



22.12.17

Saraj Bhullar and Rebecca Holland
Australian Competition and Consumer Commission
Level 17, Casselden, 2 Lonsdale Street
Melbourne Vic 3000
via: retaillelectricityinquiry@acc.gov.au

Dear Saraj and Rebecca,

RESPONSE TO ACCC RETAIL ELECTRICITY PRICING INQUIRY PRELIMINARY REPORT

CitiPower, Powercor and United Energy welcome the opportunity to respond to the preliminary report of ACCC's Retail Electricity Pricing Inquiry (**ACCC report**). Our networks serve roughly 1.8 million electricity customers in Victoria, or 64 per cent of all Victorian electricity customers.

Our submission discusses three key concerns with the findings of the ACCC report:

- network data should be provided or reviewed by distributors
- privately-owned distributors are different to publically-owned distributors
- the ACCC should rely on the most recently available data for its final report.

We are happy to engage further with the ACCC on these issues.

Network data should be provided by distributors

The ACCC report findings are based on data provided by retailers. We are not able to closely replicate the calculation of network costs in Victoria which are shown in the report.

For example, network costs in 2015–2016 include smart meter, and premium and transitional feed-in-tariff costs. The ACCC report recognises these costs did not exist in 2007–2008, and acknowledges they should be removed to determine a like-for-like comparison. These costs, however, have not been correctly calculated.

Smart meter costs

The report states that smart meter costs in Victoria were \$96 per customer in 2015–2016. This significantly understates the true costs (which were at least \$135).

Table 1 shows the most basic smart meter charges in 2015–2016 for the Victorian networks, based on publicly available information on the AER website. Some residential customers will have more expensive smart meters, and hence the table understates the true average residential charge.

Table 1. Victorian annual charges for most basic smart meter

Year	CitiPower	Powercor	United Energy	Jemena	AusNet	Average
2015	116	109	155	231	206	163
2016	95	95	92	130	117	106
2015–2016	105	102	123	181	161	135

Source: Victorian distributors 2015 and 2016 approved pricing proposals – AER website

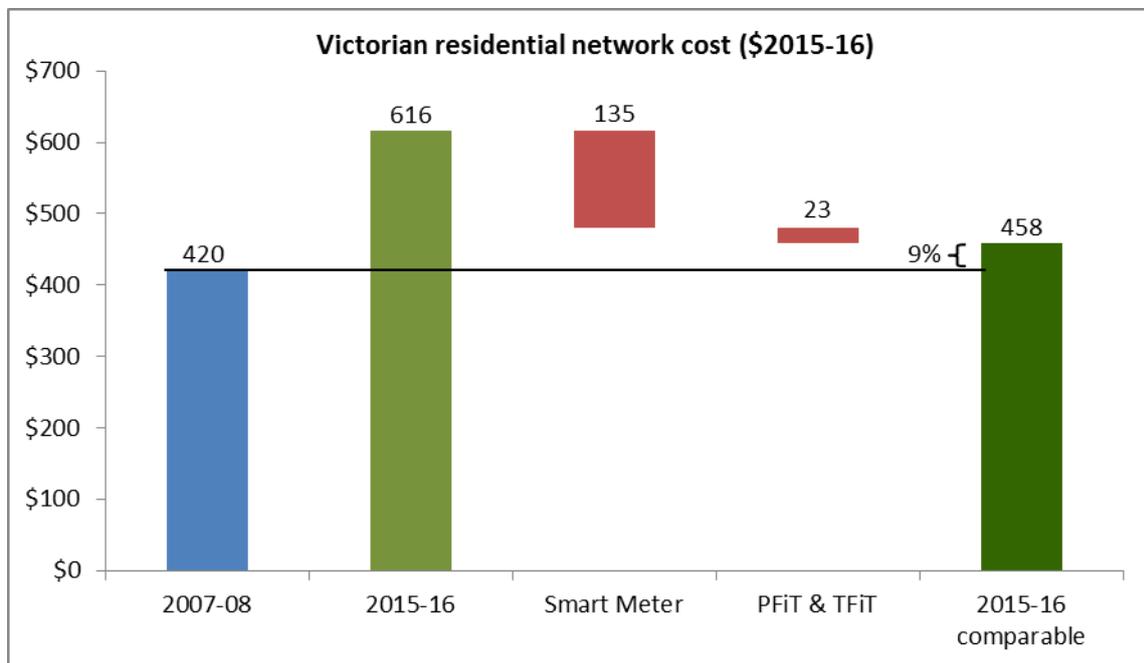
Premium and transitional feed-in-tariff costs

Based on information in the Victorian distributor’s pricing proposals, we calculate that premium and transitional feed-in-tariff costs, embedded in Victorian residential network charges, were \$23 per customer in 2015–2016. It is unlikely that retailers extracted this cost from network charges.

Corrected like-for-like comparison

The ACCC report indicates the Victorian total network cost per customer increased from \$420 in 2007–2008 to \$616 in 2015–2016. Assuming these are correct, and deducting the smart meter and premium and transitional feed in tariff costs above, results in a comparable 2015–2016 residential network cost of \$458. Therefore, as shown in figure 1, network costs on a like-for-like basis have increased by 9% in real terms.

Figure 1. Victorian residential network costs



Privately-owned distributors are different to publically-owned distributors

The ACCC report concludes that increases in residential bills were primarily driven by higher network costs. This implies that inefficiencies in network companies have been the main contributor to increases in residential bills. In Victoria and South Australia this is not the case. An alternative

conclusion the ACCC report could have made is that privatised networks, unlike public networks, have not been the main cause of increases in residential bills.

Analysis should include most recent data

The report's findings are largely based on the period 2007–2008 to 2015–2016. We urge the ACCC to use the most recent data available in its final report to avoid any resulting policy action being based on outdated analysis.

Since 2015–2016, there have been significant increases in wholesale costs while Victorian network costs have decreased. Retailers have flagged residential retail price increases on 1 January 2018 in Victoria of between 10 per cent and 15 per cent. By contrast, residential network charges have fallen between 2015 and 2018 in all distribution areas in Victoria. The AER has calculated that residential distribution and metering tariffs will fall on average by \$36 on 1 January 2018. It is expected that in Victoria network costs will comprise less than 40 per cent of the total residential retail bill in 2018.

Kind regards

A handwritten signature in blue ink that reads "Renate Vogt". The signature is written in a cursive style with a large initial 'R' and a distinct 'V'.

Renate Vogt

General Manager Regulation