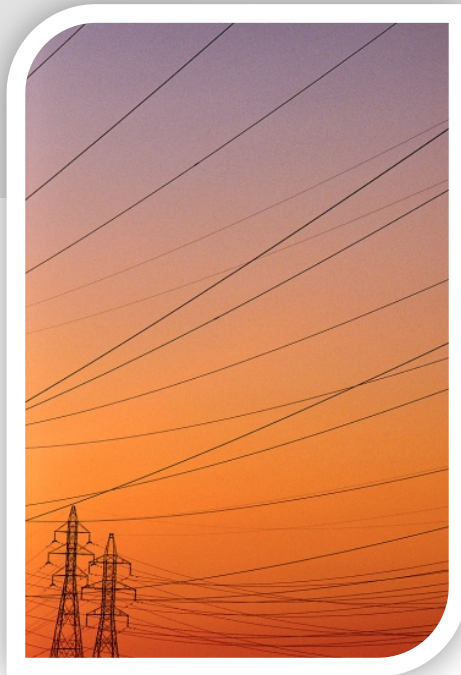


Rule changes - distribution pricing principles

AEMC public forum,
November 2013

Chris Pattas
General Manager
AER



AER AUSTRALIAN
ENERGY
REGULATOR

Pricing principles

Required to comply with

Long run marginal cost

Jurisdictional instruments

Have regard to

Costs of greatest network use times

Extent LRMC can vary by location

Customer impacts of tariffs

- Customer impacts of tariffs:
 - Potentially significant role but need explore scope
- Consulting on PSS design might require considering:
 - Appropriateness of new tariffs (ability to respond)
 - Tariff transition / strategy issues
- Need explore status / interactions:
 - Efficiency principles vs customer impacts > balance?

Economic efficiency principles

Required to comply with

Long run marginal cost

Jurisdictional instruments

Have regard to

Costs of greatest network use times

Extent LRMC can vary by location

Customer impacts of tariffs

- Challenge is balancing needs:
 - Tight requirement & guidance for tariff efficiency
 - Flexibility for customisation & innovation > greater price dynamism
- Objective of key requirement = reflect underlying drivers of network costs (vary by time & location)
- LRMC = reasonable approach:
 - can apply in various ways to target cost drivers
 - might require explanation > AER guideline

AER pricing guideline

Pricing economics

Possible coverage

How to approach LRM –
re objective to target cost drivers

Expectations re LRM justifications / quantifications

Appropriate method to allocate costs unrecovered
from LRM (postage stamp, ramsey)

How consider various pricing principles
(balance or sequence)

Definition of customer impacts

Grouping tariff classes on economically
efficient basis

Consultation issues

Expectations in developing / modifying PSS

Other

Matters to include in PSS & price trends

END