

01 May 2015

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235



Dear Mr Pierce

AEMC's Consultation Paper: National Electricity Amendment (Aligning Network and Retailer Tariff Structures for Small Customers) Rule 2015 (ERC0175)

Energex Limited (Energex) appreciates the opportunity to provide a submission on the Australian Energy Market Commission's (AEMC's) consultation paper on amending the National Electricity Rules (the Rules) to align the network and retail tariff structures for small customers with interval meters.

The proposed changes to the Rules would require Distribution Network Service Providers (DNSPs) to:

- Offer a network tariff with a structure that matches that of a standing offer; and
- Allow a retailer to assign a small customer to this network tariff where that customer has chosen that standing offer.

The proposed rule change would also require the Australian Energy Regulator (AER) to approve a DNSP's annual pricing proposal only if its network tariffs meet the above obligations.

Energex is of the view that, following the implementation of the tariff reform developed by the AEMC through the National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014, the proposed rule changes are redundant.

Energex's response to some of the issues raised by the AEMC in the consultation paper is provided in **Attachment 1**.

Energex has also contributed to the Energy Networks Association's (ENA) submission and is supportive of the views contained therein.

Should you have any queries regarding this submission, please contact Candice Hincksman, Acting Network Pricing Manager on (07) 3664 5982.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Kevin Kehl', written in a cursive style.

Kevin Kehl
Executive General Manager
Strategy, Regulation and Governance

Enquiries
Candice Hincksman
Telephone
(07) 3664 5982
Facsimile
(07) 3664 9818
Email
candicehincksman@energex.com.au

Corporate Office
26 Reddacliff Street
Newstead Qld 4006
GPO Box 1461
Brisbane Qld 4001
Telephone (07) 3664 4000
Facsimile (07) 3025 8301
www.energex.com.au

Energex Limited
ABN 40 078 849 055

Attachment 1

The proposed rule change request was initiated by the Council of Australian Governments (COAG) Energy Council in response to concerns from state and territory governments that the significant uptake of interval meters by small customers would require a controlled transitioning from a flat tariff structure to cost reflective tariffs. As a first step, the National Electricity Retail Law (NERL) has been amended to enable state and territory governments to require retailers to make a standing offer with a prescribed tariff structure to small customers with an interval meter. The objective is to offer small customers with interval meters the choice between a prescribed flat retail tariff and a cost reflective price.

The proposed changes to the Rules would place additional obligations on DNSPs on the approval of their pricing proposals, namely:

- DNSPs must offer a network tariff with a structure that matches that of a standing offer.
- DNSPs must allow a retailer to assign a small customer to this network tariff where that customer has chosen that standing offer.
- The AER must only approve annual network tariffs if the DNSP meets the above obligations.

In requiring DNSPs to align their network tariffs with the prescribed retail tariffs, the COAG Energy Council believes that it would reduce the likelihood of retailers adding a risk premium to their tariff to account for the risk of under recovery when mandated to offer a prescribed retail tariff.

Energex does not support the proposed rule changes as they are considered anachronistic and redundant. Energex notes that since the rule change request was made in June 2014, tariff reform has been developed by the AEMC through the National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014, addressing most of the concerns underpinning the proposed rule change request. This is further discussed below.

Customer impact

The customer impact pricing principle set out in the Rules places an obligation on DNSPs to develop arrangements that will mitigate the negative impact of tariff reform on customers. Energex is currently developing a customer impact policy as part of its draft 2017-20 Tariff Structure Statement (TSS) which will be submitted to the AER for its review in November 2015. As a result, Energex will be proposing arrangements such as offering a price path for negatively impacted customers, education material to assist customers modify their electricity usage, and the option of taking a demand-based tariff on an opt-in basis (in conjunction with a type 4 meter) until 2020 to transition customers towards cost reflective prices. Energex is also working proactively with Queensland Government agencies, retailers and customer advocacy groups to ensure that mechanisms and policies are in place to manage hardship customers.

Energex believes that market solutions do not necessarily require legislation or regulation. Indeed, as a result of the implementation of the recent tariff reform, DNSPs are already progressing cooperation with retailers so that the network price signals are better incorporated into the retailers' tariff structure. Similar levels of engagement are

taking place in developing the customer impact policy that will be incorporated into the draft TSS. Energex is of the view that working cooperatively is the key to success in introducing cost-reflective tariffs. To date Energex's engagement with stakeholders has been positive and constructive.

Jurisdictional scheme

The pricing principles underpinning the new tariff reform set out in the Rules (clauses 6.18.5(c) and (j)) permit DNSPs to depart from the cost reflectivity principles to the extent necessary to comply with the jurisdictional obligations principles.

As mentioned above, Energex has commenced a robust engagement with retailers as part of the development and implementation of the tariff reform and, should there be an obligation on retailers to offer a mandated retail tariff, this would be managed in the same way.

Energex is therefore of the view that the existing framework underpinning the newly introduced tariff reform is sufficient, and demonstrates that further regulation to strengthen the obligation on DNSPs to comply with jurisdictional schemes is redundant.

Cost reflectivity

Energex is concerned that any potential mandate to offer a flat tariff is contrary to the pricing principle of cost reflectivity set out in the Rules and may undermine Energex's efforts in progressing the tariff reform set in motion by the AEMC. Energex is of the view that any deviation from the current course will undermine the need to address cross-subsidies between classes of customers and will perpetuate inefficiencies.

In conclusion, Energex is of the view that the proposed rule change request by the COAG Energy Council to align network and retailer tariffs is redundant as the issues it is aiming to address are already addressed through the newly introduced tariff reform. Energex believes further regulation would be inappropriate unless the aforementioned tariff reform is found insufficient to address the concerns of the COAG Energy Council. Finally, Energex considers that the proposed rule change request appears to be out of line with other national initiatives such as the AEMC's Power of Choice and metering reforms. There will be little or no benefit in rolling out smart meters if demand based tariffs are not also implemented for small customers (albeit on an opt-in basis initially), leaving customers with the cost of meters whose capabilities are not fully utilised.