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17 October 2014

Hon Gary Higgins MLA  
Chair  
Committee on the Northern Territory's Energy Future  
GPO Box 3721  
DARWIN 0801

Dear Minister

**Submission on the Inquiry into Electricity Pricing Options**

The Australian Energy Regulator (AER) welcomes the opportunity to comment on the Northern Territory's inquiry into electricity pricing options. Our comments on electricity pricing and tariff design are based on our experience as the economic regulator of the National Electricity Market (NEM). We regulate prices charged for using energy networks to transport energy to customers, monitor wholesale electricity and gas markets, and regulate energy markets in the ACT, South Australia, Tasmania (electricity only) and New South Wales.

Energy use varies among consumers with lifestyle choices and the use of appliances and technology resulting in different consumption profiles. Network prices do not currently reflect the costs of supplying network services to residential and most business customers. Current electricity tariffs for most customers are typically charged on a flat basis, with those customers using the network at peak times usually paying less than the costs caused by their usage, while those using the network at off-peak times pay more than the costs of using the network at those times.

Effective electricity tariff design is important to achieving more efficient use of and investment in electricity networks. Tariffs should be cost reflective by targeting the underlying network cost drivers by location and time of use, which better aligns the price faced by consumers with the costs that they impose. This is a shift away from the time and geographically averaged, volume based network tariffs that most consumers currently face.

The Australian Energy Market Commission (AEMC) is currently working through a rule change request from the COAG Energy Council. This rule change resulted from recommendations made in the AEMC's 'Power of Choice Review' in 2012 to provide efficient and flexible pricing options to

consumers to help them make informed consumption choices and manage their expenditure in the NEM. The AEMC has recently released a draft rule determination on its National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014. Material concerning this rule change can be found at: <http://www.aemc.gov.au/Rule-Changes/Distribution-Network-Pricing-Arrangements>

The rule change will allow consumers to make more informed decisions about their energy use as new technologies emerge and will result in better outcomes for individual consumers and the NEM.

The draft rule sets out a new network pricing objective for distribution businesses—the network prices that a distribution business charges each consumer should reflect its efficient costs of providing network services to that consumer. Distribution prices must also comply with a set of new pricing principles:

- Each network tariff must be based on the long run marginal cost of providing the service
- The revenue to be recovered from each network tariff must reflect the network business's total efficient costs of providing services to the consumers assigned to that tariff
- Distribution businesses must give effect to consumer impacts when developing their tariffs
- Network tariffs must comply with any jurisdictional pricing obligations imposed by state or territory governments.

The rule change will introduce a new network pricing process. Firstly, the network businesses will be required to develop a Tariff Structure Statement (TSS) outlining the tariff classes, tariff structures and the methodologies associated with the new pricing principles and submitting these to the AER for approval. Before submitting the proposed TSS to the AER, distribution businesses will need to engage in discussions with stakeholders, particularly retailers and consumers, about the network tariff structures and indicative price levels that it is considering proposing. The AER will assess the TSS against the pricing principles in conjunction with the businesses' five year regulatory proposal. We would approve the TSS where it meets the pricing principles and other rule requirements.

Secondly, the distribution businesses would develop and submit their annual pricing proposals to the AER. This annual tariff adjustment would apply pricing levels to the tariff structures outlined in the AER approved TSS.

The AER supports the AEMC's draft rules and consider that these reforms, when compared to the current arrangements, will provide stronger requirements:

- In the National Electricity Rules (rules) for network tariffs to, over time, move toward better reflection of the actual drivers of network costs—being the time and location in the network where energy is used
- For distribution businesses to consider the impacts of their network tariff strategies and address issues of tariff appropriateness, transition and volatility in a direct transparent and evolving way.

As you would be aware, the Northern Territory Government is considering the application of the National Electricity Law and rules framework for the Northern Territory commencing next year. This

will mean that the AER will become the economic regulator for the Northern Territory. The national electricity rules will also apply in the Territory after a transitional period. These new distribution network pricing arrangements will be included in the rules, however, the application of these new rules to the Northern Territory are also a matter for the Northern Territory Government.

If you would like to discuss any aspect of our submission please contact Adam Petersen Director, Network Regulation, on (08) 8213 3458.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Chris Pattas', with a stylized, flowing script.

Chris Pattas

General Manager, Networks (Investment and Pricing)

