



12 July 2016

Mr Ray Challen
Chair, Electricity Market Review
Public Utilities Office
Albert Facey House 469 Wellington Street
Perth WA 6000
Via email: electricitymarketreview@finance.wa.gov.au

Dear Ray

RE: POSITION PAPER ON CHANGING THE CONTRACTUAL RELATIONSHIP BETWEEN THE ELECTRICITY DISTRIBUTOR, CUSTOMERS AND RETAILERS

Alinta Energy (**Alinta**) welcomes the opportunity to provide a response to the consultation by the Public Utilities Office (**PUO**) on the proposed reforms to the Western Australian electricity regulatory framework to change the contracting relationship between electricity distributors, retailers and customers in the South West Interconnected System (**SWIS**). The reforms will ensure that the Western Australian regulatory framework will work with the national regulatory framework being introduced in Western Australia by adoption of the National Electricity Law.

Alinta is both a generator and retailer of electricity and gas in the east coast energy markets and in Western Australia and has in excess of 785,000 retail customers. Alinta's retail portfolio includes around 185,000 customers in Victoria and South Australia where the National Energy Customer Framework (**NECF**) applies a similar set of triangular relationships between distributors, retailers and customers to that proposed by the PUO in the position paper.

Alinta supports the adoption of the triangular model of relationships between distributors, retailers and customers in the SWIS. However, Alinta is concerned that the tariff negotiations that retailers currently have with Western Power e.g. the ability to negotiate a non-reference service, could be lost under the new model. That is, Western Power could simply assign each customer to a network tariff, leaving no room for the retailer to negotiate. This issue could be further exacerbated by the potential for Western Power to make changes to its existing tariff structures as part of the move to the triangular model¹.

In order to ensure that the triangular model is implemented in a manner that does not result in unintended distortions being introduced, Alinta considers that high level guiding principles should be established by the PUO. These should include:

- Educating customers on the impacts of any tariff reform. Issues can arise where a new network tariff is assigned by the distributor however the retailer may need the consent of the customer to change the retail pricing, which is only changing to reflect changes to the underlying network tariff;
- Establishing appropriate transition arrangements to ensure customers on existing tariffs can transition smoothly to any new or revised tariffs under the new arrangements. There also needs to be a reasonable transition period to enable retailers to:

¹ Alinta understands that Western Power intends to engage with retailers in September regarding the proposed structure of their tariffs moving forward. We also note that the Minister for Energy will have the ability to approve new network tariff structures during the 2017/18 gap year before Western Power is regulated by the Australian Energy Regulator.

- Make changes to products. Mandatory tariff reassignment may create risk for retailers, both in terms of managing changes to products and dealing with customers concerning the changes;
- Make changes to systems. For example, any network reassignment linked to an introduction of “smart” (Time of Use) meters may require significant changes to retailer systems; and
- Inform customers of the changes, including, as mentioned above, gaining any customer consent to changing the product they are currently on.

Alinta understands that transition arrangements were adopted in other jurisdictions when implementing NECF and considers this should be the case for the SWIS. These included:

- Establishing an approach to tariff reform that is market-led. Mistakes in some jurisdictions have shown the importance to customers of a retailer-led approach;
- Requiring Western Power to provide evidence of the need for any changes to the existing tariff structure;
- Enabling retailers to continue tariff negotiations with the network operator on the customer’s behalf; and
- Recognising that there are winners and losers associated with any change. For example, any network tariffs aimed at shifting a customer’s consumption may result in some low-income (vulnerable) customers paying more for their electricity due to a limited ability to shift consumption to align with new tariff structures.

Additionally, Alinta recommends that the relevant subsidiary legislation should also outline:

- That any additional costs incurred by retailers resulting from changes in network tariffs can be passed through via retail contracts (including if Western Power restructures its existing tariffs); and
- Appropriate side restrictions on Western Power’s tariff setting should be employed, as was the case in South Australia.

More broadly, Alinta considers that to ensure a seamless transition to the new arrangements there should be full transparency with respect to any changes to the existing tariff structures that Western Power is intending to make. To this end, Western Power needs to work closely with retailers to ensure a smooth transition under any proposed changes to network tariffs. Alinta however notes that its preference would be for Western Power to not make any changes to its tariff structure at this time so as to avoid some of the issues outlined.

If you have any questions concerning this submission please contact Catherine Rousch.

Yours sincerely

Michelle Shepherd

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Alinta Energy