



Annual network pricing arrangements

Extension of time for further consultation

The AEMC has extended the process for dealing with IPART's rule change request on Annual Network Pricing Arrangements by approximately eight months. The reason for the extension is to allow consideration of the AEMC's recommendations in its Power of Choice review as potential alternative solutions to some of the issues raised by IPART.

Reasons for extension

In the Power of Choice review final report, released in November 2012, the AEMC recommended to the Standing Council on Energy and Resources (SCER) a package of rule changes to address identified deficiencies in the current distribution pricing principles and annual network tariff setting process.

The Power of Choice review identified similar issues to those raised in this rule change by the Independent Pricing and Regulatory Tribunal of NSW (IPART). This includes consultation on the development of network tariffs and the need for a better approval process for annual network price changes.

SCER agreed to a number of AEMC's Power of Choice review recommendations at its 14 December 2012 meeting. SCER's May 2013 demand side participation work program states that officials will prepare a rule change in relation to distribution pricing issues.

While the AEMC is yet to receive the rule change request from SCER, there is distinct overlap of issues between the Power of Choice recommendations and IPART's proposal.

There would be benefit in testing the relevant Power of Choice recommendations in the Annual Network Pricing Arrangements rule change to determine whether a more preferable rule can be made that addresses the issues raised by IPART in a way that better meets the national electricity objective.

The Power of Choice review recommended solutions that are different from those proposed by IPART. The AEMC has extended the rule change process timeframe to consider these different solutions in more detail and allow for additional stakeholder consultation in the remaining stages of the process.

Revised timeframe

The revised timeframe for the rule change process is expected to be as follows:

- Additional consultation paper published by early November 2013
- Public forum on additional consultation paper in late November 2013
- Stakeholder workshops in mid February 2014 (TBC)
- Publication of draft rule determination by 31 May 2014
- Further stakeholder workshops in early June 2014 (TBC)
- Publication of final rule determination by late August 2014

The AEMC intends to publish an additional consultation paper by early November 2013 that will explore its Power of Choice recommendations in relation to the issues raised by IPART regarding consultation on the development of network tariffs. This consultation paper will seek stakeholders' views on the detailed mechanics of how a potentially new pricing process with a statement of network pricing structures might operate.

The AEMC will consider will how best to deal with any further overlaps of issues between this rule change and that expected from SCER on the Power of Choice recommendations when the SCER rule change request is received.

The timeframe on IPART's proposed rule change has been extended to incorporate further consultation with stakeholders on AEMC's Power of Choice recommendations regarding consultation on the development of network tariffs.

Background

On 12 September 2012, IPART submitted a rule change relating to the annual network pricing arrangements under the National Electricity Rules (NER). IPART states that the current annual network pricing approval process involving network pricing proposals from distribution network service providers (DNSPs) and its assessment by the Australian Energy Regulator (AER) leaves very little time to implement changes in retail prices arising from changes in network pricing structures and/or pricing levels.

The rule change also identifies that the current annual network pricing process lacks consultation with retailers and consumers in the development of network prices. Furthermore, it states that the current pricing framework does not provide certainty for retailers and consumers with regard to forward network prices.

To address these issues, IPART has proposed that:

- the annual network pricing process timeframe for transmission network service providers and DNSPs be moved forward to allow the annual approval and notification of network prices to occur at least two months prior to taking effect. IPART raised the issue of changes to initial year network pricing processes, but has deferred the solution to AEMC;
- AER be required to develop guidelines that outline how DNSPs should consult with retailers and consumers in developing their network prices and their statement of expected price trends; and
- to provide certainty about changes to future prices, AER should be required to consider whether the DNSPs' annual pricing proposals are consistent with their statement of expected price trends before AER approves their network price changes each year.

The AEMC identified similar issues to IPART in its Power of Choice review recommendations to SCER on having appropriate consultation on the development of network tariffs and the need for a better annual network pricing process. The specific recommendations included:

- introducing the requirement for DNSPs to consult with retailers and consumers and develop a statement of network pricing structures as part of their regulatory proposals. Consultation requirements to be determined by AER through a guideline;
- requiring AER to approve or modify the DNSP's statement of network pricing structures as part of the regulatory proposal process. DNSPs would continue to submit their annual pricing proposals to the AER for approval. Any variation to the approved pricing structure over the regulatory period must be approved by the AER; and
- bringing forward the timing of the pricing process by a specific period (to be determined).

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