



SUBMISSION

Prepared for submission to:

Australian Energy Market Commission (AEMC)

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Power of Choice

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1. INTRODUCTION

This submission is a response from Etrog Consulting Pty Ltd (Etrog Consulting) to the AEMC's Draft Report on *Power of Choice – giving consumers options in the way they use electricity*, which was published for stakeholder comment on 6 September 2012.

Etrog Consulting is a specialist consultancy in energy and utilities, focusing on regulatory policy and the interplay between regulation and competition in energy and water industries and markets. The director of Etrog Consulting, David Prins, who is the author of this submission, has 23 years consulting experience in this field.

Etrog Consulting has particular expertise in energy retailing and in the pricing of electricity, including flexible pricing arrangements that are enabled by the roll-out of smart metering. In February 2012, Etrog Consulting provided the Victorian Government with a comprehensive 69-page report on flexible electricity pricing for residential and small business customers.¹

Etrog Consulting is not currently engaged by any client on the subject of this submission. The views put forward in this submission are the views of Etrog Consulting and its author, and are not intended to represent the views of any client of Etrog Consulting.

This submission discusses some aspects of the AEMC's draft proposals in regard to flexible pricing, which we hope will be of interest and of value to the AEMC.

Subject to any other client commitments or conflicts, we will be happy to discuss our views further with the AEMC or with any other stakeholders or interested parties that read this submission.

2. FLEXIBLE PRICING

This submission is in response to the following draft recommendation from the AEMC:

¹ This report is available at It is available at <http://www.dpi.vic.gov.au/smart-meters/publications/reports-and-consultations> and <http://www.etrogconsulting.com.au/pricing.html>.

The transition to more efficient and flexible price options in the NEM should be done in a gradual phased approach. We recommend:

- Focusing only on introducing time varying prices for the network tariff component of consumer bills. Retailers would be free to decide how to include the relevant network tariff into their retail offers; and
- Segmenting residential and small business consumers into three different consumption bands and applying time varying network tariffs in different ways:
 - For large consumers (band 1), the relevant network tariff component of the retail price must be time varying. This would require these consumers to have a meter that can be read on an interval basis.
 - Medium to large consumers (band 2) with an interval meter would transition to a retail price which includes a time varying network tariff component. These consumers would have the option of a flat network tariff.
 - Small to medium consumers (band 3) would remain on a flat network tariff. These consumers would have the option to select a retail offer which includes a time varying network tariff, if they so choose.

Choice of network tariff

The wording of this recommendation (in particular in regard to band 2) seems to be focused on customers choosing their network tariff. We suggest that the customer would be focused on choosing their retail tariff, and it would be up to the retailer to nominate the network tariff that would be charged by the network to the retailer, taking into account the customer's choice of retail tariff. The role of the retailer in choosing network tariffs and in choosing the corresponding retail tariff structures that it offers may need to be clarified.

Transitional arrangements

We note the need for transitional arrangements with regard to both market contracts, and contracts where the retail price is set based on retail price regulation. Retail price regulation varies considerably across Australian jurisdiction in regard to the methods through which the structures of the regulated tariffs and the price components are set.