



EnergyAustralia

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Dear Mr Owens

AEMC 2015 Rule Change, Aligning Network and Retail Tariff Structures for Small Customers Consultation

EnergyAustralia (EA) welcomes the opportunity to comment on the rule change consultation titled National Electricity Amendment (Aligning Network and Retail Tariff Structures for Small Customers) Rule 2015.

We are one of Australia's largest energy companies, providing electricity and gas to over 2.6 million household and business customers in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation and storage facilities across Australia, including coal, gas and wind assets with control of over 4000 MW of generation in the National Electricity Market.

Overview of Rule Change

This rule change, proposed by the COAG Energy Council, is intended to allow small customers with interval meters to choose to be supplied electricity under a flat standard retail tariff. However its application is subject to a jurisdiction imposing an obligation of a prescribed tariff structure (flat) on retailers for the standing offer. It also assumes that distributors will not offer a flat tariff structure for this customer category going forward.

The COAG Energy Council supports the role out of interval meters to reduce cross subsidies and to provide customers with the ability to better manage their energy costs.

However the basis for this rule change is not currently evident in the market and is largely based on the assumption that retailers will not price their tariffs efficiently in a competitive market. While EA agrees that, in general, retailers attempt to minimise risk by matching the structure of the retail tariff with the structure of the distribution network tariff this is not always the case and may reflect commercial strategies. Furthermore any inefficient pricing will be readily challenged by retailers in this

competitive energy market as deemed by the AEMC in their 2014 Retail Competition Review. Therefore EA is of the view that the jurisdictional intervention and expected market conditions for this rule change do not currently exist and there is no guarantee that they will occur so the rule change is not necessary at this time. Furthermore any such intervention undermines the intent of the distribution pricing rule change and should not be encouraged.

Transitional Issues

EA believes that the following transitional issues are of greater importance in the goal to achieving customer acceptance and least cost for the introduction of new network pricing structures:

- The range of network tariff options available to customers and the reversion provisions that jurisdictions may mandate to protect various customer segments;
- The network tariff reassignment conditions that distribution networks introduce; and
- The introduction of suitable transparent government concessions that will complement these new network tariffs to better manage price impacts to vulnerable customers that have no alternative means of changing their energy use profile.

Some of these transitional options will create additional transactions between retailers and distributors and EA is concerned that the resultant new business to business (B2B) transactions will increase participant costs significantly and in turn these will be passed onto customers. Free tariff reversions offered in Victoria under the Advanced Metering infrastructure Order in Council were facilitated by the good will of Victorian distribution networks and retailers via work around B2B solutions, to support the government's policy intent. These work around practices are not suitable for a market led roll out of interval meters nationally, over an extended period of time, hence the cost of any additional B2B transactions needs to be considered prior to introducing these policy options.

Network tariff reassignment conditions imposed by distribution networks also needs careful planning and consideration. Will these new tariffs only apply to new customers or will a demand/time of use component simply be added to all existing anytime tariffs? Will network tariff prices be reduced across the market to lessen the impact of any new time of use or demand components?

Similarly a review of existing government energy concessions has long been identified as another transitional issue that needs to be undertaken to assess their ongoing relevance. It may be that alternative targeted arrangements, at specific vulnerable customers, that cannot take advantage of new network structured tariffs would be more appropriate.

Summary

EA is therefore not supportive of this rule change as there is no obvious justification for the change as it is largely based on suppositions surrounding jurisdictional regulatory interventions and possible retailer behaviours. Making a rule change in this manner and increasing the regulatory burden on participants may not be in the long term interests of customers. As mentioned above there are several other transitional issues that also may impact the introduction of new network tariff structures and care must also be taken not to second guess these outcomes with additional regulatory interventions that may not be required.

Should you require any further information regarding this submission please do not hesitate to contact me on 03 8628 1437.

Yours sincerely

[Signed]

Randall Brown
Regulatory Manager