

Australia's experience of retail pricing reform

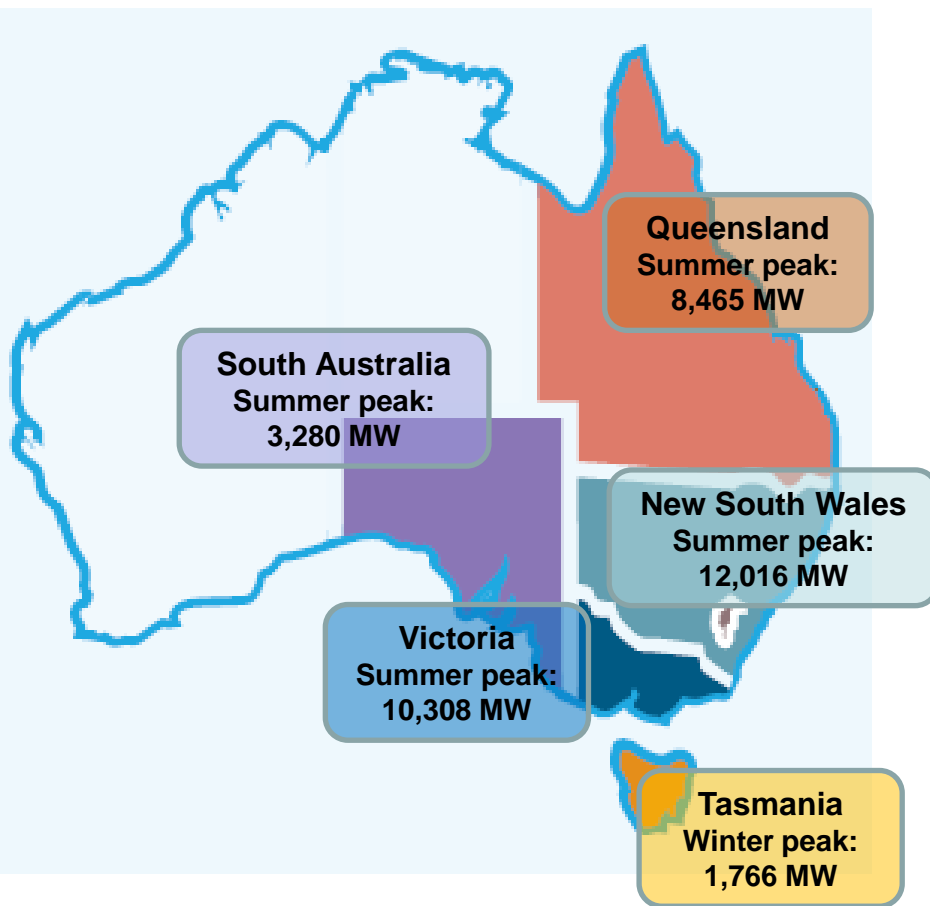
IEA Workshop IV: Network investment and regulation



Wednesday 14 January 2015

Paul Smith, Chief Executive, Australian Energy Market Commission

Australia's National Electricity Market (NEM)



- The NEM includes five interconnected regions.
- Spans 5,000 km and includes 40,000 km of transmission cables
- Longest alternating current system in the world
- Supplies about 200 TWh of energy
- Supports 19 million residents

Regulation and governance arrangements



National Electricity, Gas and Energy Retail **Laws**



National Electricity, Gas and Energy Retail **Rules**



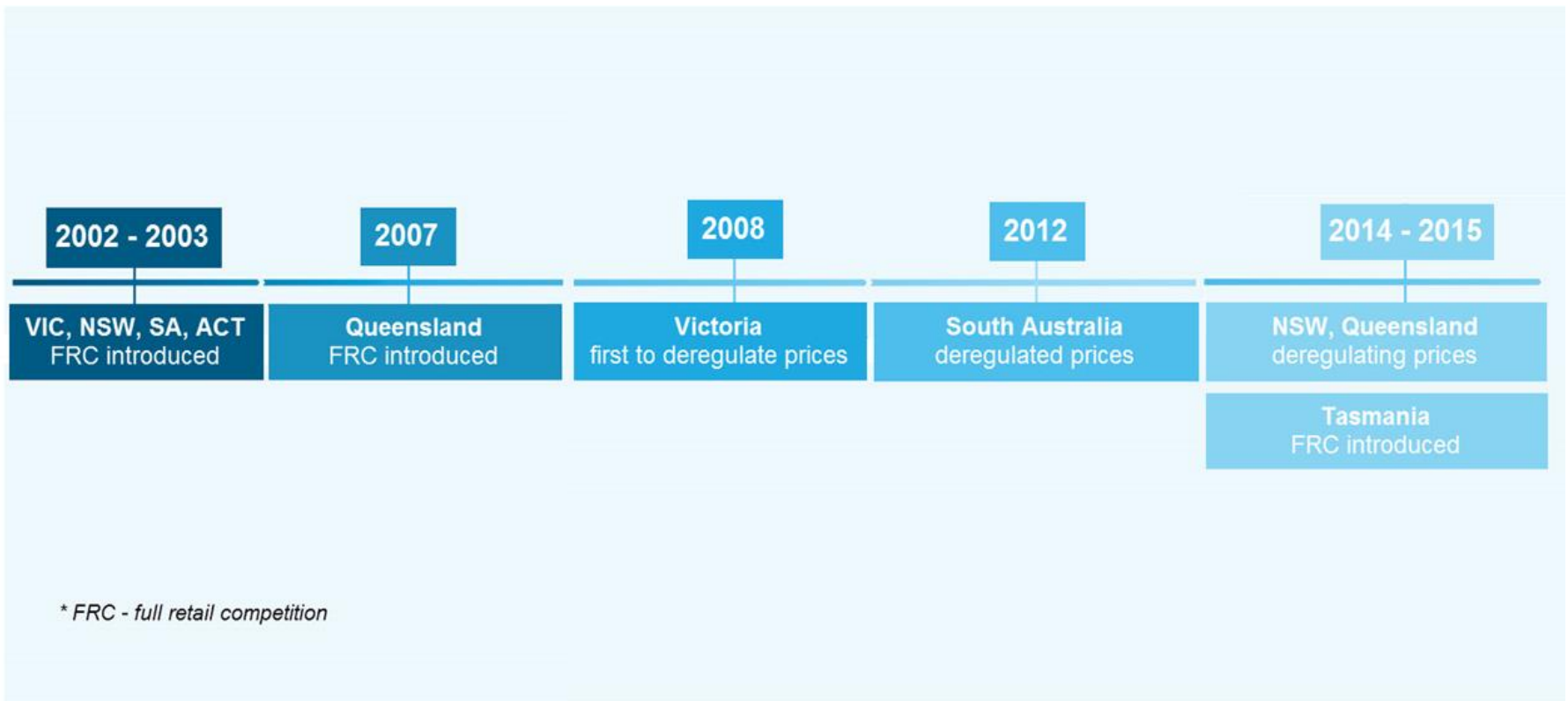
Power system & market operator



Economic regulation & rule compliance

Australian Energy Regulator

Timeline of retail price reform



Annual retail competition reviews

Competitive market indicators and the 2014 review

Level of customer activity in the market

- 90% of consumers were aware they could choose energy company
- 40% had actively investigated options
- 28% had actually switched in 2013

Barriers to retailers entering, expanding or exiting the market

- Retailers considered barriers relatively low in markets without price regulation.

Degree of independent rivalry

- States with greater competition have large number of retailers, low levels of market concentration and high degree of product differentiation.

Customer outcomes

- Levels of satisfaction varied but was high in some jurisdictions

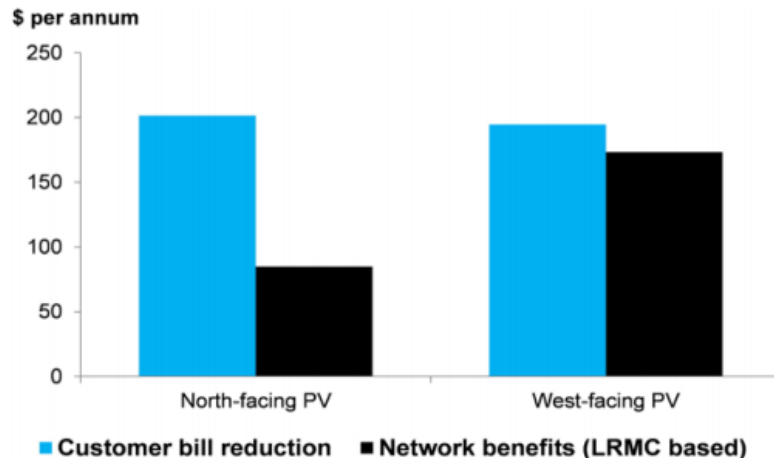
Retailer outcomes

- While retail margins are not estimated for our reviews, we make a number of observations on retailer outcomes drawing from retailer interviews.

Network pricing reform

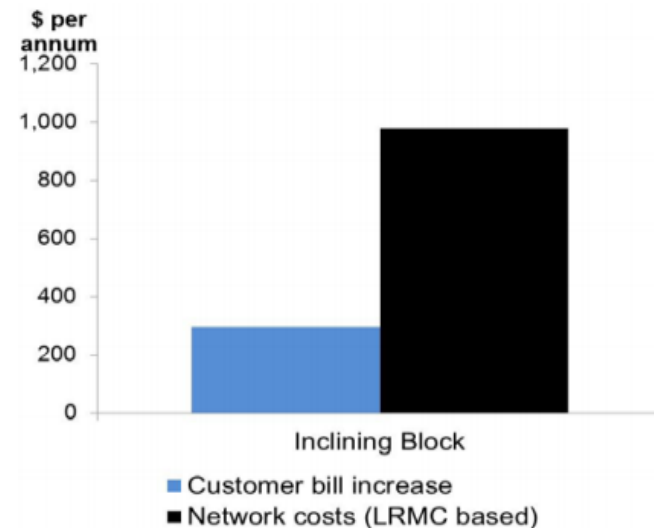
Example 1: Solar PV

- Consumer A saves \$200 p.a. using north facing solar PV
- Reduces Consumer A network costs by \$80
- Other consumers pay remaining \$120



Example 2: Air conditioner

- Consumer using 5kW air conditioner causes \$1,000 p.a. network costs
- Consumer A pays \$300
- Other consumers pay remaining \$700



New rules for distribution network pricing

Final determination: 27 November

We are changing the rules so that the prices we pay reflect the different ways we use electricity and the actual costs of providing it.

Network charges are around 50% of the average residential bill.

50%

Putting consumers in the driving seat

The way we pay for power has to keep pace with our modern lifestyle. When prices reflect how much it costs to use different appliances at different times, consumers are able to make more informed decisions.



More consumer consultation on how network prices are structured



Network prices that reflect each consumer's usage



Clear instructions for networks on the requirements to apply when determining how to structure network prices



Earlier notification of network prices to allow retailers and consumers to better prepare for price changes

HOW CONSUMERS WILL BENEFIT

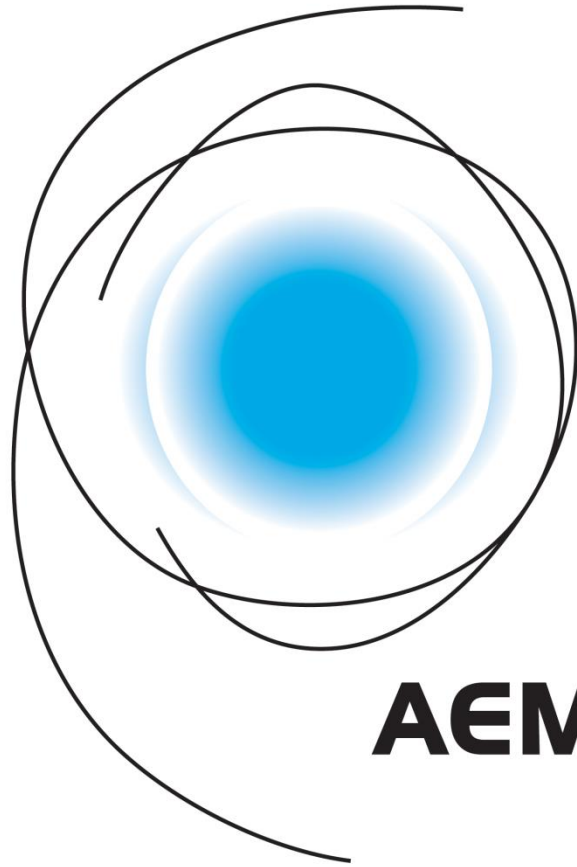
We have set up the right rules for the future so:



The prices we pay reflect the decisions we make



Everyone can make informed decisions on how and when they use electricity as new technologies evolve



AEMC