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19 December 2013

Via online submission

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

ERC0161: Distribution Network Pricing Arrangements – Jemena submission on the consultation paper

Jemena Electricity Networks (**JEN**) welcomes the opportunity to respond to the Australian Energy Market Commission's (**AEMC**) consultation paper on the electricity Distribution Network Pricing Arrangements rule change request (**rule change request**).

The rule change request seeks to build on a range of recent reforms that have been designed to better align the policy and regulatory framework with the long term interests of customers. This includes changes to how network revenues are determined and adjusted over time, and the ability of customers to meaningfully participate in this decision making process.

The rule change request seeks to strengthen these reforms by suggesting enhancements to how network revenues are recovered and prices are determined – including the constraints on these reforms– and how resulting benefits can flow through the broader energy supply chain to our end customers.

We support efforts to ensure network revenues and prices better reflect the costs of providing services to our customers. We also support efforts to empower customers to participate in the regulatory process – both as part of the development and submission of our network proposals and as part of the Australian Energy Regulator's (**AER**) decision making.

More cost reflective network prices have the potential to lower electricity network costs to all customers, and reduce some of the cross-subsidies that may exist between different customers. While we support efforts to move prices to more cost reflective levels it could mean changes to the way some customers are charged for use of our network, including customers with a remotely-read Smart Meter that 'opt-in' to flexible time-of-day retail pricing or capacity based retail prices. We encourage the AEMC to promote the practical application of any cost based methodology that recognises there is a range of 'cost reflective' methodologies. We also encourage the AEMC to recognise that setting our network prices ultimately requires us to make 'on balance' decisions. We support measures, including the development of a Pricing Structures Statement as part of our regulatory proposal - to improve retailer and customer involvement and understanding in the setting of our network prices.

To date, minimal focus has been placed on the timing and consultation of annual changes in energy prices, and the ability of customers to participate in this process – both at the network and retail level.

We support bringing forward the timing of annual changes in network and retail prices to facilitate a well-functioning and competitive retail market in the interests of consumers. These changes are more likely to facilitate efficient network price signals being passed through to customers, empower customers to manage their consumption to reduce their electricity bill, and allow customers to be active participants in the retail market.

Maximising the benefits the rule change request offers will require addressing a range of barriers beyond the National Electricity Rules, including jurisdictional constraints on pricing and metering, customer and stakeholder understanding of energy costs - including acceptance of cost reflective pricing - and a co-ordinated national approach to funding and delivering targeted assistance to customers in hardship. The ENA has outlined a broader package of cost reflective network tariff reforms.

We welcome the action taken by the SCER and the AEMC to begin the dialogue required to address these barriers to ensure the policy, regulatory and market framework continue to promote the long term interests of customers.

We provide a detailed submission in **Appendix A** and address relevant AEMC questions in **Appendix B**. We also support the submission from the Energy Network Association (ENA).

We would be happy to discuss these issues with the AEMC, including our current approach to setting our network prices and engaging with our customers and stakeholders.

If you wish to discuss the submission please contact me on (03) 8544 9053 or at robert.mcmillan@jemena.com.au

Yours sincerely

Robert McMillan
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Jemena Electricity Networks (Vic) Ltd

Distribution network pricing arrangement rule change - consultation paper

Submission

Public

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1. OVERVIEW

As an electricity and gas network service provider (**NSP**), Jemena Electricity Networks (Vic) Ltd **(JEN)** supports the AEMC's focus on how network revenues are recovered – including the matters that we are required to balance in setting network prices – how customers and stakeholders are engaged in the process, and how network prices flow through the broader energy supply chain to our end customers.

More cost reflective network prices have the potential to lower electricity network costs to all customers, and reduce some of the inequitable cross-subsidies that exist between different customers. However it could mean changes to the way some customers are charged for use of our network, including customers with a remotely-read Smart Meter that 'opt-in' to flexible time-of-day retail pricing[1] or capacity based retail prices.[2]

We are required to consider a range of issues when setting our network prices, including how to send efficient pricing signals, how to recover the significant fixed costs of our network in an efficient and equitable way, and the resulting short and longer term outcomes for customers. Often this involves a complex balancing of different and competing objectives within a range of pricing and metering constraints.

The Rule change, if made, would provide greater Rules prescription for the manner in which we recover our network costs, including specifying how:

- "cost reflective" is to be defined and applied, through an obligation to set network prices on the basis of the Long Run Marginal Cost (LRMC) of providing network services,
- residual network costs are recovered
- how the pricing principles are to be balanced, including the impacts on customers.

While we welcome the focus on this complex issue, it is not clear that greater prescription in the Rules in terms of how 'cost reflective' should be defined and calculated, and the weight given to it in determining *individual* prices and tariffs, is more likely to lead to pricing outcomes that promote the long term interests of customers. For example, it may lessen the ability of our customers and stakeholders to engage in network pricing decision-making.

We encourage the AEMC to promote the practical application of any cost based methodology that recognises there is a range of 'cost reflective' methodologies. We consider it prudent to provide flexibility for a DNSP to establish which LRMC and residual network cost recovery methodology is best suited and consistent with the Rules, following consultation with its customers and stakeholders.

We support greater engagement with our customers and retailers in developing our prices and tariff structures, and greater transparency as to the likely longer term price paths for our customers. The pricing structures statement (**PSS**) - that would be consulted on and developed as part of our network proposal and modified over time in response to changing conditions including customer views - is an important element in improving our engagement with our customers and stakeholders. While we are currently consulting on our prices and tariff structures as part of developing our electricity[3] and gas[4] price submissions, we would support further guidance through an AER guideline.

1 Victorian electricity customers with a remotely-read Smart Meter have the option of choosing between flat rates and flexible electricity pricing in which different rates will apply at different times throughout the day.

2 Retail prices with a demand-based component involve customers being charged for electricity based on their maximum demand at a point in time. This differs from traditional flat rate and flexible pricing designs which are based largely on usage over specified times (with small fixed charges).

3 For the Jemena Electricity Network (JEN) submission due in April 2015.

We also support bringing forward the timing of annual changes in network and retail prices to allow retailers more time to develop their retail offers, and to allow customers more time to assess market offers prior to the annual price change. This should improve the functioning of the competitive retail market and lead to better outcomes for consumers.

We do not support the application of side constraints between regulatory periods given it may impede our ability to put in place the PSS that has been developed and consulted on with our customers.

A summary of our response is below, with the supporting evidence and analysis provided in Appendix A, and the responses to the AEMC's questions in Appendix B.

In response to the Australian Energy Market Commission's (AEMC's) consultation paper, Jemena considers:

1. **Engagement of customers and stakeholders on pricing structures and likely future prices is important:**

- The PSS is an important step to encourage greater engagement with customers and stakeholders in developing network prices and tariff structures. The statement of expected price trends within the PSS should provide greater transparency in likely network prices over time.
- The Rules should specify the minimum information in the PSS. While an AER guideline on the development of the PSS may be beneficial, it should not be binding to allow NSPs to develop flexible consultation approaches.
- If AER approval of the PSS is required, the AER's discretion should be limited to ensuring NSPs provide sufficient information to demonstrate compliance with the pricing principles and followed appropriate consultation
- AER approval of the annual pricing proposal should be limited to ensuring price structures are consistent with the approved PSS, and price levels are consistent with the tariff variation mechanism. NSPs would explain any differences between the statement of expected price trends and the proposal.
- The Rules should allow the PSS to be updated within the regulatory period to allow for policy, regulatory and market changes.

2. **The recovery of network revenues should involve the balancing of principles and objectives:**

- Mandating a specific LRMC methodology may not ensure cost reflectivity – There are a range of LRMC methodologies, each with advantages and disadvantages in various contexts
- Focusing solely on a cost reflective principle could be detrimental – The AEMC should clarify whether the intent is to provide primacy to the cost reflective principle, and if so, the potential to create conflicts with other jurisdictional requirements, and the requirement to have regards for the impacts on customers. It may lead to reduced price stability and increase the role of the residual recovery of network costs element.
- Ramsey pricing remains appropriate but a single approach should not be mandated - Ramsey pricing is the economically efficient way to recover residual network costs. However prescribing one approach in the Rules could lead to unintended consequences.

3. **Realising many of the benefits from the rule change will require addressing a range of barriers beyond the National Electricity Rules:**

- These barriers include jurisdictional constraints on pricing and metering, customer and stakeholder understanding of energy costs, including acceptance of cost reflective pricing, and a national co-ordinated

[4] For the Jemena Gas Network (JGN) submission to the AER due in June 2014.

approach to funding and delivering targeted assistance to customers in hardship.

- We support the ENA's proposal for a broader package of cost reflective network pricing reforms

4. Side constraints across regulatory periods are not necessary and could be a barrier to implementing the PSS

- They are likely to impede the ability to move individual prices towards cost reflective levels, consistent with the PSS
- There are sufficient regulatory checks in place that the AEMC has identified in its consultation paper.

5. Bringing forward the timing of annual network and retail price changes is important

- Bringing forward the submission of annual pricing proposals by one month is likely to assist retailers, customers and the development of the competitive retail market.
- Realising these benefits requires the AER to approve network prices one month earlier. Defining the timing for the AER's approval process to ensure consistency with the approved PSS should facilitate this.

Appendix A
Jemena response to Distribution Network Pricing Arrangements rule change

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A1. JEMENA RESPONSE TO DISTRIBUTION NETWORK PRICING ARRANGEMENTS RULE CHANGE

This Appendix details our response to the Consultation Paper.

It is divided into 2 key themes, both of which are likely to promote the long term interests of customers:

- **Empowering customers to engage in the energy supply chain**, **by**
  - Developing and consulting on a network Pricing Structures Statement (**PSS**) to improve our engagement with our customers and stakeholders
  - Encouraging innovation and diversity in customer and stakeholder engagement
  - Including binding tariff structures in the PSS
  - Explaining variations in price levels in annual pricing proposals
  - Providing earlier notification of network and retail prices to improve retail market conditions
- **Improving the cost reflectivity of network prices, by**
  - Addressing a range of barriers to implementing cost reflective prices and tariff structures
  - Providing greater transparency of the LRMC of providing energy services to customers
  - Acknowledging the potential conflicting pricing principles in the NER
  - Recognising that cost reflective means more than setting prices based on LRMC
  - Recognising that Ramsey pricing remains appropriate for the recovery of residual network costs
  - Excluding side constraints from applying across regulatory periods

A1.1 EMPOWERING CUSTOMERS TO ENGAGE IN THE ENERGY SUPPLY CHAIN

Empowering customers to engage in the energy supply chain is likely to result in more efficient investment in, and use of, energy services.

In this section we outline the areas of the Rule changes that we support, and areas for further consideration to ensure the rule change meets the National Electricity Objective (**NEO**).

Table A1–1: Summary of key points on the PSS and customer and stakeholder engagement

Key desirable outcome	Jemena position	For AEMC consideration
Improving the consultation in relation to network tariff structures	Jemena supports: • A well-designed PSS that contains key information that is valued by customers, including tariff structures • Binding tariff structures only, with	• Being clear about what elements of the PSS are binding and non-binding. • The flexibility provided to DNSPs to evolve and tailor their engagement on tariff structures

Key desirable outcome	Jemena position	For AEMC consideration
	these being updated within the regulatory period following customer and stakeholder consultation • AER guideline on the PSS and best practice approaches to engaging on tariff structures	• The AER's PSS approval process, and how it would assess compliance with the pricing principles • The AER's annual pricing approval process and checking consistency with the PSS.
Improving the transparency of likely movements in network prices	We support the development of a statement of expected price trends	• This information should include to the best information available, but should not be binding • DNSPs to explain within their annual pricing proposal any differences between the PSS and that proposal so that these can be understood by stakeholders and customers.
Improving retail market conditions	Jemena supports bringing forward the publication of network prices by one month.	• Implementation needs to be in a manner consistent with existing frameworks and each DNSP's revenue determination.

A1.1.1 THE PSS WILL FACILITATE ENHANCED CUSTOMER AND STAKEHOLDER ENGAGEMENT

We recognise the importance of engaging with our customers and stakeholders. Our decisions need to promote our customers' interests, so we want to engage with our customers to understand their needs and to involve customers in our decision making. This includes issues related to tariff structures and price levels.

JEN's current practice is to communicate any changes to tariff structures to retailers three months before they are introduced in accordance with the Use of System Agreement.[5] However we recognise that our tariff structures impact customers, retailers and embedded generators (including solar PV owners) and that better engagement is likely to improve efficient investment and use of energy services. We support greater engagement with our customers and retailers in developing our prices and tariff structures, and greater transparency as to the likely longer term price paths for our customers.

A well designed PSS - that would be consulted on and developed as part of our network proposal and modified over time in response to changing conditions - is an important element in improving our engagement with our customers and stakeholders and is likely to be a positive influence on the energy market. We see it as an extension to our current activities to better align our services and engagement to the needs of our customers and stakeholders.

We support the **SCER** proposal to include a PSS that would contain:

- tariff classes
- tariff structures for each tariff class

[5] The Use of System Agreement is a default agreement between distributors and retailers that is approved by the Essential Services Commission of Victoria

- elements of the charging parameters for each proposed tariff structure
- a description of how the PSS addresses the pricing principles
- the statement of expected price trends.

The Rules should specify the minimum information in the PSS. A guideline developed by the Australian Energy Regulator (**AER**) could provide guidance on the interpretation of the information requirements of the PSS and best practice models for engaging with customers on tariff structures.

A1.1.2 ENCOURAGE INNOVATION AND DIVERSITY IN CUSTOMER AND STAKEHOLDER ENGAGEMENT

We consider it important that DNSPs continue to evolve the way we engage with our customers and stakeholders. While we are currently consulting on our prices and tariff structures as part of developing our electricity[6] and gas[7] price submissions, we would support further guidance through the development of a PSS guideline which could outline best practice models for engaging with customers on tariff structures.

While the Rules should specify the minimum information in the PSS, we do not see benefits in making a tariff structure or PSS engagement guideline binding. The level of consultation and engagement needs to be driven by the degree that stakeholders want to be informed, their capacity to engage and be proportional to the value derived. These elements might change over time, via jurisdiction or with customer and stakeholder expectations. The NER needs to be robust to cater for each of these in a manner that minimises administrative costs and burden for all stakeholders. For example, incorporating formal written consultation periods may not be in all customers' and stakeholders' best interests. Targeted and effective consultation forums, such as the specific stakeholder consultative committees, may be the most effective means of consultation

It would therefore be appropriate to allow consultation that is fit for purpose for each DNSP's customer base. The DNSP is best placed to manage the appropriate level of engagement, taking in account any AER engagement guidelines.

A1.1.3 THE PSS SHOULD BIND TARIFF STRUCTURES RATHER THAN PRICE LEVELS

The Rules should specify the minimum information in the PSS to ensure it encourages:

- greater engagement with customers and stakeholders in developing network prices and tariff structures, and
- more transparency of the likely movement in network prices over time.

Jemena is unlikely to unilaterally drive changes to existing tariff structures during a regulatory period due to the costs involved for both Jemena and retailers. It makes sense to consult with our customers and stakeholders on these tariff structures as part of the development of our regulatory proposal and to bind these in the PSS. However our tariff structures may need to evolve over time to meet external drivers: legislative, technological, demand and customer changes. If the tariff structures need to change, for example due to regulatory or policy changes, then we will engage with our customers and stakeholders in amending the PSS. In our view, restricting changes to tariff structures may result in inefficient investment in and use of energy services. IPART's rule change proposal makes clear that it was not intended to reduce this flexibility.[8]

However there are a range of factors that influence our costs over a regulatory period, with some of these being beyond our control. This makes it challenging to forecasts the individual prices that will be required to recover

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6 The Jemena Electricity Network (JEN) submission is due in April 2015.

7 The Jemena Gas Network (JGN) submission is due in June 2014

8 IPART, Submission to AEMC's Consultation Paper – Distribution Network Pricing Arrangements, July 2013, p2.

these costs.[9] Binding our individual price levels to those outlined in the statement of expected price trends, will create significant and unnecessary risk, and is unlikely to be consistent with the revenue and pricing principles in the NEL.[10]

Binding the tariff structures to the PSS (with flexibility to change the PSS over time), and providing flexibility on the level of individual prices will create a balance between providing a high degree of certainty to customers with regard to the structures but enabling the DNSP to set prices that best reflect the pricing principles.

The level of detail required to be included in the PSS should be able to be disaggregated into binding and non-binding elements. This would ensure the PSS gives stakeholders and consumers the information they need and would allow network businesses the flexibility to make changes that best reflect the pricing principles in the NER and revenue and pricing principles in the NEL. A DNSP would base any indicative prices on the best information it has available to it at the time.

While an AER guideline on the development of the PSS and the statement of expected price trends may be beneficial, it should not be binding to allow NSPs to develop flexible consultation approaches.

A1.1.4 DSNPS SHOULD EXPLAIN VARIATIONS IN PRICE LEVELS IN THEIR ANNUAL PRICING PROPOSALS

Rather than binding indicative price levels that are included in the PSS, it would be more appropriate for DNSPs to explain within their annual pricing proposal any differences between the PSS and that proposal so that these can be understood by stakeholders and customers. Over time this would also enable customers and stakeholders to recognise the drivers or any variation between indicative prices and those in annual pricing proposals.

An approach where DNSPs explain any variance between the statement and annual pricing proposal would be analogous to the approach that the AEMC adopted for the guidelines now being implemented by the AER better regulation program; the AER is not bound by the guidelines but, if the AER makes a distribution determination that is not in accordance with the guideline, the AER must state the reasons for departing from it.[11]

A1.1.5 EARLIER NOTIFICATION OF NETWORK AND RETAIL PRICES WILL IMPROVE RETAIL MARKET CONDITIONS

We support bringing forward the timing of annual changes in network and retail prices to allow retailers more time to develop their retail offers and meet their NECF obligations[12] and to allow customers more time to assess market offers prior to the annual price change. This should improve the functioning of the competitive retail market and lead to better outcomes for consumers.

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9 A DNSP would submit an initial PSS as part of its revenue reset proposal nine months prior to the start of a regulatory period. It would need to be consulted on well before that. This would mean establishing tariff price levels for periods up to six years ahead. It is not possible for DNSPs to have perfect foresight of all the circumstances and events that would transpire over that six year time horizon that would require adjustments to price levels. For example, tariff price levels could reasonably be expected to change as a result of regulatory changes, pass throughs, service target performance incentive scheme outcomes, and licence fee pass through adjustments – all of which would not be known to a DNSP at the time of creating a PSS and could create a certain degree of tariff price variability.

10 The revenue and pricing principles in the National Electricity Law (**NEL**) outline that a NSP must have the opportunity to recover at least its efficient costs. This principle is considered when the AER approves a DNSP's allowed revenue for each five year regulatory period. It is not clear how fixing prices in a PSS would be consistent with the ability to recover that allowed revenue.

11 National Electricity Rules section 6.2.8(c).

12 Under the National Energy Retail Law, Retailers are required to provide 10 business days' notice of a price change to Standing Offer Prices and Regulated Offer Prices by publishing the prices on their website and publishing a notice in a newspaper.

The AEMC will need to consider transitional arrangements to ensure consistency with the requirements in DNSPs' revenue determinations.[13] A simple means to achieve consistency would be for the rule change to apply from the start of the next regulatory period of each DNSP.[14] Consideration should be given to the appropriate adjustment for the consumer price index (CPI**)** in the transitional year in which the change is introduced to ensure DNSPs have the opportunity to recover its efficient costs.[15]

To ensure benefit to stakeholders is realised, the earlier provision of pricing proposals by DNSPs would need to be accompanied by a requirement for the AER to approve the network prices earlier. Limiting the timeframe for the AER's approval process to ensure consistency with the approved PSS should facilitate this.

Additionally, we support starting the determination process earlier to enable stakeholders to obtain earlier visibility of prices in the first year of a regulatory period. This would maximise the benefits of the rule change. It would not be appropriate to shorten the timing of the determination process given this was only recently extended by the Economic Regulation of Network Service Providers rule change and was done so to incorporate the myriad of changes within it.

A1.1.6 IMPROVING THE COST REFLECTIVITY OF NETWORK PRICES

Improving the cost reflectivity of network prices has the potential to lower network costs to all customers, and reduce some of the inequitable cross-subsidies that exist between different customers. This is ultimately likely to result in more efficient investment in and use of energy services.

In this section we outline the areas of the Rule changes that we support, and areas for further consideration to ensure the rule change meets the **NEO**.

Table A1–2: Summary of key points on the PSS and customer and stakeholder engagement

Key desirable outcome	Jemena position on relevant rule change element	The AEMC should consider
Improve cost reflectiveness of network prices	We support the AEMC's focus on improving the cost reflectivity of network prices and tariffs, and the barriers that need to be addressed to achieve this.	How to address the barriers beyond the National Electricity Rules, including: • jurisdictional constraints on pricing and metering, • transparent reporting of separate network and non-network components of customer bills • customer and stakeholder understanding of energy costs, including acceptance of cost reflective pricing, and • a national co-ordinated approach to funding and delivering targeted assistance to customers in hardship.
Providing efficient price signals to	We support movements to more cost	The AEMC should consider:

13 For example, so that the appropriate quarter CPI data to be used in annual pricing proposals is included in the determination.

14 Provided that the AEMC's decision was made in time to incorporate this into the DNSP's determination.

15 If this transitional period requires a change to the measurement of inflation (say from a September quarter CPI index to a June quarter index), it should be implemented in a way that allows DNSPs to recover their efficient costs, say by measuring inflation as the 12 months to the prior quarter. Failure to do this could inadvertently reduce DNSPs allowed revenue.

Key desirable outcome	Jemena position on relevant rule change element	The AEMC should consider
customers	reflective pricing, including basing prices on LRMC as a means to providing efficient pricing signals to customers	• How the LRMC may move through time and whether this will necessarily lead to more cost reflective prices, including increasing the recovery of residual network costs • whether it is efficient and practical to estimate the LRMC at individual customer level • the benefits in providing flexibility for DNSPs to develop and consult on LRMC methodologies
Clearly defined pricing principles	We support pricing principles that: • Obligate DNSPs to move network prices and structures to the maximum extent possible, cost reflective, or move closer to being cost reflective over time. • recognise recovery of other residual costs (LRMC is not only element of 'cost reflective' pricing) • recognise customer impacts and other pricing principles	The AEMC should consider: • How the Rules will manage potential inconsistency within the pricing principles. • The potential confusion created by additional principles
Recovery of residual network costs	Recovery of residual network costs will involve a balance between efficiency, equity and simplicity: • Ramsey pricing may facilitate greater efficiency than postage stamp pricing and may not produce adverse distribution outcomes. • Postage stamp pricing may be more simple and transparent. • We support flexibility in the recovery of residual network costs. Ramsey pricing remains appropriate but a single approach should not be mandated.	The AEMC should: • test the appropriateness of the different methodologies in the different contexts in which DNSPs operate • articulate how prescribing any one approach for recovery of residual network costs is more likely to promote the NEO

A1.1.7 THE BARRIERS TO IMPROVING COST REFLECTIVITY OF NETWORK TARIFFS MUST BE ADDRESSED

We support the AEMC's focus on improving the cost reflectivity of network prices and tariffs. The AEMC has identified that improving the price signals provided to customers has the potential to result in more efficient investment in and use of energy services. Ultimately this will lower network costs to all customers.

However realising many of the benefits from the rule change will require addressing a range of barriers beyond the National Electricity Rules, including jurisdictional constraints on pricing and metering, customer and stakeholder understanding of energy costs, including acceptance of cost reflective pricing, and a national co-ordinated approach to funding and delivering targeted assistance to customers in hardship. The ENA has outlined a broader package of cost reflective network tariff reforms.

We welcome the support of the SCER and the AEMC in beginning the dialogue required to address these barriers to ensure the policy, regulatory and market framework continue to promote the long term interests of customers.

A1.1.8 ENHANCING TRANSPARENCY OF THE LRMC OF PROVIDING ENERGY SERVICES

We support movements to more cost reflective pricing, including basing prices on the LRMC of providing energy services. We recognise that to date, we have not engaged sufficiently with the community on the LRMC of providing energy services and the price signals that should be provided to our customers to ensure they make efficient consumption and investment decisions. The challenge, which we will meet, is to explain to customers how LRMC is relevant in setting prices in accordance with the NEO. In our recent experience, Jemena has been often encouraged to consider shorter term pricing objectives which may be challenging to reconcile with the pricing principles and the NEO.

Including in the pricing principles a requirement that DNSPs set cost reflective network tariffs in accordance with LRMC is likely to provide transparency in the cost of providing network services to different customer classes over time. This is strengthened with an obligation to demonstrate as part of the PSS how we have met the pricing principles.

However we are concerned that:

- There are a range of other pricing principles in the NER, which could create a potential conflict
- Cost reflective pricing means more than setting prices based on LRMC
- Mandating a specific LRMC methodology could create unintended consequences

These are discussed in the sections below.

A1.1.9 THE RULE CHANGE COULD CREATE POTENTIAL CONFLICTING PRICING PRINCIPLES IN THE NER

Improving the cost reflectivity of network could mean changes to the way some customers are charged for use of our network, including customers with a remotely-read Smart Meter that 'opt-in' to flexible time-of-day retail pricing[16] or capacity based retail prices.[17]

We support the use of a pricing objective that encourages tariff levels to be as reflective of costs as possible. We are required to consider a range of issues when setting our network prices, including how to send efficient pricing signals to customers, how to recover the broadly fixed costs of our network in an efficient way, and the pricing outcomes for customers. Often this involves a complex balancing of different objectives within a range of pricing and metering constraints. This highlights the importance of recognising the other pricing principles, including simplicity and certainty to customers, and the need to clarify the primacy given to these other pricing principles.

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16 Victorian electricity customers with a remotely-read Smart Meter have the option of choosing between flat rates and flexible electricity pricing in which different rates will apply at different times throughout the day.

17 Retail prices with a demand-based component involve customers being charged for electricity based on their maximum demand at a point in time. This differs from traditional flat rate and flexible pricing designs which are based largely on usage over specified times (with small fixed charges).

We do not consider that basing prices purely on cost reflective criteria would promote the long term interests of consumers. This would ignore valid pricing objectives of:

- financial sufficiency – where prices should raise adequate revenue to maintain DNSP viability
- economic efficiency – where prices should send appropriate signals to consumers regarding their use of the network (to promote desirable behaviour change), and should minimise any distortions to efficient use while still recovering allowed costs (to avoid undesirable behaviour change)
- simplicity – where prices should be transparent and comprehensible to customers so they can respond to the signal
- certainty – where prices should be predictable over time to allow customers to make efficient investment decisions
- compliance with jurisdictional requirements – in Victoria this includes the Victorian Government AMI tariff order (refer Appendix B Question 35).

The tension between the pricing principles ultimately requires network businesses to carefully consider a range of factors and make ‘on balance’ decisions in consultation with customers and stakeholders.

For example, Jemena currently considers the following customer impacts in designing its network prices:

- retailers may not pass network pricing signals through to customers–for example, retailers may package network prices such that final energy prices peak at different times to network prices, such that network price signals are diluted
- customers may not receive the price signal in a timely manner or understand it to effectively modify their behaviour–for example, because billing is quarterly or because charges are not disaggregated into network and non-network components
- specific customer groups may be unable to respond to price signals, including low income earners and business customers with budgetary constraints (for example, with respect to obtaining systems capable of responding to time of use pricing).

While we welcome the focus on this complex issue, it is not clear that greater prescription in the Rules in terms of how ‘cost reflective’ should be defined and calculated, and the weight given to it in determining *individual* prices and tariffs, is more likely to lead to pricing outcomes that promote the long term interests of customers. By mandating prices be based on LRMC, the SCER rule change proposal could detrimentally impact the ability for such valid ‘on balance’ decision-making processes. It could also lessen the ability of our customers and stakeholders to engage in network pricing decision-making.

We seek clarity from the AEMC as to how any conflicts with the pricing principles should be managed and the primacy given to any of these principles.

A1.1.10 COST REFLECTIVE MEANS MORE THAN SETTING PRICES BASED ON LRMC

The costs that need to be reflected in our prices reflect our allowed revenue requirement plus any costs related to approved pass through events.

Marginal costs are essentially forward looking, since they reflect the expected change in costs that arise from changes in demand. Because the trigger is a change of demand, this relates most directly with replacement and expansion capital expenditure (as well as the associated incremental operating expenditure). This would therefore not include the recovery of non-demand driven costs such as the majority of operating expenditure and much of the replacement program. Because marginal costs are forward looking, invariably the estimates are subjective, dependent on the quality of inputs, and are best viewed as a range.

Since LRMC attempts to capture the change in costs in response to a change in demand, in our pricing proposals for JEN we have primarily had regard to the consumption and capacity based charging parameters when calculating LRMC. Other components of JEN's tariffs such as its standing charges are not priced with respect to demand and can essentially be viewed as recovering historical costs (such as the return on sunk assets). Indeed, not every tariff class and tariff parameter can be set with reference to LRMC and it would not be appropriate to do so. This principle is envisaged by NER rule 6.18.5(c).

Ignoring how to reflect costs of the other elements of the DNSP's revenue allowances by mandating that tariffs are based on LRMC outcomes may potentially reduce overall cost reflectivity. This might occur for example when demand is stagnant or falling. In these scenarios, LRMC outcomes are likely to be low. With tariff prices based purely on LRMC (via a mandate in the NER), this would mean that the amount recovered by the residual methodology would have to increase to ensure revenue sufficiency. This may not to be consistent with cost reflective pricing.

However, if we had the flexibility within the NER to adjust tariffs to take into account the full set of pricing objectives noted above (including a cost reflective principle), then tariff prices that effectively reflect all costs are more likely to emerge. Building such flexibility into the NER would ensure it is robust to accommodate the various demand scenarios that might emerge over time and across various jurisdictions.

A1.1.11 PROVIDING FLEXIBILITY IN THE LRMC METHODOLOGY IS PRUDENT

There are a range of LRMC methodologies that can be applied in different contexts. In most cases, the appropriate approach will depend on how the LRMC estimate is being used and in what context. The AEMC itself has supported different LRMC methodologies in different contexts.[18]

In considering the LRMC methodologies to be used, the AEMC would need to test the appropriateness of the different methodologies in the different contexts in which DNSPs operate. It is not clear that any one specific methodology is more likely to promote 'cost reflectivity' and the long term interests of customers. The methodology may need to evolve over time as approaches are developed and more granular information is available.

For example, the Turvey methodology requires multiple scenarios to be developed and the administrative burden required to calculate it at a granular level of detail should not be underestimated. To obtain robust Turvey results, multiple demand perturbations at each location for each tariff class would be required. Considering every perturbation of demand at every location for every tariff class would require an expert engineer to make an assessment of how the optimised capital program would change. The outcomes are therefore sensitive to engineering assessments and assumptions. Mandating tariff prices are based on a specific LRMC methodology would therefore risk poor outcomes based on difficulties in obtaining robust input information.

In considering the LRMC methodologies that could be used, the AEMC could test the appropriateness of the different methodologies in the different contexts in which DNSPs operate. We encourage the AEMC to promote the practical application of any cost based methodology that recognises there is a range of 'cost reflective' methodologies, each with different impacts for prices as well as costs associated with development and implementation.

We consider it prudent to provide flexibility for a DNSP to establish which LRMC methodology is best suited and consistent with the Rules, following consultation with its customers and stakeholders.

[18] In its recent report into Residential Electricity Price Trends (2013), the AEMC favoured a "stand alone" or "greenfields" long-run marginal cost (LRMC) methodology to estimating the costs of electricity generation. In contrast, in its Best Practice Retail Price Methodology (2013) the AEMC favoured the use of a 'Turvey' approach to estimating the costs of generation

A1.1.12 RAMSEY PRICING REMAINS APPROPRIATE FOR THE RECOVERY OF RESIDUAL NETWORK COSTS

As noted in the Consultation Paper, setting network tariffs to reflect the LRMC of network use may not enable a DNSP to recover its allowed regulated revenues. This follows from the 'natural monopoly' characteristics of distribution network infrastructure, particularly the economies of scale and 'lumpiness' inherent in the provision of network services. These characteristics can cause the *marginal cost* of network service to fall below the *average cost* of providing the network. Put differently, it means that pricing at marginal cost will tend to recover total revenues below the DNSP's total costs.

The SCER Rule change outlined Ramsey pricing and postage stamp pricing as two potential approaches for recovering these residual costs. Both Ramsey pricing and postage stamp pricing may result in similar structures and levels of residual cost charges in an environment where all consumers have an inelastic demand for network access for all realistic levels of the residual network recovery charge.

The AEMC's Power of Choice Review final report expressed concerns about Ramsey pricing on the basis that it could lead to higher charges for consumers on inflexible tariffs and higher charges for network usage at certain times. The AEMC's consultation paper, suggested that Ramsey pricing could be implemented in such a way that consumers would pay lower 'fixed' charges if they faced a relatively high LRMC-related demand or usage tariffs.

We commissioned Frontier Economics to consider the application of both Ramsey pricing and postage stamp pricing approaches in the NEM. Frontier considered that both approaches could involve similar structures and levels of residual cost charges. This is because most consumers would be highly insensitive to standing charges used to recover residual network costs. To the extent there are differences between Ramsey pricing and postage stamp pricing due to some degree of consumer responsiveness to network standing charges, Ramsey prices would need to reflect some proxy for consumer willingness-to-pay, such as the scope for network by-pass, property valuations or the applicability of energy concessions and solar feed-in tariffs and rebates.

Frontier note that equity concerns about the use of Ramsey pricing for setting distribution network tariffs may be misplaced. This is because, at least until battery storage becomes cheaper, poorer consumers are – if anything – likely to be more sensitive to very high standing charges than richer consumers.

The use of postage stamp pricing by DNSPs across the NEM already reflects a significant degree of locational variation. The key drawback of postage stamp pricing is its rigidity – postage stamp pricing could prevent the recovery of residual DNSP costs in ways that could promote equity or efficiency.

Frontier notes that the AEMC consultation paper's suggestion of setting 'fixed' charges inversely to LRMC-related demand or usage tariffs is best not described as a form of Ramsey pricing because the size of the residual cost charge is not determined by reference to consumers' likely responsiveness to the residual charge. Frontier considers it is more appropriate to describe the AEMC's inverse charging approach as an example of an approach designed to promote a particular view of equity. To the extent that demand for network access is inelastic to the standing charge, this approach would not compromise economic efficiency and would lead to consumers with a standard level of consumption facing a roughly similar-sized bill regardless of the LRMC (eg location) of their usage. However, a range of other options could also be considered that would satisfy different notions of equity.

We consider that the NER should maintain flexibility for how to recover residual network costs. Ramsey pricing is the most efficient and 'textbook' method for recovering a DNSP's allowed revenues where these exceed the revenue attained from prices set at marginal cost. There are some recognised disadvantages to this approach but as it is not currently applied to its full theoretical extent by DNSPs then the negative impacts would be overstated. Moving toward a pure postage stamp methodology could have negative impacts for efficiency.

We consider it prudent to provide flexibility for a DNSP to establish which residual network cost recovery methodology is best suited and consistent with the Rules, following consultation with its customers and stakeholders.

A1.1.13 SIDE CONSTRAINTS ACROSS REGULATORY PERIODS ARE NOT REQUIRED

We do not consider it necessary or appropriate for side constraints to apply across regulatory periods.

A number of protections are already in place to allow scrutiny of likely tariffs over a regulatory period including:

- AER rigour during the regulatory determination process
- improved consultation processes that are to be consistent with the already established AER consultation guideline
- the pricing principle to take into account customer impacts
- the potential introduction of the PSS.

Appendix B
Jemena response to AEMC questions

Jemena
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B1. JEMENA RESPONSE TO AEMC QUESTIONS

AEMC question	Jemena response
Assessment Framework	
1. Is the assessment framework presented in this consultation paper appropriate for assessing this rule change request?	The proposed assessment framework covers efficient pricing, stakeholder engagement, predictability, allocation of risks and regulatory burden. JGN supports this assessment framework.
Balancing consultation and pricing certainty objectives in the network pricing framework	
2. Does figure 6.1 reflect the key components of how network tariff structures and pricing levels determined by DNSPs?	Jemena considers figure 6.1 is accurate.
3. How often are network tariff structures likely to change during a regulatory period and what are some of the reasons for that change?	Network tariff structures do not change often. The primary instigators of change are driven by Government energy policy changes (e.g. flexible pricing), and technological changes in the energy market. Changing tariff structures is complex and requires appropriate stakeholder engagement.
4. What level of information on network tariff structures and network tariff pricing levels should be included in a network tariff structures document to assist retailers and consumers to understand and respond effectively to changing prices and structures over the regulatory period?	Jemena supports the SCER proposition that the PSS contains: • tariff classes • tariff structures for each tariff class • elements of the charging parameters for each proposed tariff structure • a description of how the PSS addresses the pricing principles • the statement of expected price trends Jemena supports this proposition because it gives retailers, customers and other market participants (such as embedded generators) the relevant information that they will reasonably need to understand network tariff pricing structures and how these may impact their pricing and investment decisions. Jemena supports providing indicative pricing trends based on the best information available at the time of preparing the network pricing structures statement. The annual pricing proposal would outline the reasons for the differences to the statement of expected price trends.

AEMC question	Jemena response
5. Should DNSPs be able to vary their network tariff structures during the regulatory period? Why or why not?	DNSPs should be able to vary their network tariff structures during the period to ensure that the tariff structures meet legislative, technological, demand and customer changes. Restricting changes to tariff structures may result in inefficient investment in and use of energy services. IPART's rule change proposal makes clear that it was not intended to reduce this flexibility. Changes to the tariff structures should be supported by well-designed and targeted customer and stakeholder consultation.
6. If a document on network tariff structures is put in place, should this be an indicative document or should the DNSPs be required to apply it in their annual pricing proposals?	The tariff structures within the annual pricing proposals should be consistent with the PSS. This will ensure consistency between the PSS approved 4 months prior to the start of the next regulatory year and the pricing proposal due 2 months later. This assumes that the DNSP can consult and alter the tariff structures for the following year within the regulatory period.
7. If a document on network tariff structures is binding on the DNSP, should it be able to be varied and under what circumstances? If so, should it be varied outside or within the annual network pricing process?	Yes, refer Question 5. It should be varied outside of the annual network pricing process. This will allow the AER's compliance review of the annual pricing proposal to be limited to ensuring price structures are consistent with the approved PSS.
Implementation of a pricing structures statement	
8. Should DNSPs be required to consult with stakeholders before submitting their proposed pricing structures statement to the AER for approval through the regulatory determination process?	The existing AER consultation guideline makes it clear that consultation is expected on tariff structures, given that network tariff structures impact customers, retailers and embedded generators. This has the effect of a requirement for any DNSP that want to employ best practice. We are currently engaging with our gas and electricity customers on network tariff structures as part of our developing our regulatory submissions.
9. Is consultation necessary if DNSPs seek to amend their approved pricing structures statement during the regulatory period, as opposed to at the time of the regulatory determination? Are there any circumstances where amendments to the network tariff structures in the annual pricing process should be exempt from consultation on amendments to the previously approved pricing structures statement?	Yes, changes to tariff structures would require consultation. The nature of the engagement may depend on the nature and driver of the changes to tariff structures. For example, changes driven by regulatory obligations may be more likely to take the form of "inform" than "consult".

AEMC question	Jemena response
10. Is it necessary for the AER (as opposed to the DNSP) to consult with stakeholders before approving any proposed amendments to the pricing structure statement sought by the DNSP?	No, it should not be necessary, but an option if the AER considers it necessary. If AER approval of the PSS is required, the AER's discretion should be limited to ensuring NSPs provide sufficient information to demonstrate compliance with the pricing principles and followed appropriate consultation. The AER's approval process should not impact the timetable, and the ability of DNSPs to submit annual pricing proposals one month earlier.
11. Should the AER be required to provide guidance on the consultation process for DNSPs? Should the guidelines be binding on the DNSPs?	The Rules should specify the minimum information in the PSS. While an AER guideline on the development of the PSS and the statement of expected price trends may be beneficial, it should not be binding to allow NSPs to develop flexible consultation approaches.
12. Does the PSS need to be approved?	We have no in principle concerns with the PSS being approved by the AER. If AER approval of the PSS is required, the AER's discretion should be limited to ensuring NSPs provide sufficient information to demonstrate compliance with the pricing principles in the NER and followed appropriate consultation. An alternative if for AER to be given the ability to intervene where it considers DNSP's are not complying with the NER requirements to publish a PSS with appropriate content and engagement.
13. Should the AER be able to amend a DNSP's PSS? If the AER does not approve a DNSP's proposed pricing structures statement, what arrangements would be suitable for default network tariff structures?	The DNSP is best placed to determine its tariff structures following consultation with its customers. Where the AER is to amend a PSS, this should be limited to clear inconsistencies with the requirements of the NER backed by strong and well-articulated justification. There is unlikely to be suitable default network tariff structures that would be suitable to the variable jurisdictions and networks owned by DNSPs.
14. What are the risks to the annual pricing process if DNSPs do not comply with their approved pricing structures statement or are late submitting a full pricing proposal?	The risk is that annual changes in network prices will not be approved, or will be delayed which may impact retailers and the competitive retail market.
15. How should DNSPs be incentivised to comply with their approved pricing structures statement in their annual pricing proposals? How should compliance incentives be balanced against the financial risks for DNSPs and certainty for stakeholders?	As DNSPs do not often change their pricing structures and do not have any incentive to vary these, it would be odd to provide a process for penalties for deviations.

AEMC question	Jemena response
16. Should DNSPs include forecasts of their expected changes in network tariff pricing levels in the pricing structures statement?	DNSP's can provide indicative trend or price information within the PSS as part of the statement of expected price trends. While an AER guideline on the development of the statement of expected price trends may be beneficial, it should not be binding to allow NSPs to develop flexible consultation approaches. The annual pricing proposal would outline the reasons for the differences to the statement of expected price trends.
17. Should any changes to the network tariff pricing levels included in the pricing structures statement be subject to consultation? If so, what level of materiality should apply to the change?	Consultation on any differences between the annual pricing proposal and statement of expected price trends is not necessary and would add additional costs to the development of the annual pricing proposal. The annual pricing proposal should inform customers and retailers of the reasons for the differences to the statement of expected price trends.
18. Should a pricing structures statement process be introduced as soon as possible? If so, what risks are there from having it in place before the next regulatory determination period?	The simplest and most transparent manner to implement a PSS would be at the start of the next regulatory period for each DNSP. This would allow DNSPs to develop and consult on the PSS as part of the regulatory proposal.
19. Does the AER consultation guideline need to be in place before a PSS can be implemented?	The Rules should specify the minimum information in the PSS. While an AER guideline on the development of the PSS and the statement of expected price trends may be beneficial, it should not be binding to allow NSPs to develop flexible consultation approaches. Best practice would suggest the Guideline is issued prior to the PSS being mandated in the Rules.
20. **Changes to the timing of the annual pricing process**	
21. If a PSS framework were implemented, would this reduce the timing pressures for the DNSPs, the AER and retailers that have arisen from the first year and subsequent year annual pricing process?	The PSS framework itself would make minimal changes to the annual timing pressure. This is because JEN's use of system agreement with retailers already has provisions for JEN to notify tariff structure changes 3 months ahead of making a change to tariff structures (unless otherwise agreed by the retailer). The process of preparing the pricing proposal would therefore be mostly identical under the current and PSS frameworks. Bringing forward the submission of annual pricing proposals by one month is likely to assist retailers, customers and the development of the competitive retail market.
22. **Reforms to distribution pricing principles**	
23. What would be the likely impacts on customers of making an LRMC approach mandatory?	More cost reflective network prices have the potential to lower network costs to all customers, and reduce some of the inequitable cross-subsidies that exist between different customers. While we support that prices should be cost reflective to the greatest extent possible, we do not consider that basing tariff prices purely on cost reflective criteria would result in tariffs in the long term interests of consumers. This would ignore valid pricing objectives including simplicity and certainty. Our research tells us that customers value these objectives. A mandatory LRMC principle in certain environments (such as falling demand) may give rise to an increase in the revenue to be recovered via residual network costs. Depending on the approach to recovering these residual network costs, this could

AEMC question	Jemena response
	lead to significant changes in bills for certain customers (including large increased in fixed charges). It could also lead to a reduction in cost reflectivity if there postage-stamp pricing.
24. What would be the impacts on DNSPs of making an LRMC approach mandatory? Does it result in increased compliance risk?	The rule change is not clear as to how a DNSP should handle conflicting rule and or law requirements. Refer to 'on balance' DNSP decisions in relation to tariff levels discussion from section 2.1 of **Appendix A**.
25. How limited will DNSPs be in basing prices at LRMC if they must first comply with jurisdictional instruments?	The rule change is not clear as to how a DNSP should handle conflicting rule and or law requirements.
26. Should LRMC be defined? If so, what level of detail would be appropriate?	There are a range of LRMC methodologies that can be applied in different contexts. In most cases, the appropriate approach will depend on how the LRMC estimate is being used and in what context. It is not clear that any one specific methodology is more likely to promote 'cost reflectivity' and the long term interests of customers. In considering the LRMC methodologies that could be used, the AEMC could test the appropriateness of the different methodologies in the different contexts in which DNSPs operate. We encourage the AEMC to promote the practical application of any cost based methodology that recognises there is a range of 'cost reflective' methodologies, each with different impacts for prices as well as costs associated with development and implementation. We consider it prudent to provide flexibility for a DNSP to establish which LRMC methodology is best suited and consistent with the Rules, following consultation with its customers and stakeholders.
27. Should one methodology apply to calculating LRMC or should multiple methodologies be allowed? Which is/are the most appropriate methodology (ies)?	Refer Question 24.
28. Should the AER be required through a guideline to specify the methodology or methodologies of calculating and applying LRMC?	An AER guideline to assist DNSPs and their customers and stakeholders to consider and develop an LRMC methodology may be beneficial. This 'process' guideline should not be binding given there are likely to be different considerations in different operating environments.
29. What is the impact of coincident peak demand on network costs and how are these additional costs currently recovered in network tariffs?	The Consultation Paper is not clear why this information is being sought and how it may be used.

AEMC question	Jemena response
30. How should LRMC pricing reflect additional costs associated with coincident peak demand and what are the practical impediments to DNSPs adopting tariffs that reflect coincident peak demand?	The Consultation Paper is not clear why this information is being sought and how it may be used.
31. How important are locational pricing signals for distribution networks? Are locational pricing signals for some types of customers more important than others?	We currently consider the extent to which our tariffs should provide locational pricing signals. This is a balance between providing efficient signals and the simplicity and predictability of prices and tariff structures. Mandating this requirement would make the resultant tariff structure more complex and increase the cost of administering tariffs. It could also be inconsistent with jurisdictional requirements (See Question 30). DNSP should be given the flexibility to strike a balance between the various pricing principles and to engage with customers and stakeholders on their preferences.
32. What are the practical impediments to DNSPs adopting tariffs that reflect locational pricing signals?	There are a range of barriers to implementing locational pricing signals including: • Administrative complexity, both to DNSPs to develop and consult on, and for retailers to respond to in their market offers • Jurisdictional barriers to charging different prices to different customers • Customer understanding and acceptance of different prices for 'the same service'
33. Is an additional principle required to further encourage network prices which are based on the drivers of network costs to the maximum extent possible?	This could represent an alternative to mandating tariffs be based on the LRMC of providing services. However, additional principles make the network price 'balancing' more challenging, including to communicate and engage with our customers and stakeholders.
34. What are the pros and cons of using a Ramsey pricing approach or a postage stamp pricing approach?	Ramsey pricing approach is preferable in terms of efficiency. However, most DNSPs' current approach is a hybrid between Ramsey and postage stamping reflecting the different operating environments (including jurisdictional requirements, customer understand and acceptance) and the proportion of revenue to be collected via a residual cost methodology. We consider it prudent to provide flexibility for a DNSP to establish which residual network cost recovery methodology is best suited and consistent with the Rules, following consultation with its customers and stakeholders.
35. Are there any other pricing approaches that should be considered to recover residual network costs?	Not aware of any although note that, as described in the Frontier report,

AEMC question	Jemena response
36. Should an approach or approaches be specified in the NER or an AER guideline?	Given that in practice, most DNSPs' current approach is a hybrid between Ramsey and postage stamping it is not clear mandating a specific approach will necessarily promote the pricing principles and the long term interests of customers. Absent a detailed assessment of the appropriateness of the different methodologies in the different contexts in which DNSPs operate, the NER should retain flexibility for the DNSP to apply the most appropriate approach that suits its customer and stakeholder needs.
37. What jurisdictional instruments or requirements could limit the ability of a DNSP to comply with any requirement to base tariffs on LRMC (including where that LRMC may vary with customer location or with different local peak demands)?	The Victorian Government AMI tariff order has the following impacts on residential customer tariffs: • any tariff to be introduced from 1 Jan 2013, which is not a flat tariff, is considered a flexible tariff • customers tariff reassignment from and to a flexible tariff is voluntary - in particular the distributor cannot assign the customer to a flexible tariff, be it cost reflective or not • the distributor must retain a flat tariff and the common form flexible tariff structure • even though the existing Order in Council specifies that customers can revert to their previous tariff until the end of the transitional period, i.e. March 15, the Government can extend this to a later date.
38. What are the potentials impacts of a NER requirement for DNSPs to comply with jurisdictional instruments?	The rule change is not clear on how a DNSP should handle conflicting rule and or law requirements, particularly around LRMC based tariffs, jurisdictional requirements and customer impacts.
39. Should a requirement for DNSPs to take into account the impact of tariffs on consumers be included in the pricing principles?	This is DNSP's current practice.
40. If a requirement is included, does the proposed principle provide enough guidance on how it is to be complied with, or would an AER guideline be useful?	JEN describes how it takes into account customer impacts in its pricing proposals. With increased levels of engagement, these are likely to become more finely tuned. While an AER guideline on the development of the Pricing Structures Statement (PSS) and the Statement of expected price trends may be beneficial, it should not be binding to allow NSPs to develop flexible consultation approaches. Best practice would suggest the Guideline is issued prior to the PSS being mandated in the Rules.
41. If a requirement is included, does the proposed principle conflict with other principles within the NER?	The rule change is not clear on how a DNSP should handle conflicting rule and or law requirements, particularly around LRMC based tariffs, jurisdictional requirements and customer impacts.

AEMC question	Jemena response
42. Should network tariffs reflect transmission pricing signals? If so, what would the most appropriate way achieve this for different types of network customers?	We currently consider the extent to which our tariffs should reflect transmission pricing signals. This is a balance between providing efficient signals (and reducing our risk) and the simplicity and predictability of prices and tariff structures. Mandating this requirement would make the resultant tariff structure more complex, unpredictable and increase the cost of administering tariffs.
43. **How changes to tariff classes are determined**	
44. Is the change to a mandatory requirement to group customers into tariff classes likely to achieve the desired outcomes?	Unlikely
45. Is the change to a mandatory requirement to group customers into tariff classes likely to result in inconsistencies within the NER or with any jurisdictional instruments or requirements?	Unlikely
46. **Changes to the operations of side constraints**	
47. Is the proposal to apply side constraints across regulatory periods likely to materially benefit consumers by protecting them from price shocks?	Side constraints across regulatory periods are not necessary and could be a barrier to implementing the PSS. In the long term it may lead to the need for more frequent price changes, or may require a larger side constraint to allow individual tariffs to get to cost reflective levels.
48. Is the proposal to apply side constraints across regulatory periods likely to lead to inconsistencies with other requirements in the NER?	Side constraints across regulatory periods are not necessary and could be a barrier to implementing the PSS and moving prices and tariff structures to cost reflective levels. There are sufficient regulatory checks in place, including the pricing principles that the AEMC has identified in its consultation paper. JEN includes stability as a pricing objective when setting its network prices.
49. Are there likely to be implementation issues in applying side constraints across regulatory periods?	The Consultation Paper is not clear on the types of implementation issues it is examining.
50. Should network tariffs of customers with interval meters or other types of time-based meters be subject to side constraints?	We have no in principle concerns with side constraints being applied to interval metered customers.