

570 George Street  
Sydney NSW 2000

Address all mail to  
GPO Box 4009 Sydney  
NSW 2001 Australia

[www.energy.com.au](http://www.energy.com.au)



2 October 2009

Mr. Brian Parmenter  
Chairperson  
Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

Email: [electricity@qca.org.au](mailto:electricity@qca.org.au)

Dear Mr. Parmenter,

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

EnergyAustralia welcomes the opportunity to comment on the Queensland Competition Authority (QCA) Request for Comments Paper for the Review of Electricity Pricing and Tariff Structures – Stage 2.

EnergyAustralia has over 1.4 million customers, however, only a small proportion are located in Queensland. EnergyAustralia's Queensland small customers are all located in South East Queensland and are concentrated on a small number of tariffs. We have focussed our response on those areas where we have experience, either through having customers on those tariffs or from experience in other jurisdictions. The structure of our response follows the structure of the QCA's paper and addresses the issues in the same order.

**The Makeup of Individual Tariffs**

The fixed charges currently specified in the existing tariffs do not reflect the fixed costs incurred by retailers in supplying services to customers. In a number of instances (Tariff 11 and Tariff 62 for example) the service fee is not sufficient to recover fixed network charges, let alone any fixed retail costs. Additionally, some tariffs (Tariff 31, Tariff 33 and Tariff 21 for example) do not have any fixed charges and consist solely of volumetric charges with a minimum monthly bill. While it could be argued that there are no additional fixed costs for customers on off-peak or controlled load tariffs (unless in the underlying network tariff) this is not the case with Tariff 21. Furthermore, Tariff 21 has fixed network charges with no obvious means of recovery by the retailer.

EnergyAustralia is firmly of the view that retail prices should include a fixed cost component as well as variable cost components and that fixed charges should be added to those primary tariffs currently without fixed charges. The fixed cost component should be set at a level to recover the fixed costs of retailing energy to customers (including any fixed network charges).

## **Suite of Tariffs Available to Customers**

From a residential and small business tariff perspective it is the flat "anytime" tariffs and declining block tariffs that are the least cost reflective. The structure of these tariffs does not allow the sending of price signals to the customer from either a network or retail perspective. The customer is charged the same regardless of the timeband in which they consume and the actual cost of supplying them at that time.

From a retail perspective a time of use tariff does allow the sending of price signals to customers and is therefore capable of being more cost reflective. Due to the absence of a fixed charge in the current peak/off-peak tariff (Tariff 22) this is not necessarily the case at the moment.

It should be noted that the issue of cost reflectivities of tariffs is not as simple as the QCA's questions would seem to imply. A tariff may recover costs above a particular consumption level but not below. As noted before, there are a number of tariffs where the fixed network costs are higher than the fixed costs the retailer is recovering from the customer, or where there are no fixed costs. This means that low consumption customers on these tariffs are supplied at a loss. Additionally, as previously recognised by the QCA, the issue of cost reflectivity is different for a network business than it is for a retail business so it is possible that a network tariff may be cost reflective while the retail portion isn't.

EnergyAustralia suggests that in order for retail tariffs to become closer to cost reflectivity, all the costs of supplying retail electricity customers need to be accounted for accurately and transparently i.e. fixed costs recovered via the service fee, and variable costs under the volumetric charge.

## **Promoting Competition across Classes of Customers**

In NSW both EnergyAustralia's experience and wider research performed by IPART<sup>1</sup> indicate that for the metropolitan area there similar levels of competition across all classes of customers. EnergyAustralia does not see any reason why the situation would be different in Queensland.

EnergyAustralia supports the elimination of regulated tariffs for large customers as proposed by the QCA in its draft report. In response to the question regarding the notified prices for large business and commercial customers EnergyAustralia agrees that in theory, and assuming that price regulation is desired, there is no reason why if prices are truly cost reflective that the notified prices should not be retained for small and/or large business and commercial customers. The reality is that across this broad segment (and across the state) true cost reflectivity at an individual customer level is challenging to achieve.

## **The Removal and Consolidation of Tariffs**

Where tariffs are obsolete, customers should be moved onto other tariffs, provided the costs of supplying electricity to those customers are recovered on the new tariffs.

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<sup>1</sup> IPART *Residential energy and water use in the Hunter, Gosford and Wyong*, December 2008

In setting the criteria to consider which tariffs to consolidate, EnergyAustralia would suggest that tariffs used by a small number of customers are candidates to consolidate. Tariffs which are similar in structure to other tariffs are also prime candidates for consolidation.

### **Alternative Tariff Structure to Encourage Efficient Use of Electricity**

It is worth noting that demand management and energy efficiency are two quite different things which may or may not be achieved within the same tariff structure. In choosing alternative tariff structures that promote energy efficiency and/or demand management, consideration should be given to:

- the implementation cost vs benefit
- ease of understanding by the customer
- likelihood of use
- flow on impacts on the supply chain
- ramifications for the customer
- network vs retail benefit

The introduction of peak and off-peak pricing will affect customers differently. Those customers who currently consume more during off-peak periods or are willing and able to shift to off-peak consumption stand to gain the most through the introduction of differential peak and off-peak pricing. As a group, small business customers are traditionally less able to shift load from peak time periods to off-peak periods (or do so without capital expenditure) as usage is driven by customer needs.

To a large extent demand management is a network issue and best dealt with through network tariff reform rather than retail tariff reform provided there is full pass through of network charges.

### **Inclining Block Tariffs**

While inclining block tariffs are definitely superior to declining block tariffs in sending price signals to consumers in relation to energy efficiency, we agree with the QCA's view that they are a relatively blunt instrument in encouraging consumers to reduce demand at pivotal peak times. They can, however, be an effective tool in promoting energy efficiency as customers are more likely to seek to reduce consumption, where possible, in order to save money.

Inclining block tariffs are more suited to replace the current declining and flat "anytime" tariffs than those tariffs which have a peak and off-peak component or a purely off-peak component. If they were to replace tariffs with a low consumption they would introduce a level of complexity for arguably little gain.

Until further analysis into consumer behaviour is undertaken EnergyAustralia does not have a firm view on what thresholds would be effective in encouraging reduced consumption.

### **Peak Demand and Time-of-Use (TOU) Pricing**

Time of Use pricing is a step in the right direction on the path to encouraging energy efficiency and peak demand management, however, it is not the final step. Time of use pricing may result in a reduction in

peak usage but can still present a problem if customers are all at their peak simultaneously. Correctly implemented time of use metering can provide the tools to all parties (customers, retailers and networks) to assess consumption patterns and drive energy efficiency, however, if it is not implemented properly it may not deliver any significant benefits.

### **Interruptible Tariffs**

While interruptible tariffs are effective (from a network perspective) in managing customer demand during peak demand periods, care needs to be taken in assessing the impact on retailers and the wholesale market. Triggers would need to be built into any pricing mechanism to ensure that 'interruptions' do not occur at a time which disadvantages the retail businesses (either as a whole or a subset of) and it is also critical to ensure that post interruption there are no flow-on impacts to the wholesale market.

### **Other Demand Management Initiatives**

EnergyAustralia advocates the use of energy efficiency programs similar to the Energy Efficiency Small Business Program in NSW which provides for energy audits and rebates on efficient equipment. EnergyAustralia has also implemented energy efficiency programs at the residential level. This has included home energy audits, the installation of water efficient showerheads, and giving customers shower timers. These programs can work effectively and be implemented quickly in order to reduce consumption and provide energy efficiencies without having to introduce new tariffs.

### **Transitional Arrangements and Future Options**

While EnergyAustralia is mindful of the impact of tariff reform on customers we do not believe that there should be a grace period or transitional arrangements. The introduction of the changes proposed in the QCA's paper will take some time and enables customers to be given advance notification of the changes. The impact to particular customer segments can also be managed through the targeted payment of rebates.

I trust this submission will assist the QCA in preparing its report to the Minister. Please contact EnergyAustralia's Executive Manager – Energy Pricing, Catherine Marshall on (02) 9269 7256 should you have any questions.

Yours sincerely,



Mike Bailey  
Executive General Manager Retail