



SUBMISSION: Draft rule determination

National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014 28th August 2014

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St Vincent de Paul Society, Victoria, (Vinnies) welcomes the opportunity to comment of the Australian Energy Market Commission (AEMC), National Electricity Amendment – Distribution Network Pricing Arrangements.

The St Vincent de Paul Society has a keen interest, and a long history, in monitoring and tracking domestic electricity and gas pricing across the National Energy Market (NEM), with the production of various tariff-tracking reports and spreadsheets which are available at www.vinnies.org.au/energy.

Pricing principles, complimentary measures and distributional impacts.

The proposed rule change will require the networks to fundamentally change the way they price for electricity distribution services. This change will result in costs being reallocated within and between various customer classes. AEMC within its draft determination and has recognised this impact and we support the AEMC proposed pricing principles that:

“..require network business to develop price structures that consumers are capable of understanding, and allow network business to minimise the impacts of price changes by gradually moving to new network prices over several years.”¹

However within this framework we would request that the AEMC acknowledge and inform the rule proponents, in particular the COAG Energy Council, that there needs to be review, and were required, adjustments to state based energy concessions and other energy policies.

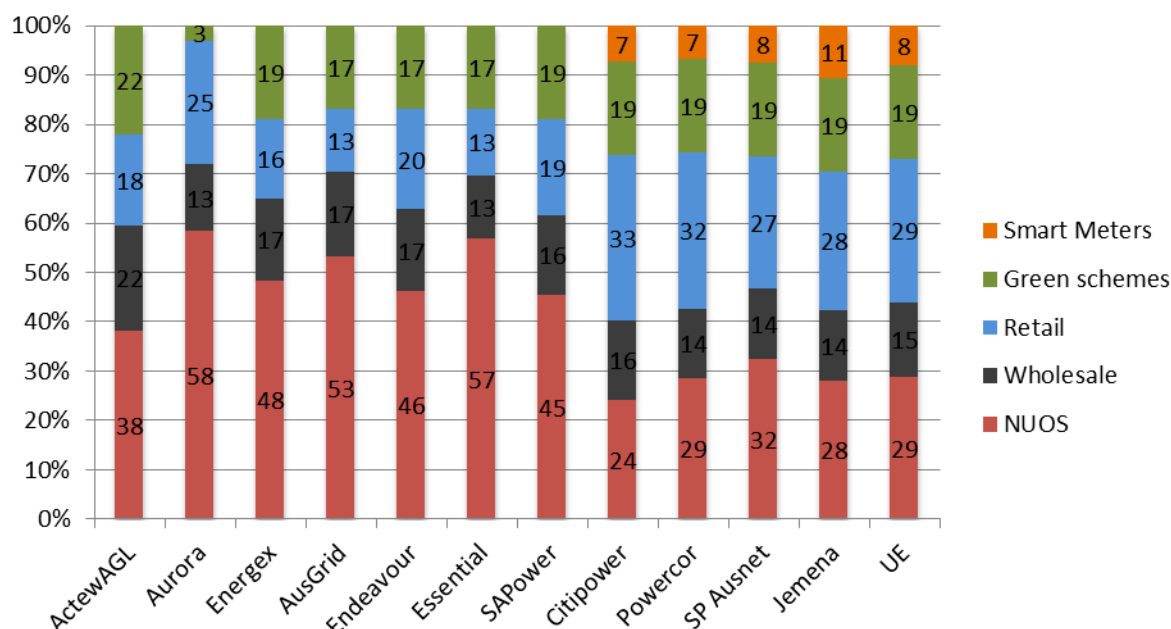
¹ AEMC Draft Rule Determination, National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014, Executive summary, page i.



Such a review is critical to both maintaining the integrity of the energy concessions, but also as a complementary measure in supporting the transition to the proposed new cost reflective pricing methodologies. These reviews we believe are essential, as it will assist in minimising unnecessary consumer concern and potential detriment to the most vulnerable within the community.

It should also be acknowledged that the proposed rule change would have a varying degree of impact across electricity consumers within the National Electricity Market (NEM). This variation is due to in relative differences in the make up of the domestic energy bill, in particular the network component relative to the overall price paid by households.

The table below² highlights the significant variation in the proportion of the domestic energy bill that is attributable to network charges. This indicates that the network component ranges from between 24% – 58% of a bill and provides some indication on where the largest likely impacts are to be felt.



² Gavin Dufty and May Mauseth Johnston, The NEM Wrong Way Go Back?, Observations from the Vinnies Tariff – Tracking Project, chart 6 page 11, September 2014.



Meter types within customer classes

Another challenge we envisage with this rule change is how network companies may treat various the application of Long Run Marginal Cost (LRMC) pricing with the various meter types within customer classes. For example, there are a number of networks that don't have a homogeneous meter type across all customers within a customer class, for example customers with accumulation meters and customers with interval meters.

This we believe may present challenges as it might result in numerous types of pricing structures, within a customer class, due to the type of data that is captured by the meter.

Such a differential in pricing structure may cause consumer confusion or conversely support the retention a particular type of meter as customers seek a preferred pricing design.

This we believe is particularly relevant with considering a move to making "smart" meters more available across the NEM. As such we suggest that whatever LMRC pricing networks develop it should be applicable to all customers within a particular class. Conversely, networks to have developed a strategy to move all customers within a class to a common pricing design.

Tariff reassignment

Another issue that we believe should be considered is the application of the new network pricing structures and the transitioning of customers from their current network tariff designs to the new LMRC pricing design. This often presents challenges; in particular a reluctance of households to transition to what they perceive is a "bad" price or pricing structure. This issue has been of particular concern with the Victorian smart meter roll out and the reassignment of households to Time of Use pricing (TOU).

We would suggest the transition to such underlying network pricing would be best done at specific times such as a new connection, move in move out or potentially churn from one retailer to another. This we believe would facilitate an orderly transition with minimal customer pushback.

Transparency and Customer engagement



We also believe that with this rule change retailers should be required to itemise the network charges on a customer bill.

This we believe is critical in ensuring a price signal to households that demonstrates the impact of their behaviour and the associated change in cost of the network component. We believe that this is of particular importance as the lack of transparency of network pricing has been one of the key factors that has resulted in customer being unaware of the costs and hence the various components of the bill.

In addition, providing such transparency to households will assist households in having a better understanding of the relative value of the various components of an energy bill. This in itself will help to drive competition in other parts of the electricity market. This issue is explored in more detail in *The NEM Wrong Way Go Back?*, Observations from the Vinnies Tariff – Tracking Project.

Other rule change requests

We also note that the AEMC has received a rule change request - Aligning network tariff structures to retail tariff structures for small customers. As we understand this rule change would require the networks to offer a tariff structure reflective of the retail tariff design, and this retail tariff be made available to small energy consumers.

We believe that AEMC should within this rule change National Electricity Amendment (Distribution Network Pricing Arrangements) Rule detail how it views the relationship of this rule change to the propose rule change, Aligning network tariff structures to retail tariff structures for small customers.

Import / export

It is also our belief that the current rule change is limited to the type of LRMC pricing design that network can charge, in particular the limitation in developing capacity tariff that include both energy demand from the network but also energy exported into the network from small domestic energy producers such as current PV systems and potential future technologies such as electric vehicles.

We suggest that the AEMC consider the implication of this given the move towards smart grids, distributed generation and the potential future cross subsidies that this make create if networks are unable to send appropriate price signals for the input of energy generation or storage into the network at appropriate times.



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