

AEMC

Power of Choice - DSP 3 review

Thursday 19th April



AEMC DSP 3

- This presentation will cover:
 1. Current pricing and various offers / structures
 2. Possibilities for the future service based tariffs
 3. Protections and other issues

AEMC DSP 3 – Market design

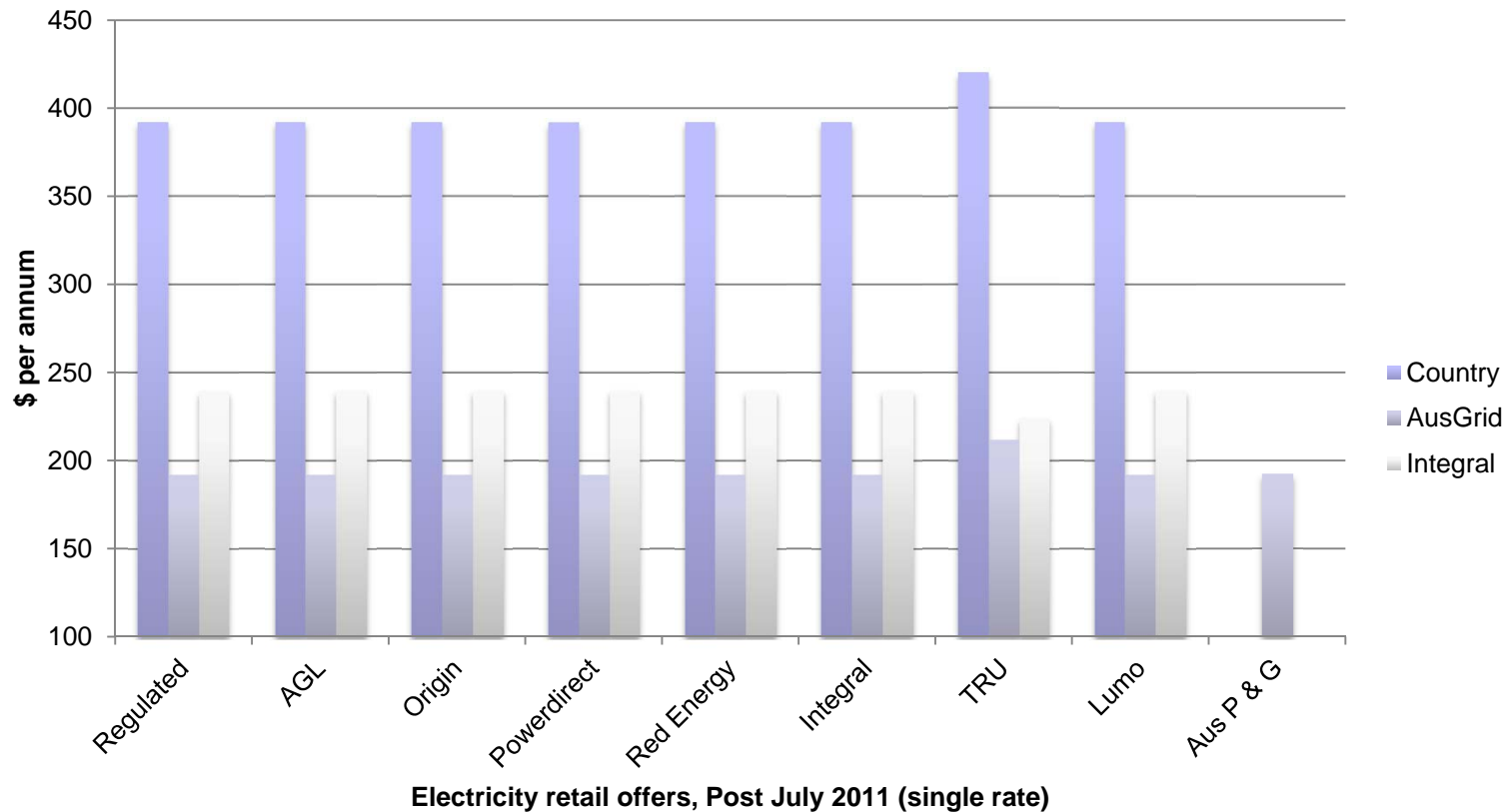
- Current basic design for various tariff options exist in the energy markets, through standing offer provisions.
- Single Rate (Flat, inclining, declining etc)
- Controlled load (DLC)
- Time of use (two part / three part)
- Feed in Tariffs (Distributed generation)

- As discussed in the DSP3 review: Market structure developments, such as changes in price regulation, have resulted in greater variety of tariff designs within each of these categories, and particularly in the Victorian market.

- An example: NSW vs. Victoria...

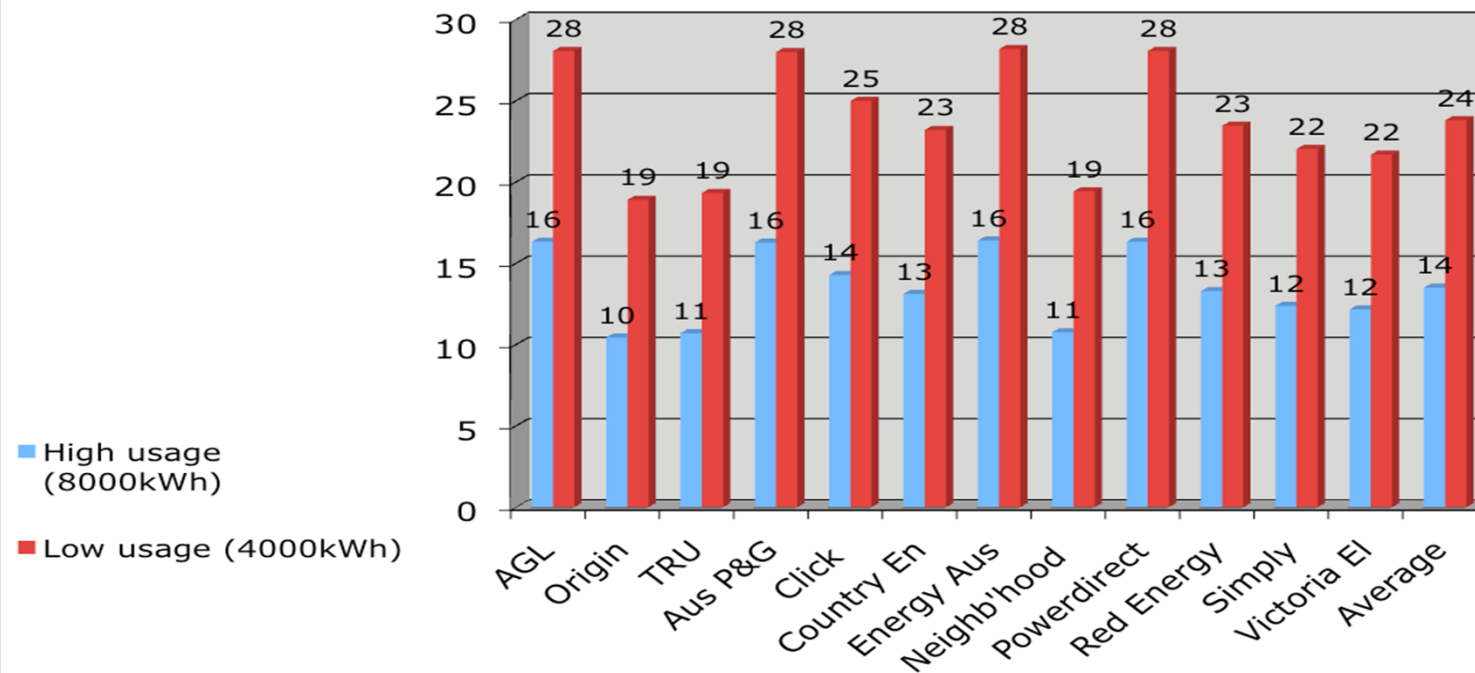
Supply charge (\$ per annum), single rate regulated and market offers post July 2011

**Fixed supply charge per annum (\$)
By network area**



AEMC DSP 3

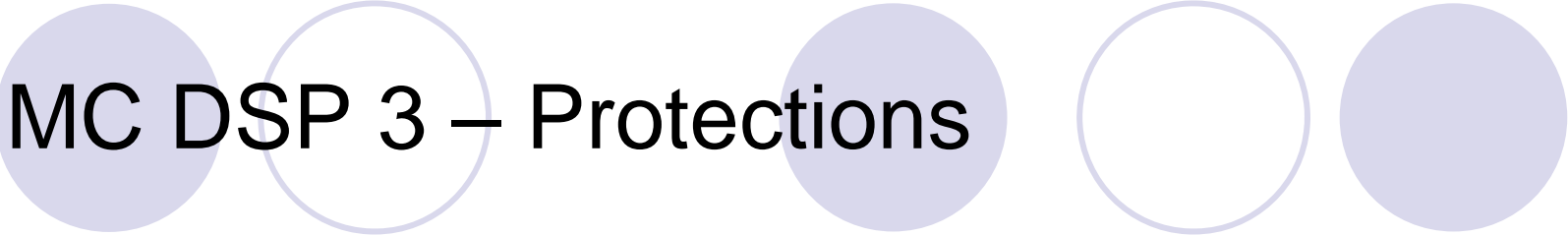
Supply charge as proportion (%) of annual electricity bills for high and low consumption households



Single rate standing offers in Jemena's network July 2010

AEMC DSP 3 – Enabling Technology

- Advanced metering and associated technologies will allow the further development - new generation of service and pricing options that build on the current tariff offerings
- As individual retailers and consumers unique load profiles are discovered - providing incentives for product development
- And a platform to deliver information to consumers through IHD, portals and other platforms – trials have already been conducted
- This should allow a platform various market offers to be developed that deliver different price signals and product offerings like
 - Flat (plus CPP and/or DLC)
 - Controlled load (CPP and or DLC – reverse cycle air conditioners etc)
 - Time of use (CPP, DLC and other time variant tariffs e.g. seasonal)
 - Demand tariffs
 - FIT (EV and other distributed options)



AEMC DSP 3 – Protections

- Getting the foundations right: what can the technology do FOR consumers? Not what the technology can do TO consumers
- **Cost** of technology (mandated or new for old) and the allocation of these costs - will it be smeared across the customer base (as in Vic)? Which creates perverse cross subsidies, is in many ways regressive and cause consumer backlash
- **Ownership use and access** of data - by consumer, market participants and third parties, a number of issues here
- **Information provision** and understanding of new products to gain acceptance
- **Dispute resolution** - price is currently out of scope for ombudsman schemes. Are these new “tariffs” and “service” based offerings in scope?
- Relationship between these tariffs and the various government **concessions** – unintended consequences / conflicting objectives

AEMC DSP 3 – Protections

- What is the standing or **default offer** (single rate, and basic two rate) – need to get this right to ensure that a basic essential energy product is available to all households (and consumers not being assigned to tariffs they don't want to be assigned to)
 - I believe these new offers should be market offers only, particularly in emerging market
- How many “**companies**” can offer these service contracts RB's, DB's other third parties - many players market confusion?
- Should the market retail **obligations apply** to these third parties? (currently they don't)
- Appliances and **thresholds** for DLC / SCC and other “service based tariffs” – 20% 50% 110%? - yes it could happen multiple contracts
- Consumer **penalties** for not responding in service contracts from T&C (late fees, disconnections etc) Or will these offers be incentive based only?
- **Disconnection** - should it be used if people on service based tariffs default on service commitments?
- Increased **price volatility** - should there be extensions in payment times, collections cycles or other enhancements to T&C in recognition of increased price volatility?