



8 April 2016

Mr Todd Newett
Office of the Tasmanian Economic Regulator
GPO Box 770
Hobart TAS 7001

Via email: office@economicregulator.tas.gov.au

Office of the Tasmanian Economic Regulator
2016 Standing Offer Pricing Investigation – Consultation Paper on draft
Aurora Energy Standing Offer Price Strategy

Dear Mr Newett

The Energy Networks Association welcomes the opportunity to make a submission to the Office of the Tasmanian Economic Regulator (OTTER) in response to the March 2016 consultation paper *Draft Aurora Energy Standing Offer Price Strategy*.

The ENA is the national industry association representing the businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

The electricity industry has entered an era of transformational change as consumers embrace new technologies and rethink how they source and use electricity. The network sector is key to maximizing the economic benefits of the transformation, and its first major contribution will be a successful transition to tariffs with more cost-reflective pricing of network services.

There are immediate benefits of the transition to cost-reflective pricing as small consumers with relatively flat loads can avoid cross-subsidising the peakier use of other consumers. Over the longer term, as consumers' response to cost-reflective prices leads to sustained lower peak demand and improved network capacity utilisation, distributors will spend less on network augmentation and replacement. The ultimate result of cost-reflective pricing will be lower consumer electricity bills than is possible under present tariff structures.

Detailed analysis by economic modelling house Energeia highlights the potential benefits to the Australian community of achieving timely electricity distribution network tariff reform through cost-reflective pricing. The analysis compared outcomes from three alternative network tariff scenarios to the base case of an inclining block network tariff scenario, assuming that the network tariffs are fully passed through into the retail tariff.

The analysis finds that:

- up to \$655 per year (\$2014) in unfair cross subsidies in 2034 could be avoided for residential customers who cannot or do not invest in distributed energy resources;
- network tariff reform could achieve average residential electricity bills up to \$250 (in \$2014) per year lower in 2034, when compared to the base case scenario;

- network tariff reform could make the difference between network prices increasing by only 7% by 2034, compared to a cumulative increase under the base case scenario of over 30%.¹

This is important context for the OTTER's consideration of Aurora Energy's proposed Price Strategy for 2016. The Pricing Strategy includes a proposal for opt-in Standing Offers which pass through network tariffs incorporating a time of use consumption or a time of use demand charge, which is a first step in the transition toward cost-reflective distribution network pricing.

TasNetworks approach to the introduction of a network demand tariff to Tasmania is set out in its Tariff Structure Statement (TSS), which is now being assessed by the Australian Energy Regulator (AER) against pricing principles set out in chapter 6 of the National Electricity Rules. The TSS process, including compliance with the pricing principles and extensive public consultation, was introduced in late 2014 after an extensive Rule change process conducted by the Australian Energy Market Commission (AEMC). The policy underpinning the Rules is the product of the AEMC's Power of Choice review endorsed by the Council of Australian Governments' Energy Council in November 2014. The ENA recommends that OTTER rely wholly on the decision of the AER regarding the appropriateness of TasNetworks proposed network tariffs including the new demand tariff.


Separately, a key question raised by the OTTER is whether the network demand tariff should be incorporated into a regulated retail Standing Offer. The ENA supports best practice regulation as previously agreed by COAG whereby regulatory intervention occurs on the basis of demonstrated need and is fit for purpose, without unnecessary impacts on competitive markets.

In that regard, the ENA recognises that the OTTER should have close regard to the particular circumstances of the Tasmanian retail market, where evaluating the merits of the establishment of a regulated retail tariff incorporating a network demand charge.

The benefits to customers of cost-reflective network pricing over the short to long term are clear. While retail market competition should encourage the efficient reflection of cost reflective network prices in retail electricity products, this is less certain in Tasmania with Aurora Energy holding a very dominant position across all markets. It would be appropriate for the OTTER to take these circumstances into account when considering the regulatory framework for retail pricing during a period of network tariff reform.

If you have any questions regarding this submission please contact Don Woodrow or me on 02 6272 1500.

Yours sincerely,



John Bradley
Chief Executive Officer

¹ Network Pricing and Enabling Metering Analysis - Prepared by Energeia for the Energy Networks Association, November 2014