

7 May 2015

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

By electronic lodgement

Dear Mr Pierce,

ERC0175: CONSULTATION PAPER—NATIONAL ELECTRICITY AMENDMENT (ALIGNING NETWORK AND RETAIL TARIFF STRUCTURES FOR SMALL CUSTOMERS) RULE 2015

CitiPower and Powercor Australia (**Businesses**) welcome the opportunity to respond to the Australian Energy Market Commission's (**AEMC**) consultation paper on aligning network and retail tariffs for small customers.

As we understand it, the proposed rule change only applies to jurisdictions where the National Customer Energy Framework (**NECF**) has been implemented.¹ Although the rule change will not apply in Victoria, the Businesses consider a response to the rule change is still warranted. From the Businesses perspective it is unclear how the proposed rule would contribute to the achievement of the National Electricity Objective. The Businesses reasoning is set out below:

- under the COAG Energy Council's rule change distributors will no longer have flexibility or the ability to innovate network pricing. The AEMC in making the distribution pricing rules took the view that efficiency and innovation in network pricing are best achieved by networks 'owning their prices' in consultation with customers and retailers.
- the COAG Energy Council's rule change request was submitted before the recent distribution network pricing arrangements rule change was completed. The distribution network pricing arrangements rule change as noted above implemented pricing reform improvements that supersede the proposed rule amendments. In addition, to requiring distributors to move towards cost reflective pricing, the rule change requires distributors to take into account customer bill impacts and greater transparency and engagement in the development of network pricing; and
- the network pricing objective, as set out in the National Electricity Rules (**Rules**), requires distribution tariffs to reflect the distributor's efficient costs of providing those services to the customer. This objective and the corresponding pricing principles promote the efficiency benefits that can best be achieved through cost-reflective distribution prices. A move towards

¹ In November 2013, the Standing Council on Energy and Resources (**SCER**) amended the National Energy Retail Law (**NERL**) to enable a state or territory government to require retailers to offer a standing offer with a prescribed tariff structure to classes of small customers with an interval meter in its jurisdiction. As this provision operates under the NERL, it only applies in jurisdictions that have adopted the NECF.

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cost reflective pricing will lead to lower prices for customers and the deferment of network capital expenditure. Any requirement for distribution pricing to reflect a flat retail pricing structure would be inconsistent with this objective and the principles. Aligning network and retail tariff structures will be a significant road block to tariff reform and conflicts with the long term interests of consumers.

If you have any queries regarding this submission please do not hesitate to contact Jeff Anderson on (03) 9683 4809, or janderson@powercor.com.au.

Yours sincerely,

A handwritten signature in blue ink that reads "Renate Tirpcou". The signature is written in a cursive style.

Renate Tirpcou

Manager Regulation, CitiPower and Powercor Australia