Australian Energy Market Commission
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Submitted online at www.aemc.gov.au

13th December 2013

**RE: National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014 – Consultation Paper 14 November 2013**

AEMC Ref: ERC0161



Dear Commissioners,

Thank you for the opportunity to comment on the Consultation Paper for this Rule Change proposal.

As the peak body for the community services sector in South Australia, SACOSS has a long–standing interest in the delivery of essential services and particularly the cost of basic necessities like electricity because they impact greatly and disproportionately on vulnerable disadvantaged people.

The proposed changes to the rules around the pricing of electricity distribution targets an issue that has been long recognised by SACOSS as an underlying driver of South Australian electricity prices – peak demand.

SACOSS sees that changes to electricity tariff structures are inevitable - particularly in the South Australian context of peaky demand from air-conditioners and high penetration of embedded generation (around 1 in 5 households has a solar power system). It is clear to us that existing pricing structures are becoming further removed from the underlying costs of networks and energy generation.

SACOSS is of the view that the proposed Rule Change has the potential to have significant benefits for all South Australian households in the long term. However, in the short-term, the changes contemplated will have distributional impacts that warrant deeper understanding and careful implementation. As stated in the SCER Rule Change Request (p3):

> *The changes implied by this reform package point to a significant shift in the way customers use, purchase, interact with and are charged for, electricity. Electricity, however, is an essential service, and major changes to its provision are not to be taken lightly.*

SACOSS is of a view that such reforms warrant the formation of a dedicated stakeholder reference group and, noting the particular relevance to South Australia's peaky demand and the impending revenue reset of South Australia's only electricity distributor (SA Power Networks), SACOSS would be pleased to provide a representative to such a group.

Please find a detailed submission attached that responds to the questions posed in the Consultation Paper.

We thank you in advance for your consideration of our comments. If you have any questions relating to the above, please contact SACOSS Senior Policy Officer, Jo De Silva on 8305 4211 or via jo@sacoss.org.au.

Yours sincerely,

Ross Womersley
Executive Director

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**SACOSS Submission to:**

National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014 – Consultation Paper 14 November 2013

AEMC Ref: ERC0161

## Background

The consultation paper seeks stakeholder comments on a rule change process relating to the way distribution network prices are structured. The process consolidates rule change proposals from the NSW Independent Pricing and Regulatory Tribunal (IPART) and the Standing Council on Energy and Resources (SCER)[1].

The SCER rule change request draws on the conclusions and recommendations on network pricing made by the AEMC in its *Power of Choice Review*[2].

Under the current arrangements, once the revenue for a distribution business is set by the AER, there is a further annual process by which prices are set. The distribution business proposes prices which the AER must assess having regard to certain principles. The rule changes proposed seek to adjust both the process and the principles. In particular, it is proposed that these principles should be adjusted to encourage distribution network prices to be set on a more cost reflective basis, which will provide more efficient pricing signals to consumers.

The consultation paper states that any new rules that are made are likely to apply to the pricing processes in 2015. This would include those for the New South Wales, ACT, Queensland and South Australian distribution businesses. The SA Power Networks (SAPN) next regulatory period commences on July 1 2015 even though the final revenue determination is not due until October 2015. The delay in timing is due to the implementation of the AER's *Better Regulation* program. As a result, it is likely that some sort of transitionary arrangement will be needed to incorporate any changes to pricing principles for application to the 2015-16 financial year.

## The Proposed Assessment Framework

The Commission's assessment of the consolidated rule request must consider whether the proposed rules promote the National Electricity Objective (NEO) as set out under section 7 of the National Electricity Law (NEL).

The NEO states that:

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[1] www.scer.gov.au/workstreams/energy-market-reform/demand-side-participation/proposed-rule-changes/
[2] The SACOSS submission to the Power of Choice Review can be found here: http://www.aemc.gov.au/Media/docs/South-Australian-Council-of-Social-Service-SACOSS-588c8df8-d775-4e06-b207-2aefdddb4db2-0.PDF

*"The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to -*

*(a) price, quality, safety, reliability, and security of supply of electricity; and*

*(b) the reliability, safety and security of the national electricity system."*

The NEO refers to the three fundamental limbs of efficiency: allocative (efficient use of), productive (efficient operation) and dynamic efficiency (efficient investment). The AEMC will be required to form a balanced view of the rule change requests with respect to all three aspects of efficiency.

The AEMC intends to assess whether the rule changes proposed by IPART and SCER promote efficiency using the following criteria:

- efficient pricing;
- stakeholder engagement;
- predictability;
- allocation of risks; and
- regulatory burden.

**SACOSS Response**

SACOSS believes that changes to electricity tariff structures are inevitable. This is particularly true in the South Australian context of peaky demand from air-conditioners and high penetration of embedded generation[3] (around 1 in 5 households has a solar power system) and where existing pricing structures are becoming further removed from the underlying costs of networks and energy generation.

We are also alert to not underestimating the significance of these changes. As stated in the SCER Rule Change Request (p3):

*The changes implied by this reform package point to a significant shift in the way customers use, purchase, interact with and are charged for, electricity. Electricity, however, is an essential service, and major changes to its provision are not to be taken lightly.*

The Consultation Paper poses a series of questions. This submission aims to respond to these questions from the perspective of South Australian small consumers (i.e. those eligible for the consumer protection provisions of the National Energy Customer Framework).

SACOSS is of the view that the significance of this rule change justifies the convening of a specific stakeholder reference group and SACOSS would be prepared to provide a representative to this group.

[3] http://pv-map.apvi.org.au/historical

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| **Question 1** | **What other considerations should be included in the assessment framework?** |

SACOSS agrees with the 5 proposed criteria and strongly recommends the inclusion of a sixth: *distributional impacts*. As stated in the SCER Rule Change Request (p3):

> *SCER is cognisant that changes to network pricing through this rule change – when combined with enabling technologies – may result in significant changes in the distribution of network charges between customers and classes of customers. Sharper, more cost reflective prices will positively affect most users of electricity, but some will be impacted negatively.*
>
> *In recognition of the distributional impacts of such a shift, it is important that changes in network tariff structures are subject to appropriate regulatory scrutiny. In particular, it is important that there are clear plans and pathways to more cost reflective pricing, which are based on all the available information, consulted on wherever possible, and signalled as far in advance as possible.*

Consumers and their advocates are too often asked for an opinion on reforms without the insight of the impacts on consumers with different attributes. It is not acceptable to base decisions on the average consumer when there is such a range of potential impacts. In the case of distribution pricing reforms it is clearly important to understand the different impacts based on contribution to 'peak demand' rather than by the distribution of annualised consumption (the only related measure where there is some publicly available data).

Further, the criterion of 'predictability' should be enhanced with reference to 'stability'. Small consumers in particular have been the subject to a number of significant 'price shocks' during the last decade of energy market reform and there is no appetite for further, sudden changes.

The following chart (Figure 1) illustrates the quarter on quarter change in the electricity component of CPI for Adelaide since 2000. Figure 1 illustrates the significant price changes from quarter to quarter in the SA region of the NEM.

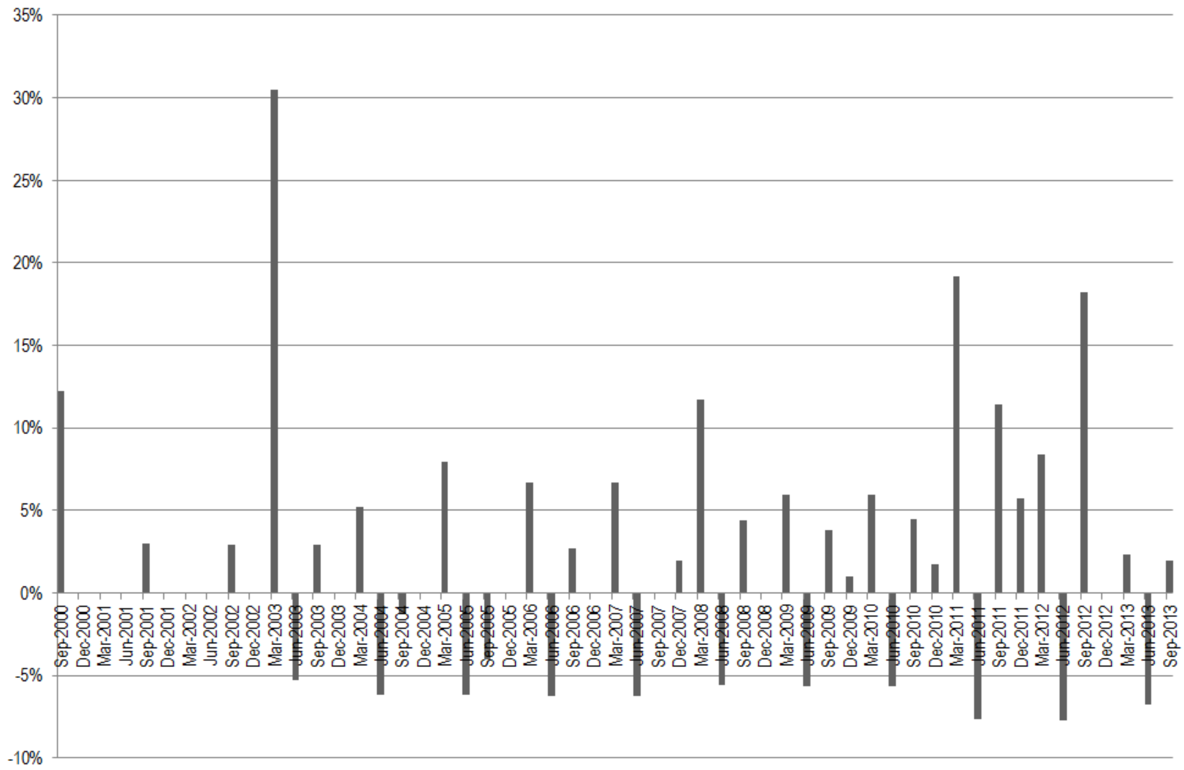


**Figure 1:** Quarter on Quarter changes to the Electricity component of the Adelaide Consumer Price Index. Source: Australian Bureau of Statistics

It should be noted that the majority of residential tariffs have included a ‘summer’ bias since 2003. This can be seen to account for 5-6% of the increases in price for the quarter ending March in each year and followed by the regularly negative change in the subsequent quarter (to June) in each year.

The September 2000 result incorporates the introduction of the GST, the March 2003 result incorporates the introduction of Full Retail Contestability while the four jumps in excess of 10% since 2008 can be attributed to a range of sources.

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| **Question 2** | **Does figure 6.1 reflect the key components of how network tariff structures and pricing levels determined by DNSPs?** |

No comment.

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| **Question 3** | **How often are network tariff structures likely to change during a regulatory period and what are some of the reasons for that change?** |

SACOSS is of the view that the 5 yearly cycle of regulatory periods represents an appropriate frequency for the consideration of substantial changes to tariff structures.

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| **Question 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?** |

The list of inclusions proposed by the SCER appears comprehensive (AEMC Consultation Paper p. 33 & SCER Rule Change Proposal pp. 8 - 9). SACOSS would prefer that 'expected customer impacts by class' be expanded to more adequately inform those interested in the distributional impacts of network cost recovery.

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| **Question 5** | **Should DNSPs be able to vary their network tariff structures during the regulatory period? Why or why not?** |

SACOSS would prefer that any structural changes are announced and explained at the beginning of the regulatory period and in concert with the engagement on the determination of revenue. Pricing stability is an increasingly important attribute for many small consumers and any significant changes should, at least, be flagged during the revenue determination process even if only implemented part way through the regulatory period.

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| **Question 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?** |

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| **Question 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?** |

Noting a preference for stability and predictability, SACOSS is of the view that while variations must be reasonably accommodated this must, however, involve a level of scrutiny by regulators and accountability to consumers.

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| **Question 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 AER's Better Regulation program of changes to the network regulation approach has gone to some length to improve the process of engagement between regulated businesses and consumers. There is no reason to think that this should not extend to this aspect of the market. SACOSS is confident that in the South Australian case, SAPN has both the capability and a willingness to engage effectively with consumers and retailers on their tariff proposals.

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| **Question 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?** |

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| **Question 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?** |

SACOSS is confident that an arrangement can be devised that does not duplicate the consultation process. As consumer advocates with limited resources, we are simply seeking *effective* engagement on the process.

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| **Question 11** | **Should the AER be required to provide guidance on the consultation process for DNSPs? Should the guidelines be binding on the DNSPs?** |

SACOSS is comfortable that the engagement guidelines developed recently as part of the Better Regulation Program can be extended to include this aspect of the regulatory process.

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| **Question 12** | **Does the PSS need to be approved?** |

SACOSS is of the view that, at least for the upcoming regulatory period that the Pricing Structures Statement (PSS) does need to be approved.

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| **Question 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?** |

SACOSS is comfortable with the idea that the PSS represents the proposal to change existing structures. Failure to obtain approval therefore suggests that the existing structures must remain until a more compelling case for change is made.

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| **Question 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?** |

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| **Question 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?** |

SACOSS does not have a strong position on this aspect of the process and will defer to the AEMC and AER to establish an arrangement that protects the consumer interest.

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| **Question 16** | **Should DNSPs include forecasts of their expected changes in network tariff pricing levels in the pricing structures statement?** |

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| **Question 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?** |

SACOSS is of the view that effective and efficient consultation would engage consumers with an as complete picture as possible. For this reason a joined up process that provided information on both pricing levels and pricing structures is preferred. SACOSS acknowledges that this may not be possible but a best endeavours approach is expected.

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| **Question 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?** |

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| **Question 19** | **Does the AER consultation guideline need to be in place before a PSS can be implemented?** |

SACOSS acknowledges the compressing timeframes for the SAPN 2015-20 regulatory period revenue determination but does believe that every effort should be made to provide a comprehensive and transparent process that incorporates both revenue and prices. SACOSS is of the view that SAPN are capable of consulting based on established guidance in the absence of any specific guidelines from the AER.

SACOSS acknowledges this as an important set of reforms with a long gestation and long-term consequences. SACOSS is alert to the risks of rushed changes and would expect both the AER and SAPN to be also.

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| **Question 20** | **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?** |

SACOSS would expect that the framework delivers benefits to a range of market processes and outcomes. If the PSS does not reduce timing pressures and hence enhance efficiencies then those aspects of the approach must be reconsidered.

SACOSS is of the view that major structural changes to network tariffs will be rare. For example, a shift to demand based charging (i.e. $/kVA or $/kW instead of $/kWh) would constitute a significant shift with vast implications. Once this has occurred, more subtle changes can be expected to have less of a consumer impact. Without some worked examples of the potential outcomes of these reforms it is difficult for SACOSS to form a more definitive position.

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| **Question 21** | **What would be the likely impacts on customers of making an LRMC approach mandatory?** |

The SACOSS response to this question is prefaced by reiterating that the distributional impacts of LRMC based network pricing are largely unknown. Without some worked examples of the potential outcomes of these reforms it is difficult for SACOSS to form a more definitive position.

However, it is possible to consider the average impacts based on our understanding of the South Australian Net System Load Profile (NSLP)[4] and SAPN's own estimates of LRMC from previous Pricing Proposals[5].

By way of introduction it is important to emphasise the important role of *capacity* compared to *energy*. A household's electricity consumption has two fundamental attributes encapsulated in these terms of *capacity* and *energy*. *Capacity* refers to the maximum rate of electricity consumption whereas *energy* refers to the total amount of energy consumed over a period of time. Usually this is expressed as an annual total.

To be clear, one is a rate, the other is a volume. The underlying costs of physically producing, transporting and distributing electricity are related to both of these attributes – how much is consumed as well as how fast it is consumed. Generally speaking, capacity

[4] www.aemo.com.au/Electricity/Data/Metering/Load-Profiles
[5] www.sapowernetworks.com.au/centric/industry/our_network/network_tariffs.jsp

results in fixed costs whereas volume relates to variable costs - capital expenditure versus operating expenditure (or *capex* vs. *opex* in commercial language).

The long run marginal cost of network expansion is expressed in relation to the cost of capacity as opposed to the current approach based on the cost of energy. This is the fundamental change in approach at the basis of this rule change request.

The residential electricity market is settled as the residual of the wholesale market based on what is referred to as the Net System Load Profile (NSLP). In the absence of individual time of use metering, all small customers (residential plus small businesses) with a simple accumulation meter are assumed to have consumed at times of the day represented by the NSLP.

The following charts have been drawn from AEMO data of half-hourly NSLP demand since 1 January 2003. Figure 2 is a plot of the annual consumption prior to each date (rolling annual consumption) and shows a clear and steady decline from the peak annual consumption (the year to June 2010) to the present.

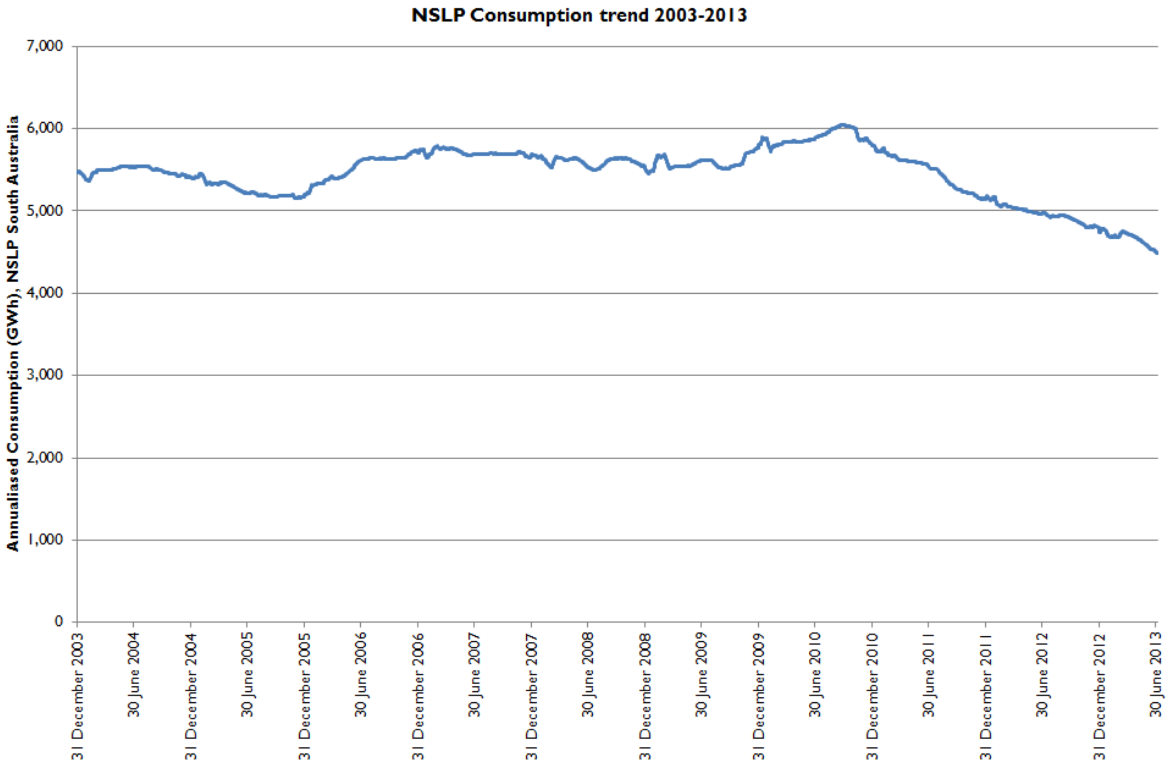


**Figure 2:** Annualised NSLP consumption, South Australia 2003-2013. Source: SACOSS analysis of AEMO data.

Figure 3 is a plot of the NSLP peak demand recorded in the 12 months prior to each date and illustrates that peak demand of 2,132MW occurred in the summer of 2008-9 and has not been replicated in subsequent years.

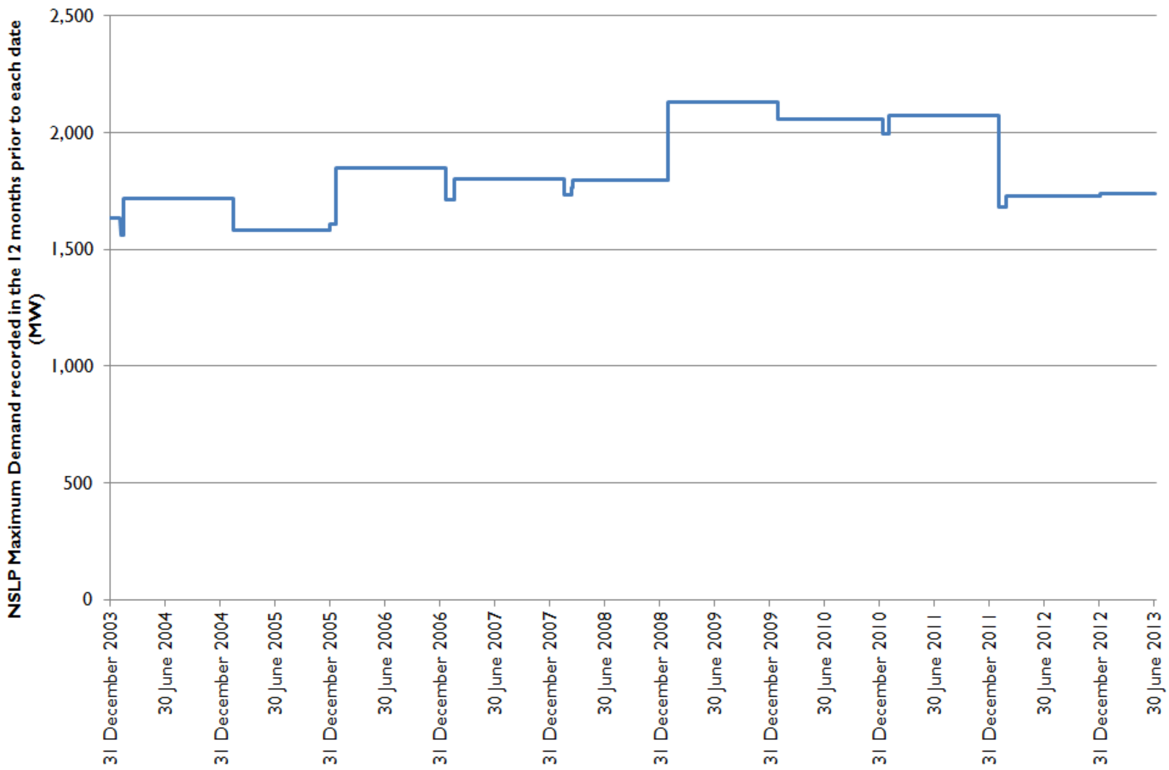


**Figure 3:** Annualised NSLP maximum demand, South Australia 2003-2013. Source: SACOSS analysis of AEMO data.

The Long Run Marginal Cost of distribution network expansion has been estimated by SA Power Network in its Annual Pricing Proposals as \$156/kVA for residential (\$2013/14) and \$148/kVA for small business[6] according to the following formula:

$$LRMC(AIC) = \frac{PV(growth\ related\ capex) + PV(growth\ related\ opex)}{PV(incremental\ demand)}$$

Where:

> *growth related capex* is the annualised capital expenditure to meet the additional demand and new customer connections forecast over the forecast period;
>
> *growth related opex* is the incremental annual cost of operating and maintaining the newly constructed network and connection assets over the forecast period; and
>
> *incremental demand* is the forecast change in kVA demand compared with the base year of 2009/10

Two important points can be made from this. Firstly, LRMC is measured in terms of capacity, that is in \$/kVA. A move to LRMC pricing in SA would therefore need to incorporate capacity or demand based charging to unlock significant efficiency benefits. This is a significant change for small consumers in SA and while theoretically appealing, is likely to have substantial but unknown distributional impacts.

[6] The methodology is contained within Appendix E of SAPN's 2013/14 Pricing Proposal available from www.aer.gov.au.

Secondly, the preceding charts illustrate that since the 'base year' of 2009/10 the capacity demanded by small consumers has in fact fallen. SAPN's 2013/14 figures are based on a simple escalation of the figures determined in 2010 where the denominator in the formula was based on demand projections agreed at the start of the regulatory period (with 10% Probability of Exceedence, PoE). SACOSS is concerned that, depending on how LRMC is determined and applied, in the current environment of declining demand and consumption that LRMC will likely be assessed to be a very low value and hence the recovery of allowed revenue will potentially be largely allocated to fixed charges.

We also note AEMO's forecasts of little or no growth in either consumption or summer peak demand over the coming decade from the 2013 National Electricity Forecasting Report (NEFR). The following charts are taken from the AEMO reports and illustrate energy and demand forecasts for the next decade at levels below what has already been experienced.

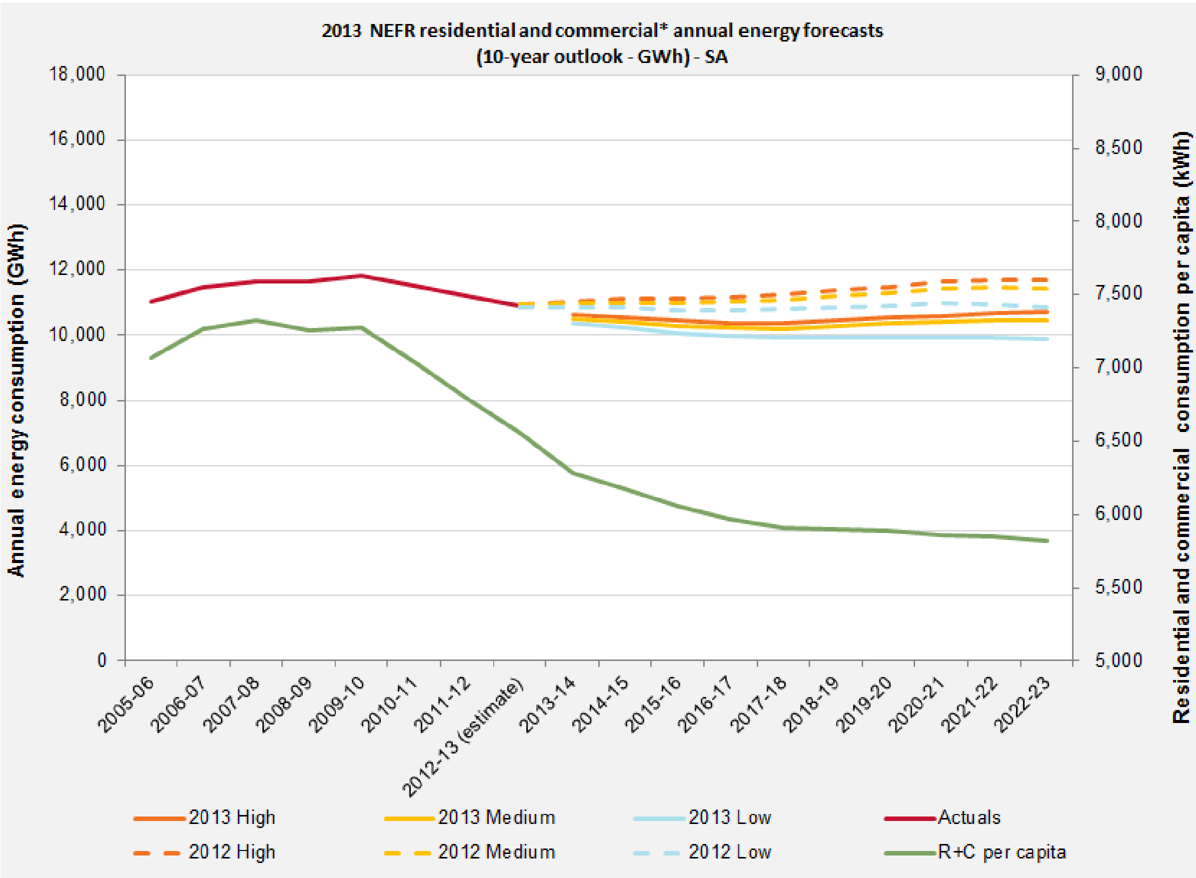


**Figure 4:** South Australian residential and commercial sector annual energy forecasts (10 year outlook – GWh) Source: AEMO

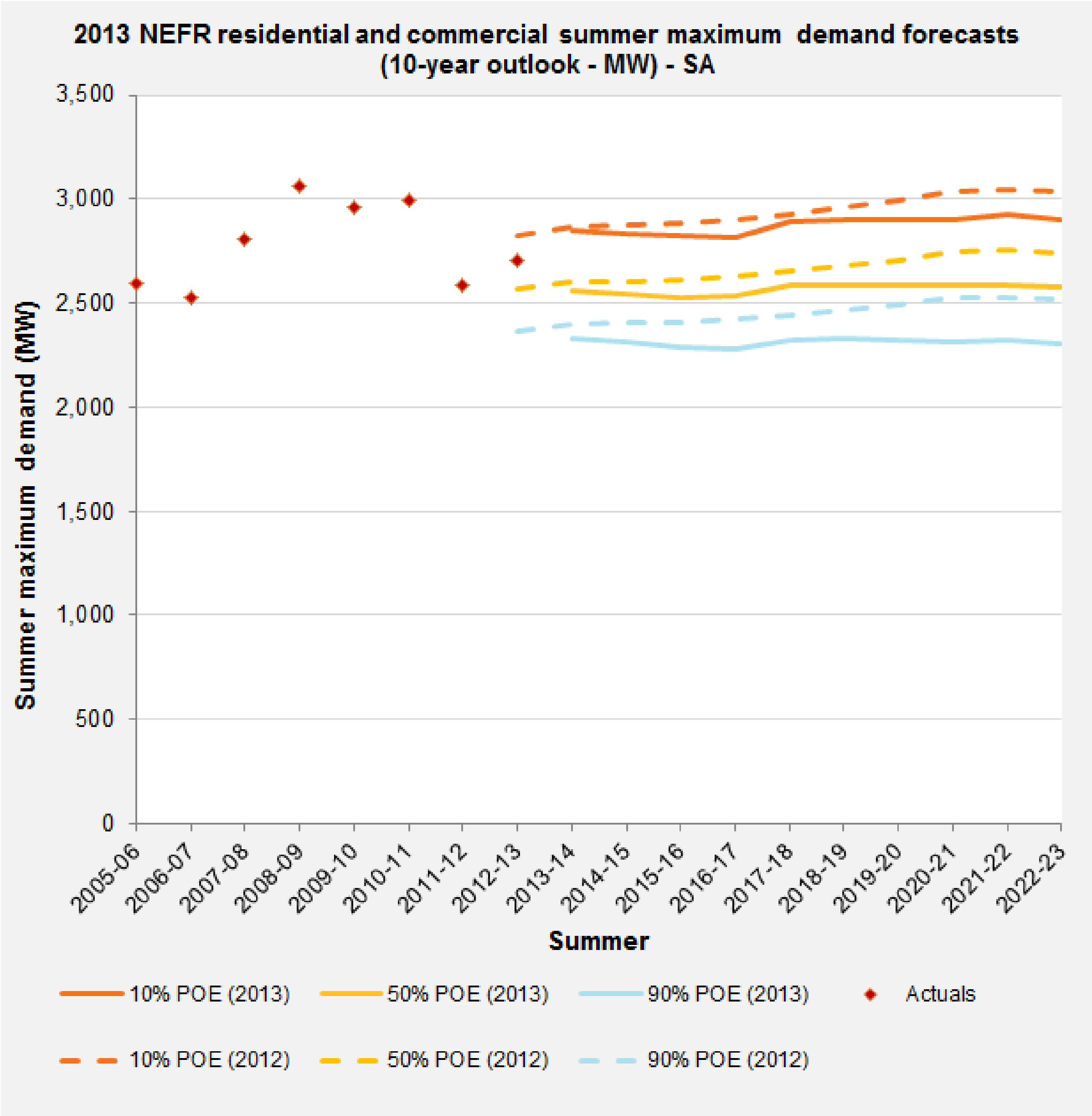


**Figure 5:** South Australian residential and commercial sector summer maximum demand forecasts (10 year outlook – MW) Source: AEMO

SACOSS is very interested in the AEMC perspective on what are the marginal cost signals that are appropriate in this context. Is a low marginal cost signal efficient in the context of a network that has arguably already been built to beyond the capacity needed for the coming decade?

SACOSS has not taken this analysis further at this stage but asks the AEMC to provide some worked examples in order for the consumer impacts to be thoroughly assessed.

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| **Question 22** | **What would be the impacts on DNSPs of making an LRMC approach mandatory? Does it result in increased compliance risk?** |

LRMC in a 'peaky' market like South Australia is measured in terms of capacity, that is in $/kVA or $/kW. A move to LRMC pricing in SA would therefore need to incorporate capacity or demand based charging to unlock significant efficiency benefits. This is a significant change for small consumers in SA and while theoretically appealing, is likely to have substantial but unknown distributional impacts.

Such a change would need significant transitionary provisions and therefore would likely present a range of risks to SAPN. It is unclear whether or not the risks are materially different than what is already accounted for in the regulated cost of capital.

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| **Question 23** | **How limited will DNSPs be in basing prices at LRMC if they must first comply with jurisdictional instruments?** |

There are two jurisdictional instruments that SACOSS is aware of that would be impacted by such a move. Firstly in relation to side constraints (maximum $10 on the increase in the fixed charge)[7] and secondly in relation to South Australia's 'statewide' or 'postage stamp' pricing scheme (the Country Equalisation Scheme as gazetted below).

4458 THE SOUTH AUSTRALIAN GOVERNMENT GAZETTE [5 December 2002

ELECTRICITY ACT 1996

*Proposed Variation to Electricity Pricing Order*

THE MINISTER FOR ENERGY proposes to vary the electricity pricing order notified in the *Gazette* on 11 October 1999 at page 1471 in the manner set out below:

Delete clause 8.2 and replace with the following:

8.2 *Country Equalisation Scheme*

*(a)* The purpose of this clause 8.2 is to require that a Retailer not charge a small country customer for prescribed retail services more than 101.7% of the price for the same prescribed retail services offered by the Retailer to a small city customer.

*(b)* A Retailer must not sell electricity to small country customers unless the Retailer ensures that each tariff for prescribed retail services offered to small city customers is also offered to small country customers without addition or variation, except that the price (including any discount, allowance, rebate or credit) specified in any tariff component charged to a small country customer may exceed the price specified in the same tariff component charged to a small city customer by not more than 1.7%.

P. CONLON, Minister for Energy

7. The exemption holder shall record the number of wild broodstock held pursuant to this notice in a register to be maintained at the registered aquaculture site, which must be made available for inspection by a PIRSA Fisheries Compliance Officer upon request.

8. PIRSA Fisheries Compliance Unit retains the right for a departmental officer to accompany the exemption holder at any time during the exempted activity.

9. While engaged in the exempted activity the exemption holder shall carry or have about or near his person a copy of this notice. Such notice must be produced to a PIRSA Fisheries Compliance Officer upon request.

10. The exemption holder shall not contravene or fail to comply with the Fisheries Act 1982 or any regulations made under that Act, except where specifically exempted by this notice.

Dated 30 November 2002.

W. ZACHARIN, Director of Fisheries

FISHERIES ACT 1982: SECTION 59

TAKE notice that pursuant to section 59 of the Fisheries Act 1982, Trevor Barnes, holder of a Blue Crab Fishery Licence issued pursuant to the Scheme of Management (Blue Crab Fishery) Regulations 1998 (K01) is exempt from Clause 78 of Schedule 1 of the Fisheries (General) Regulations 2000, but only

A reference to the scheme by the South Australian Government in its submission to the Directions Paper of the AEMC's Power of Choice Review (EPR0022) expands on the policy basis:

> *"It must also be recognised that cost-reflective pricing may in some circumstances result in unintended consequences. For example, the settlement pattern in South Australia is driven by the State's geological, climatic and economic features. It is in the public interest to minimise the divergence between the costs of living in major*

[7] Transitional Rules, Clause 9.29.5(d) limits the maximum increase in the fixed supply charge component for small customers to $10 per annum.

*population centres and in South Australia's regional and remote locations to ensure the continued viability of regional economies.*

*Acknowledging the importance of regional areas to the State's economy, South Australia has a policy of postage stamp pricing for small consumers (i.e. those consumers whose annual electricity consumption is less than 160MWh). This means that there is no regional price separation for consumers connected to the grid in South Australia and rural consumers are not charged more than their metropolitan counterparts as a consequence of the higher cost of supplying them."*

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| **Question 24** | **Should LRMC be defined? If so, what level of detail would be appropriate?** |

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| **Question 25** | **Should one methodology apply to calculating LRMC or should multiple methodologies be allowed? Which is/are the most appropriate methodology(ies)?** |

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| **Question 26** | **Should the AER be required through a guideline to specify the methodology or methodologies of calculating and applying LRMC?** |

SACOSS is of the view that jurisdictional differences, particularly in terms of demand profiles, available metering and network reliability settings are relevant to the preferred methodology. A single, prescriptive approach is therefore not considered appropriate.

However, this rule change itself seeks to limit the discretion of businesses to interpret the existing rules on these matters and it is logical then that clear guidance be provided. SACOSS is confident the AEMC is able to balance these requirements.

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| **Question 27** | **What is the impact of coincident peak demand on network costs and how are these additional costs currently recovered in network tariffs?** |

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| **Question 28** | **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?** |

SACOSS is not able to provide detailed commentary here since the necessary information is held by SAPN and is largely not in the public domain. SACOSS looks forward to being in a more informed position during the latter stages of the Rule Change Process as more information becomes available.

However, it is clear that existing metering will challenge a move to LRMC.

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| **Question 29** | **How important are locational pricing signals for distribution networks? Are locational pricing signals for some types of customers more important than others?** |

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| **Question 30** | **What are the practical impediments to DNSPs adopting tariffs that reflect locational pricing signals?** |

SACOSS does not support locational pricing for small customers and is comfortable with the policy position outlined in response to Question 23. Larger customers, particularly new sites, have some ability to respond to locational pricing, this is already incorporated into SAPN tariffs for these customers and is not considered scalable down to small customers.

SACOSS is concerned that locational LRMC values would be subject to relatively short term variations while the peak demand contributions of small customers is largely due to investment decisions in relatively long-lived assets (such as air-conditioners, embedded generation systems etc.). It is important to also consider the treatment of connection and augmentation charges in this regard and whether or not the locational signals are best sent at the time of development rather than to ongoing tariffs.

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| **Question 31** | **Is an additional principle required to further encourage network prices which are based on the drivers of network costs to the maximum extent possible?** |

SACOSS is of the view that LRMC has implementation complexities and that the referenced principle can provide useful guidance during transitions or when a strict LRMC implementation is not possible.

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| **Question 32** | **What are the pros and cons of using a Ramsey pricing approach or a postage stamp pricing approach?** |

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| **Question 33** | **Are there any other pricing approaches that should be considered to recover residual network costs?** |

SACOSS is of the view that more information, including worked examples relevant to the South Australian context, are necessary before any opinion can be formed. However, SACOSS would be concerned by any decision that led to large fixed network charges without a comprehensive assessment of the distributional impacts of such changes.

SACOSS supports the considerations stated in the SCER Rule Change Request (p10):

> *In making their decision on the preferred approach the AEMC is asked to consider:*
>
> - *allowing for recovery of residual costs in a way that does not distort or undermine flexible pricing, where flexible pricing is available;*
> - *potential impacts on particular classes of consumers; and*
> - *the appropriate balance between potential impacts on particular classes of consumers and efficient pricing.*

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| **Question 34** | **Should an approach or approaches be specified in the NER or an AER guideline?** |

SACOSS is not prepared to indicate a preference at this stage but would base any future decision on the level of prescription deemed necessary once a more comprehensive understanding of the issues has been achieved.

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| **Question 35** | **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)?** |

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| **Question 36** | **What are the potentials impacts of a NER requirement for DNSPs to comply with jurisdictional instruments?** |

Refer to response to Question 23

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| **Question 37** | **Should a requirement for DNSPs to take into account the impact of tariffs on consumers be included in the pricing principles?** |

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| **Question 38** | **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?** |

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| **Question 39** | **If a requirement is included, does the proposed principle conflict with other principles within the NER?** |

SACOSS is unequivocal that consumer impacts represent a fundamental pricing principle. This relates to the distributional impacts of changes and the consideration of behavioural economics in relation to the likely consumer response to any price signals,in the short and long term. SACOSS is very concerned about the impact of 'bill shock' as discussed at page 67 of the AEMC Consultation Paper.

SACOSS is of the view that this is such an important area that the principle must be expanded on in the form of a guideline.

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| **Question 40** | **Should network tariffs reflect transmission pricing signals? If so, what would the most appropriate way achieve this for different types of network customers?** |

SACOSS is not in a position to provide a detailed response to this question but would simply ask that if reforms are to be pursued for Distribution pricing, *why wouldn't* Transmission pricing be included? At present in SA, small consumers are not considered customers of the transmission business (ElectraNet). SAPN is ElectraNet's customer and they 'pass through' transmission charges in order to generate enough revenue to meet SAPN's obligations to pay ElectraNet. Any pursuit of more cost reflective network pricing is assumed to incorporate both Transmission and Distribution.

SACOSS is also aware of the issue of 'Avoided TUoS payments' for embedded generators as discussed in the SAPN 2013/14 Pricing Proposal (para 9.2.1). While SAPN states that it does not currently " … *make any of these payments, as embedded generators have not been able to assist SA Power Networks in lowering the agreed demand at transmission connection point* …" it is apparent that this may be more as a result of the arrangements between the Transmission and Distribution businesses than it is to providing efficient, cost reflective pricing for this group of customers.

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| **Question 41** | **Is the change to a mandatory requirement to group customers into tariff classes likely to achieve the desired outcomes?** |

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| **Question 42** | **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?** |

SACOSS acknowledges the importance of this aspect of the process. Our interests predominantly lie in the 'residential' customer class but we also accept that it would be possible to subdivide this class by other attributes (such as the presence of three-phase connection, embedded generation etc.).

SACOSS is alert to the potential for significant and regressive cross-subsidies within the residential customer class. SACOSS is of the view that this aspect of the rule change proposal requires further analysis and explanation before being able to commit to a preferred position.

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| **Question 43** | **Is the proposal to apply side constraints across regulatory periods likely to materially benefit consumers by protecting them from price shocks?** |

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| **Question 44** | **Is the proposal to apply side constraints across regulatory periods likely to lead to inconsistencies with other requirements in the NER?** |

SACOSS is of the view that price stability and predictability is extremely important, especially for vulnerable consumers. For this reason SACOSS supports the intent of protecting consumers from price shocks by extending the application of side constraints. We acknowledge that this is intertwined with the treatment of tariff classes as discussed at Question 42.

We also note the comment at page 73 of the Consultation paper:

> *"Applying a side constraint may slow the implementation of new tariff structures or prices that achieve LRMC."*

SACOSS is of the view that this is precisely what side constraints are intended to do.

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| **Question 45** | **Are there likely to be implementation issues in applying side constraints across regulatory periods?** |

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| **Question 46** | **Should network tariffs of customers with interval meters or other types of time-based meters be subject to side constraints?** |

SACOSS supports the application of side constraints regardless of the metering type.