



**Submission to the
Queensland Competition Authority
on its
Request for Comments Paper:
Review of Electricity Pricing and Tariff Structures - Stage 2**

2 October 2009

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Executive Summary

Origin Energy (Origin) welcomes this opportunity to submit on stage 2 of the Queensland Competition Authority's (QCA) review of electricity pricing in Queensland in response to its *Request for Comments Paper: Review of Electricity Pricing and Tariff Structures - Stage 2*.

Origin notes that the QCA has completed Stage 1 of the review and made recommendations to the Queensland Government through its *Final Report: Review of Electricity Pricing and Tariff Structures - Stage 1*.

Origin has provided detailed submissions to the QCA throughout Stage 1 of process and previously highlighted that was unrealistic for the:

- necessary changes be made to Queensland legislation;
- formulation and extensive consultation of a new price setting framework;
- implementation of the new methodology; and
- setting of electricity prices;

to be completed prior to 1 July 2010.

This issue has become of even greater concern as it is now less than 8 months until electricity prices must be set for the 2010-11 financial year.

As such, Origin strongly believes that a 1 year, 3 year approach should be adopted as stated in its previous submissions. Postponing the 3 year determination until 2011-12 provides the necessary time for consultation while the 1 year process can focus on ensuring that retail tariffs for 2010-11 are adjusted to reflect the changes in the cost of supplying electricity to south east Queensland customers. This will provide a sound basis for the future 3 year price-path while ensuring that the cost reflectivity of retail tariffs in south east Queensland does not deteriorate any further in 2010-11; and

A 1 year process does not preclude retail tariff reform and Origin believes that the opportunity can be taken to begin by:

- aligning of retail tariffs with the Energex network tariffs;
- consolidating, abolishing and deregulating various retail tariffs from 2010-11;
- adding new tariffs, if any, that are required to align with the Energex distribution tariffs;
- removing Large customer access to regulated tariffs; and
- adjusting the selected 2010-11 retail tariffs to make significant steps towards cost reflectivity. This should include making adjustments to the fixed and variable rates of individual tariffs to rebalance or align them more effectively with their underlying network charges; and

Origin has also responded to the specific questions raised in the QCA document and as well as addressing the issues of moving retail tariffs to cost reflective levels and ways that the network tariffs may be reflected in retail prices, has highlighted proposals that need further examination such as time-of-use and seasonally adjusted tariffs.

Origin would reiterate that all of the future alternatives being explored by the QCA require cost reflectivity of current tariffs as a basis. Without cost reflectivity, these alternatives cannot change customer behaviour through effective price signals and their benefits will not be realised.

1. Introduction

The Queensland Competition Authority (QCA) has been directed by the Queensland Premier and Treasurer to review electricity pricing in Queensland including:

- whether electricity tariffs in Queensland are costs reflective, providing appropriate price signals and facilitating retail competition;
- the current benchmark retail cost index (BRCI) methodology and whether alternative methodologies would more effectively reflect the changes in costs of supplying electricity to Queensland consumers; and
- alternative pricing and tariff structures to assist in management of peak demand.

The QCA is undertaking the review in two stages and has completed Stage 1 of the process with the release of the *Final Report: Review of Electricity Pricing and Tariff Structures - Stage 1* (Final Report) in early September 2009.

To begin Stage 2 of the process, the QCA released its *Request for Comments Paper: Review of Electricity Pricing and Tariff Structures - Stage 2* (Comments Paper) on the 11 September 2009 which highlights that Stage 2 of the process will review alternative options for retail tariffs that:

- are cost reflective; and
- encourage more efficient use of electricity.

Origin Energy (Origin) has welcomed the review and has already made many detailed submissions as part of the Stage 1 consultation process. Origin continues to hold the views expressed in these earlier submissions.

In this submission, Origin focuses on the important tariffs issues that are being considered as part of Stage 2 and has specifically responded to the questions raised by the QCA in its Comments Paper.

However, Origin would again highlight the limited time available for the QCA's recommended 3 year price path to be implemented prior to July 2010 and Origin's grave concerns given such a short timeframe.

Consequently, Origin must reiterate that it believes it is now unrealistic for all the necessary changes to electricity prices and the formulation of a new price setting framework to be completed prior to the setting of electricity prices for 2010-11 and strongly believes that a 1 year, 3 year approach should be adopted as stated in its previous submission. The 2010-11 tariff setting process should be used to address reform of the network pricing and retail tariff structures and in this context, Origin believes that simple options for calculating changes in energy and retail costs for 2010-11 can therefore be adopted given it is only for a single year.

2. 2010-11 - a transitional year

As stated previously, Origin strongly supports the 2010-11 electricity tariffs being set as a single year process with the emphasis being on starting tariff reform by adjusting and aligning retail tariffs to the Energex network tariffs in south east Queensland.

The QCA's recommended 3 year price determination, based on a cost build-up approach, can then be applied from 2011-12 onwards when the network issues are resolved and more information is available on the CPRS.

Using 2010-11 as a transitional year:

- relieves the time pressures on the QCA of constructing and consulting upon a new three year pricing methodology before the end of 2009;
- enables the completion of the AER's decision on Energex and Ergon's network determinations and their impact to be incorporated into the 2010-11 retail tariffs appropriately to ensure cost-reflectivity;
- allows the reform process for retail tariffs to commence prior to the potential large impacts of any CPRS; and
- provides a reasonable time period for the reform of pricing structures with the end-goal of cost reflective pricing, an effective competitive market and ultimately, deregulation of the market.

If the single year approach is taken then the question that the QCA can address, as part of its stage 2 review process, is what tariff reforms can be achieved in the transitional year of 2010-11 to:

- improve retail competition;
- ensure headroom remains relatively stable; and
- remove the financial burden on retailers caused by customer reversion to notified prices.

Origin accepts that a 1 year process may preclude moving retail tariffs to full cost reflectivity in south east Queensland for 2010-11 and realises that at present, the current legislation requires the current benchmark retail cost index (BCRI) methodology to be utilised. However, Origin believes that several options are available to the Government to enable 2010-11 to be used as a transitional year including:

- minor legislative change to the Act or through a new Regulation to alter the BCRI methodology for 2010-11 including providing for Energex network costs to be specifically utilised; or
- incorporating the flexibility to enable a transitional year in the major legislation change that is required to enable a 3 year determination. The proposal put forward to the QCA by AGL in their Supplementary Submission to the QCA's Stage 1 process¹ highlights such an approach to resolve the legislative framework issues.

The 2010-11 tariff setting process can then be a targeted process that incorporates:

1. Alignment of the retail and network tariffs including selection of which retail tariffs can be abolished or deregulated in 2010-11 and what new tariffs, if any, are required to align with the Energex distribution tariffs;
2. Adjusting the remaining or relevant retail tariffs for 2010-11 to reflect the changes in the cost of supplying electricity to south east Queensland customers. This could be

¹ AGL: *Further Submission to the Queensland Competition Authority: Review of the Electricity Pricing and Tariff Structures*, 4 August 2009.

done through an amended BRCI process but Origin may be able to accept a CPI linked (or similar index) escalation of the retail and wholesale energy costs component if necessary. This would be dependent on the network charges applicable to south east Queensland customers (ie. Energex and relevant Powerlink charges) being used in the methodology and taking full account of the variations to the structure and quantum of the individual Energex network tariffs. This will ensure that the cost reflectivity of retail tariffs in south east Queensland does not deteriorate any further in 2010-11;

3. adjusting the resultant 2010-11 retail tariffs to make significant steps towards cost reflectivity. This should include the removal of all minimum bill arrangements and making adjustments to the fixed and variable rates of individual tariffs to rebalance or align them more effectively with their underlying network charges; and
4. removal of Large customers from the notified price protections, and the progressive step towards deregulating business customer prices generally.

3. Alternative tariff structures to support cost reflectivity

3.1 The makeup of individual tariffs

- Do the fixed charges currently specified in the existing tariffs reflect the fixed costs incurred by retailers when supplying retail electricity services to customers on those tariffs, including customers with little or nil consumption?
- If not, which of the existing tariffs have fixed charges that are the closest to cost reflectivity and which fixed charges are the furthest from cost reflectivity?
- Should the retail (non-network) prices include a fixed cost component as well as a variable cost component?

The Queensland retail tariffs are currently structured to recover fixed per customer amounts through monthly service fees and through monthly minimum payment amounts. Fixed per customer costs include:

- Fixed service fees charged by the network (on a per customer basis); and
- Fixed retail operating costs (retail costs that do not vary with the level of consumption by the customer, e.g. quarterly billing)

Origin would highlight that the fixed charges (including minimum monthly payments) for the existing retail tariffs do not reflect the fixed costs incurred by a retailer. This is clearly the case given the majority of the fixed retail charges or service fees are not sufficient to even cover the fixed network charges, let alone the retail fixed costs

Table 1: Retail tariff fixed charge compared to network tariff fixed charges

Tariff	Retail		Network		Difference b/w fixed charges
	Tariff	Annual Service Fee	Tariff	Annual Fixed Charge	
11		\$79	8400	\$93	-\$14
		\$79	8600	\$407	-\$328
31		\$55*	9000	\$49	\$6
33		\$55*	9100	\$48	\$7
20		\$143	8500	\$93	\$50
		\$143	8600	\$407	-\$264
21		\$128*	8500	\$93	\$35
		\$128*	8600	\$407	-\$279
22		\$316	8500	\$93	\$222
		\$316	8600	\$407	-\$91
37		\$52*	8500	\$93	-\$41
		\$52*	8600	\$407	-\$355
		\$52*	8300	\$681	-\$629
41		\$483	8300	\$681	-\$198
		\$483	8200	\$5,057	-\$4,574
43		\$483	8300	\$681	-\$198
		\$483	8200	\$5,057	-\$4,574
		\$483	8100	\$13,693	-\$13,209
62		\$151	8700	\$93	\$58
65		\$151	8700	\$93	\$58
		\$151	8800	\$407	-\$256
66		\$333	8700	\$93	\$239
		\$333	8800	\$407	-\$74

* Annual Charge based on Minimum Monthly Payments

As Table 1 demonstrates, the only customers on regulated retail tariffs that are consistently covering their fixed network costs through the fixed retail component are customers on tariffs 31, 33 and 62. These fixed retail charges are not, however, enough to compensate a retailer for its fixed operating costs.

The retail tariffs for small commercial customers (tariffs 20,21 and 22) as well as irrigation customers (tariffs 65 and 66) have a fixed charge that does cover the network fixed costs but only when the customer is consuming less than 25 MWh per annum and is on the appropriate network tariff. If the customer consumes greater than 25 MWh then it is on a different network tariff and incurs a much greater fixed charge with the result that the retail fixed charge is significantly under-recovering.

As identified, the majority of customers in Queensland are on tariff 11 and as the QCA is aware, the fixed retail charge for this tariff is less than the network fixed charge.

Similarly, the fixed retail charge on all customers on tariffs 37, 41 and 43 which accommodate larger business consumers of electricity is below the network fixed charge. This is regardless of their consumption or demand and subsequent appropriate network tariff.

First, Origin recommends that any tariff reform needs to remove the minimum monthly payments and replace them with cost reflective service fees or fixed charges to cover both the network cost and fixed retail costs. This is necessary so that the future build up of retail tariffs using the N + R approach can be simply achieved.

Secondly, descending step tariffs were historically, a reflection of trying to recover fixed costs in the first band of consumption. If the fixed charges are appropriately adjusted then the declining block rates can be removed from the retail tariffs. Once the fixed charge is corrected then it also enable the QCA to investigate inclining block tariffs (e.g. as a demand measure).

Overall, reform of the Queensland retail tariffs must ensure that:

- the network fixed charge is accommodated directly; and
- that the non-network component of the tariffs includes a fixed charge reflective of retailers' fixed costs.

As stated earlier, Origin believes this is best done through a fixed charge rather than the current minimum monthly payments restriction.

- | |
|---|
| <ul style="list-style-type: none">• What alternatives, if any, are available for aligning network tariffs with retail tariffs? |
|---|

Origin believes that aligning the Queensland retail electricity tariffs with the network tariffs is fundamental to any reform.

Ideally, such an alignment would result in each network tariff corresponding to a specific retail tariff so that the QCA's proposal for an N+R can be efficiently implemented.

Origin recognises that there are difficulties with customers on a current bundled retail tariff being on varied network tariffs (see table 1). Where the selection of network tariff is dependent on the customer consumption or demand levels then, in the short term, Origin believes it is possible to accommodate within a single retail tariff. This would be aided by the proposed QCA approach of publishing both components and given the retail component should not vary between these customers.

However, where the network tariff selection differs because of other criteria (time of use, specific connection assets etc.) rather than consumption levels then specific retail tariffs must apply to each network tariff.

3.2 The suite of tariffs available to customers

- Which of the existing tariffs are closest to achieving cost reflectivity and why?
- Which of the existing tariffs are furthest from achieving cost reflectivity and why?

The cost reflectivity of the 2009-10 retail tariffs in south east Queensland can be examined by adding together the separate network costs, energy cost and retail cost of a customer and comparing this against the actual retail charge the customer pays. When the retail charge exceeds or is less than the actual cost of supply as calculated then the tariff is not cost reflective.

However, there are several difficulties in answering the QCA's above questions directly including:

- determining the appropriate costs that are incurred by retailers at the relevant point in time; and
- understanding that because retail tariffs are not aligned to network tariffs appropriately, for each tariff there may be customers that are cost reflective and those that are not.

Origin has examined the cost reflectivity of the 2009-10 retail tariffs using the 2009-10 Energex and Powerlink distribution and transmission network costs and by using indicative energy and retail cost benchmarks.

This basic analysis of headroom highlights the issues that:

- there exist retail tariffs that are insufficient to recover the cost of supply for all customers using that tariff;
- the cost recovery of several retail tariffs is dependent on the customer's physical connection and metering and hence their applicable network tariff; and
- even for customer's on the same network and retail tariff combination, the lack of alignment between the retail and network charges results in some customers in specific consumption bands meeting their true cost while other do not.

Origin is happy to meet with the QCA to discuss its analysis in more depth.

Origin does concur with the QCA's finding from its stage 1 Final Report that Large customers (Queensland customers consuming >100 MWh per annum) in south east Queensland should not be able to access regulated tariffs.

As any analysis will show, the retail tariffs that do not recover their cost of supply are often the regulated tariffs that apply to Large commercial and industrial customers. This is a significant issue as most new industrial customers in south east Queensland choose to access regulated tariffs rather than enter the competitive electricity market.

The losses to the retailer providing energy supply to industrial customers on regulated can be significant. Origin agrees with the QCA that this market anomaly needs to be addressed before 1 July 2010. Indeed it is almost impossible to undertake a thorough and balanced approach to retail tariff reform while these customers are distorting the process of reasonable cost recovery.

- Is the existing schedule of tariffs sufficient to achieve cost reflectivity or should further tariffs be added (or deleted)?
- What types of tariffs would ideally be included in the tariff schedule?
- Regarding the conditions that restrict the uptake of certain regulated tariffs, are there any conditions that should be changed or relaxed to allow or encourage more customers to take advantage of time-of-use tariffs, controlled load tariffs or other types of tariff that may be considered more cost reflective?

The primary goal for retail tariff reform is appropriate alignment or pass-through of network charges. Based on the current Energex network tariffs, opportunities clearly exist for consolidation or removal of retail tariffs.

Origin would raise the following proposals for consideration regarding the current schedule of retail tariffs and potential consolidation or removal of tariffs in the short term and in the future:

- the current network tariffs do not distinguish between small domestic and small business customers that consume less than 25 MWh per annum. Similarly, the network does not distinguish between medium businesses or very large households that consume more than 25 MWh per annum on an energy only basis. This indicates that the aligned retail tariffs should be based on consumption rather than enterprise;
- given there appears to be little distinction in network cost between enterprises and in the case of small business customers (less than 25 MWh per annum) which receive quarterly bills, little difference in retail cost then does this enable a time of use retail tariff to apply to both small business and domestic customers;
- the declining block tariff (Tariff 21) should be removed with customers to access only the small or medium retail tariffs that apply to the small and medium domestic and business customers. This will happen naturally if the retail tariffs are made costs reflective and the retail fixed charges are set appropriately as both tariff 20 and 21 are based on the same network tariff with no other reason for retail cost to differ;
- if the QCA recommendation of Large customers not being able to access regulated tariffs is adopted then tariffs 41, 43 and 53 can be removed (Origin has no customers on tariff 53). The very few Small customers on these tariffs should access the flat and time-of-use retail tariffs available for small businesses (currently tariff 20 and 22);
- the prohibition of Large customers accessing regulated tariffs would also simplify the alignment of retail tariffs to network tariffs as currently, the general usage and low voltage retail tariffs have customers on up to 8 various standard network tariffs and potentially even a unique network charge for their business. Most of these network charges apply to Large customers and therefore would no longer be an issue;
- similarly, the application of high voltage discounts under Part 3 of the Gazettal could be removed as this only applies to Large customers and Origin would highlight that it has never been reviewed and is not cost reflective;
- given that Energex now produces a specific unmetered supply tariff which differs considerably from its standard non-demand metered tariffs, it is no longer appropriate to use tariff 20,21 and 22 for unmetered supply; and
- tariffs 62, 64, 65 and 66 should be deregulated, consolidated into a single time of use period or removed with current customers required to access the regular retail tariffs for their size of consumption.

In the future, Origin would ideally like to see explored:

- Additional time-of-use tariffs for residential customers to be developed for future implementation to provide customers with an incentive to shift demand from peak to

off peak periods. This is possible given that meters capable of measuring half hourly data are currently read as Type 6 (accumulation) meters; and

- Seasonality introduce into retail tariffs. Even without interval or time-of-use meters the opportunity exists for retail tariffs to vary between seasons such as Summer and Winter. Energy costs to retailers can vary significantly between seasons especially since the Queensland maximum demand moved from a Winter to Summer peak.

3.3 Promoting competition across classes of customers

- Is there a greater level of retail competition evident for certain classes of customers? If so, what makes these types of customers more attractive for competition?
- Are certain classes of customers, on average, currently on tariffs closer to cost reflectivity than others? Why?
- How should the Authority best determine the prices necessary to promote competition for each customer class?
- If prices are made cost reflective, are there any reasons why notified prices should not be retained for small and/or large business and commercial customers?

Many retail tariffs are not cost-reflective which inhibits retail competition in south east Queensland.

This is never more apparent than for Large industrial customers that continue to access regulated tariffs rather than enter the competitive market.

Cross-subsidies within tariffs may have been acceptable prior to full retail contestability (FRC) but with competition, customers that have higher implied margins under regulated tariffs are quickly offered market contracts and the margin is competed away. Customers that do not meet their cost of supply are not offered market contracts and remain on tariff to the detriment of the incumbent retailer.

As stated previously, Origin is happy to meet with the QCA to discuss in more depth and suing specific examples.

3.4 The removal and consolidation of tariffs

- Should the three existing tariffs that are labelled obsolete in the tariff schedule be removed, and if so, what are the implications of doing so?
- What criteria should be used to consider which tariffs to consolidate?
- Which of the existing tariffs should be consolidated?

The existing tariffs that are 'Obsolete' and cannot be accessed by new customers should be removed.

These tariffs were made obsolete many years ago during tariff consolidation. However, customers already on these tariffs remain given that as they are below cost-reflectivity, there is no incentive for these customers to move from them. In fact, the numbers of customers on these obsolete tariffs has changed little over the years.

Any reform of retail tariffs as a result of this review cannot allow such behaviour if it is to have any practical purpose.

Origin would highlight that if the QCA meets its objective of cost reflective retail tariffs then the incentive for customers to remain on the obsolete tariffs disappears. Consequently, Origin sees no purpose in retaining these tariffs.

The impact on customers of removing these tariffs completely will vary depending on their individual network tariffs but the impact will obviously be the same as if these tariffs were made cost reflective for south east Queensland customers.

Origin has highlighted in section 3.2 of this submission that, depending on the policy decision of whether to allow Large customers to remain on regulated tariff, tariffs such as 21, 41, 43 and 53 should be removed and the irrigation tariffs of 62, 64, 65 and 66 should be consolidated.

4. Alternative tariff structures to encourage efficient use of electricity

- What should be the relevant considerations when choosing alternative tariff structures that promote demand management and energy efficiency?
- What impacts will peak and off-peak pricing have on various customer classes? What classes of customers are likely to be affected most?
- To what extent could network tariff reforms better address demand management objectives rather than retail tariff reform?
- How should the Authority ensure that the structure of tariffs does not impede the existing initiatives of distributors in managing peak demand?

An important conceptual distinction needs to be made before further analysis of tariff structures. That is, the distinction between:

- Efficient use of electricity; and
- Efficient pricing of electricity.

Efficient use of electricity relates to the actions customers might take and the appliances they might purchase to enable a certain level of “comfort” for a given energy input. Efficient use can be encouraged by Schemes such as the Federal Governments insulation Scheme, or appliance standards etc.

Efficient pricing is also a way of encouraging customers to seek more efficient use. Importantly, however, from a societal perspective, efficient pricing means that the marginal price of the next unit of energy to the customer is equal to the marginal costs of its supply (generation and distribution). Efficient pricing therefore is focussed, not necessarily (or at least, not only) on reducing demand per se, but on ensuring that at a particular time of day/season etc, the consumer uses more, providing that customer fully pays the cost of that incremental use (including externalities) and is not therefore being subsidised by other (energy) users.

On this basis, the purpose of restructuring price is therefore not to restrict the customer’s choice to use more or less but to ensure that the customer is charged the full cost of that choice (including externalities such as carbon).

The current retail tariff structures clearly do not send the appropriate price signals to consumers given that there is no pass-through of network pricing and often a complete misalignment between electricity supply costs and regulated retail tariffs. As noted, this lack incorporates both the:

- price signals regarding efficient use of network assets not being reflected in the various retail prices; and
- the fixed and variable costs pertaining to various tariffs also not being transparent.

In addition, any additional pricing signals that the network wishes to communicate to consumers such as energy loss mitigation through use of kVA tariffs or minimising use of the network at peak period through demand pricing are currently unachievable.

The QCA proposal for an N + R build-up of retail tariffs is appropriate as it will allow the network’s price signals to be reflected in customers’ actual charges. As a consequence, the electricity distribution network will be able to implement future demand management and energy efficiency initiatives and influence customer behaviour.

From Origin’s point of view, the tariff structure of the retail component also needs to reflect the underlying cost of supply.

The current retail tariff structure with a flat variable rate allows little price signalling to take account of time-related variations in the wholesale energy cost. This may include:

- time of use during the day;
- time of use during the week; and
- the variation in energy cost between seasons such as winter or summer.

Retailers' wholesale energy cost is dependent on the time of use but such cost reflective pricing is naturally constrained by the technology available to access the requisite information/data. Despite this impediment, it is appropriate for the QCA to explore both time of use pricing, which will require additional metering capability, and seasonal tariffs (Winter v Summer rates) which can utilise current metering data.

Any time of use pricing will most affect customers who are not able to shift their consumption from the peak period to the off peak period or those that are not responsive price. Customer that are responsive to price and can alter their behaviour will benefit from time-of-use pricing.

However, Origin cautions against implementing demand based tariffs for Small customers on "bundled" pricing arrangements, at least not without a significant period of consultation and piloting of the impact of such tariffs on consumers and retailers.

4.1 Inclining block tariff

- **Would the introduction of an inclining block tariff structure deliver significant benefits (in terms of more efficient use of electricity and reduced peak demand) by itself?**
- **Would an inclining block tariff structure be more suited to some tariffs than others? Which ones?**
- **What thresholds would be appropriate for each of these tariffs in order to provide appropriate pricing signals?**

Inclining block tariffs have been adopted as a solution to the inability of flat tariff structures to provide a demand pricing signal and rely on the imperfect relationship between energy consumption and demand (load factor).

Origin agrees that an inclining block tariff can provide a signal to customers to reduce their overall consumption and this can have an indirect effect on maximum demand.

Given the availability of the necessary metering data, the use of time-of-use retail tariffs will be obviously be more effective in reducing peak demand. However, an appropriately structured inclining block tariff can provide a more efficient price signal than the existing flat tariffs.

Origin considers that an inclining block tariff would be most appropriate for customer classes with consumption patterns that have:

- consistent load factors so that the impact is equitable across all customers; or
- high load factors where high energy consumption reflects high demand.

As such, an inclining block tariff may be most appropriate for tariff 11 where household appliances and hence the load factor is fairly consistent across consumers and high energy consumption will often (but not always) reflect high peak demand.

Calculating an appropriate threshold(s) for an inclining block tariff, and the “size” of the steps) would require analysis of actual customer data from the appropriate customers. For tariff 11, this may be attainable from sample meters in south east Queensland.

4.2 Peak demand and time-of-use pricing

- How widely available are time-of-use meters and to what types of customers?
- Would the availability of peak pricing and time-of-use tariff structures deliver significant benefits (in terms of more efficient use of electricity and reduced peak demand) given the existing availability of the required metering?
- Should time-of-use metering be encouraged and, if so, how?

Origin understands that increasing number of interval meters are being rolled out by Energex into the south east Queensland region but no direct information on availability.

As stated above, time-of-use pricing is more effective than inclining block tariffs in encouraging customer behaviour with regard to peak demand.

Origin would query whether the current time-of-use network tariff for small businesses is appropriate for residential customers and would it enable a time-of-use retail tariff to be used for both small business and residential customers?

Importantly, the introduction of time-of-use metering and pricing has to be accompanied by reform in the overall regulatory framework if it is to achieve its objectives. What must be avoided are regulatory arrangements that allow, for instance, a customer who has a high peak demand (and therefore imposes high costs), to remain on a flat tariff because that is cheaper to them. To do so, defeats the whole purpose of the exercise. However, in the alternative, these same customers are likely to face significant price changes.²

4.3 Interruptible tariffs and other demand initiatives

- How effective are interruptible tariffs and/or individual control devices in managing customer demand during peak demand periods?
- To what extent have customers in each distribution area that have the capacity to access an interruptible tariff taken up the option?
- What types of consumption would be suitable for interruptible tariffs and/or individual control devices?
- What are the metering requirements for hard wired appliances and those using individual control devices?
- Would a wider availability of interruptible tariffs and/or individual control devices enabling remote load control be an effective means of managing periods of peak customer demand? Would it be more cost effective?
- What other demand management initiatives are being undertaken by industry?
- Are such schemes capable of being integrated with any of the identified alternative tariff structures?
- Are alternatives to the existing tariff structures necessary for such other demand management initiatives to be successful?

Demand management can be provided by two methods:

² The issue of mandatory assignment of customers to a time-of-use retail tariff, in conjunction with interval metering and time-of-use network tariffs is a key issue facing regulators in all jurisdictions.

1. pricing signals (time-of-use pricing); or
2. physical device control, either:
 - a. “mandated” by the retailer and/or distributor (as per tariff 31 and 33); or
 - b. Optional, at the customer’s discretion.

Origin believes that appropriate price signals are the most efficient method for managing customer behaviour, as it allows customers to exercise choice between higher bills (ie. bills that represent the true cost of their energy demand) or change in behaviour and lower costs. However, effective price signals are totally dependent on:

- the appropriate metering;
- the subsequent data provision to enable price setting and billing;
- that all other retail prices are cost reflective in order for specific behaviour to be encouraged; and
- the right regulatory arrangements for standing contract customers on notified prices.

The current situation in Queensland does not provide these factors. Origin cannot countenance the mandated installation and use of interval metering for Small customers unless a full and rigorous cost benefit study is conducted prior to such a decision being made. This must be consistent with the Smart Meter regulatory requirements developed under the auspices of COAG and the MCE and currently in the South Australian Parliament³.

Physical device control can be orchestrated through voluntary participation by customers (controlled load) or through involuntary or mandated technical interruption.

If the objective of interruptible retail tariffs is to provide significant reduction in peak demand to assist network management then it needs to be clear whether this provision relates to additional “supply” in emergency situations only or to ongoing reduction in peak demand⁴. If the latter, then Origin considers that it should be met only via voluntary participation as customers in general should be free to choose between higher prices and higher demand, or lower prices and lower demand.

In the case of voluntary interruption, cost reflective pricing for all retail tariffs is again a prerequisite in order to provide incentives for customer participation.

³ National Electricity (South Australia) (Smart Meters) Amendment Bill 2009

⁴ Peak demand growth can also be addressed in economic efficiency terms by greater investment in the system, providing the relevant consumers are charged the appropriate incremental costs and have made their economic utility decisions on the basis of these full costs.

5. Transitional arrangements and future options

- **How should the Authority ensure that the structure of the notified tariffs will allow or complement the future use of smarter meters and similar technology?**

Origin would also point to the commitment by Queensland to price deregulation under the Australia Energy Market Agreement (AEMA) and that as a consequence, the QCA needs to consider the regulated tariffs in Queensland as a safety net to enable competition rather than attempting to establish regulated tariffs to pre-empt future developments in the energy markets.

At this point in time, Origin believes that the most effective way that the QCA can ensure that new technology and associated pricing is adopted by customers in the future is to remove the impediment that has been created by regulated retail prices not being at cost reflective levels.

As stated above, price signals that represent the true cost of supply and the subsequent voluntary take-up of products such as interruptible load is more efficient than any mandated use of technology and associated regulated prices.

However, in the “special case” of customers having a statutory right to revert to or remain on a notified price at any time (as in Queensland), additional regulatory requirements that allow mandated reassignment of customers to time-of-use notified prices in the event of a smart meter and network time-of-use price.

- **What transitional arrangements should the Authority consider to allow customers affected by any change the opportunity to respond to any changes that result from tariff restructure and the introduction of cost reflective tariffs?**

Firstly, Origin agrees that Large customers should be moved off notified prices, effective from 1 July 2010, providing there is 6 months notice to this effect.

Considering Small customers, Origin agrees with the QCA that tariff changes that may have large impacts on some consumers cannot be made in isolation and it is important that sufficient notice be provided to allow them to make any adjustments of consumption behaviour. As such, Origin considers that not all retail tariffs may be moved to full cost reflectivity on 1 July 2010.

However, it is essential that significant steps are made in July 2010 towards tariff reform. The changes to retail tariffs that Origin is advocating for 2010-11 include alignment of retail tariffs to network tariffs, rationalisation of some retail tariffs and adjustments to tariff structures. These are important steps to tariff reform and are only incremental improvements in cost reflectivity. Any consideration of the impact on customers should note that the effected customers are yet to face their true cost of supply.

The impact of tariff reform on vulnerable customers needs to be mitigated through the direct subsidies provided by Governments to these affected customers. Origin is happy to work with all the Queensland authorities on this matter.