historically been higher than reasonably necessary.¹

As highlighted in the distributor's proposals, affordability and reliability of supply continue to be a primary concern for energy consumers. For this reason, consumer-focused network consultation supported by retailers actively engaging with their customer-base about resultant tariffs changes is imperative for re-building public trust in the energy sector.

¹ See ACCC, Retail Electricity Pricing Inquiry – Final Report, June 2018, 164.

The benefits of more effective consultation is evident from the distributor's proposals. Indeed, stakeholder engagement has caused all three distributors to rethink their proposed revenue requirements with overall consumer affordability goals in mind. Simply Energy is a strong supporter of distributors providing transparency through ongoing consultation as such processes are essential in ensuring pricing accountability.

Service classification

In terms of service classification, Simply Energy supports the AER restricting the scope of services that can be provided by distributors to those functions that cannot be reasonably and cost-effectively performed by the competitive market. The introduction of ring-fencing arrangements has been beneficial in maintaining the delineation between regulated and competitive services. In saying that, Simply Energy is supportive of providing distributors with the scope to perform functions that cannot be adequately satisfied by non-regulated entities. A balanced approach is required to ensure optimal outcomes for electricity consumers. As such, Simply Energy would not oppose Essential Energy undertaking otherwise competitive services in remote areas where no alternative service provider is available.

Tariff structures

Simply Energy is encouraged to see that Ausgrid, Essential Energy and Endeavour Energy are all exploring the implementation of cost reflective tariffs as part of their tariff structure statements. Through introducing more cost-reflective pricing, all electricity consumers will be able to benefit from the savings stemming from greater efficiencies in network use. From a consumer perspective, it is also positive to see broad acknowledgement of the need to support low consumption and vulnerable customers in transitioning to more cost-reflective pricing arrangements.

That said, Ausgrid, Essential Energy and Endeavour Energy are all taking quite different approaches around how they intend to implement greater cost reflectivity. While it is acknowledged that tariff structures often vary to reflect local demand profiles and market conditions, more needs to be done across all jurisdictions to ensure greater consistency of these structures to reduce consumer confusion and retail pricing complexity. That aside, Simply Energy will continue to assess how it passes on network tariffs charges to consumers to ensure these charges are well understood and their intended benefits flow through to end-use consumers. In facilitating this process, it would be useful for distributors to provide more detail about their intended approach to setting annual tariffs during the determination period to provide retailers with greater pricing certainty. There may also be benefit in distributors looking to provide a range of opt-in tariffs, instead of transitional tariffs or imposed arrangements, which retailers can model and adapt to suit specific consumer segments.

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. 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.

Concluding remarks

Simply Energy looks forward to the publication of the AER's draft decisions and providing more detailed feedback during the next phases of the determination process. If you would like to further engage with Simply Energy, please contact Anthony O'Connell, Senior Regulatory and Compliance Officer, on (03) 8807 5134 or at Anthony.OConnell@simplyenergy.com.au.

Yours sincerely



James Barton
General Manager, Regulation