INFORMATION

Aligning Network and Retail Tariff Structures for Small Customers

Submissions invited on AEMC decision to not make a draft rule

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

Draft rule determination

In deciding to not make a draft 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.

The proposed rule change request would reduce retailers' risks but would impose additional risks and administrative costs on distribution businesses, which would likely be 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 the views of a majority of stakeholders who made submissions on the rule change request, including 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.

Reasons for the Commission's decision

The purpose of this rule change request is to help retailers 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 price structure that is prescribed by the state or territory government. The proposal seeks 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. By requiring distribution network businesses to match the structure of the retailer's standing offer, the rule change proponent considers that the transfer of risks from retailers to distribution network businesses is appropriate as distribution network businesses can spread these risks over a wider customer base.

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

The Commission also considers it is likely to reduce the incentive on retailers to use other tools that are available to them that can reduce the 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.

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

A key role of retailers is to manage risks related to 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 a draft rule will, or is likely to, contribute to the achievement of the national electricity objective.

Consultation

Stakeholders are invited to make written submissions in response to the draft rule determination by no later than **27 August 2015**.

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 proposes 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.