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Via online submission

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Australian Energy Market Commission
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ERC0175: Aligning network and retail tariff structures for small customers

Jemena Electricity Networks (**JEN**) welcomes the opportunity to respond to the Australian Energy Market Commission's (**AEMC's**) draft determination on the 'Aligning network and retail tariff structures for small customers' rule change proposal.

JEN delivers electricity to approximately 320,000 homes and businesses in north-west Melbourne. The electricity market in which we operate is changing, driven by interrelated changes in customers' attitudes and use of our network as well as technological and market innovations. Effective tariff reform is, therefore, crucial to reflect the diversity in how customers use the network, to encourage more informed customer decision making and enable efficient up-take of new technologies.

As the rule change proposal would impact how network businesses could implement tariff reform, JEN has a strong interest.

JEN supports the AEMC's draft decision to not make a rule and its supporting justification. In particular, JEN considers the rule change proposal would not contribute to the National Electricity Objective (**NEO**) because:

- the proposed rule would not support cost-reflective network tariff structures and would create barriers to informed energy decision-making;
- the AEMC considered (and made) rules to facilitate tariff reform in 2014—the NER now requires that network tariffs should be reflective of the forward looking costs of providing network services (that is, they should be cost-reflective).¹ The proposed rule change would move away from this important allocative efficiency principle that underpins the new pricing rules;
- in-depth consideration of customer impacts (including in transition to cost-reflective tariffs) is already a key component of the NER that network businesses are now putting into practice;²

¹ This promotes consumption at times where the marginal benefit of that consumption outweighs the marginal cost associated with building network to facilitate the consumption.

² JEN provided an example of how we have put this into practice for our 2016-20 regulatory proposal in our 7 May 2015 submission to the AEMC's consultation paper.

- customer choice at the network level is not required to have customer choice at the retail level—a competitive retail market should provide the products and services that customers want irrespective of network tariffs. This may result in an efficient outcome where customers who choose a tariff that is not cost-reflective face a premium for retailers to provide it; and
- State government intervention to mandate retail tariff structures may itself cause a risk premium to be included in retail tariffs, which seems contrary to the purpose of the rule change proposal.

If you wish to discuss the submission please contact Chris Stewart on (02) 9867 7000 or at christopher.stewart@jemena.com.au.

Yours sincerely



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