



AEMC

# INFORMATION

## Draft new rules for distribution network prices

The AEMC has called for submissions on draft rules made in relation to requests from the COAG Energy Council and the NSW Independent Pricing and Regulatory Tribunal (IPART). The rules would enable network prices to reflect the way individual consumers use network services so consumers can make informed decisions to better manage their electricity usage. Submissions are due by 16 October 2014.

### What did we decide in the draft determination?

In the draft determination, we have set a new pricing objective for distribution businesses so prices reflect the efficient costs of providing network services to each consumer. This will allow consumers to compare the value they place on using the network with the costs caused by their use of it.

The distribution businesses must comply with four new pricing principles to achieve the objective:

- Each network tariff must be based on the long run marginal cost of providing the service. If consumers choose to take actions that will reduce future network costs, such as by reducing peak demand, then they will be rewarded with lower prices. Network businesses will have flexibility about how they measure long run marginal cost.
- The revenue to be recovered from each network tariff must recover the network business's total efficient costs of providing services in a way that minimises distortions to price signals that encourage efficient use of the network by consumers.
- Tariffs are to be developed in line with a new consumer impact principle that requires the impact of annual changes in network prices to be minimised and prices to be easily understood. Consumers are more likely to be able to respond to the price signals that network prices are designed to send if they can relate their usage decisions to network price structures and sudden price changes are avoided. Network businesses can gradually phase-in new prices over several years if necessary to minimise the impacts of price changes on consumers.
- Network tariffs must comply with any jurisdictional pricing obligations imposed by state or territory governments. But if network businesses need to depart from the above principles to meet jurisdictional pricing obligations, they must do so transparently and only to the minimum extent necessary.

### How will the change impact the way prices are set?

The draft rule contains a new process and new timeframes for setting network prices to improve certainty, timeliness and transparency for consumers and retailers.

Distribution businesses will be required to:

- Develop a tariff structure statement for approval by the AER as part of their five-year regulatory reset process. Key matters including price structures

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will be approved as part of this process, subject to a limited ability to make amendments during the regulatory period with AER approval. Price levels will continue to be approved annually, but a pricing schedule will give consumers and retailers more information about indicative price levels for the regulatory period.

- Demonstrate to the AER how they have consulted with consumers and retailers in developing their price structures.
- Notify consumers and retailers of final network prices at least six weeks before they commence, allowing them to better prepare for price changes.

#### **What does this draft rule change address?**

This draft rule change determination addresses issues raised by rule change requests from IPART and the COAG Energy Council in relation to the setting of distribution network prices.

Due to the overlap of issues, these requests were consolidated into one process that improves:

- Arrangements within the National Electricity Rules around how distribution businesses set and structure network prices.
- Consumer opportunities to have a say in how they can best respond to changing network prices.
- Retailer and consumer engagement in network price setting.
- Timing of annual network price setting.

#### **Building on the 2012 network regulation reforms**

These changes form part of the ongoing reform by the AEMC in the area of network regulation, which includes significant rule changes made in November 2012 to better equip the regulator to set efficient revenues for network businesses. This draft determination does not change the rules regarding how much revenue network businesses may earn in total from consumers. Instead, it is the next step in the reform process and relates to how network businesses divide up that total amount of revenue into network prices that apply to individual consumers.

#### **AEMC Power of Choice Reform Program**

This rule change is part of a reform program identified by the 2012 AEMC Power of Choice Review to help consumers participate more effectively in energy markets.

The AEMC is currently assessing a series of other Power of Choice rule changes: customer access to information about their energy consumption; expanding competition in metering and related services; AEMO obtaining better demand side participation information; and reform of the demand management embedded generation incentive scheme.

#### **Submissions**

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