Distribution Pricing Arrangements
Retailer perspective

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The problem - in two parts

- No consultation on proposed changes to the structure and level of distribution prices
- Inadequate notice of confirmed changes to structure and level of distribution prices

Creates problems for all parties across the supply chain, not just for retailers

origin

- Network price signals not transmitted
- Customers dissatisfaction lack of engagement can limit DNSP's scope for tariff reform
- Demand response constrained

DISTRIBUTION BUSINESS

- Formulation of tariffs rushed
- Tariffs not cost-reflective
- Customers dissatisfied with level of engagement

RETAIL BUSINESS

CUSTOMERS

- Cannot respond to prices and/or price changes adequately
- Less likely to respond to demand response initiatives
- Less engaged as customers

REGULATORS

- Review of retail tariffs rushed; does not adequately promote objectives
- Conflict between notification requirements under the NERL and NER's requirements with respect to network prices
- Customers dissatisfied with industry and regulator about level of guidance on price movements

Specific impacts on retailer

- No consultation on proposed changes to the structure and level of distribution prices
- Inadequate notice of confirmed changes to structure and level of distribution prices

No consultation on tariff structure

Unforeseen complexity in structure

- Retailer can't apply tariff in billing systems
- Retailer must apply simpler tariff customers can understand

Tariff has unintended negative impacts on customers

- Retailer applies tariff unaware of negative implications
- Retailer has no opportunity to advise distributor on customer impacts

Impacts on retailer

Tariff doesn't reflect underlying structure or recover costs
Revenue risk

Tariff set higher than efficient levels
Competitive risk

Customer dissatisfaction with negative tariff impacts
Reputational risk

Specific impacts on retailer

- No consultation on proposed changes to the structure and level of distribution prices

- Inadequate notice of confirmed changes to structure and level of distribution prices

Insufficient time to review final tariffs (structure and level)

Unforeseen tariff complexity

- Retailer must simplify retail tariffs or rely on draft tariffs to meet timeline
- Retailer may be forced to delay application of retail price increase and recover revenue over reduced timeframe

Unforeseen increase in tariffs

- Retailer has limited opportunity to advise on customer impacts or engage customer

Impacts on retailer

Tariff doesn't reflect underlying structure; Tariff can't be changed again for set period
Revenue risk

Tariff set higher than efficient levels
Competitive risk

Risk of missing deadline for notifying retail prices
Regulatory risk

Customers dissatisfaction with quantum of increase
Reputational risk

AEMC's solution is positive but inadequate

- AEMC proposes that timing problem will be solved by having the pricing structure formalised in advance, which should mean distributors take less time to prepare price proposals and the regulator needs less time to approve these, leaving retailers with more time to review prices
- However, this presupposes that either:
  - Structure is set only once in five years (unlikely);
  - Structure is set each year but separately from price level (also unlikely as this creates duplication)
- There is also a conflict between the notification requirements under the National Energy Retail Rules (NERL) and existing rules with respect to updates in network prices.
- A separate approach to resolving the timing issue is required:
  - Require distributors to submit their pricing proposals one month early (being 3 months before they apply)
  - Define the period the AER has to review these proposals (currently undefined), being 1 month, and distributors to publish 5 days after these are approved under a firm commitment.
- First year can be dealt with separately
- Problems of TUOS schedule, DNSP forecasting and CPI reference can be dealt with

Thank you