

Our Ref: D15/126616  
Your Ref:  
Contact Officer: Bruno Coelho  
Contact Phone: 08 8213 3435

24 August 2015

John Pierce  
Chairman  
Australian Energy Markets Commission  
PO BOX A2449  
SYDNEY SOUTH, NSW 1235



Dear Mr Pierce

### **Re: Submission on tariff alignment draft rule determination**

The AER welcomes the opportunity to comment on the AEMC's draft determination on changes proposed to the National Electricity Rules in relation to aligning network and retail tariff structures for small customers.

We support the AEMC's determination that a draft rule should not be made. We maintain the views expressed in our submission to the AEMC's initial consultation paper in agreeing that the rule change is not required and could create administrative and other inefficiencies that would be passed onto all electricity consumers.<sup>1</sup>

The new distribution pricing rules aim to provide a nationally consistent and effective framework for managing customer impacts and providing ownership of tariff design to network businesses in dialogue with their stakeholders. This framework provides an effective alternative to needing to mandate tariff offerings in an effort to manage the transition to greater cost reflectivity in the prices that consumers pay.

Should a government decide to mandate the tariff structure to be offered by a retailer, there is a risk that this structure will divert from that of the network tariff offered to the retailer. Under the new pricing rules, distribution network tariffs should be moving toward greater reflection of costs. We maintain the view from our earlier submission that it is difficult to comment precisely on the nature of the divergence that could occur between network and retail tariffs and the exact risk that is created. This risk could depend on the particular tariff chosen by a jurisdictional government. Despite these uncertainties, there is a risk that a mandated tariff will neither be what the customer might prefer or what the retailer might consider it needs to provide the customer or manage on their behalf in response to receiving efficient signals from the distributor.

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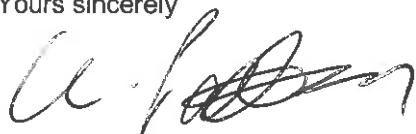
<sup>1</sup> AER, *Submission to AEMC initial consultation paper – tariff alignment rule change*, 8 May 2015. Accessible on AEMC website [<http://www.aemc.gov.au>].

Requiring distributors to offer a tariff that might depart from their own cost reflectivity objectives would then merely pass on the risk of these departures to all consumers. As set out in our earlier submission, distributors would need to reallocate their intended cost recovery across all consumers. This would also work counter to the objectives of the new pricing rules in improving predictability in tariff structures. For example, distributors might face more under / over recovery of revenues if unable to forecast customer uptake of mandated tariffs, and might need to more frequently alter their Tariff Structure Statements. We agree with the AEMC that it would be inappropriate for these inefficiencies resulting from a mandate that is perhaps designed to shield certain customers from the impacts of facing more cost reflective prices, to then be spread across all electricity consumers.

We acknowledge that without this rule change, retailers will need to manage the risk of network tariffs diverting from the retail tariff they could be required to offer in standing contracts. As noted by the AEMC, one response could be for retailers to add a risk management premium onto the mandated tariff. We also note that retailers will not be limited to the mandated offering, but will have the option of enticing consumers onto one of their market retail contracts. These contracts might not include such a premium, and might signal cost drivers in different ways allowing customers to make informed decisions and potentially save costs. Without suggesting which option should be adopted, it appears that either of these would avoid transferring to all customers the costs that would be created by selected customers being shielded from prices that reflect how they use their electricity.

If you would like to discuss any aspect of our submission please contact Bruno Coelho on 08 8213 3435.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Pattas', written over a faint, illegible printed name.

Chris Pattas  
General Manager  
Networks

Uploaded on: 24.08.2015