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Aligning Network and Retail Tariff Structures rule change – Consultation paper

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) on the Aligning Network and Retail Tariff Structures rule change.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 37 electricity and downstream natural gas businesses. These businesses own and operate some $120 billion in assets, employ more than 59,000 people and contribute $24.1 billion directly to the nation's Gross Domestic Product.

Support retail competition

The esaa notes that the Council of Australian Governments Energy Council (COAG EC) has already amended the National Energy Retail Law (section 22(1a)) to allow state and territory governments to prescribe retail tariff structures for customers with an interval meter. Intervening in the market to mandate a standing offer tariff is also contrary to government policies that have progressively deregulated retail pricing. Governments are no more able than any other individual actor to predict efficient price structures. Inevitably price discovery is an iterative process, especially when new pricing options are enabled or when technology change drives different usage patterns (air conditioners, rooftop solar, etc.). To be effective price discovery, and designing efficient tariff structures to support this, needs to take place as free from regulatory constraint as is practicable.

The existence of this clause in the National Energy Retail Law means there is nothing stopping jurisdictions from limiting the options available to retailers to manage tariff reform. Retailers approach risk management differently. Their effectiveness in managing risk is an important point of competition. Where retailers are constrained in their ability to manage risk as efficiently as possible, a consequential impact is the scope and range of products made available to consumers. If a jurisdiction did mandate a retail tariff standing offer and networks were not obligated to offer a network tariff with the same structure, it would impose risks on retailers they that they could not mitigate and would be forced to manage. This forced risk management can lead to less efficient outcomes for consumers, which may undermine the very concern governments were seeking to mitigate in the first place.

While we acknowledge it is outside the AEMC's control, our first preference would be for governments not to impose limitations on tariff reform, by the COAG EC withdrawing this rule change request. This rule change request leaves the AEMC to make the undesirable trade-off between reducing the efficiency of tariff reform, which is a key reform in improving energy productivity, and burdening retailers with a risk they will not be able to manage.

Implementation of network tariff reform

In consultation with customers and other stakeholders, the energy sector is currently designing tariffs that better reflect the underlying costs to serve, in response to the Distribution Pricing rule change. Governments should not second guess networks and retailers when it comes to designing new tariffs. In the first instance businesses should be able to design tariffs they believe meet the current rules and can be understood by consumers. Government can play a valuable role in tariff reform working with industry to articulate to consumers why change is required. Government also has an important role in reviewing their energy concessions programs to confirm assistance is targeted to those customers most in need.

Limiting a network's choice a priori will have an impact on the efficiency of new tariffs. A practical starting point would be to allow networks to propose their preferred types and structures and for retailers to assess and articulate any challenges they may face in accommodating any differences. In this way, an iterative approach can be taken to balance out the competing concerns. It is in the interest of industry to work together to limit any material problems and we are already doing so.

The extent of transitional arrangements is a question of trade-offs. The faster all customers are moved on to more cost reflective tariffs the quicker the benefits can be realised. Any transition must have regard to the customer impact. As such, rebalancing is likely to take place over multiple years (consistent with the pricing principles) managing the short-term impact. This is reinforced by the fact that network costs are only a proportion of final bills and any new demand/capacity element will be a subset of the total network component.

In an environment where a network gradually rebalances their tariffs, consistent with the pricing principles, the argument against mandatory network tariff assignment (to the new demand/capacity based tariffs) is weak. If the Government allowed opt-out or opt-in it, this will limit the benefits as customers will self-select. If governments do consider pursuing these options they should be time limited and the flat tariff will need to be readjusted to account for the worsening utilisation profile of the remaining customers that do not opt for cost reflective tariffs (i.e. consumers can opt not to change tariffs, but cannot opt out of change altogether).

Any questions about our submission should be addressed to Fergus Pope, by email to fergus.pope@esaa.com.au or by telephone on (03) 9205 3107.

Yours sincerely

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