NEWS

New rules for cost-reflective distribution network prices

Distribution Network Pricing Arrangements – Final Determination

The National Electricity Rules will be changed from 1 December 2014 to require regulated network companies to structure their prices to better reflect the consumption choices of individual consumers.

Under these changes, network prices will reflect the costs of providing the electricity to consumers with different patterns of consumption.

The new rules follow extensive consultation over the past year, and take into account submissions received when the draft rules were released in August.

AEMC Chairman John Pierce said the prices we pay for electricity would actively respond to the different ways people choose to use it under these new rules.

“These changes put consumers at the centre of future decision-making about energy,” he said.

“By having prices that reflect the costs of different patterns of consumption, we are giving consumers clearer choices as we develop a more efficient, incentive-based network regulation framework.

“Today there is far greater diversity in the way consumers use electricity,” Mr Pierce said.

“Two households might look the same, with similar incomes and family size, but because of the appliances they have and the different lifestyles they lead, they will consume electricity in very different ways.

“Network pricing reforms are one of the AEMC’s building blocks to help consumers see the dollar value of their electricity consumption choices, so they can more actively participate in Australia’s electricity market.

“It’s about people being able to see the value of their choices such as decisions to set thermostats differently on air conditioners; or to choose appliances with higher energy ratings,” he said.

Charges recovered from different consumers will more accurately reflect individual usage. The key factor that will determine how much consumers pay is their individual usage pattern or load profile.

“Under these changes, we estimate around 70-80% of consumers would have lower network charges in the medium term,” Mr Pierce said.

These savings would come from a combination of two effects:

- upfront savings for people with flat load profiles who use proportionately less energy at peak times of the day; and
- lower overall network costs and lower average network charges generated by small consumption changes made by people who use a high level of electricity at peak periods. They will not only save money for themselves but help reduce peak demand and consequent need for infrastructure investment.

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Network businesses need to start consulting on new tariffs and submit draft proposals to the Australian Energy Regulator in late 2015 for new prices that would be phased in from 2017.

The rules announced today are focussed on maximising the potential of changing consumption patterns as an alternative to network investment and to facilitate better-informed consumer choices.

"Research undertaken since the draft rules were released for public consultation in August shows network prices are likely to be lower in the long run with cost-reflective prices," Mr Pierce said.

"Research shows average residential charges could reduce by $28 to $145 per year. Households which use power at a steady rate through the day will receive the biggest benefits.

"Based on Victorian trials, we also found a small business could save up to $2,118 or 34% of its total annual electricity network charges by using less electricity at peak times for just 20 hours per year when networks are congested," he said.

The new incentive based regulatory framework also requires greater consumer consultation on setting prices that the networks can charge, and greater transparency of the impact on consumers of network pricing decisions, with information on revenues and prices to be published at the same time.

"This rule change will not actually set new network prices – that is a role for the networks themselves and the AER. It does create a new requirement that reveals the cost of people's energy choices," Mr Pierce said.

"Once the new rule commences on 1 December 2014 network businesses need to start consulting on their new tariffs and submit draft proposals to the AER in late 2015 for new prices that will start no later than 2017."

Mr Pierce said networks are required to consider the impacts of price changes on consumers and could gradually transition consumers to new price structures.

"This is part of our Power of Choice reforms that allows consumers to drive the way the energy sector develops. It means the prices individual consumers pay will more closely reflect the way they use electricity," Mr Pierce said.

"Whatever the pattern of future demand, technology, generation and pricing, this is a significant step towards a market that can respond so consumers benefit."

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About the AEMC

We are the independent body responsible since 2005 for providing policy advice to Australian governments on the electricity and gas sector. We make energy market rules which are applied and enforced by the Australian Energy Regulator (AER).

AEMC Power of Choice Review reforms

The Distribution Network Pricing Arrangements rule change is part of a reform program initiated by the COAG Energy Council following the AEMC's Power of Choice recommendations to help consumers participate more effectively in energy markets. Reforms to simplify the process for consumers to switch retailers, to access information about their consumption in easy-to-read, affordable reports and provide options for people who want to use smart technology, are also underway.

About the economic regulation of distribution network companies

Electricity distribution businesses build, own and operate the poles and wires required to transport electricity to where it's needed. Massive costs involved in providing extensive networks mean these businesses operate as natural monopolies in the regions they service.

The AEMC makes the National Electricity Rules used by the Australian Energy Regulator (AER) to set revenues that network businesses can earn as well as the maximum prices they can charge over five year regulatory periods.

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In 2012 the AEMC made new rules to improve the AER's capacity to develop efficient processes for setting overall revenues and prices for regulated network companies so consumers don't pay more than necessary for reliable supplies of electricity and gas.

The 2012 rules changed how the AER determines allowed rates of return for regulated businesses; clarified AER powers on reviewing and amending network business proposals for expenditure allowances; introduced new capital incentives for efficient capital expenditure; new annual benchmarking reports on the relative efficiencies of network businesses; and requirements for more community consultation on the regulatory determination process.

The new rules announced today are focussed on arrangements encouraging distribution companies to maximise the potential of changing consumption patterns as an alternative to network investment and to facilitate better-informed consumer choice.

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