

The network pricing process

Distribution Network Pricing Arrangements rule change workshop

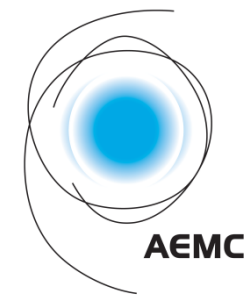
16 May 2014



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OVERVIEW OF THIS SESSION

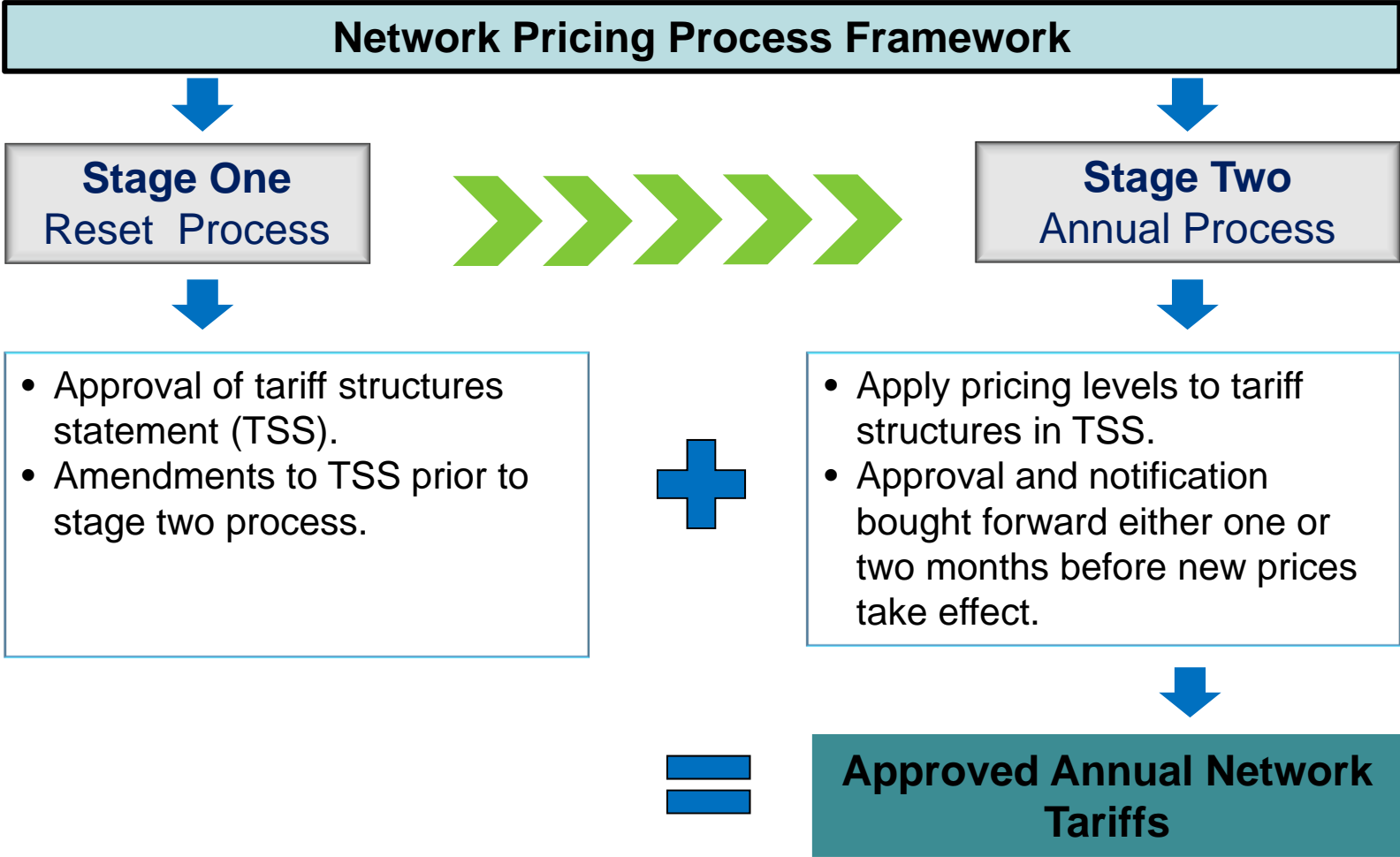
- Focus on potential options for improving the current pricing process for approval of network tariffs.
- Outline how the process could work to highlight some specific issues for discussion.
- Discussion at the conclusion of this presentation.
- This session will not focus on the application of pricing principles.

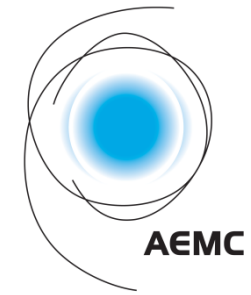


TWO STAGE PROCESS FOR DEVELOPING NETWORK TARIFFS



THE NETWORK PRICING PROCESS – OVERVIEW

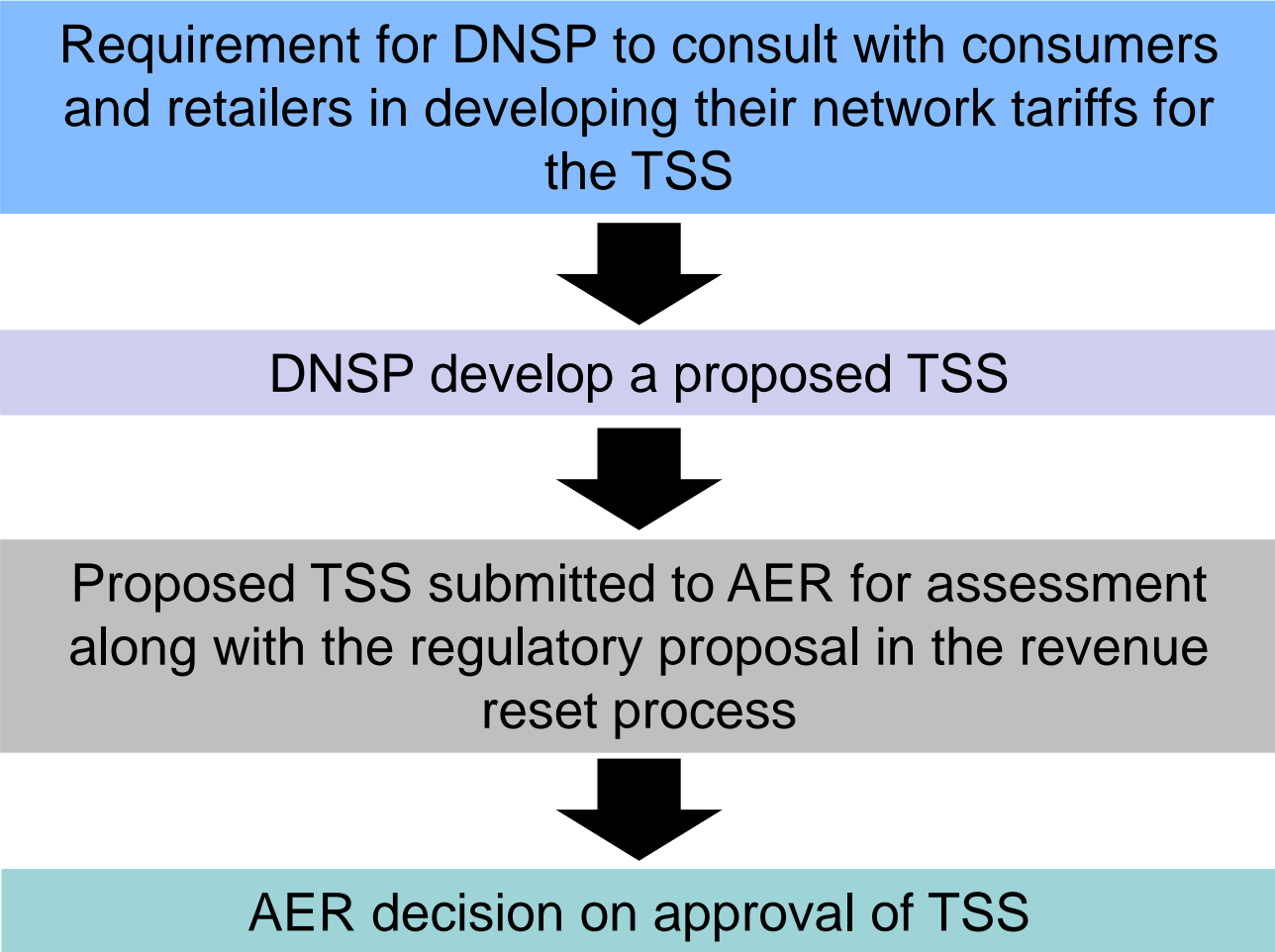




STAGE ONE: THE RESET PROCESS

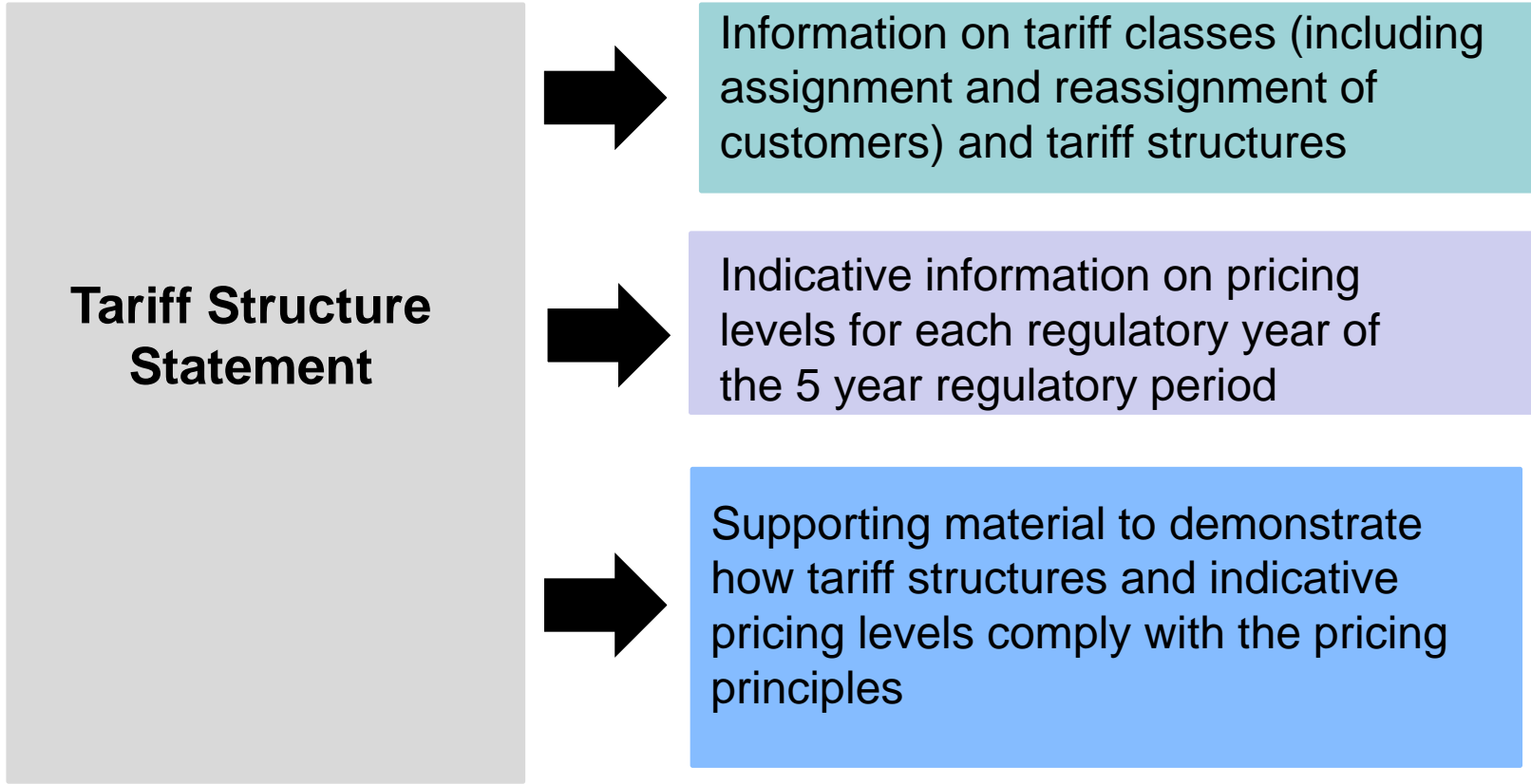


STAGE ONE – RESET PROCESS



STAGE ONE – CONTENT OF A TSS (1/2)

Three elements to the content of a TSS

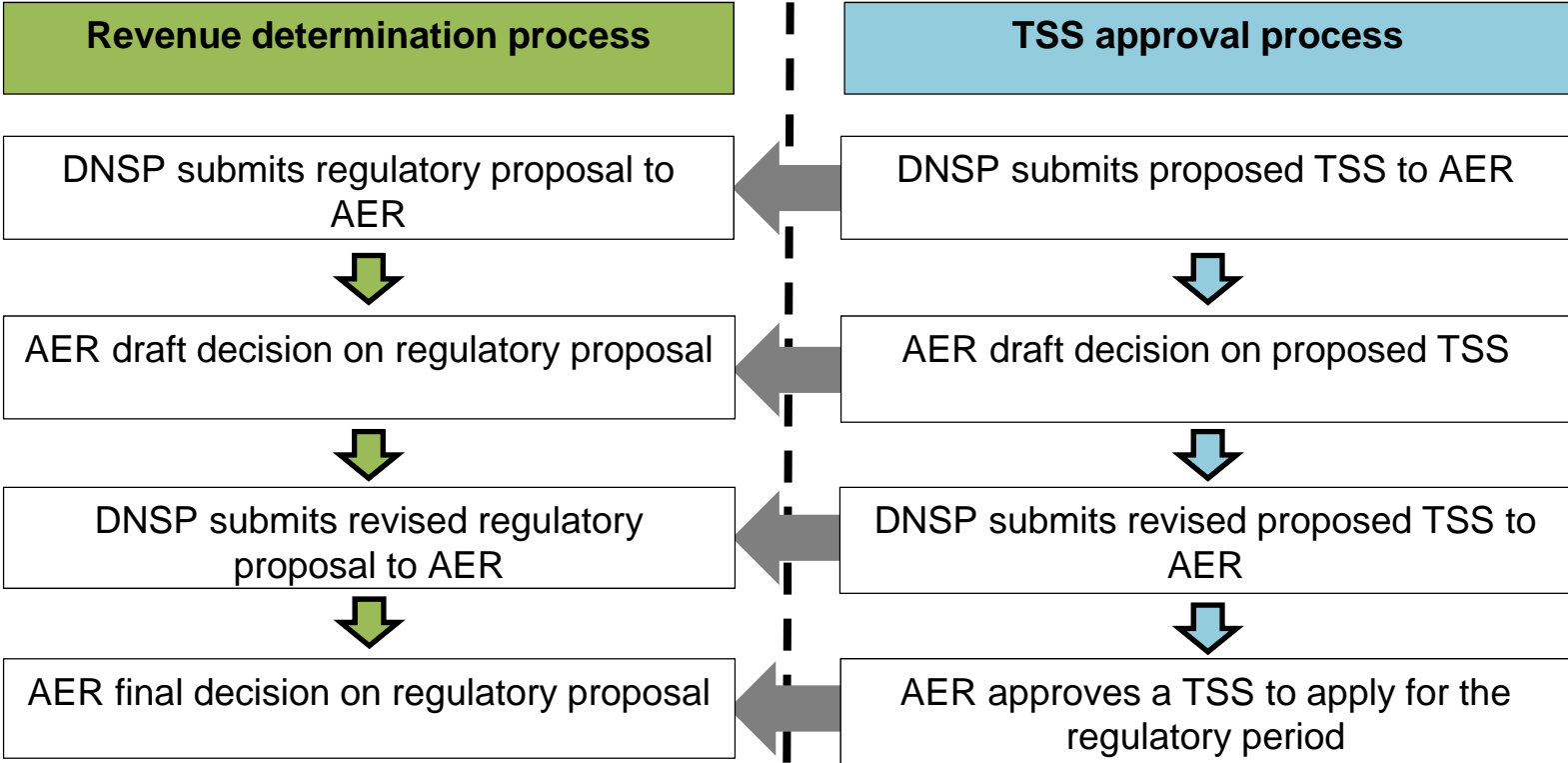


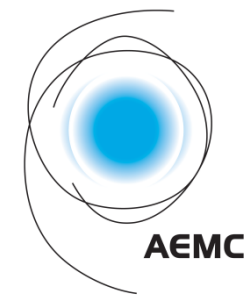
STAGE ONE – CONTENT OF A TSS (2/2)

- All information on tariffs – except pricing levels – would apply to annual network tariffs unless DNSP makes a case for change.
- Indicative pricing levels in the TSS updated on a yearly basis as part of the annual pricing process to provide up-to-date information on the likely trajectory of network prices.
- Potential role for AER to provide further guidance on the content of the TSS.

STAGE ONE – AER ASSESSMENT AND APPROVAL OF A TSS

AER to assess DNSP’s proposed TSS against how it meets the pricing principles in the reset consultation process.





STAGE ONE: AMENDING THE TSS



STAGE ONE – AMENDING THE TSS (1/2)

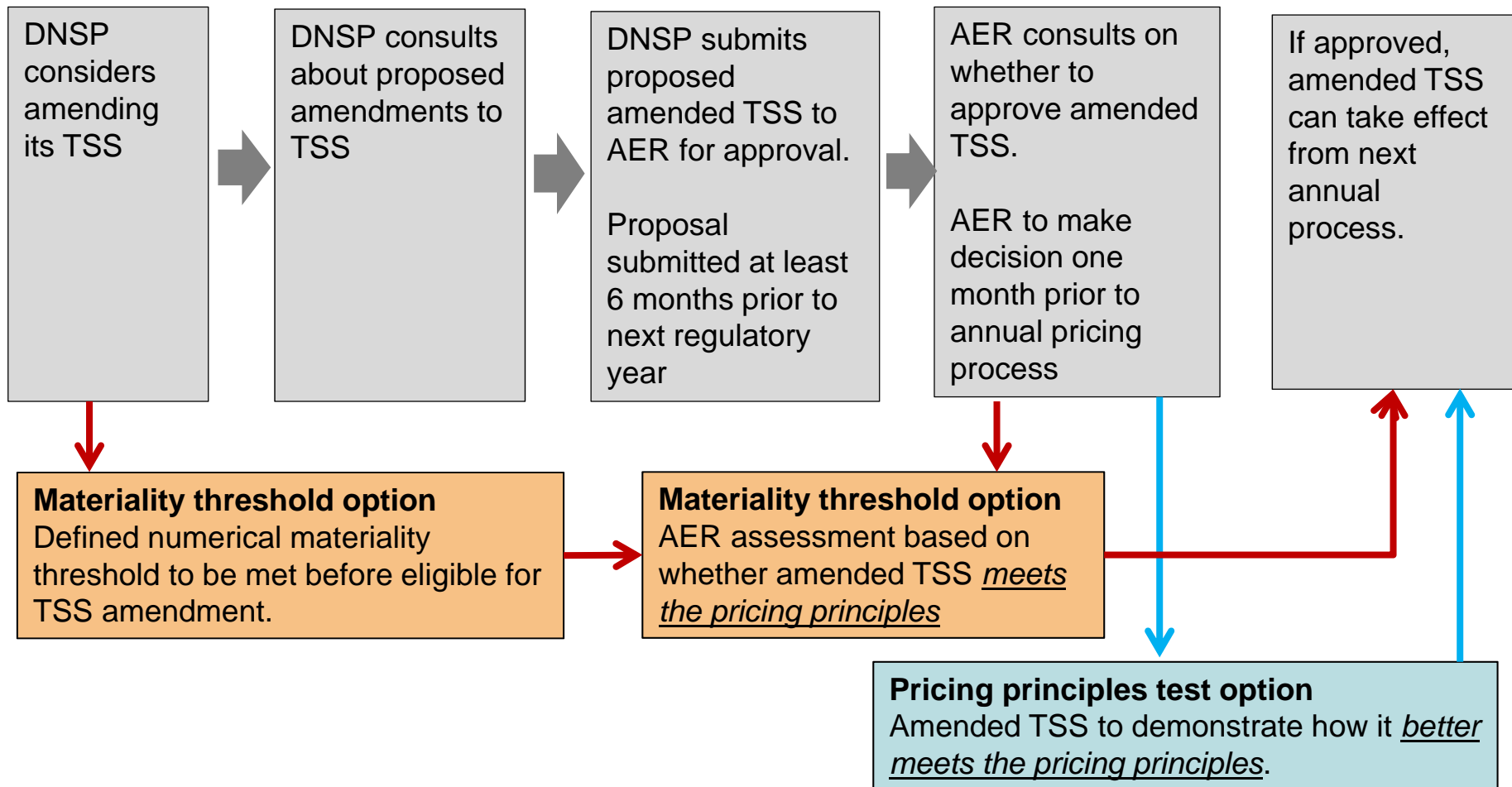
Why amend TSS?

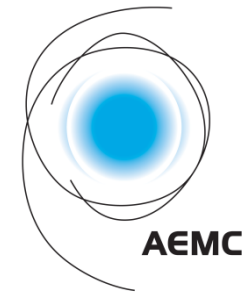
- Determining tariff structures 5 years in advance may inhibit tariff innovation and not allow tariff design to respond to changing demand conditions.
- A strong case to give DNSPs the ability to change tariffs.

How to amend?

- Need a process that captures the essential process elements of the initially approved TSS.
- Consideration of whether a materiality threshold should operate to manage changes to the TSS within the regulatory period.

STAGE ONE: AMENDING THE TSS (2/2)





STAGE TWO: ANNUAL PRICING PROCESS

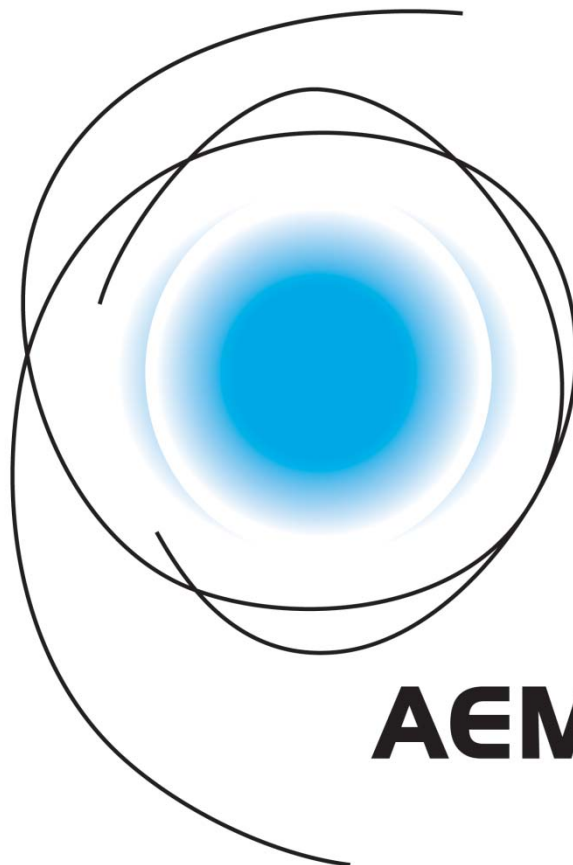


STAGE TWO – ANNUAL PRICING PROCESS

- Substantial changes to the annual pricing process required to facilitate earlier approval and notification of annual network prices.
 - to be discussed in the next session.

DISCUSSION

- **DNSP consultation on development of TSS**
 - Requirement to consult
 - Develop proposed TSS
- **Content of the TSS**
 - Applicable tariff classes, assignment and reassignment, and tariff structures
 - Indicative pricing levels
 - Supporting material of tariff compliance with pricing principles
- **AER assessment and approval of TSS**
 - Assessment criteria
- **Amendments to the TSS**
 - materiality threshold
 - process



AEMC