INFORMATION

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Aligning Network and Retail Tariff Structures for Small Customers

Publication of final rule determination to not make a rule

The AEMC has decided to not make a rule in relation to the Aligning Network and Retail Tariff Structures for Small Customers rule change request.

Final rule determination

In deciding to not make a rule, the Commission considers that retailers have access to appropriate tools to help them manage the risk of misalignment between network and retail tariff structures, should a state or territory government require them to make a standing offer with a prescribed price structure to electricity consumers.

While the proposed rule change request would have reduced retailers' risks, it would have also imposed additional risks and administrative costs on distribution businesses. In turn, these costs may have been passed on to all consumers in the form of higher network charges. The Commission considers that this is an inefficient allocation of risk.

The Commission notes that its decision to not make the proposed rule is consistent with its draft rule determination and the views of a majority of stakeholders who made submissions to the rule making process. This includes the Australian Energy Regulator who expressed concern in relation to making rules that depart from the nationally consistent distribution pricing rules that were enhanced in late-2014.

The Commission is conscious of the need for certainty at a time when distribution businesses are considering new network pricing structures to comply with the new distribution pricing rules and has therefore published its final rule determination three weeks earlier than the statutory time requirement.

Reasons for the Commission's decision

This rule change request was originally proposed for the purpose of helping retailers to manage the risks that may be created if a state or territory government requires them to offer small customers with an interval meter[1] a retail standing offer with a prescribed price structure. The proposal sought to allow retailers to assign customers that are supplied under the government-mandated standing offer to a network tariff with a structure that aligns to that of the mandated standing offer. The rule change proponent considered that the transfer of risk from retailers to distribution network businesses is appropriate as distribution network businesses could spread this risk over a wider customer base.

The Commission considers that the allocation of risk in this way is inefficient. The effect of making the proposed rule change would have been to reallocate the costs of managing risks from the particular consumers whose decisions cause those risks to all consumers. While the result may have been a reduction in the prices paid by consumers that are supplied under a government-mandated standing offer, this would have been at the expense of imposing additional costs and risks on distribution network businesses that may have resulted in higher prices for all consumers.

The Commission also considers that making the proposed rule change would have likely reduced the incentives on retailers to use other tools that are available to them to manage costs incurred by consumers. For example, offering a range of retail offers that match consumer preferences and offering innovative demand management services that could reduce the retailer's costs and consumers' charges.

[1] An interval meter records consumption over half hour intervals, or potentially over shorter periods. These metering installations can be used to provide information about the timing of a consumer's consumption.

The Commission's decision is to not make a rule for this rule change request.

A key role of retailers is to manage the risks associated with the costs of various electricity supply inputs, including network charges, and to package these inputs into a range of retail offers for consumers. This allows consumers to select the retail tariff that best aligns with their preferences.

The Commission considers that retailers are equipped with, and have access to, a variety of tools to help them manage risk in developing retail offers for consumers. In addition, enhancements made to the National Electricity Rules in late-2014 as a result of the Distribution Network Pricing Arrangements rule change, provide retailers with additional tools to manage this risk.

Given the above considerations, the Commission is not satisfied that making the proposed rule change will, or is likely to, contribute to the achievement of the national electricity objective.

Background on the rule change request

The National Energy Retail Law[2] was amended in 2013 to enable a state or territory government to require electricity retailers in its jurisdiction to offer a standing offer with a particular tariff structure to small customers with an interval meter. This provision only applies in jurisdictions that have adopted the National Energy Customer Framework.[3]

In its rule change request, the Council of Australian Governments' Energy Council proposed that, where a state or territory government enacts such a requirement, then:

- distribution businesses must offer a network tariff with a structure that matches that of the standing offer;
- where a small customer chooses the standing offer, a distribution business must allow a retailer to assign that customer to this network tariff; and
- the Australian Energy Regulator must only approve annual network tariffs if the distribution business meets the above obligations.

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[2] Section 22(1a) of the National Energy Retail Law.
[3] The National Energy Customer Framework has been adopted in all states and territories in the National Electricity Market, with the exception of Victoria.