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2nd October 2009

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

By Email: electricity@qca.org.au

Re: Review of Electricity Pricing and Tariff Structures – Stage 2

Australian Power & Gas (APG) welcomes the opportunity to provide comment on the Queensland Competition Authorities (QCA) comments paper on the *Review of Electricity Pricing and Tariff Structures – Stage 2.*

APG notes the Stage 2 review is focused on the;

Review of alternative retail tariff structures which may assist in the long term management of peak demand and provide an incentive for customers to use electricity more efficiently.

Retail Tariff Structures

APG believes the first step to having retail tariff structures that will assist the long term management of peak demand and incentivise customers to use electricity more efficiently is to ensure retail tariffs reflect the true cost of supplying electricity to retail customers. Tariff structures that are not reflective of the true costs of supplying customers will have limited success in influencing customer's behaviour to use electricity more efficiently. Further non reflective tariffs will provide little incentive for retailers to invest in the Queensland market.

APG supports the "Network + Retail" approach to determining a notified or safety net tariff. The success of this approach will require the alignment of the network and retail tariffs. This may necessitate the need for the consolidation of some tariffs and the possible introduction of some new tariffs. Each retail tariff must be able to be linked or mapped to a corresponding network tariff. Simplicity is the key; complexity in tariffs will add cost and risks to retailers in making changes to billing and billing systems. It will also add a level of complexity for customers.

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Future Market Conditions

When determining any safety net tariff the QCA must be mindful of future market changes that impact the cost reflectivity of the safety net tariff. Changes such as the introduction of the CPRS scheduled for 1 July 2010. The QCA proposed in Stage 1 of the review to develop a new methodology for forecasting the wholesale energy and retail costs, any such methodology will need to account for the introduction of the CPRS.

Consultation Timeframes & Transitional Approach

APG remains concerned with the tight timeframe the QCA is working to in trying to achieve the policy objectives as dictated in the Ministerial Direction. As such we would reiterate our previous comments that the 2009-2010 year be treated as a transitional year.

Cost Reflectivity of Tariffs

Existing tariffs do not currently reflect the cost of supply. The majority of retail tariffs do not fully recover the fixed network charges. To ensure retail tariffs reflect the full cost of supply all costs must be accounted for. That is the fixed retail component must reflect the full fixed network costs, retail operating costs and have an appropriate retail margin.

Cost reflectivity in tariffs will both promote competition and provide benefits to customers, whilst also provide an incentive for customers to review and assess the way they use electricity, with one possible outcome being the dampening of demand.

As existing tariffs are not cost reflective some customer classes are less attractive to retailers. To promote competition tariffs need to be such that they ensure the fixed component of the retail tariff reflects the fixed network charges and retail operating costs with sufficient headroom built in. This will ensure competition develops.

APG recognises that tariff reform can have both positive and negative impacts on customers whilst they are transitioning to revised tariffs. Any adverse impacts may be managed through transparent Government initiatives. Any continued cross subsidy of tariffs across customer classes will however continue to stifle competition and the potential for sending price signals to customers.

Large Customer Price Regulation

APG supports the QCA's recommendation that from 1 July 2010 price regulation be removed for large customers (those consuming over 100MWh). Large customers by nature are commercially intuitive and as such do not require the protection of a regulated tariff. Currently in Queensland large customers of a Tier 2 retailer are on

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interval metering where as Tier 1 retailers customers are on accumulation meters. If the NSLP is used in setting prices for large customers there will be a mismatch on the load profile for Tier 2 retailer customers. As a result Tier 2 retailers are exposed to under recovery where they have a large customer that has a "peaky" load profile. The removal of price regulation for large customers will go someway to address this.

Should you wish to discuss any aspect of our submission I may be contacted on (02) 8908 2714 or via email: sruddy@auspg.com.au

Yours Sincerely

Shaun Ruddy
Manager Regulatory & Compliance
Australian Power & Gas