



7 May 2015

Emma Fishburn  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Lodged electronically: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Ms Fishburn,

**RE: Aligning Network and Retail Tariff Structures for Small Customers (ERC0175)**

Origin welcomes the opportunity to respond to the Australian Energy Market Commission's (the Commission) consultation paper on Aligning Network and Retail Tariff Structures for Small Customers.

The COAG Energy Council's proposed rule change seeks to mitigate a problem that is created by governments when they intervene in markets by prescribing a standing offer tariff. It is Origin's preference that jurisdictions not exercise their discretion under clause 22(1a) of the National Energy Retail Law (NERL) to prescribe a standing offer tariff to small customers with interval meters.

Government intervention under clause 22(1a) of the NERL can undermine effective retail competition. A point of competitive difference between retailers is their effectiveness in managing risks. In a deregulated, competitive market, these differences manifest themselves in the range of products and offerings that retailers offer customers. Where retailers are constrained in what product they can offer – by a mandated retail standing offer for example – their ability to manage risk becomes less efficient and more challenging. This can hinder retailers from developing products that are tailored to their customers' needs.

It is the decision to intervene in the market by mandating a standing offer tariff that gives rise to the very risk the COAG Energy Council is seeking to address in this Rule change proposal. However, if a jurisdiction does prescribe such a tariff, we support retailers having options to manage the risk of misalignment between that prescribed structure and the network tariff structure. Requiring a network tariff structure consistent with the prescribed retailer structure is one such option.

While the Rule change proposal may address one risk, it potentially gives rise to others that the AEMC will need to consider in this process. We note the Commission's observation that Distribution Network Service Providers (DNSPs) "are able to depart from the three principles for standalone and avoidable cost, LRMC, and total efficient costs to the extent necessary to meet the consumer impact and jurisdictional pricing obligation principles."<sup>1</sup> This suggests that, at least technically, a jurisdictionally mandated standing offer will meet the Distribution Network Pricing Arrangements (DNPA) under the jurisdictional pricing obligation principle. However, the spirit of these principles is towards networks designing tariffs that are more cost reflective and lead to utilisation of the network that reflects its efficient use. Price signals to the customer are an important aspect of meeting this objective. If a jurisdiction were to mandate a flat tariff structure, as the COAG Energy Council's rule change request contemplates,<sup>2</sup> then it will likely be contrary to the intent of the DNPA to encourage cost reflectivity in network tariffs.

It is also unclear from the Rule change proposal what process the DNSPs will use to develop and consult on the new network tariff structure. The Tariff Structure Statement (TSS) process is yet to

<sup>1</sup> AEMC 2015, *Aligning Network and Retail Tariff Structures for Small Customers*, Consultation Paper, 2 April 2015, Sydney, p.4.

<sup>2</sup> COAG Energy Council, Rule Change Request, 17 June 2014, p. 2.

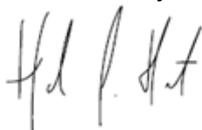
have been concluded for the first time so it is difficult to gauge what impact the proposed rule with have on it in practice. It would take at least nine months to amend a TSS to accommodate a jurisdictionally mandated tariff. In order to mitigate the risk of misalignment, a jurisdiction would need to provide a minimum amount of notice to retailers and networks to enable the tariff development process to happen. We note that the DNPA has been designed to provide retailers with sufficient notice of distribution tariff prices and structures. Origin would be concerned about any moves that would see the network consultation time under the DNPA to accommodate this rule change.

### **Conclusion**

Origin offers conditional support for this Rule change proposal on the basis that the risk the Rule change seeks to address is triggered by a market intervention – a jurisdiction’s decision to impose a retail standing offer. Origin’s preference would be for the original intervention not to happen, thereby negating the need for the Rule change itself. Should the AEMC proceed with a draft Rule, it is important for the operational elements to find the right balance between timely response and adequate consultation. The Rule proposal would fail to address the underlying risk if the supporting processes resulted in a network tariff structure that was not perfectly in sync with the jurisdictionally mandated retail standing offer, or the timing of when retailers needed to make the standing offer available was prior to the networks having available a mirror network tariff structure.

Origin would be pleased to discuss any matters raised within this response with the Commission. Please contact Timothy Wilson (Retail Regulatory Analyst) in the first instance on (03) 8665 7155.

Yours sincerely



**Hannah Heath**

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