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NEW ELECTRICITY DISTRIBUTION PRICING FRAMEWORK

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Outline

- > Where are we now?
 - Regulatory context
 - Market context
- > Suggested approaches
- > Implications for pricing process rule-making

Where are we right now? (regulation)

- > Currently, no rules requirement for consultation on tariff design issues
- > Industry transitioning to a newly lengthened distribution determination process which was specifically designed to enhance consumer input
- > Network are currently reviewing, scoping and enhancing consumer engagement programs
- > Release of AER Consumer Engagement Guideline
- > Upcoming short 'one-off' transitional determinations for some networks

Where are we right now? (regulation)

- > Institutional framework that deliberately separates rule-making and application of the rules by the AER
- > AER rate of return guideline to be released in mid-December
 - Will set out conclusions of year long review of network risk and commensurate returns under the current Rules framework under the existing “risk compact”
 - Any significant changes to the allocation of risks under this compact will have implications for the future applicability of the guideline

Customer consultation on tariffs in a competitive market...



Where are we right now? (market)

- > Widespread acknowledgement that tariff structures need to change over time to deliver efficient and fair outcomes for consumers
- > Considerable uncertainty over long term demand levels and patterns
- > Changing energy technology capabilities which reinforce need for efficient network price signals (air-conditioning, PV, storage, electric vehicles etc)
- > Firms in competitive markets constantly changing and evolving the way they engage their customers on pricing issues

Suggested approach

- > Provide a flexible framework for better engagement between networks, retailers, energy users on tariff issues
- > Enabling informed upfront dialogue on broad tariff issues, trade-offs and expected trends
- > Avoid creating multiple parallel or overlapping processes, and accommodate consultation within the newly reformed distribution determination process
- > Leverage off the recently finalised AER Consumer Engagement Guideline

Avoiding consultation duplication...

“We consider service providers could, when appropriate, obtain useful consumer input on the following example topics:

- making price and reliability trade-offs
- setting and designing tariffs (including time of use and critical peak tariffs)**
- setting reliability targets and standards
- understanding demand hot spots and exploring associated impacts
- exploring alternatives to capital investment.”

- **AER *Consumer Engagement Guideline - Explanatory Statement*, November 2013, p.19**

Implications for tariff process rule-making

- > Things to avoid
 - creation of “binding guidelines” (these are rules, and introduction outside of rule change process not consistent with institutional framework)
 - introducing incoherent ‘dual regulation’ of revenues, and prices (this changes the ‘risk compact’ by creating regulatory and investment risks that would require significant compensation)
- > Suggests an AER approved Pricing Structures Statement which informs annual pricing changes, but which is non-binding