

CCP Sub-Panel 21: Introduction and Pricing Directions

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Who we are

The Consumer Challenge Panel (CCP)

- Advisory panel established to assist the AER make better regulatory determinations by advising on issues that are important to consumers.
- Role:
 - Advise on whether proposals are in the long-term interest of consumers (LTIC)
 - Advise on the effectiveness of consumer engagement
 - Provide input and challenge to the AER on key consumer issues

Tariff Structure Statement sub-panel (aka CCP21)

- Established April 2018
- Comprises
 - Louise Benjamin
 - Eric Groom
 - Robyn Robinson

What is our role

Support, promote, and facilitate prices that better serve the long-term interest consumers through:

- Working with networks, retailers and customer/environmental stakeholders at a national level
- Supporting the AER TSS team
- Supporting review-specific CCP Sub-panels

But what does this mean/involve...

Unpacking our role...

“Support, promote, and facilitate prices”

- Focus on common interests and objectives
- Facilitate dialogue

“prices that better serve the long-term interest consumers”

- LTIC served by prices (broadly defined) that promote better utilisation of network assets and efficient deferral and reduction in network investment
- LTIC requires prices that are sustainable: i.e.
 - Reflect customer preferences and sense of what is fair
 - Have regard to impacts, especially on vulnerable customers, and include adequate transition and customer protection mechanisms.
 - Deliver tangible benefits to customers

Unpacking our role...


“Working with networks, retailers and customer/environmental stakeholders at a national level”

- Promote dialogue and exchanges of view within and between stakeholder groups on practical issues in pricing in the LTIC, price reform processes and experiences.
- Governments and policy-makers (including AEMC and AEMO) are also important stakeholders that we will need to work with

“Supporting the AER TSS team”

- Recognise distinct and separate role of AER TSS team – CCP advises, doesn't make decisions
- But support by working with stakeholders to identify stakeholder perspectives, their commonalities and differences, and facilitate agreement where possible.

“Supporting review-specific CCP Sub-panels”

- Recognise primacy of review-specific CCP sub-panels in resets
 - Support through national coordination and exchange of information and ideas
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Precedent of NSW pricing directions


Starting Point – Objectives and key features

Prices that:

- Promote more efficient, lower cost means of meeting consumers' demand for energy services
- Reflect consumers' preferences, such as enhancing customers' control over their bills and encourage transparency and consumer agency/empowerment.

'Prices' broadly defined: includes price-based DM, alliances, and information programs and 'nudges'

Key features of pricing strategy:

- it uses customer-facing language
 - is adaptable to new information and changing technologies and demand patterns
 - is adaptable to the different circumstances of each network
 - is integrated with Demand Management strategy, programs, and incentives and capital contributions strategy
 - engages with the retailers and other energy service providers
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Defining an 'end-point'

1. Focus on demand/capacity price or highly focused energy prices – but need to be focused on what's driving costs.
 - Traditionally peak demand drives cost but the 'duck curve' is shifting the focus
2. No single answer for definition/measurement of peak – needs to be supported by empirics
3. Residual costs recovered by charges that are less distorting.
 - This does not mean higher fixed charges
 - Increases in fixed charges should be tempered by customer preferences/impacts and broader view of economic costs.
4. Standard price is unlikely to be location specific. Opt-out to location specific prices
5. ... but innovative, dynamic local tariffs will make the biggest difference to capex
6. Prices should be technology neutral – 'not look beyond the meter'
7. Charges for two-way flows should reflect cost impacts
8. Alliances, partnerships and innovative incentives/nudges may be an effective means of encouraging demand responses

Framing the strategy

Scope

- Not just about traditional tariffs and structures
- Integration between pricing and incentives for demand management and distributed resources
- Integration with capital contributions policy to reduce network investment requirements
- Reflect customer preferences.
- Development of common approaches to customer support & protection

Relevant costs

- Market/financial costs or economic costs (including externalities)
- Basis of LRMC – Turvey or AIC. Vary between standard price and innovative/dynamic price.

Customer impacts

- Well-founded, comprehensive socio-economic modelling is critical.
- Need to ensure transition paths and customer protection mechanisms are in place.
 - These may be the responsibility of governments but NSPs and consumers have an interest in ensuring adequate protections are in place, especially for vulnerable customers.

Emerging issues

Role of the retailers

- Retailers are the intermediary
 - Not essential that network charges be passed on directly – if retailers see the signals and have the incentives to work with customers and offer options
 - But competition is critical.
- How can consumers be confident the retail market will deliver options, innovation and customer focussed approaches?
 - Would that ease concerns about mandatory cost-reflective network tariffs for new customers.

Opt-out or mandatory

- Pricing Directions based on opt-out. But ACCC advocated mandatory tariffs. What are the issues?
- What is the role of the retailer? Mandatory for the retailer but retail options offered by the retailer?

Renewables and excess energy

- Traditionally peak demand has been the driver of energy costs
- But SAPN has foreshadowed emerging problem: absorbing excess energy
- How can pricing help (and defer/reduce investment)?

Going forward...

Some questions

Why is price reform so difficult?

What can we do to facilitate price reform in the LTIC?

What are the common interests in price reform?

- Reducing network investment and upward pressure on prices
 - Benefits always seemed to be in the future – need to share benefits now
- ‘Fair’ prices and ensuring vulnerable customers are protected?
 - What do we mean by ‘fair’
- Stability in network bills
- Energy efficiency and reducing carbon emissions – consumers want to be rewarded for doing the right thing

What have been the stumbling blocks in the past? How can we help remove them?

Can we increase trust and get a broad consensus between networks, retailers and customer stakeholders that they need to work better together to achieve greater trust by consumers?

How can we best work with customer stakeholders?

What are the realistic measures of success for us?

