

A few
words.

Jeff Cefai
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Essential Services Commission of Victoria
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By email: energy.submissions@esc.vic.gov.au



2 July 2014

Dear Jeff,

AGL welcomes the opportunity to make a submission to the Essential Services Commission (the **Commission**) on the *Variations to Standing Offer Tariffs Following the Removal of the Carbon Price: Position Paper* dated June 2014 (**Position Paper**).

The Federal Government has proposed legislation to repeal the existing carbon pricing mechanism (**carbon tax**) with a retrospective effective date of 1 July 2014, notwithstanding that the legislation itself cannot be passed into law until some time later. AGL has committed to ensure the associated price reductions are provided to customers as soon as possible following repeal, including the appropriate backdating of reductions where required. As the Commission has recognised in its Position Paper, the legislative activity at the Federal level poses some challenges to retailers which must also comply with jurisdictional energy legislation governing the implementation of energy price changes.

We commend the Commission on its proposed approach of issuing an industry-wide compliance statement so that all Victorian energy retailers have a clear understanding of the expectations around price variations following a repeal of the carbon tax. The primary focus of the Position Paper is the challenges posed by the one month notice period prescribed by the *Electricity Industry Act 2000* (**EIA**) and the *Gas Industry Act 2001* (**GIA**) before new standing offer tariffs can take effect and the prohibition contained in those Acts on standing offer tariffs being varied more than once every 6 months. As such, the Commission's preferred solution – that is, to permit one price variation outside the parameters of the EIA and GIA – largely mirrors the compliance approach to be taken by the Australian Energy Regulator (**AER**) in States that have adopted the National Energy Customer Framework.

However, a number of additional complexities faced by Victorian energy retailers are not specifically discussed in the Position Paper. These include the schedule for the release and application of new network pricing by Victorian electricity and gas distributors, which occurs in January each year, and the requirement under the Energy Retail Code (Victoria) to provide customers with smart meters at least 20 business days notice of a price change. Nor does the Position Paper directly deal with the Federal Government's proposed retrospective application date for the carbon repeal legislation.

Although these issues are not addressed directly, it is our understanding that the Commission's preferred option of permitting one price variation 'outside the parameters of the EIA and GIA':

- would not impact the otherwise permitted timing of any future price variation. That is, a once-off, out-of-cycle price reduction associated with a repeal of the carbon

tax will not impact a retailer's ability to give effect to a further standing offer price variation within 6 months;

- would allow a backdating of the effective date of carbon-related price reductions to 1 July 2014 where required. As well as promoting consistency between Victorian regulation and the Federal carbon tax repeal legislation, this approach would be in the interests of Victorian energy consumers;
- in permitting retailers to 'immediately' vary their standing offer tariffs following a removal of the carbon tax, recognises that there are a series of system and process steps that must be taken to support the variation and as such the Commission will take a realistic view of achievable timeframes; and
- would allow retailers to 'immediately' reduce and, where required, backdate the reduction of the electricity prices of customers with smart meters in response to a removal of the carbon tax. As above, this would promote consistency between Victorian regulation and the Federal carbon tax repeal legislation and is in the interests of Victorian energy consumers.



In the event the above does not reflect the intent of the Commission, then AGL asks that this be clarified with stakeholders **prior to** the final determination and further consultation be permitted prior to any final position being reached. In our view, it is very important that the compliance statement operates as we have understood it.

The Position Paper also canvasses two alternative options, either maintaining the status quo or permitting multiple variations outside the parameters of the EIA and GIA. For the reasons outlined in the Position Paper (and which provide the impetus for the proposed compliance statement), maintaining the status quo would not appear to be in the best interests of Victorian energy consumers. An approach which permits multiple variations outside the parameters of the EIA and GIA would only be helpful if it also addressed the issues outlined above in relation to the Commission's preferred option. However, in reality, neither retailers, nor consumers, seem likely to have much appetite for multiple out-of-cycle tariff variations.

We note that the Commission expects to release a compliance statement on these issues by the end of July 2014. Given that the legislation to repeal the carbon tax could be passed into law sooner than that – potentially by mid-July – we hope that the Commission can reach and publish a determination on these matters before then. Victorian energy retailers require guidance on these issues as soon as possible and ideally before the carbon tax is removed, in particular due to the lead times required to plan and execute price variations.

Should you have any questions in relation to this submission please contact Eleanor McCracken-Hewson, Senior Regulatory Advisor, on (03) 8633 7252 or at EHewson@agl.com.au.

Yours sincerely,

A handwritten signature in black ink that reads 'Beth Griggs'.

Beth Griggs

Head of Energy Market Regulation