



Distribution Pricing Arrangements Retailer perspective

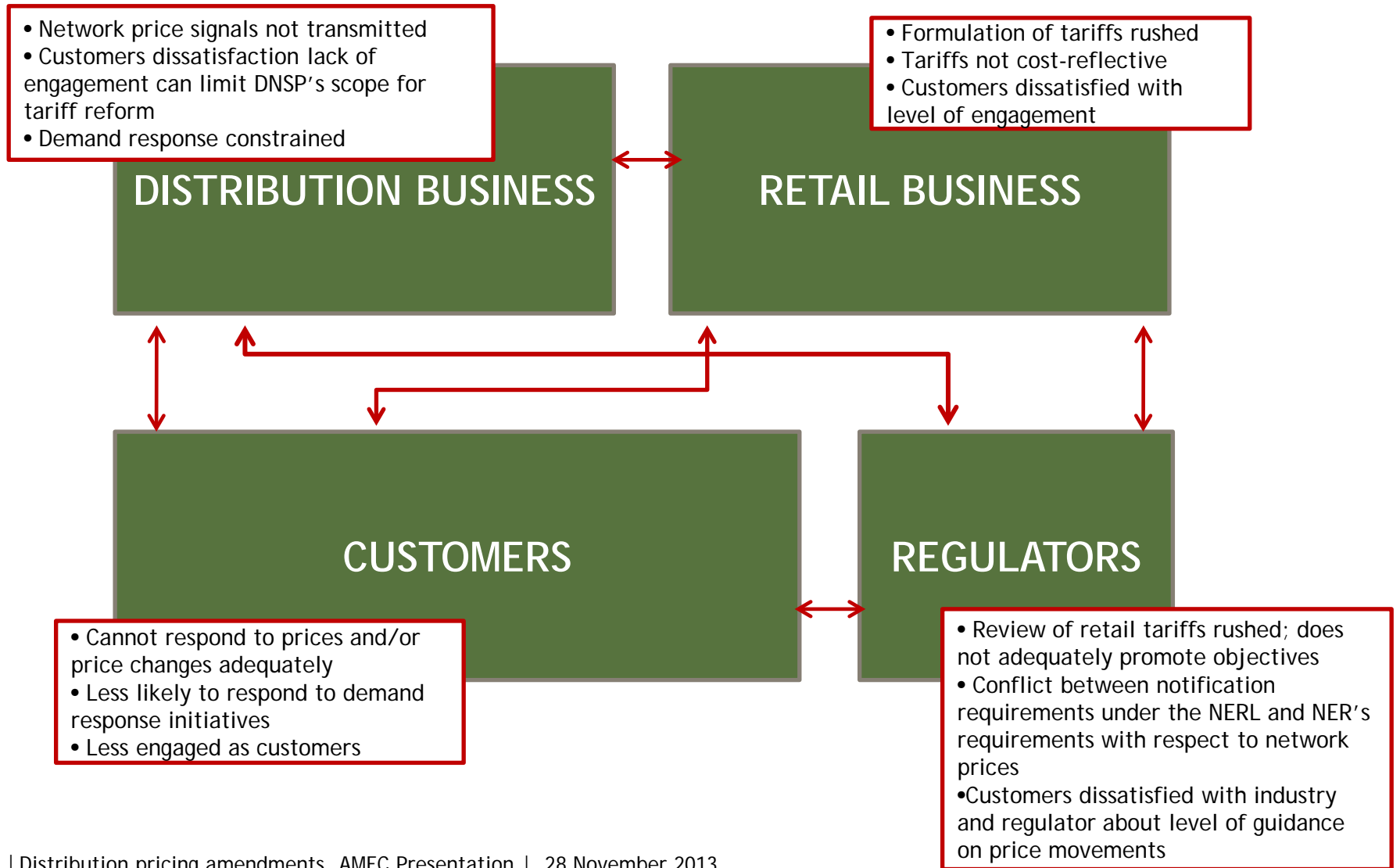
Steven Macmillan, Regulatory Manager, Origin | 27 November 2013

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

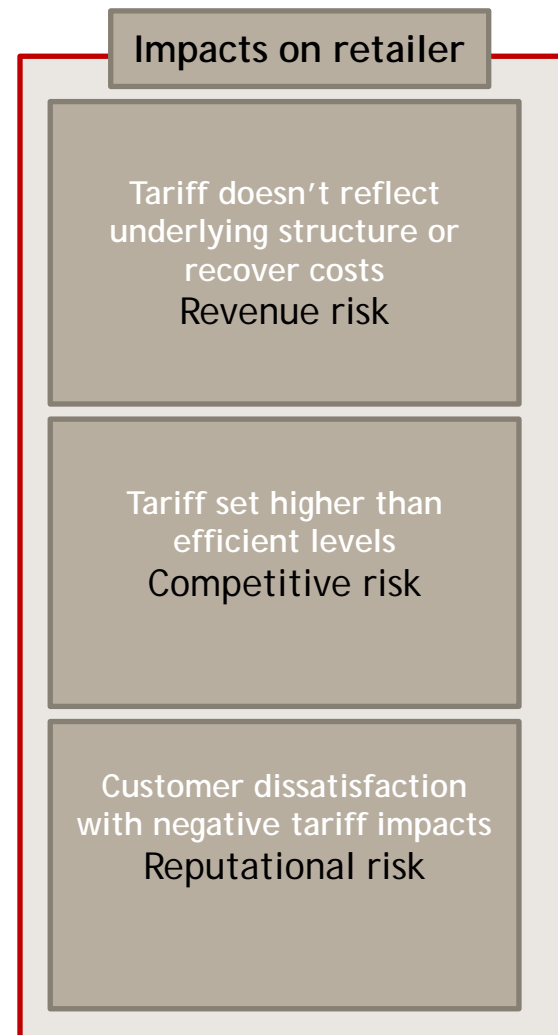
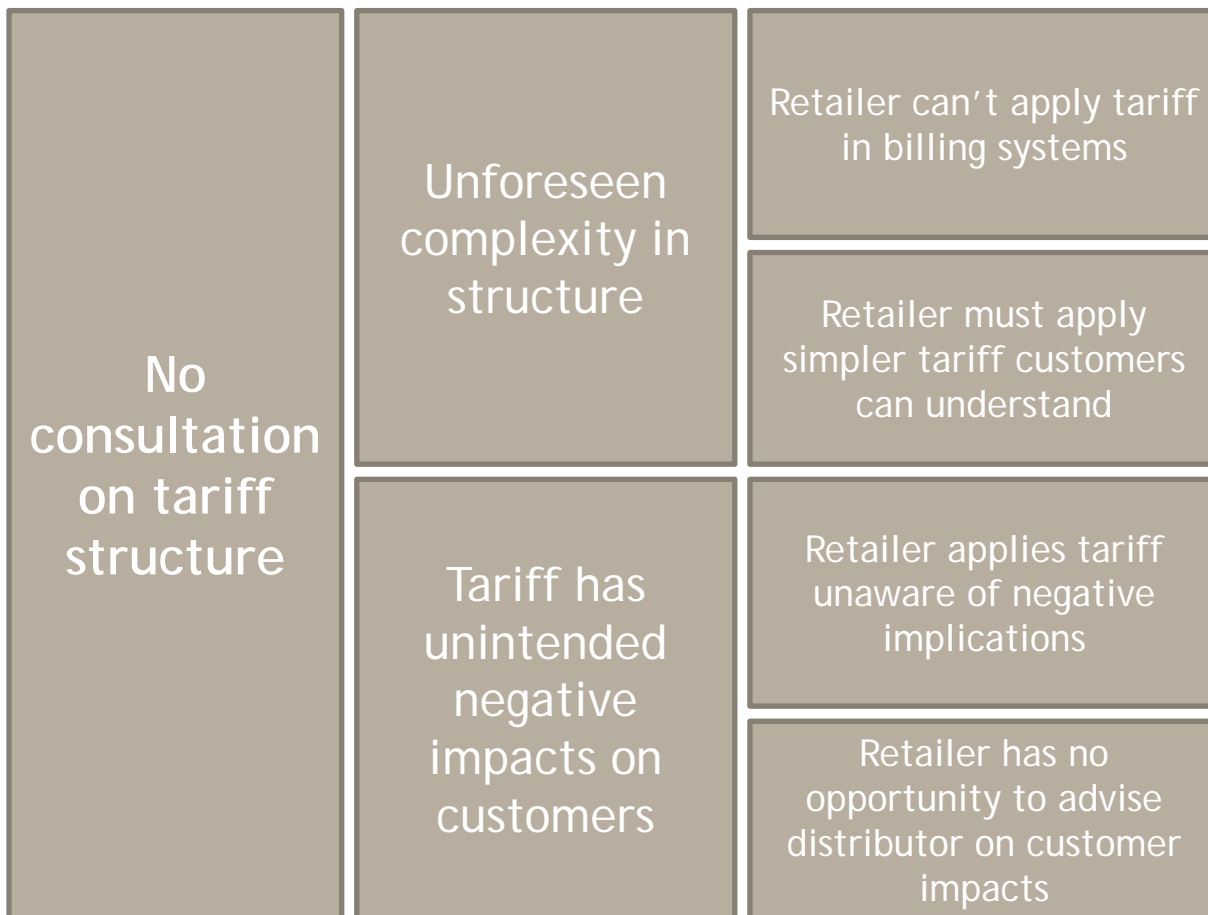


Specific impacts on retailer



· 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



Specific impacts on retailer



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• 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



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Thank you
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