

Overview of SCER's proposal: Reforms to distribution pricing principles

Distribution Network Pricing Arrangements rule change public forum



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SCER's rule change request

- This afternoon's session will focus on SCER's proposed changes to the distribution pricing principles that guide how distribution businesses should set their network tariffs.
- The AEMC will now be assessing the proposed changes against the NEO, as we do with all rule changes.

What changes are being proposed by SCER? (1)

SCER has proposed that the distribution pricing principles should include mandatory use of LRMC for setting distribution network tariffs.

To encourage efficient pricing, additional distribution pricing principles are proposed to support basing network tariffs on LRMC. These include:

- having regard to additional costs associated with demand at times of greatest network utilisation;
- having regard to the extent to which the LRMC of providing network services can vary by location; and
- basing network price on drivers of network costs to the maximum extent possible.

What changes are being proposed by SCER? (2)

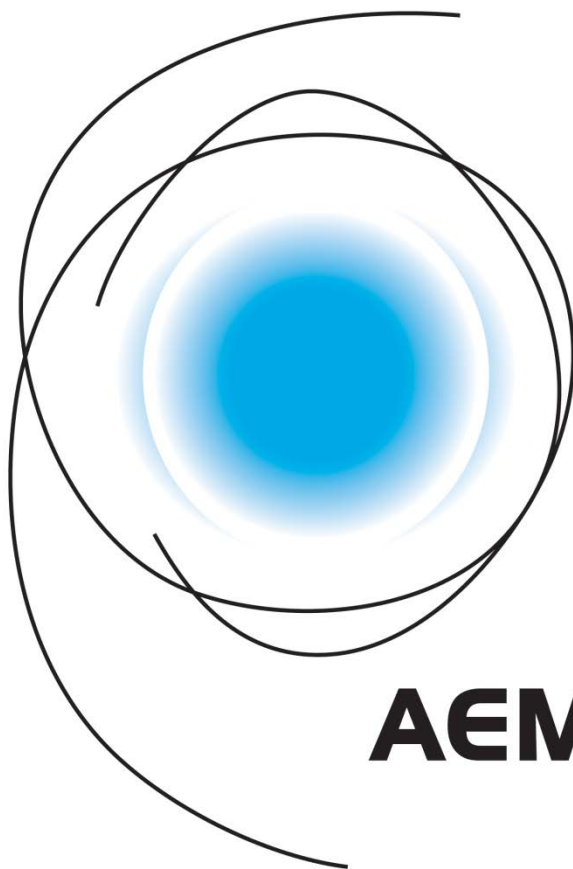
- SCER has proposed to retain the existing principle relating to the recovery of residual costs, but has asked AEMC to consider at least two general approaches:
 - postage stamp; and
 - Ramsey pricing.
- SCER has also proposed that there should be a requirement in the pricing principles that distribution prices comply with relevant jurisdictional instruments.
 - recognises that this may limit the extent to which network tariffs can be based on LRMC.

What changes are being proposed by SCER? (3)

- SCER proposes that distribution businesses should consider the impact their proposed tariffs have on consumers.
 - SCER concerned with existing principle about “having regard to whether consumer is able or likely to respond to network price signals”.
 - Creates risk that costs may be shifted onto consumers with flat network tariffs as these consumers are less likely to respond and adjust their behaviour.
 - Instead, SCER proposes that businesses should consider how tariff structures and price levels may impact consumers – not just limited to those with capacity to respond to proposed pricing options.

What changes are being proposed by SCER? (4)

- SCER has proposed additional changes to:
 - how customers are assigned to different tariff classes; and
 - application of side constraints.
- Proposal to make tariff class provisions mandatory so that customers are grouped on an “economically efficient basis” and avoid unnecessary transaction costs.
- Proposal to clarify that side constraints:
 - apply to customers with interval meters; and
 - apply across regulatory periods.



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