Ausgrid Endeavour Energy essential energy

30 April 2015

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce,

RE: AEMC Consultation Paper – National Electricity Amendment (*Aligning Network and Retail Tariffs for Small Customers)* Rule 2015 (ERC0175)

The NSW Distribution Network Service Providers, Ausgrid, Endeavour Energy and Essential Energy (the NSW DNSPs) welcome the opportunity to provide feedback on the AEMC's Consultation Paper – National Electricity Amendment: *Aligning Network and Retail Tariffs for Small Customers.*

We note that the proposed amendments to the National Electricity Rules (Rules) are largely aimed at supporting customer choice in the transition to cost reflective pricing and minimising the potential for price shocks to consumers.

Whilst the NSW DNSPs recognise the importance of transitioning consumers to cost reflective pricing in a manner which minimises price impacts, we do not support the proposed changes. In our view, there is no demonstrated need for the proposed changes in light of the Distribution Network Pricing Arrangements Rule change amendments; nor do the changes promote the National Electricity Objective (NEO).

Consequently, the NSW DNSPs request that the AEMC not make the proposed Rule change amendments. We are concerned that the proposed changes, if made, will result in outcomes contrary to the long term interests of consumers and the NEO. Specifically, we consider that the proposed changes will:

- undermines efficient network pricing - resulting in inefficient investment in, and use of, electricity services, thus furthering the underutilisation of network assets and embedding cross subsidises;
- inappropriately transfers risks to DNSPs who have limited ability to manage this risk – this may undermine DNSP's ability to ensure the quality, reliability and supply of electricity service to consumers; and
- impose unnecessary regulatory burden on DNSPs- resulting in higher administrative and compliance costs for distribution network service providers (DNSPs), which ultimately leads to higher energy prices for consumers;

Our attached submission elaborates on these concerns further and provides responses to the questions outlined in the Consultation Paper.

If you have any queries or wish to discuss further please contact Mike Martinson, Group Manager Regulation at Networks NSW on (02) 9249 3120 or via email at michael.martinson@endeavourenergy.com.au.

Yours sincerely,

Vince Graham
Chief Executive Officer
Ausgrid, Endeavour Energy and Essential Energy

ATTACHMENT A

RESPONSE TO AEMC CONSULTATION PAPER: ALIGNING NETWORK AND RETAIL TARIFF STRUCTURES RULE 2015

INTRODUCTION

The NSW DNSPs support the principle of setting network prices in an efficient manner and minimising price impacts when transitioning consumers to other forms of cost reflective pricing. We also support the need for network businesses to be responsible for setting network tariffs in order to achieve the network pricing principle in the Rules.

However, we do not support the proposed changes as transfer the responsibility of network tariff setting to retailers or policy makers and therefore blur the lines of responsibility when achieving the Rule requirements. The NSW DNSPs consider that this would inhibit a network from efficiently transitioning to cost reflective network pricing and is therefore neither appropriate nor consistent with the NEO.

The Rules already provide sufficient means for DNSPs to consult with retailers, consumers, and stakeholders to develop an optimal transition path towards cost reflective pricing, which minimises price impacts to consumers and preserves price signals.

Consequently, the NSW DNSPs urge the AEMC not to make the proposed amendments as:

1) the Rules already achieves the primary objective for the Rule change request;
2) the proposed changes will result in outcomes contrary to the long term interests of consumers and the NEO, as it undermines efficient network pricing and distorts the efficient use of, and investment in, electricity services; and
3) appropriately targeted concession and hardship schemes provide a more effective approach for mitigating the potential impact of electricity prices on vulnerable consumers rather than prescribing the structure of network tariffs.

Our submission discusses each of these reasons in greater detail below. In particular, it:

- sets our analysis of the proposed changes, in light of the Distribution Pricing Rule change amendments;
- outlines key concerns raised by the proposed changes;
- demonstrates why prescribing distribution tariff structures is not an effective tool for addressing price impacts on vulnerable customers; and
- sets our responses to the questions listed in the Consultation Paper.

ANALYSIS OF THE PROPOSED CHANGES

The NSW DNSPs note that the COAG Energy Council Rule change request to align network and retail tariff structures was submitted prior to the finalisation of the Distributing Pricing Rule. Consequently, at the time of submitting this Rule change request the COAG Energy Council may not have been aware that amendments were being progressed to address the issue of potential price shocks to consumers from the unwinding of cross subsidies in network tariffs, or the details for such amendments.

We support the AEMC's view, that the new Rules appear to address many of the concerns that are raised by the COAG Energy Council's Rule change request[1]. We have sought to demonstrate this point by outlining how the existing Rules enable DNSPs to transition consumers to cost reflective pricing in a manner which delivers efficient outcomes and minimises price shocks.

[1] AEMC 2015, Aligning Network and Retail Tariff Structures for Small Customers, Consultation Paper, 2 April, p 16.

Summary of the key objectives the COAG Energy Council Rule change request

It is our understanding that the COAG Energy Council Rule change request seeks to amend the Rules so that where a jurisdiction requires a retailer to offer a prescribed retail tariff structure to small customers with an interval meter in its jurisdictions[2]:

- DNSPs must offer a network tariff with a structure that matches the structure of that standing offer;
- DNSPs must allow a retailer to assign a small customer to this network tariff where that customer has chosen that standing offer; and
- the Australian Energy Regulator (AER) must only approve a DNSP's annual pricing proposal if it includes a network tariff that matches the structure of that standing offer.

We note the policy intention for these amendments is to enable small customers with an interval meter to choose to be supplied under a flat retail tariff rather than a cost reflective tariff in order to manage the transition to cost reflective pricing and minimise price impacts.

Specifically, COAG Energy Council is concerned that if retailers are required to make a standing offer with a prescribed tariff structure the retailer will add a risk premium to its retail tariff to account for the potential risk of under recovery of network costs. COAG Energy Council considers that if made, the amendments would provide retailers with a reasonable opportunity to recover the network charges for those small customers, resulting in lower charges under the mandated standing offer.[3]

Current mechanisms aimed at minimising price impacts to consumers from moving to cost reflective network pricing

The NSW DNSPs consider that the new Rules provide appropriate mechanisms and flexibility for DNSPs to manage the transition of consumers from non-cost reflective tariffs in manner which provides appropriate price signals to consumers while minimising the potential for bill shocks.

One way in which the pricing principles seek to address the potential price impacts on consumers is by requiring DNSPs to develop tariff structures that are reasonably capable of being understood by consumers, and allowing DNSPs to manage price change impacts on consumers by gradually moving them to new cost reflective prices over several years.

The current framework recognises that cost reflective network pricing may have greater impacts on some consumers. The Rules seek to address this issue through the inclusion of a consumer price impact principle, which requires DNSPs to consider the impact that cost reflective network prices may have on consumers, and transition them to these prices in a way which manages potential price shocks.[4] The policy intent for this Rule requirement is for DNSPs to balance the impact on consumers of price changes against the benefits of efficient prices when determining how quickly to transition consumers to cost reflective prices.[5]

The new network pricing process also establishes a framework for better engagement between retailers and consumers. Importantly, retailers and consumers have an ability to provide feedback on how network tariffs are set. For example consumers can provide feedback to DNSPs on how understandable the DNSP's network tariff structures are and whether it provides adequate ability for the consumer to respond to network price signals. Similarly, retailers can provide feedback on what network price structures they are best placed to implement through their retail prices.

Further, as recognised by the AEMC, DNSP's policies and procedures for assigning and reassigning consumers to network tariffs provides an additional way for DNSPs to manage the uncertainty of smart meter take up rates in its network and limit the extent of bill shocks on consumers.[6]

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[2] COAG Energy Council's, Aligning Network and Retail Tariff Structures for Small Customers Rule Change Request, 25 June 2014, p 2-3.

[3] Ibid, p7.

[4] AEMC 2015, Aligning Network and Retail Tariff Structures for Small Customers, Consultation Paper, 2 April, p 15.

[5] AEMC 2014, Distribution Network Pricing Arrangements, Rule Determination, 27 November 2014, p 23.

[6] Ibid, p81.

For example, under the current Rule arrangements a DNSP could set out a number of tariffs that will apply to a tariff class in its tariff structure statement (TSS). These tariffs could be designed to take into account the different metering characteristics of its consumers and the speed at which the DNSP consider up take may occur. Under the new network pricing process DNSPs have the ability to include these tariffs in their TSS even if no consumers are assigned to them initially. The DNSP's policies and procedures for assigning and reassigning consumers to tariffs provides a means for DNSPs to outline how they intend to move consumers between tariffs as consumers have access to more sophisticated metering.

Gap analysis of current arrangements and the objectives of the COAG Energy Council's Rule change request

As demonstrated in the previous section, the Rules already contain appropriate mechanisms for mitigating the risk of bill shocks to consumers from the unwinding of cross subsidies, as DNSP transition to more cost reflective network tariffs.

The NSW DNSPs note that the proposed changes were also aimed at supporting "customer choice" in tariff structures as jurisdictions move towards cost reflective pricing. We consider that to some degree this objective is also achieved through the new network pricing process as it provides consumers with the ability to have meaningful input in the design of network tariff structures. Consumer input into pricing decisions will allow DNSPs to design network tariff structures that consumers can better understand and respond to, thus enabling them to make more informed decisions about they want to use energy services.

Whilst it is implied that the proposed changes are aimed at establishing additional measures to minimise the price impact to vulnerable consumers, the NSW DNSPs note that this objective is more appropriately and effectively achieved through rebates, energy concessions and hardship programs - as opposed to amending the Rules governing distribution pricing that may result in anomalies and cross subsidies as the arrangements may inadvertently apply to large numbers of customers that are not considered vulnerable.

This is consistent with the AEMC's view in its Final Determination of the Distribution Pricing Rule change, where it noted that concerns that cost reflective pricing could potentially result in higher prices for vulnerable consumers are best addressed through governments reviewing the structure of their energy concession and hardship schemes to ensure that they deliver on their purpose in an efficient and targeted way.[7]

The NSW DNSPs also note that there are currently no regulatory impediments to retailers offering a retail tariff with a flat structure (or other structures) to customers with an interval meter. Whilst it is arguable that retailers may have little incentive to offer flat structure tariffs in a competitive market unless they are able to earn an adequate risk premium to compensate for any misalignment between network and retail tariff structures, the NSW DNSPs consider that the new network pricing process provides sufficient means for retailers to mitigate this risk by enabling them to provide feedback on the design of network structures. Under the current arrangements retailers are able to provide feedback on the design of network tariffs, including what network price structures retailers are best able to implement through their retail prices.

Therefore, the NSW DNSPs do not consider that the AEMC should make the proposed changes, as the primary objectives for the Rule change are already able to be achieved through existing Rule requirements.

Further, the NSW DNSPs do not consider that there is a demonstrated gap in the existing framework to merit the proposed changes. We are concerned that the proposed changes, if made, will result in outcomes contrary to the NEO and the long term interests of consumers. This issue is explored in further detail in the following section.

CONCERNS RAISED BY THE PROPOSED CHANGES

The NSW DNSPs note that the proposed changes (in effect) seek to mitigate the impact of higher electricity prices to consumers, particularly vulnerable consumers, from the move to cost reflective network pricing through the establishment of social tariff mechanism (i.e. one

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[7] AEMC 2014, Distribution Network Pricing Arrangements, Rule Determination, 27 November 2014, p 55.

that requires DNSPs to align their network tariff structure with the tariff structure of a prescribed retail standing offer tariff for certain classes of consumers).

While the NSW DNSPs are not considering offering social tariffs at this time, the mandating of social tariffs in the Rules to address transition issues is inappropriate, and conflicts with both the pricing objective and the NEO. The following section is aimed at demonstrating this by:

- providing reasons for why social tariffs are generally considered inappropriate for addressing concerns about the potential impact of cost reflective network prices;
- demonstrating how the proposed changes distorts efficient investment in, and use of, electricity services;
- highlighting the potential for the proposed changes to result in an inefficient allocation of risks; and
- outlining why the proposed changes impose unnecessary regulatory burden on DNSPs.

Inappropriateness of social tariffs

The NSW DNSPs are opposed to the mandating of social tariffs in the Rules where prescribed retail standing offer tariffs exist. We consider that the current Rules, in conjunction with more meaningful engagement with consumers and retailers, already provides a sufficient framework for addressing the potential for bill shocks to consumers from moving to cost reflective pricing.

In our view, productive industry engagement coupled with the new network pricing process, will promote the optimal pass through of cost reflective signals to consumers rather than jurisdictional and regulatory intervention to establish social tariffs.

This view is consistent with the comments of Mr Rod Sims, in his previous role as Chairman of the Independent Pricing and Regulatory Tribunal (IPART), where he concluded that the objectives of a social tariff is better achieved by leaving vulnerable customers on the same tariffs as other customers and providing them with government rebates and other assistance to reduce the end price they pay for electricity.[8]

The NSW DNSPs note that this approach is less distortionary and is consistent with standard economic efficiency theory that tariff design should be separated from redistribution policies. Keeping these two concepts separate enables DNSPs to design network tariffs that reflect the costs inherent in providing network services, thus providing consumers with the incentive to make more informed decisions on how their use energy services (i.e. keeping the two concepts separate ensures that the price signalling property of cost reflective tariffs is preserved).

The NSW DNSPs consider that tariffs are too broad of an instrument to provide assistance to vulnerable customers and may not accurately address the problem. For example, social tariffs may be designed to assist vulnerable customers with low consumption but may inadvertently provide discounts to many customers who are not vulnerable, and miss many more who are.

Consequently, instead of providing support via a social tariff mechanism, the NSW DNSPs consider those identified as being vulnerable would be better assisted through out of market means. i.e. concessions and hardship programs.

We note that this view was also shared by the AEMC in its Final Determination on the Distribution Pricing Rule change where it noted that[9]:

> *the design of network pricing structures is too blunt a tool to use in response to concerns about the potential impact of electricity prices on vulnerable consumers. Appropriately targeted concessions and hardship schemes are a more effective approach.*

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[8] Sims, R., Speech at the 2011 Competition and Consumers Conference – PIAC, 24 June 2011. Available at: http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Reviews_All/Retail_Pricing/Changes_in_regulated_electricity_retail_prices_from_1_July_2011/27_Jun_2011_-_Competition_and_Consumers_Conference_Speech_presentation/Speech_-_Competition_and_Consumers_Conference_-_PIAC_-_24_June_2011_-_Rod_Sims

[9] Ibid.

Adverse impacts on efficient pricing and efficient investment

The NSW DNSPs are concerned by the potential for the proposed changes to result in outcomes contrary to the long term interests of consumers and the NEO. In particular, we are concerned that the proposed changes will undermine the effectiveness of arrangements to establish more efficient network prices and distort efficient investment.

We note that the underlying rationale of the COAG Energy Council's Rule change request is to ensure that retail customers with a high cost to serve do not receive a bill shock as a consequence of the introduction of more cost reflective pricing. The rule change request focuses on achieving this equity outcome by allowing these customers to remain on a retail tariff with a flat structure.

We understand the underlying intention is to increase the level of the retail tariff with a flat structure over time to encourage these customers to elect to be re-assigned to a more cost reflective tariff. The NSW DNSPs consider that the COAG Energy Council's proposed mechanism for transitioning consumers to cost reflective prices may in practice be contrary to the long-term interests of all customers, particularly if the retail tariff with a flat structure is available to all customers and there is no explicit obligations in place in terms of the duration of the transition period.

Specifically, the NSW DNSPs are concerned that the proposed changes would significantly undermine their ability to transition consumers to cost reflective pricing that could lower bill outcomes for consumers in the future and reduce unfair cross subsidies. This is because rational customers, particularly those that constitute a high cost to serve, may choose to maximise their financial benefits by remaining on flat tariffs and continue to be cross subsidised by other consumers.

Consequently, whilst the proposed changes mitigates the risk of retailers adding a retail risk premium to flat tariff structures to address any potential misalignment with network tariff structures, it does so in a distortionary manner which undermines the long-term interests of electricity users by:

- <u>Distorting efficient pricing:</u>
  - over charging retail customers for the use of the electricity network outside of the peak period; and
  - under charging retail customers on the retail tariff with the flat structure for the use of the electricity network during the peak period.
- <u>Distorting efficient investment</u> – resulting in both productive and dynamic. inefficiencies from:
  - consumers receiving perverse incentives to manage their use of network services, which is likely to result to contribute to the need for network expansion and furthering the underutilisation of network assets;
  - a lack of incentive to invest in demand management technologies, such as timers, energy monitors, webgraph and power factor correction; and
  - a lack of incentive for retailers to manage the retail margin risk arising from a misalignment of the network and retail tariff structure e.g. non-tariff based demand management initiatives.

The NSW DNSPs consider that these outcomes are inappropriate and contrary to the NEO. It is fundamental that DNSPs have sufficient flexibility to design appropriate tariff structures and reassign consumers accordingly, in order to secure the best outcomes for all consumers and the general community.

It is important that the Rules do not impose unnecessary regulatory barriers on tariff reform, such as mandating inefficient tariff structures and relying on "opt in" frameworks. Such barriers undermine DNSPs' ability to move consumers to more efficient network pricing that rewards consumers for network use which helps to lower system costs, without allowing some users to unfairly avoid some of their network costs at the expense of other users. This way efficient network prices are neutral to the technology choices of customers while fairly recovering the costs of the electricity grid.

It is our view that DNSPs, in consultation with retailers; customers; and stakeholders, are the most appropriate party to determine the optimal structure of network prices, rather than state and territory governments. This is because DNSPs have the best information on the drivers of their network costs that need to be matched with the revenues that they are allowed to recover each year. This places DNSPs in a better position to design network tariffs that allow for the gradual unwinding of cross subsidies in a manner which minimises price shocks for consumers and causes the least distortions to price signals that encourage the efficient use of the network by consumers.

Inefficient allocation of risks

The NSW DNSPs do not support the COAG Energy Council's assumption that DNSPs are better placed than retailers to bear the risk of network and retail tariff structures not aligning.

Transferring this risk away from retailers to DNSPs significantly constrains the ability for DNSPs to recover their allowed revenues, as they will have a reduced ability to design tariff structures and assign consumers to tariffs under the proposed changes.

Under a price cap form of control, if DNSPs are unable to recover their allowed revenues then it would have significant financial consequences for them, and ultimately consumers. Without adequate recovery of revenues, DNSPs will not be able to undertake their planned expenditure program, thereby creating issues in the delivery of service quality, reliability and safety of network supply.

Imposing the requirement on a DNSP to assign a site to a network tariff with a flat tariff structure in the situation where a customer has elected to be assigned or re-assigned to a retail tariff with a flat structure, will result in the DNSP being exposed to higher than otherwise levels of volume and revenue risk. Under the revenue cap, this increased exposure to volume risk will be manifested in higher than otherwise volatility of network prices over time as a consequence of the operation of the overs and unders account mechanism. In the case of a price cap, the DNSP would be exposed to increased profit risk. This is unacceptable as the DNSP would be denied the opportunity to mitigate this increased financial risk by pursuing tariff reforms in the collective long-term interests of electricity users.

In any case, it is not obvious to the NSW DNSPs why retailers, particularly the largest three retailers operating in the National Electricity Market (NEM), would not have greater economies of scale than any network business and therefore are in a better position to manage any cost of misalignment between network and retail prices.

Regulatory burden

The NSW DNSPs consider that the proposed changes, if made, would constitute an unnecessary regulatory burden on DNSPs given that the objectives of the Rule change can already be achieved under the existing Rules framework.

Imposing additional requirements where there is no demonstrated need will increase DNSP's compliance costs. In particular, we note that to give effect to the proposed changes will require DNSPs to apply to the AER to amend its TSS. The increased administrative and compliance costs associated with amending the TSS to give effect to any jurisdictional mandated tariff structure, will ultimately flow back to consumers in the form of higher electricity prices. In addition, the proposed changes may rise to compliance issues. For example, if a DNSP does not receive sufficient notice to amend its TSS, the AER may be forced to allow a DNSP to be in breach of either the rule requirement that the annual pricing proposal be consistent with the TSS, or the rule requirement that the DNSP make available the network tariff required by the state or territory government, in its approval of the annual pricing proposal.

RESPONSES TO THE CONSULTATION PAPER QUESTIONS

QUESTION 1: Interaction with the Distribution Network Pricing Arrangements rule change

a. Do the changes made to the pricing rules under the Distribution Network Pricing Arrangements rule change sufficiently meet the objectives of the COAG Energy Council's rule change request? Why/why not?

The NSW DNSPs consider that the amendments made under the Distribution Pricing Rule change sufficiently address the objectives of the COAG Energy Council Rule change request. We agree with the ENA's view that the Distribution Pricing Rule effectively supersedes many of the concerns raised by COAG Energy Council's Rule change request. Specifically we note that under the new pricing arrangements:

- DNSPs are explicitly required to take into account the potential price impacts that cost reflective network prices may have on consumers, and transition them to these prices in a way which manages potential price shocks;
- DNSPs must develop network tariff structures that consumers can understand and respond to; and
- consumers and retailers have the ability to provide feedback on the design of network tariff structures.

The NSW DNSPs note that the new network pricing process, coupled with enhanced consumer engagement, provides a robust and sufficiently flexible framework for DNSPs to move consumers to efficient network prices in manner which minimises price impacts to consumers and preserves price signals.

Whilst we note that one of the objectives of the COAG Energy Council's Rule change proposal is to promote consumer choice by providing "opt-in" arrangements we do not consider this objective to be appropriate, nor do we consider that it would result in outcomes consistent with the NEO.

Rather we consider that the new Rule arrangements under the Distribution Pricing Rule change, which place greater emphasis on empowering consumers to have a say in how they are charged for the use of the network and making more informed decisions about their use of network services, is a more appropriate and consistent with the NEO.

For more detailed analysis on this issue please refer to our analysis of the proposed changes.

b. How should interactions between the rule change request and the Distribution Network Pricing Arrangements rule change be addressed?

The NSW DNSPs note that there is the potential for conflict between the proposed changes and the Distribution Pricing Rule change. The proposed changes will significantly constrain a DNSP's ability to meet the pricing objective and pricing principles in designing network tariffs. We consider that the proposed changes are likely to undermine the effectiveness of the Distribution Pricing Rule change amendments as it limits the ability for DNSPs to move consumers to more cost reflective network tariffs and distorts price signals.

Whilst the NSW DNSPs note that the distribution pricing principles provide for jurisdictional obligations to override efficient pricing, we note that there is a significant cost to consumers in continuing cross subsidies which will result in higher bills electricity in the future.

QUESTION 2: Timeframe for implementation of proposed rule change

a. If the proposed rule change were to be made, when should it take effect? What implementation issues, if any, should be considered?

The NSW DNSPs consider that there is strong evidence to demonstrate that the proposed changes should not be made. Specifically, we note that the concerns raised by the Rule change request are able to be sufficiently addressed by existing Rule arrangements; and the proposed changes are likely to result in outcomes contrary to the NEO.

b. If the proposed rule change were to be made, what transitional arrangements should be considered, if any, to enable it to take effect prior to the full implementation of the Distribution Network Pricing Arrangement rule change?

The NSW DNSPs consider that the proposed changes do not satisfy the NEO and should not be made. As such, there is no need to provide commentary on transitional arrangements.

QUESTION 3: Efficient allocation of risk

a. What is the efficient allocation of risk between retailers, DNSPs and consumers with respect to network and retail pricing?

The NSW DNSPs consider that retailers are more appropriately placed to bear the risk of network tariff structures not aligning with retail tariff structures. We note that retailers in practice already bear this risk to some extent and in many cases have far greater economies of scale to manage this risk. The new distribution pricing process already establishes the ability for retailers to mitigate this risk by engaging with DNSPs on the design of tariff structures, including providing feedback on their ability to implement network price structures into their retail prices.

As noted by the ENA, this issue was discussed in the Final Determination on the Distribution Pricing Rule change. It was determined that retailers were in the best position to manage and price risk, in setting retail tariff structures, but that network tariffs charged to retailers must be cost reflective.

The NSW DNSPs consider that it would be inappropriate to transfer this risk away from retailers to DNSPs, particularly given that the proposed changes would significantly limit the DNSPs ability to manage this increased risk.

As noted previously in our submission, this may place DNSPs in a position where it is difficult to recover its allowed revenues, thus jeopardising its ability to maintain the service quality, reliability and safety of it network services at the lowest cost. Specifically, we noted the potential for this to undermine the predictability of network prices under a revenue cap due to the operation of the unders and over mechanism; and for the changes to create increased profit risk without a means for DNSPs to manage.

Consequently, the NSW DNSPs consider that current arrangements reflect the efficient allocation of risks between DNSPs and retailers, and as such should not be changed.

b. To what extent do retailers currently bear the risks of retail and network tariff misalignment? How would this risk profile change, if at all, if the proposed rule was made?

The NSW DNSPs consider that retailers are best placed to provide detail comments in respect to this question. As noted above, in many cases retailers have greater economies of scale than network businesses and are therefore best placed to manage this risk.

QUESTION 4: Efficient network prices

a. What are the implications of this rule change request, if made, in relation to a DNSP's ability and incentives to develop its own network prices?

The NSW DNSPs consider that the proposed changes significantly undermine their ability to develop cost reflective network tariffs. We have provided detailed comments on this issue under the section *"Key concerns raised by the Rule change request."*

QUESTION 5: Predictable outcomes for consumers

a. Would the proposed rule change, if made, facilitate predictable outcomes for DNSPs, retailers and consumers? How would this compare against the likely outcomes under the Distribution Network Pricing Arrangements rule change?

The NSW DNSPs consider that the new network pricing process established by the Distribution Pricing Rule change provides for transparent and predictable network pricing outcomes. We do not consider that the proposed outcomes will deliver the same level of transparency or predictability, particularly if the DNSP is operating under a revenue cap.

This is because exposed the proposed changes will expose DNSPs to higher than otherwise levels of volume and revenue risk. Under the revenue cap, this increased exposure to volume risk will result in volatility of network prices over time as a consequence of the operation of the overs and unders account mechanism.

QUESTION 6: Administrative and compliance costs

a. ***What costs are likely to be incurred by DNSPs, retailers and the AER in implementing the proposed rule change?***

Refer to our comments made previously under the section titled "*Regulatory burden.*"

b. ***What system or procedure would need to be established to enable DNSPs to assign small customers who elect the mandated standing offer to the corresponding network tariff?***

No comment.

c. ***How do electricity retailers in Victoria notify DNSPs that a small customer should be assigned to a particular network tariff? What costs, if any, were incurred in facilitating this notification?***

This question is more appropriately addressed by retailers operating in Victoria.