

16 October 2014

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged electronically: www.aemc.gov.au

Dear Mr Pierce,

RE: Distribution Network Pricing Arrangements Draft Rule Determination

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments in response to the Australian Energy Market Commission's (AEMC) Network Pricing Arrangements Draft Rule Determination (**the Draft Determination**). The ERAA and its members have previously provided input into the rule change request and consultation papers in the lead up to the release of this Draft Determination.

The ERAA represents the organisations providing electricity and gas to almost 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

The ERAA supports the AEMC's Draft Determination which seeks to reform the Distribution Network Service Provider (DNSP) network pricing arrangements, as we believe the current arrangements are inconsistent with the National Electricity Objective (NEO). The ERAA also supports the new network pricing objective¹:

“The Network pricing objective is that the tariffs that a Distribution Network Service Provider charges in respect of its provision of direct control services to a retail customer should reflect the Distribution Network Service Provider's efficient costs of providing those services to the retailer customer.”

The proposed rules deliver on this new objective by sending pricing signals to consumers and removing price distortions by requiring each network tariff to reflect the DNSP's total efficient costs of providing services to consumers.² As outlined in the NERA Economic Consulting (NERA) analysis case studies, a consumer installing a 5 Kilowatt air-conditioner will currently face an increase of \$296 per year in their network charges. However, the use of the air-conditioner during peak times contributes \$979 to network costs. The difference of \$683 is a cross-subsidy to the air-conditioning owner from customers that do not own one.³ The Draft Determination seeks to address this and other cross-subsidies and ensure a fairer cost allocation occurs in proportion with how a consumer utilises the network.

¹ AEMC Distribution Network Pricing Arrangements Draft Rule Determination, p.15

² Ibid, p. v

³ Ibid, p.28 and p.29



The ERAA also recommends that the AEMC focuses on simplicity in implementation of the rules that achieve tariff reform to ensure that there are overall gains from tariff reform to meet the long-term interests of consumers under the NEO. Retailers will offer retail tariffs that their customers can understand and will accept. The more an underlying network tariff diverges from what customers can understand and will accept, the more risk that retailers will have to take on and account for in their retail prices. Retailers will also take on greater risk around bad debt in proportion with any increase in the incidence of bill shock.

The Draft Determination does not require retailers to structure their retail prices to match the network price structure.⁴ The ERAA agrees with this approach as it reflects the competitive market that retailers operate in and the requirement on retailers to design end prices that meet diverse consumer needs.

The Draft Determination provides for tariffs to be transitioned immediately or over two regulatory periods. The ERAA is concerned that a mandated, non-smooth transition approach would be contrary to the Power of Choice principles. The ERAA considers that consumer outcomes will be better under a voluntary approach to network tariff reform than under an approach that compulsorily transitions consumers to time-varying tariffs.

Pricing principles

The ERAA supports the principle to transition towards cost-reflective tariffs as these price signals enable consumers to make informed decisions regarding demand-side participation and energy efficiency measures. As detailed in prior submissions, the ERAA believes that there are a number of challenges to practically implement the requirement to base network tariffs on long run marginal cost (LRMC). These include a lack of available data, significant changes to enabling technologies, increases to consultation requirements, as well as a risk of increased complexity for consumers.

The transition to cost-reflective network tariffs must be supported by improved energy affordability initiatives. Affordability and customer support mechanisms including the existing energy concession framework, must adapt and evolve as the market develops in parallel to the transition to cost reflective network tariffs. The ERAA supports that any review of the existing energy concessions frameworks be led by government. An adequate and well-targeted energy concessions framework will ensure that any adverse impacts on vulnerable customers from tariff changes are mitigated.

The ERAA supports the principle that DNSPs minimise the impact on consumers from network price changes. Large increases in network tariffs, due to their proportion of the customer bill of approximately 35-50 per cent, impact a consumer's ability to pay their electricity bill. The second part of the AEMC's principle to ensure that consumers can reasonably understand network prices is very important. The ERAA recommends that when implementing reform and introducing more complex network tariff structures, government and industry must educate and enable consumers to improve their understanding of network tariffs, to support consumers and encourage participation and adoption of new tariff structures.

Importantly, network tariff reform can be progressed independently of the metering technology, as measures are currently available to address large and pressing distortions in network tariffs.

An agreed set of tariff structures will be an important way of keeping implementation costs to a minimum, which is critical given the lack of significant overall savings available from reform. Given that the benefits of more consistent tariff structures are clear, if DNSPs consider that they require more discretion to develop less consistent structures, then they need to demonstrate why this will have net benefits for consumers, consistent with the NEO.

⁴ AEMC Distribution Network Pricing Arrangements Draft Rule Determination, p. iii

Consultation requirements

The draft rule outlines new consultation requirements that will require the DNSP to demonstrate to the AER how they have undertaken meaningful consultation with consumers and retailers. This consultation will be required in the development of their Tariff Structure Statement (TSS) and annual pricing proposals. The ERAA welcomes this requirement as it will benefit both the consumer and retailer through increased certainty and transparency. However, as the Draft Determination does not prescribe in detail the consultation required to be undertaken by the DNSPs the ERAA is concerned that DNSPs will be restricted or prohibited from discussing the details of network tariff reviews undertaken with the AER. The ERAA recommends that the AEMC's rules incorporate a provision to allow the DNSP to discuss the detail of their AER network tariff reviews.

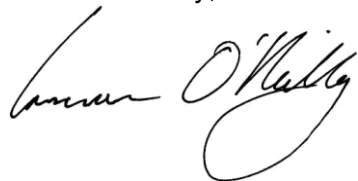
As noted above, the ERAA considers that the Tariff Structure Statement (TSS) consultation process needs to be tripartite arrangement, involving DNSPs, retailers, and consumer representatives together at the same time. If DNSPs consult with consumer representatives in the absence of retailers then retail issues will be missed, and consumer representatives and DNSPs may develop positions that fail to take account retail matters. The ERAA consider that the means to achieve the NEO in this process will be to ensure that all three groups aim to achieve an outcome that is suitable for all parties.

The ERAA supports the limited and specific circumstances in which a change to the TSS can be amended by the DNSP during the annual pricing proposal regulatory determination. Any change must result in better outcomes for the consumer that meet the AEMC's pricing principles.

The DNSPs annual pricing proposals are due to the AER by 31 March each year (or 30 September in Victoria). The AER is required to assess and approve within 30 business days, leaving approximately 2 months for the retailer to integrate the new tariffs. The ERAA is concerned in circumstances where the DNSP is required to rectify a deficient TSS, the retailer may only have 6 weeks to prepare for the commencement of the new tariffs. During this period, the retailer must complete their tariff development, system testing and customer communication. As retailers closely follow the network price changes any delays impact the ability of the retailer to complete their requirements. To alleviate this risk, the ERAA recommends that the proposed pricing due dates are brought forward by two weeks for the transmission network service providers and DNSPs.

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,



Cameron O'Reilly
CEO
Energy Retailers Association of Australia