

IPART's Rule change proposal

Improving the timing and consultation arrangements for annual network price setting

27 November 2013

Setting network prices earlier and with greater consultation

- ▼ We consider that our proposed changes better meet the National Electricity Objective by:
 - ▼ Improving retailers and customer's ability to respond to price signals.
 - ▼ Allowing for more time for retailers to develop retail pricing structures and to reduce price risk that could otherwise be factored into retail prices. In turn better pricing signals will promote efficient investment in and use of the electricity supply system.
 - ▼ Allowing network businesses to understand how customers and retailers will respond to price changes after consulting on the expected price changes document.
 - ▼ Allowing retailers to respond to network price signals in developing prices.
 - ▼ Allowing customers to better understand prices that they are likely to face.

Timing of setting network prices

- ▼ We have proposed:
 - ▼ Transmission prices be set by 15 March each year
 - ▼ Distribution prices be finalised 2 months prior to taking effect (1 month earlier than current provisions)
- ▼ This would require greater use of forecasts in setting both transmission and network prices
 - ▼ Trade-off in having more accurate prices levied on retailers versus prices notified in time to have them considered in setting retail prices
- ▼ This would also require changes to the timing of certain inputs (eg CPI, negative settlements residue)
 - ▼ These could also be changed through determinations or other changes to Rules, if necessary.

Timing of setting network prices

- ▼ Currently, retailers may not know final network prices when setting retail prices
 - ▼ Notification provisions under National Energy Retail Rules – retailers can either defer price increases to a later date or estimate network prices
 - Both lead to an increased risk for retailers and this will ultimately feed into consumer prices.
 - Both can lead to distorting or muting of the network price signals
 - ▼ For those jurisdictions with regulated prices, it places pressure on the regulated business and regulators to pass through network prices as quickly as possible
 - Has implications for the competitive market

Consultation on network prices

- ▼ Consultation should occur on both price structures and price levels
 - ▼ The timing of the consultation should be when it maximises benefit to networks retailer and customers
- ▼ Consultation and the requirements of the pricing document should be set out in a guideline rather than in the Rules
 - ▼ Allows the AER to keep the arrangements relevant by revising them from time-to-time
 - ▼ Allows the distributors to revise their statements to reflect changed circumstances during the regulatory period, in consultation with retailers and customers

Implications on timing and consultation from SCER's Rule change proposal

- ▼ Both IPART and SCER proposals address consultation arrangements
 - ▼ IPART's also addresses timing
 - ▼ SCER's also addresses pricing principles
- ▼ SCER's proposed changes to pricing principles
 - ▼ Increases need for better Rules around timing and consultation
 - ▼ Could lead to price shocks for some customers under current drafting
- ▼ A possible improvement to integrate the proposals would be to establish a target tariff regime



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