



Annual network pricing arrangements

Consultation on rule change request from IPART

The AEMC has commenced consultation on a rule change request from the Independent Pricing and Regulatory Tribunal of NSW (IPART) seeking changes to how annual electricity network prices are approved and notified.

The rule change request

IPART considers that there are three problems with the current network pricing process in the National Electricity Rules (NER). It has identified that:

- the notification timeframe creates difficulties for retailers in passing on annual changes in network prices to consumers;
- there is no opportunity for consultation on the development of network prices; and
- the annual pricing process lacks certainty with regard to future network prices.

IPART states that the annual network pricing approval process involving network pricing proposals from distribution businesses and its assessment by the Australian Energy regulatory (AER) leaves very little time to implement changes in retail prices arising from changes in network pricing structures and/or pricing levels.

IPART has proposed changes to the NER to facilitate the annual approval and notification of final network prices by at least two months prior to taking effect. Under its proposal, this would be achieved by requiring transmission businesses to finalise their prices two months earlier than they currently do. Distribution businesses would then submit their pricing proposal to the AER for approval one month earlier than the current timetable.

IPART also identifies lack of consultation in the development of network prices as an area that needs to be addressed. It has proposed that the AER develop guidelines outlining how distribution businesses consult with retailers and consumers in developing their network prices and their statement of expected price trends.

A further issue is that the current network pricing process provides no certainty about how future network prices may change. IPART states that such lack of certainty can limit the ability of consumers to make informed decisions about their future consumption and adversely impact on retailers in offering innovative retail tariffs in a competitive market. To address this, IPART has proposed requiring distribution businesses to demonstrate how their annual pricing proposal is consistent with their statement of expected price trends.

IPART undertook its own consultation before submitting the rule change request.

Impact of the rule change request

The changes proposed in the rule change request will impact:

- the timeframes in which transmission and distribution businesses must set and notify their prices on an annual basis;
- how and by when the AER must assess and approve the distribution businesses annual network pricing proposals; and
- how retailers and consumers engage in the development of network prices that makes up between 34 per cent to 57 per cent of a typical customer's electricity bill across the national electricity market.¹

¹ In 2012-13, the network component (combined transmission and distribution charges) of a typical residential customer's electricity bill was 43% in the ACT, 55% in NSW, 34% in Victoria, 51% in South Australia and 57% in Tasmania: see AEMC, *Possible future retail electricity price movements: 1 July 2012 to 30 June 2015, Electricity price trends report*, 22 March 2013.

Consultation paper released

The AEMC has released a consultation paper to facilitate public consultation on IPART's rule change request.

This paper contains some background information on the network pricing arrangements and identifies a number of questions and issues to facilitate consultation on the changes proposed.

The AEMC invites submission from all interested stakeholders by 4 July 2013.

Background on the network pricing process

Network prices represent the cost of supplying electricity through the distribution and transmission networks. Distribution businesses typically incorporate transmission network charges into their pricing structure before passing them onto consumers via retailers.

Network prices charged by distribution business have two elements:

- the structure of the network tariffs they assign to various customer classes²; and
- how the pricing level of each network tariff, or the charging component of each network tariff, varies from year to year.

Distribution businesses are required to have their proposed network prices approved by the AER prior to being passed on to customers via retailers.

Retail tariff structures are generally based on network tariff structures. In jurisdictions where retail price regulation exists, the regulator with the responsibility for retail pricing sets annual regulated retail prices in reference to network tariffs which are generally passed directly through to customers.

In respect of market offers, retailers also pass on the network prices through their retail tariffs. The development and implementation of retail pricing is therefore dependent on notification of network prices for the relevant year.

The NER set out the timelines, regulatory processes and principles governing the setting of network prices for transmission and distribution businesses.

Network prices change on 1 July each year in all jurisdictions except for Victoria where the price change occurs on 1 January. Retail prices typically change on these dates to allow network price changes to be passed through.

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² The structure refers to the charging components of the tariff such as the fixed and variable components that a particular network tariff may have, including consumption blocks or time bands for time-of-use charging.