



Distribution Network Pricing Arrangements Rule Change Workshop Two – Cost Reflective Network Pricing

Agenda Friday 11 April 2014 Stamford Plaza Brisbane Hotel, Corner Edward & Margaret Streets, Brisbane
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Time	Item	Presenter/Chair
From 9.45 am	Registration and morning tea	
10.00 am	Introduction and objective of the workshop	Richard Owens, Director, AEMC
Session one – Cost reflective network pricing in theory and practice		
10.10 am	Presentations and discussion facilitated by NERA. <u>Topics for discussion:</u> <ul style="list-style-type: none"> • Current tariffs and tariff setting methods • Optimal tariff design and tariff methodology • Challenges in implementing optimal tariffs. <i>See attached questions for discussion.</i>	Presenter: <ul style="list-style-type: none"> • Adrian Kemp, Director, NERA Discussion chair: <ul style="list-style-type: none"> • Richard Owens, Director, AEMC
12.30 pm	Lunch break (lunch provided)	
Session two – Strengthening the pricing principles in the NER		
1.15 pm	Presentations and discussion facilitated by AEMC. <u>Topics for discussion:</u> <ul style="list-style-type: none"> • Mandating LRMC and linking it with tariff classes • Defining options for recovering residual costs • Addressing jurisdictional policy requirements and cost reflectivity. <i>See attached questions for discussion.</i>	Presenters: <ul style="list-style-type: none"> • Con Van Kemenade, Senior Economist, AEMC • Ben Davis, Adviser, AEMC Discussion chair: <ul style="list-style-type: none"> • Richard Owens, Director, AEMC
3.20 pm	Closing remarks and next steps	Richard Owens, Director, AEMC
3.30 pm	End of workshop	

Workshop Session One – Cost reflective network pricing in theory and practice

Part one – Current tariffs and tariff setting methods

NERA will present:

- an overview of current network tariffs;
- the application of LRMC methodology in Australia and overseas; and
- the application of methods of recovering residual costs.

Questions for discussion

- *What is the experience of distribution network service providers to date with estimating and applying LRMC in price setting?*
- *What are the current methods used for recovering residual costs?*

Part two – Optimal tariff design and tariff methodology

NERA will present:

- illustrative examples of alternative methodologies for estimating LRMC – perturbation versus average incremental costs;
- a framework for using LRMC to develop network pricing strategies;
- when is one approach to be preferred over another; and
- illustrative examples of recovery of residual costs and their impact on patterns of consumption and future investment decisions.

Questions for discussion

- *What should be the key considerations of optimal tariff designs?*
- *What are the problems with the different methods of estimating and implementing LRMC?*
- *What are the problems with the different methods of recovering residual costs?*

Part three – Challenges in implementing optimal tariffs

NERA will present:

- the merits of more granular LRMC estimates; and
- practical and data limitations to estimating LRMC.

Questions for discussion

- *What are the barriers to implementing the optimal tariffs?*

Workshop Session Two – Strengthening the pricing principles in the NER

Part one – Long run marginal cost and tariff classes

The AEMC will present on the potential ways of strengthening the use of LRMC, including:

- tradeoff between prescription and guidance in the Rules and guidelines;
- implications and risks of single versus multiple methodologies; and
- the possibility of requiring a formal link in the Rules between LRMC and how tariff classes are constituted.

Questions for discussion

- *What level of prescription and guidance should be provided in the NER and guidelines for LRMC?*
- *What are the implications and risks of single or multiple LRMC methodologies being allowed?*
- *Should there be a formal link in the Rules between LRMC and tariff classes?*

Part two – Residual costs

The AEMC will present on:

- how Ramsey and postage stamp pricing could be defined;
- the prescription and flexibility tradeoff of including defined approaches in the Rules;
- implications and risks of single or multiple methodologies permitted in the Rules; and
- the option of including guiding factors for recovery of residual costs.

Questions for discussion

- *Do Ramsey and postage stamp pricing need to be defined within the NER?*
- *What level of prescription should be provided in the Rules and guidelines regarding recovery of residual costs?*
- *What are the cost and benefits of multiple methodologies being allowed?*
- *If multiple methodologies are allowed, should there be some guiding factors?*

Part three – Jurisdictional Instruments

The AEMC will present on:

- the current interaction between jurisdictional policies and the pricing principles;
- conflicts between mandatory pricing principles and jurisdictional instruments; and
- how potential conflicts can be addressed in designing tariffs.

Questions for discussion

- *How do distribution businesses currently manage complying with pricing principles and conflicting jurisdictional policies?*