



Distribution Network Pricing Arrangements

Public consultation commences on the Distribution Network Pricing Arrangements rule change

The AEMC has commenced consultation on proposed reforms to the way electricity distribution businesses set and structure network prices following a rule change request from the Standing Council on Energy and Resources (SCER).

Rule change request from SCER

On 18 September 2013, SCER submitted a rule change request to improve the arrangements within the National Electricity Rules around how distribution businesses set and structure cost reflective network prices. This includes a greater opportunity for consumers to have a say in how they can best respond to changing network prices.

This rule change request draws on recommendations made to SCER in the Power of Choice review. It also forms part of the ongoing reform by the AEMC in the area of network regulation, which included significant rule changes in November 2012. Those rule changes better equip the regulator to set efficient revenues for network businesses. The SCER rule change request looks at how that revenue should be recovered from consumers through the way distribution network prices are structured.

Consolidation of rule change requests

The AEMC has previously received a rule change request from the Independent Pricing and Regulatory Tribunal of NSW (IPART) that deals with similar issues to SCER's rule change request in respect of consultation on network prices and earlier provision of annual network pricing information.

Due to the overlap of issues, these rule change requests have been consolidated into one rule change process.

Key issues for consultation

In considering the rule change requests, the AEMC will consider how the distribution network pricing principles should be adjusted to encourage distribution businesses to set network prices on a more cost reflective basis, which will provide more efficient pricing signals to consumers.

Other issues that the AEMC will consider include:

- greater certainty for retailers and consumers on how and when distribution businesses will change their network prices over time; and
- more opportunity for those affected by distribution network prices to be consulted on the development of those prices.

Changes that may result from the requests will not actually set new network prices. Rather, any resulting rules will create a new framework which guides distribution businesses to develop prices which are efficient and therefore benefit all consumers.

The AEMC follows a technology neutral approach to its decisions. While it will be important to understand the impact different technologies – which could include air-conditioning, solar PV or electric vehicles – have on the costs faced by distribution network businesses, any rules will apply equally irrespective of the technology being used. The actual impact of rule changes on particular consumers will depend on a range of factors.

A consultation paper has been prepared to facilitate public consultation on the rule change requests. Submissions close on 19 December 2013.

If changes to the rules are made, the AEMC will also consider how the framework should provide for transition to the new rules as smoothly as possible.

A consultation paper has been prepared to facilitate public consultation on the key issues in the rule change requests. Stakeholders are encouraged to provide any submissions by 19 December 2013. In addition, the AEMC will be holding a public forum on 27 November 2013. Further details on the forum can be found on the AEMC's website.

Rule change process

The timeframe for the rule change process is expected to be as follows:

- Public forum in Melbourne on 27 November 2013
- Submissions on consultation paper close on 19 December 2013
- Stakeholder workshops in February/March 2014 (TBC)
- Publication of draft rule determination in August 2014
- Further stakeholder workshops in September 2014 (TBC)
- Publication of final rule determination in November 2014.

Background

Network prices recover the cost of supplying electricity through the distribution and transmission networks. Network prices account for about 35 per cent to 60 per cent of a typical customer's electricity bill across the national electricity market. The bill is also comprised of wholesale energy costs, retailer operating costs and the costs of governments' policies.

The national electricity rules set out the timelines, regulatory processes and principles governing the setting of network prices. Network prices are set on the basis of network revenues which are determined by the Australian Energy Regulator (AER), usually on a five yearly basis.

Under the current arrangements, once the revenue for a distribution business is set by the AER, there is a further annual process by which prices are set. The distribution business proposes prices which the AER must assess having regard to certain principles, which include:

- the stand alone and avoidable cost boundaries of providing the distribution service;
- the long run marginal cost of providing the distribution service;
- transaction costs for consumers and distribution businesses; and
- whether consumers are able to respond to price signals.

Both SCER and IPART have identified issues with the existing pricing arrangements in the national electricity rules.

For information contact:

AEMC Chairman, **John Pierce** (02) 8296 7800

AEMC Chief Executive, **Paul Smith** (02) 8296 7800

Media: Communication Manager, Prudence Anderson 0404 821 935 or (02) 8296 7817

14 November 2013