

# Distribution Network Pricing Arrangements –

## AEMC draft determination

September 2014



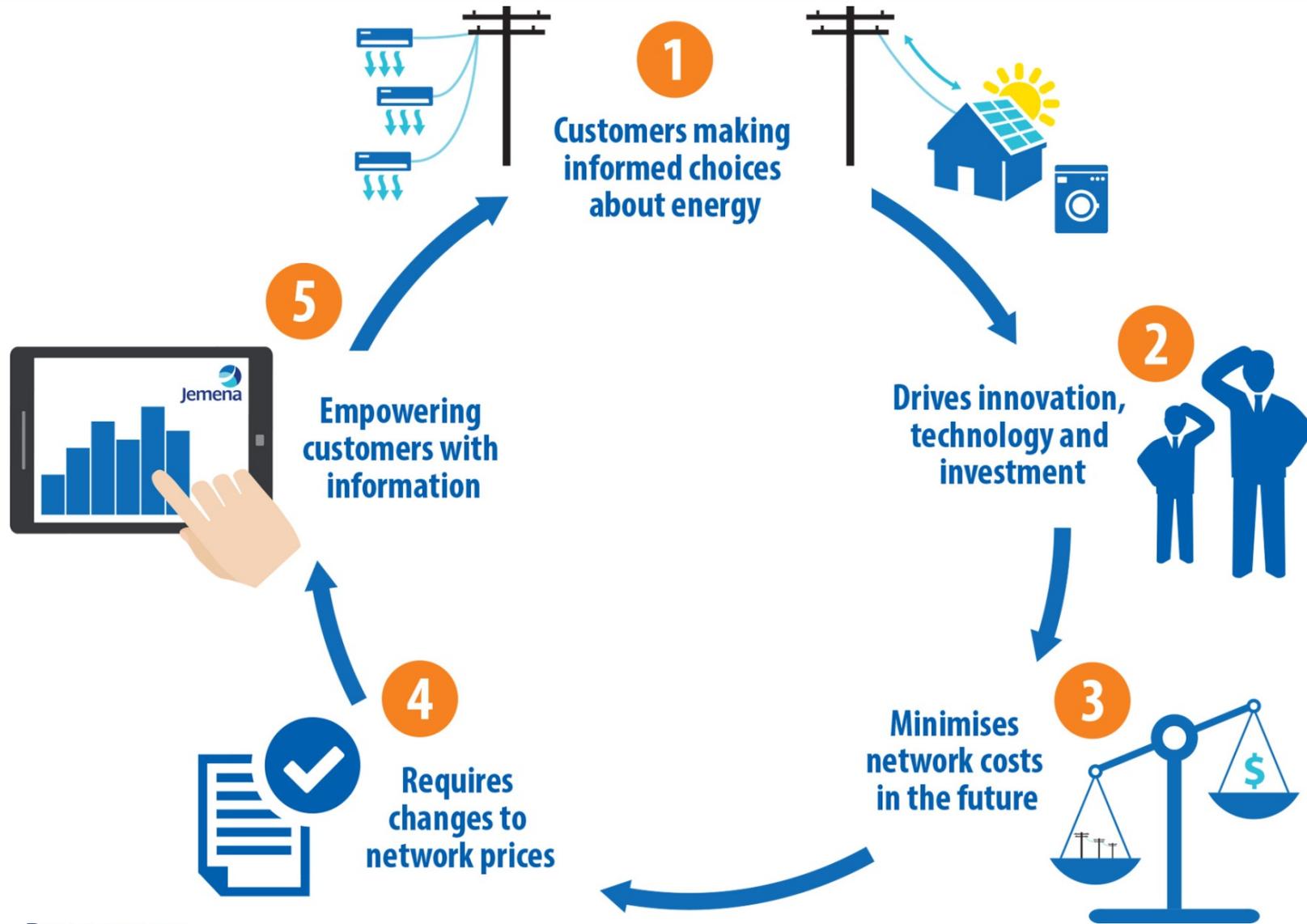
# Networks play an important role



For every **\$100** spent on electricity

(Estimated following carbon tax repeal)

# Facilitating informed energy decision making



# The pricing process: Key discussion points



- Objectives and principles underpinning the TSS
- Content of the TSS, and AER approval of initial TSS and annual price changes
- Updating the tariff structures and “pricing methodology” within a regulatory period
- Timing of annual price changes
- Transition to the new ‘framework’ – consultation and submission of regulatory proposals and TSS, new framework in place

# Objectives and principles underpinning the TSS

- Meaningful consultation and engagement process on network pricing
- More transparency and understanding of network pricing
- Greater predictability of tariff classes, structures and movements in price levels

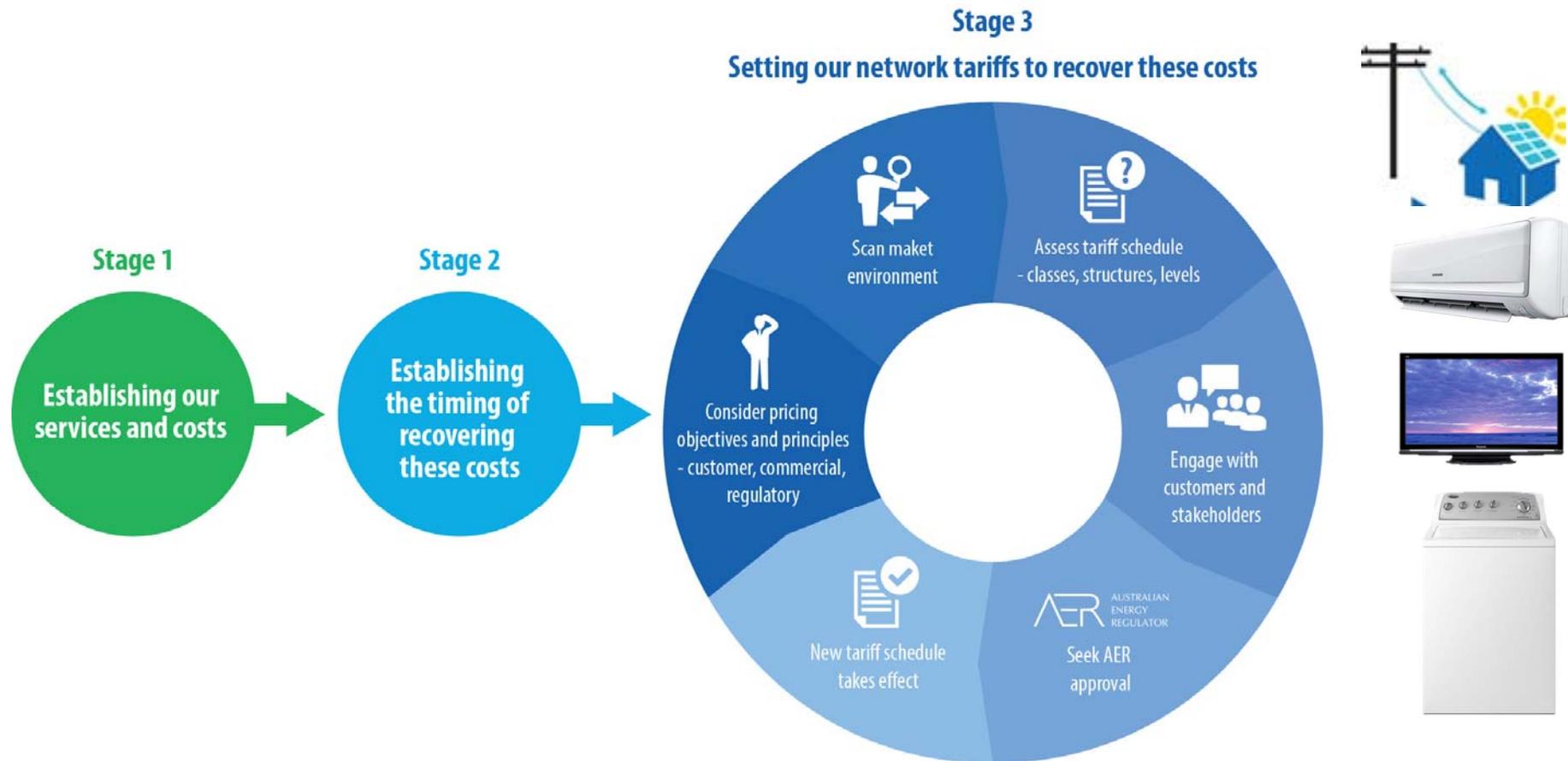


# Content of the TSS – “pricing methodology”

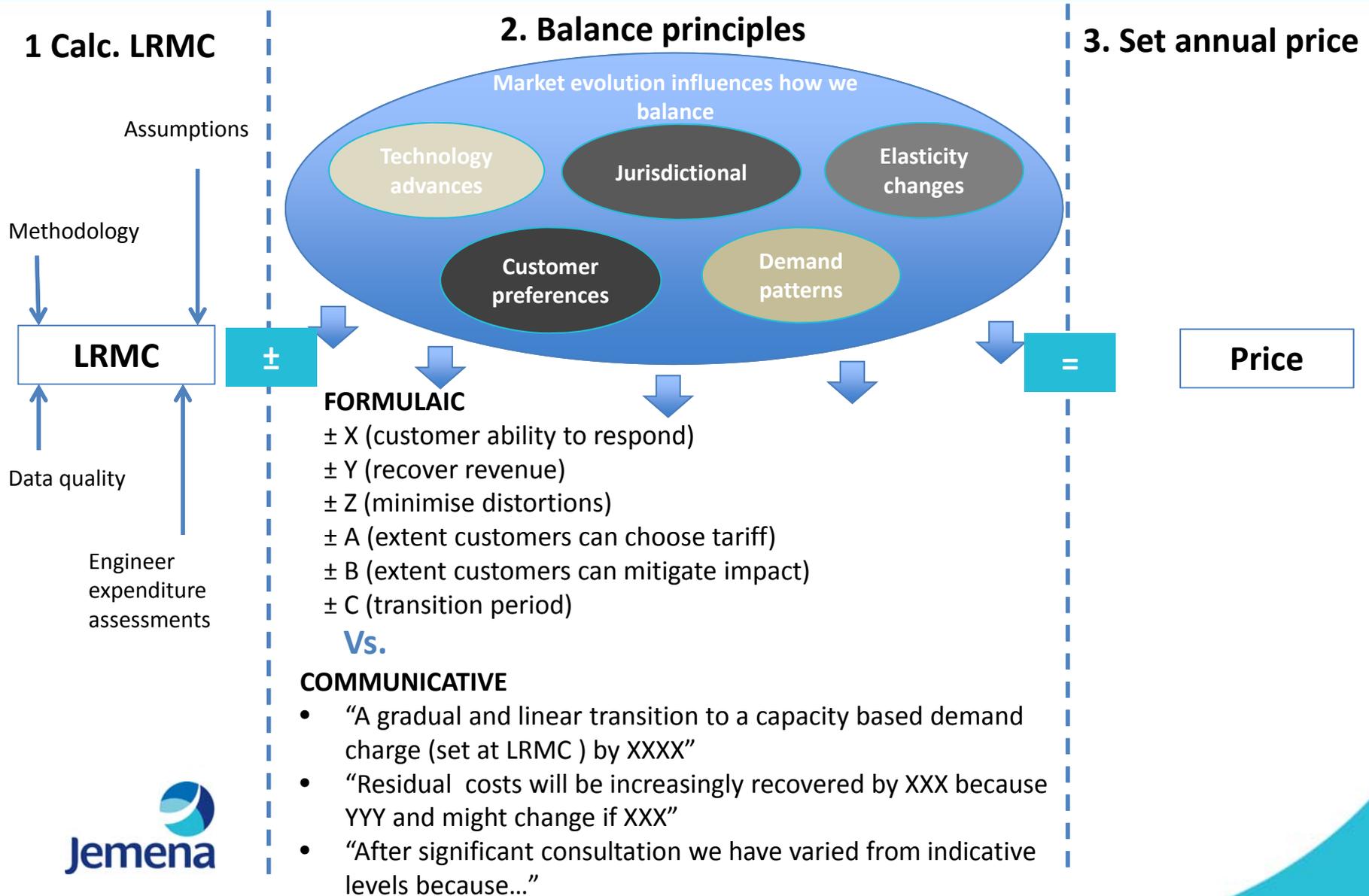
- The TSS requires a “**pricing methodology**” - how NSPs will adjust the **relative** level of prices over the period
- What are the implications of the AER approving and the TSS **binding** a “pricing methodology”?
  - Promotes more certainty in **relative price levels** but creates material risk that tariffs may not respond to changes in technology, customer preferences etc. and continue to meet pricing principles
  - A prescriptive or formulaic “pricing methodology” may require more frequent changes to the TSS
  - May increasingly lead to the AER ‘owning’ pricing decisions if they are doing more than assessing compliance with tariff structures as set out in the TSS and compliance with price control formula



# Tariff structures and levels need to keep pace with the way customers use energy

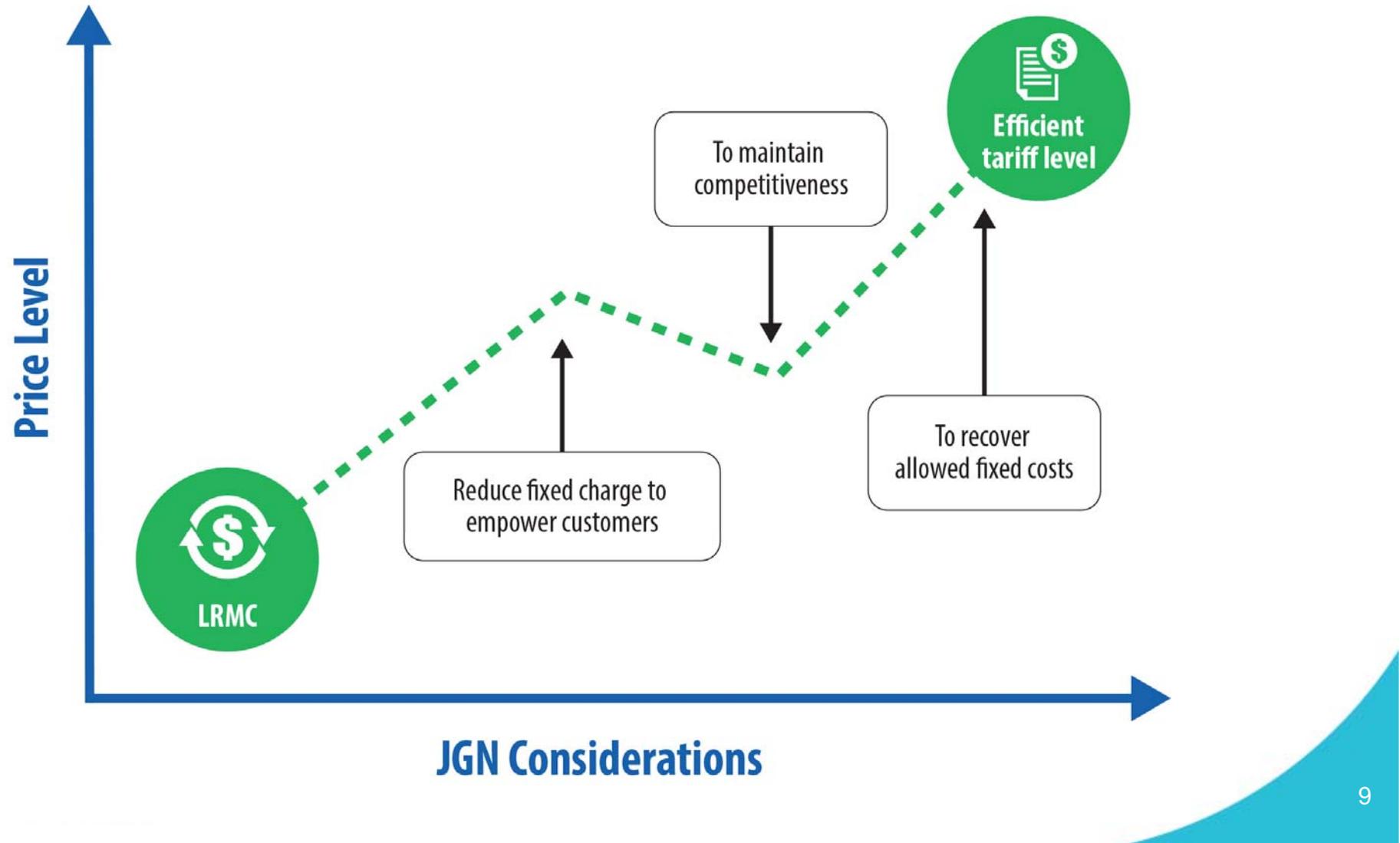


# What could a pricing methodology look like?



# 'A third-way'? Our explanation of tariff levels for gas

An overview of 'the journey' from LRMC to tariff levels



# 'A third-way'? Our tariff level commitments for gas

Movements in residential and small business tariff components  
(example from JGN proposed TSS submitted to AER)



**Residential**  
-20% \$271 Over 5 years

**Commercial**  
-11% \$5,090 Over 5 years

Residential and small business tariff	RY16	RY17	RY18	RY19	RY20
Overall price change (x-factor)	-4.0%	-2.7%	-2.7%	-2.7%	-2.7%
Average tariff trend	-4.2%	-2.9%	-2.9%	-2.9%	-2.9%
Above average change (↑)	usage charges (Block 4-6)	usage charges (Block 4-6)	usage charges (Block 4-6)	usage charges (Block 4-6)	usage charges (Block 4-6)
Below average change (↓)	usage charges (Block 2)	usage charges (Block 2)	usage charges (Block 2)	usage charges (Block 2)	usage charges (Block 2)
Same as average trend	Fixed supply charge, usage charges (Block 1, Block 3)				

# Updating TSS within regulatory period

- ‘Locking in’ the TSS over the regulatory period is a balance between providing:
  - Certainty and predictability to customers and new emerging energy market players
  - Flexibility to respond to changing market conditions, technologies and customer preferences
- We are cautious of limiting changes (esp. to **relative** price levels) to unexpected events or special circumstances that could not be foreseen or controlled
- Lets focus on meaningful consultation rather than defined circumstances

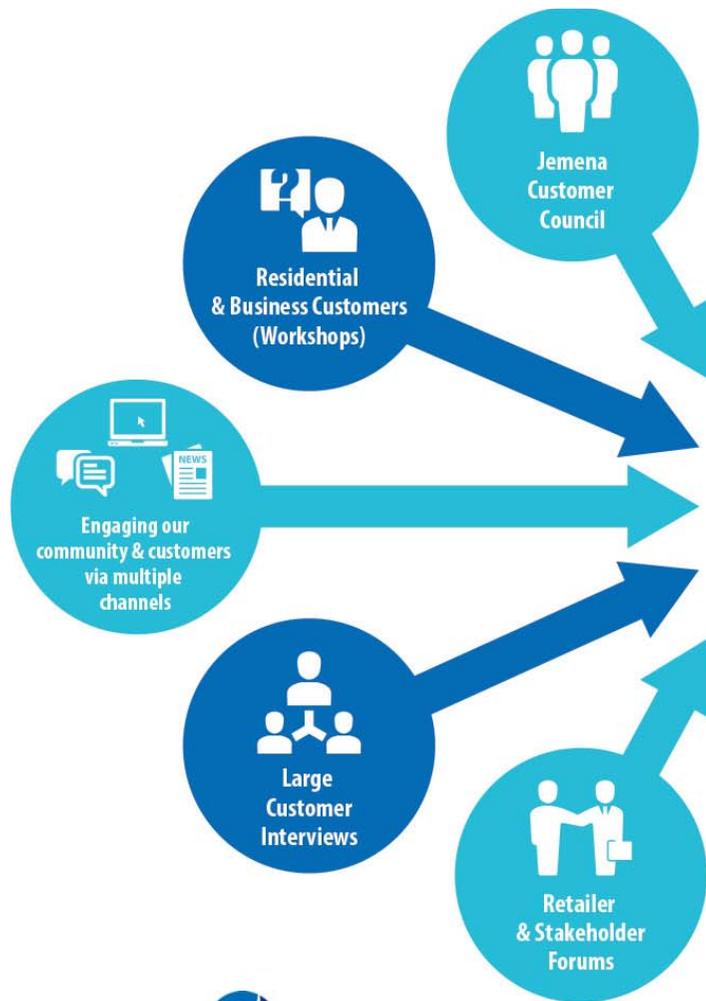


# Timing of annual price changes

- Support bringing forward proposed changes in annual network prices
- Key to empowering customers
  - More clarity to customers and retailers
  - More informed customer decision-making
  - Better retail market conditions
- Support binding timeframe on AER but always potential to 'do better'



# Transition: Engagement confusion or fatigue?



- Engaging on network prices under current Rules or new Rules?



- Warrants considering whether transitional Rules recognise timing and consultation limitations on business in developing initial TSS



# Closing remarks and AEMC homework

- Support AEMC's highly consultative approach to this complex area
- Lets be cautious of:
  - **A binding and formulaic pricing methodology** that requires AER approval and 'locks-in' relative price levels
  - **High threshold for changing the TSS**, particularly if there is a binding and formulaic pricing methodology
  - **Transitional implications**, and consider whether transitional Rules recognises timing and consultation limitations on business and stakeholders in developing initial TSS





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