



AUSTRALIAN
ENERGY
REGULATOR

AEMC Distribution networks Pricing Arrangements
Public Forum Sept 2014

Andrew Reeves

AER Perspective

- Overview on Draft Decision
- Pricing Principles
- Process

Overview on Draft Decision

- Background to this development
- Criticality of Tariff Reform
- Three foundation elements of Power of Choice Implementation:
 - Contestability of Metering
 - Consumer access to own data
 - Cost-reflective tariffs

Implementation of Innovation

- There's need to address changes in network usage
- There's now cost-effective technology
 - Metering & communication systems
- There's need to deal with institution change
 - Pricing structures > Temporal & Spatial differentiation
 - Players > active participation by customers & customer agents
(retailers, alternative suppliers/solution providers – generation, storage, load control)
- There's need for Community Licence for change



Rocky Mountain Institute

Complexity and Customer Experience

- Most customers are likely to prefer simple solutions
- Even complex network tariffs can be translated to a simple customer experience e.g. by ‘solution providers’ managing load
- Complexity of tariffs should not be a barrier to cost-reflective tariffs being offered by DNSPs- as an option

Implementation of cost-reflective prices

- LONGER-TERM - More sophisticated possibilities:
 - Real-Time Pricing
 - Attribute-Based Pricing
 - Distribution Locational Marginal Pricing
- NEAR-TERM - Default or opt-in/opt-out possibilities:
 - Time-of-Use Pricing
 - Energy + Capacity Pricing (i.e. demand charges)
 - Distribution “Hot Spot” Credits

after Rocky Mountain Institute

Power of Choice included suggestions for transition (opt-in and opt-out choices for customers) – these could be acknowledged in the Decision

Key Consideration- community licence

Power of Choice:

“the reforms should be implemented in a timely manner and be supported by an effective consumer awareness and education strategy”

Good elements in the Draft Rule > Consultation & Consumer Impact Assessment - but:

the issues are significant and the DNSP consultation process alone may be too narrow, given the potential scale of change which will potentially impact all customers.

Guideline or Guidance?

- Time limited for AER to develop Guideline:
 - Guideline might not be best approach at early stage
- Guidance desirable:
 - Shared understanding of issues, objectives, methods, transitions, impacts:
 - Policy makers
 - Governments
 - Network Businesses
 - Retailers / new business models
 - Consumers & their representatives
 - Regulators
- Foundation for network-specific consultation & approvals

More on guidance on implementation

- While solutions should be specific to network characteristics, common principles are desirable:
 - Process like AER Better Regulation approach to development of its guidelines allows all parties to participate in the discussion and develop a common understanding = better able to address network-specific proposals
 - Consultation/ workshop process could develop a Resources Kit for development of TSS – inc. practical means to address network issues and consumer impact
 - Inclusive approach may give Government confidence that consumer concerns are addressed, lessening need for side constraints.
 - Build on substantial work already undertaken by AEMC and others, but with wider engagement
 - Important work for new Energy Consumers Australia
- Who/how?
 - AEMC? AEMC / AER?

Conclusion

- Importance of transition mechanisms to cost-reflective prices, not losing sight of the longer term
- A process for further guidance for Tariff Strategies, drawing on existing work
- Inclusive development for shared understanding of needs, issues, solutions and managing of potential impacts
- Important work for ECA