

Session 1: Introduction to regulatory processes, tariffs, and the role of consumer advocates

29 March 2022, 11am - 12:30pm

Overview of training sessions

- Session 1: Introduction to regulatory processes, tariff reform, and the role of consumer advocates
29 March 11am to 12:30pm (AEDT)
- Session 2: Network tariffs, retail tariffs and developments in the energy sector
13 April 10:30am to 12pm (AEST)
- Session 3: Tariff trials, future network tariff structures, and challenges
4 May 10:00am to 11:30am (AEST)

ECA introduction

Slides to be provided by ECA



Introduction to the AER

The AER regulates the wholesale and retail electricity markets and is responsible for the **economic regulation** of the **electricity transmission and distribution networks** in the national electricity market (NEM).

The AER is also responsible for gas wholesale and retail markets and the **economic regulation** of **gas transmission and distribution networks**.

Wider energy context

1. The AER is the national **economic regulator** and the body responsible for **monitoring and enforcing** national energy legislation.
2. The [Australian Energy Market Commission](#) (AEMC) undertakes **rule making** and energy market **development**.
3. The [Australian Energy Market Operator](#) (AEMO) was established in 2009 to **operate gas and electricity markets** in southern and eastern Australia.
4. Energy Consumers Australia was established in 2015 to **advocate** on energy market matters of strategic importance and material consequence for energy consumers.

Why an economic regulator?

Monopolies, such as electricity networks, are regulated to protect the interest of consumers. This may be to:

- ❖ Prevent excess prices or stop price fixing
- ❖ Ensure quality of service
- ❖ Promote innovation

“The AER exists so that energy consumers are better off, now and in the future”



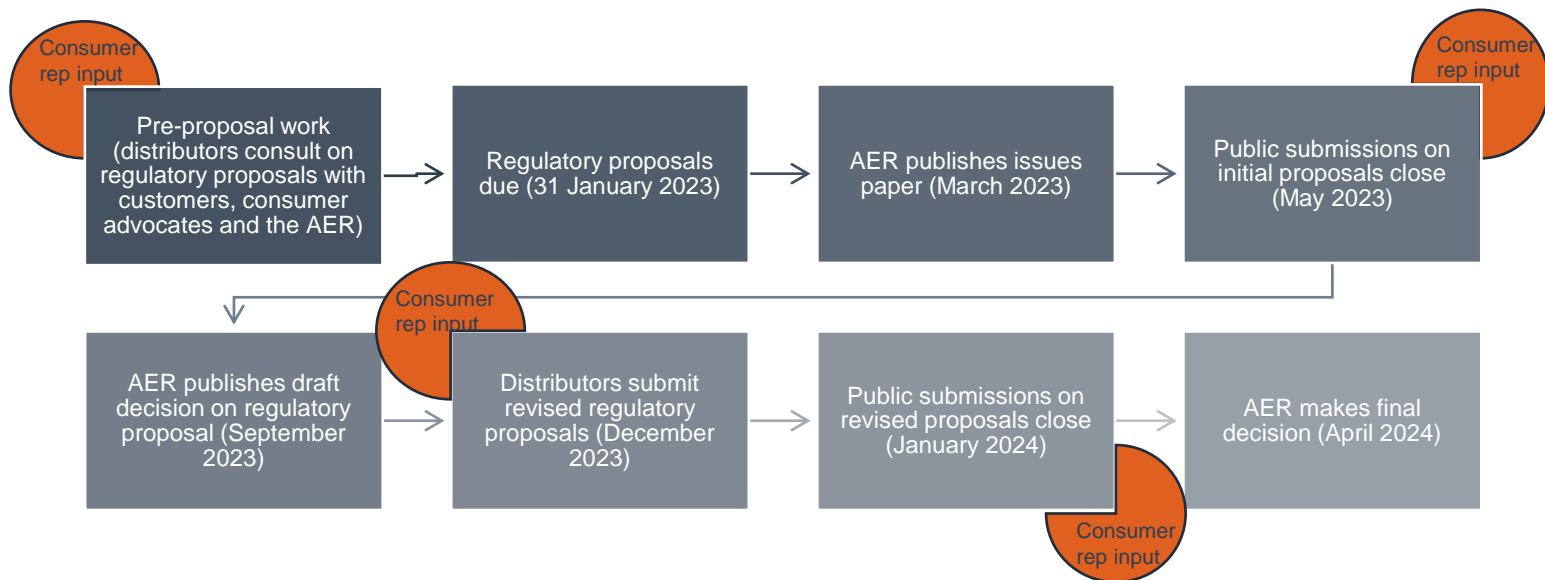
How does the AER regulate?

1. Wholesale energy market regulation
 - i. Monitor, investigate and enforce compliance with energy legislation / rules
 - ii. Report on market activity
2. **Energy networks regulation ← (our focus)**
Setting maximum amount of revenue they can earn
 - i. Review and approve 5-yearly regulatory proposal
 - ii. Annual pricing checks
3. Retail energy market regulation
 - i. Monitor, investigate and enforce compliance with retail legislation / rules
 - ii. Reporting on market performance

Regulatory timeline and key points for consumer interaction

- Distributors have to submit a proposal identifying their revenue requirements (every 5 years) to the AER
- A distributor's tariff structure statement makes up part of the regulatory proposal.

Regulatory timeline (using upcoming process for NSW/NT/ACT/Tas)



How consumer advocates help the AER

- Provide voice for consumers – link between individual consumers and the AER
 - Advocacy on behalf of their constituents
 - Actively engage with consumers and provide us with insight
 - Direct AER to key issues relevant for consumers
 - Provide evidence and insight from studies and research on consumer perspectives
- Help us make better decisions
 - Provide independent advice
 - Stronger consumer engagement helps us test expenditure proposals, and can raise alternative views on matters such as service priorities, capital expenditure proposals and price structures

How consumer advocates help the AER

The AER established the Consumer Reference Group (CRG) for its Inflation Review 2020 and Rate of Return Instrument 2022.

- The group plays a critical role in representing the perspectives and interests of consumers in these important review processes.

The AER established the Consumer Challenge Panel (CCP) in July 2013 as part of our Better Regulation reforms. These reforms aimed to deliver an improved regulatory framework focused on promoting the long-term interests of consumers.

The objective of the CCP is to:

- advise the AER on whether the long-term interests of consumers are being appropriately considered in regulatory proposals and the AER's decision making
- provide an assessment of networks' consumer engagement, including the extent to which proposals reflect consumer preferences.

The role of the CCP

- monitoring, assessing and, where appropriate, informing how networks conduct consumer engagement activities ('observe and inform')
- assessing the quality of network proposals, providing assurance on the effectiveness of engagement and advising whether consumer views have been appropriately reflected ('assurance')
- providing advice on consumer perspectives on issues related to network determinations and to challenge the AER to ensure that consumer views have been accounted for in decisions to the fullest extent ('challenge')
- assisting in any other activity that supports the delivery of the CCP objective, as requested from time to time by the AER.

Examples of consumer advocates influencing AER regulatory decisions

- SA solar sponge network tariffs
- Victoria time of use pricing



Consumer advocates

History of tariff reform

Year	Event
2012	AEMC Power of Choice Review
2013	COAG rule change request
2014	AEMC's <i>Distribution Network Pricing Arrangements</i> Rule change requiring: <ul style="list-style-type: none">- Network prices to reflect the efficient cost of providing network services,- DNSPs to submit 5-yearly tariff structure statements and annual pricing schedules
2015	First TSS submitted to AER for approval
2017	First approved TSS' took effect
2021	AEMC's <i>Access, pricing and incentive arrangements for distributed energy resources</i> Rule change requiring: <ul style="list-style-type: none">- The AER to create Export Tariff Guidelines to facilitate two-way tariff options

History of tariff reform (continued)

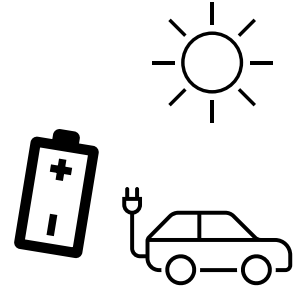
- All the distributors have gone through two TSS approvals
 - Originally, cost-reflective tariffs were opt-in
 - In the second-round, cost-reflective tariffs were either mandatory or opt-out

→WHERE WE ARE CURRENTLY←

We are in the pre-engagement stage for the 3rd round of TSS approvals and we expect to see:

- More tariff trials on export tariffs, EVs and batteries
- More cost-reflective tariffs and fewer flat/single-rate tariffs
 - Better quality of customer engagement

Developments in the energy sector



The energy sector is rapidly developing:

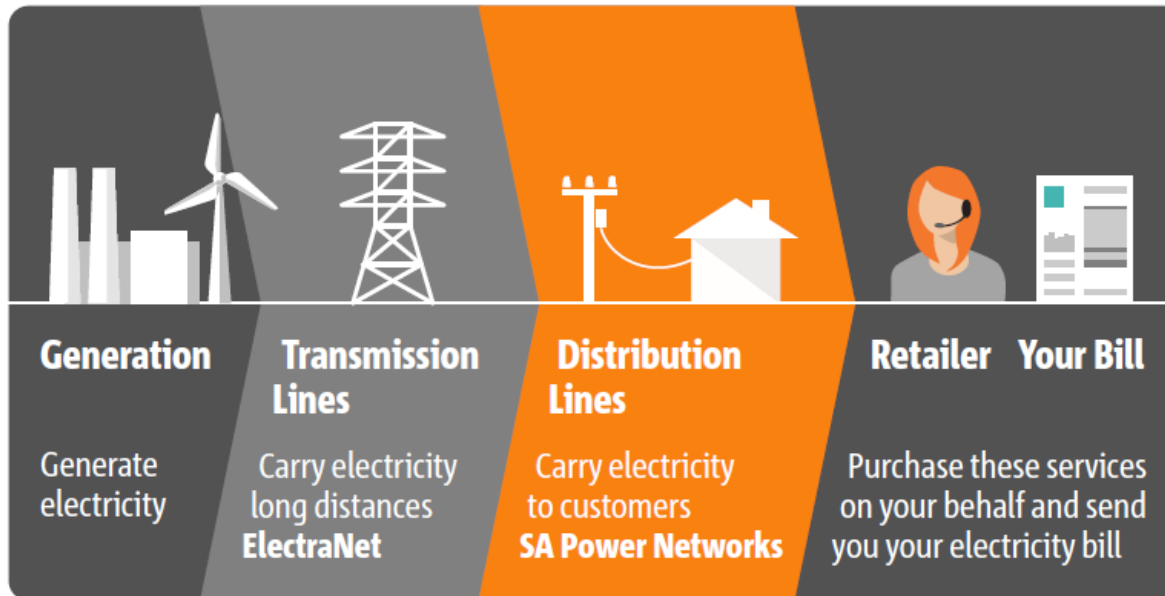
- Distributed energy resources (DER) are becoming more and more common
 - Rooftop solar
 - Electric vehicles
 - Home batteries
 - Grid-scale / community batteries
- Smart meter uptake has increased, allowing distributors to see real-time usage data and set targeted tariffs
- Electricity grids face both maximum *and* minimum demand pressures
- Pressures from gas substitution

Benefits of tariff reform

- Cost-reflective tariffs send signals to consumers to shift energy use from peak times and shift energy export from times when there is too much energy on the grid
 - This can help lower future network investment and lower network costs for all consumers
- Tariff reform paved the way for more equitable tariff options to consumers, based on actual energy use
- DER technology, including EVs, batteries and solar can be better accommodated

What is a network tariff?

- Network tariffs recover revenue / efficient costs to build, operate and maintain the poles and wires that are used to transport electricity.
- Network tariffs are one component of the retail bill.



Energy bill stack and the interaction between network tariffs and retail tariffs

Figure 1: Components of a retail bill

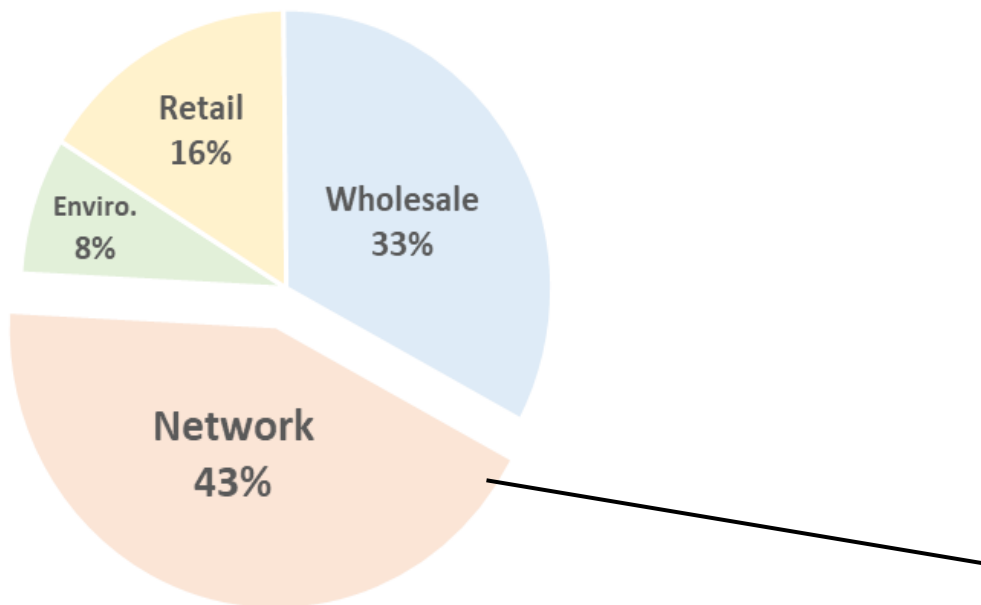
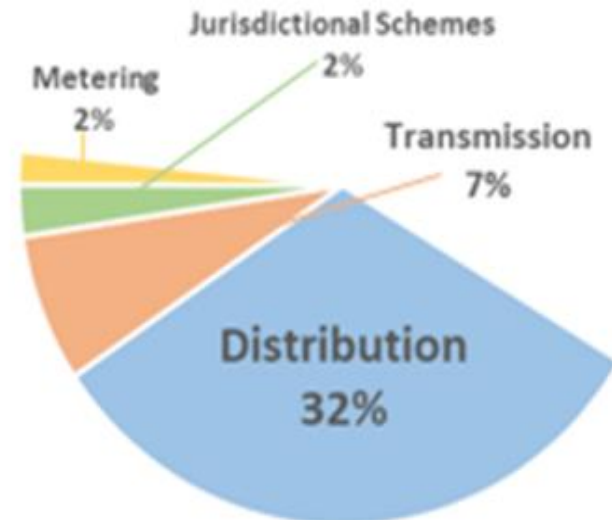


Figure 2 - Components of network charges



Resources

- AER - [Network Tariff Reform \(webpage\)](#)
- AER - [Determinations timeline](#)
- AER – [Stakeholder Engagement Framework](#)
- AER – [State of the Energy Market reports](#)
- AER – [Tariff reform and integrating DER \(Explanatory note\)](#)
- AEMC – [National Electricity Rules](#)
- AEMC - [Economic regulation of Network Service Providers \(rule change, 2012\)](#)
- AEMC - [Distribution network pricing arrangements \(rule change, 2014\)](#)

Consumer advocates