Australia’s experience of retail pricing reform

IEA Workshop IV: Network investment and regulation

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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

COAG Energy Council

National Electricity, Gas and Energy Retail Laws

Rule maker and adviser to governments

Australian Energy Market Commission

National Electricity, Gas and Energy Retail Rules

Power system & market operator

AEMO

Economic regulation & rule compliance

Australian Energy Regulator

AER
Timeline of retail price reform

- **2002 - 2003**: VIC, NSW, SA, ACT - FRC introduced
- **2007**: Queensland - FRC introduced
- **2008**: Victoria - first to deregulate prices
- **2012**: South Australia - deregulated prices
- **2014 - 2015**: NSW, Queensland - deregulating prices
- **Tasmania**: FRC introduced

*FRC - full retail competition*
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.

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