

19 October 2012

Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

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

**RE: Submission on the Interim Consultation Paper - Regulated Retail Electricity Prices 2013-14**

Dear Sir /Madam

Thank you for the opportunity to provide a submission on the Interim Consultation Paper.

We represent many customers throughout Queensland with the majority being Residential Bodies Corporate as well as other commercial and industrial customers. Our customers include SMALL and LARGE market customers with their electricity supply under both regulated and negotiated contract arrangements. These customers are spread across Queensland in both the Energex and Ergon Distribution areas.

The two principal consultants for Energy Options Australia have worked in the Queensland Electricity Industry for over 75 years across many areas of generation, distribution and retail areas and we consider are well qualified to provide comments in these areas.

**Matters for Consideration**

We acknowledge the need to review the regulated tariff charges and structures to better reflect the cost of supply (in terms of network and retail costs) of electricity to all customers in Queensland. However just as importantly there needs to be consistency across the retail and network charge components to ensure consistency between regulated tariff and market contract arrangements.

We ask that regardless of the actual costs of making, producing or supplying the goods or services, the regulated structures embracing these costs must be consistent and the tariff structures must reflect the consumption and or usage of electricity (peak, off peak and demand) for all customers fairly and equitably – which is not currently the case.

There may even be a case for consideration of different regulated tariff prices for the Energex and Ergon distribution areas if consistency is to be delivered and the cost of electricity is reflective of the cost to supply.

Many of the recent changes made in the tariff structures and regulatory conditions affecting customers are valid and make perfect sense; however there are some that raise concerns and questions. Some of these issues are discussed following.

## **Tariff 20**

The current Tariff 20 rates for 2012/13 reduced by approximately 23% compared to the rates for 2011/12 and there is concern the new charges do not reflect appropriately the cost of supply under this tariff to the majority of customers eligible for this tariff.

Also basing the N component on the Energex network tariffs has no logic particularly for customers in the Ergon area, particularly when the tariffs for the large customers are based on the N components using the Ergon network tariffs.

In many cases larger customers in both the Energex and Ergon areas with much better load profile / load factors (i.e. overall better utilisation of the network) end up with higher average electricity charges compared to the rate delivered under Tariff 20. This has been particularly devastating for some larger customers who on-supply electricity in shopping centres and commercial properties.

This point is discussed in more detail later.

## **Tariff 22**

The current Time of Use Tariff 22 has little or no differentiation in the off peak rates and therefore does not provide the incentive for customers to alter their practices and move load to off peak times which of course could potentially provide benefit to the network, reduce peak demand and provide a greater utilisation of existing infrastructure.

The peak and off peak rates do not take into consideration the difference in the retail peak and off peak energy rates delivered by the market. A more appropriate differential in the bundled tariff rates (on the basis of the Energex network charges) would be closer to 5 or 6 c/kWh (or greater) rather than the 2.097 c/kWh. This takes into account up to a 3.0 c/kWh difference in the current peak and off peak negotiated retail energy rates.

## **Tariff 41**

Tariff 41 has little benefit for any small customer and there appears no logic on the structure (or more particularly the component costs) and this limits the use or application of this tariff. For any customer to benefit on this tariff (compared to Tariff 20) they would require a load factor in excess of 70% or greater. In addition any customer with a load factor this high would have a significant amount of off peak usage and be better off on Tariff 22. This means a customer would need an even higher load factor (possibly in excess of 80%) before Tariff 41 was then better than Tariff 22.

In particular the extremely high Service Fee of \$17.05714 per day is perhaps one of the main reasons this tariff is unlikely to be suitable for any customer.

Also the assumptions used by the QCA previously in the final determination of the Regulated Retail Electricity Prices showed a clear lack of understanding and application of this tariff.

We do however see the benefit of this type of tariff and while the structure makes sense in its current form, the individual charge elements do not, and a more balanced set of charges need to be established to make his tariff viable.

## **Large Residential Customers**

There needs to be more clarity in the ability for residential customers such as Bodies Corporate (common area electricity accounts) to remain on a regulated tariff arrangement in the Energex distribution area. While we acknowledge that there are generally greater benefits for larger customers of this type in negotiating a market contract, a Residential Body Corporate has the right to remain on a regulated tariff.

The Retail Electricity Prices as published in the Queensland Government Gazette allows for a large Residential customer to access the tariff but the market participants (retailers and distribution

entities) seem to have a lack of clarity on the application of these tariffs and are pushing Residential customers into other arrangements often with higher costs.

Our interpretation is that a residential customer such as a Body Corporate common area electricity account should have access to Tariffs 11, 12, 20 and 22 and this needs to be understood by the retailers.

We understand part of this is how the retailers and network may classify the customer. Just because they are currently on Tariff 20 or 22 does not automatically make them a business customer.

Clarification is urgently required in this area so as not to disadvantage large Residential customers.

This is further illustrated by the footnote on page one of the QCA consultation paper stating “*Large customers in Energex’s distribution area no longer have access to notified prices*”.

*This contradicts our understanding and is a significant inconsistency.*

### **Impact of Removal of Benchmark Tariff in Embedded Networks**

As you will be aware there are many bulk supply arrangements or embedded networks in Queensland – Bodies Corporate, Shopping Centres, Commercial Building, etc.

The removal of the previous tariffs as a benchmark for all embedded tenants (in the Energex area) who consume over 100,000 kWh is a serious issue for both tenants and landlords alike. This arrangement provides no equitable arrangement in situations where electricity is on-supplied and part of this is due to the crossover of using the Energex and Ergon network tariffs as the underlying N component of the regulated tariffs.

Using the Energex network charges as the basis for the new Tariff 20 charges for small customers and then using the Ergon network tariffs as the basis for the larger demand tariffs (that most landlords will eventually have to change to if not already on one of these tariffs) provides a clear disconnect and will place many larger customers in the Ergon area who on-supply in a loss making situation. We have come across many customers in the Ergon area currently making a loss on-supplying to small tenants.

When you consider a bulk supplied site, particularly one such as a shopping centre, the network charges to the connection point to the centre should always deliver a lower average cost than would be applicable for any tenant under an individual supply. Therefore in general it should be impossible for an embedded tenant with an average load factor to have lower overall electricity charges than the bulk supply connection (assuming a similar overall load factor) for the landlord.

You then have the opposite where it has been made acceptable to on-supply to a large tenant (over 100,000 kWh per annum) in the Energex area at the transitional Tariff 20 charges (in lieu of any other equitable arrangement) with average costs up to 26% more than the new tariff 20 charges. This is a grossly unfair arrangement in particular for tenants of an embedded network in the Energex area.

We acknowledge that large customers should have similar rights to negotiate a better electricity supply arrangement with the landlord or owner in the same manner as any other customers outside of an embedded network, however the current framework in Queensland does not provide for parent/child NMI arrangements that would allow tenants to opt out of an embedded network as they can in other states. *This is a decision made by the relevant network companies and retailers – not the embedded network owners.*

It is very clear that significant thought is required to create a fair arrangement for both landlords and tenants and that the arrangements reflect the cost of supply for all parties. This is not a simple process as there will be difference between embedded sites in the Energex and Ergon areas.

It is also important that industry bodies such as The Property Council and Shopping Centre Council of Australia are consulted in these matters.

## **Network Tariffs**

Basing the network cost component for small customers on the network charges to be levied by Energex and large customers on the network charges to be levied by Ergon Energy in its current form does not deliver an equitable outcome for small and large customers, particularly in the Ergon area.

This is clearly reflected in the issues associated in on-supply arrangements where it is possible for an embedded tenant to have a lower average cost under Tariff 20 than the landlord where the site is on a demand based tariff.

## **Uniform Tariff Policy**

Much of the reform is based on the cost of electricity and the need for all tariffs to be cost reflective. This may unfortunately be the time for consideration for tariffs in the Ergon area to be different to the Energex area.

Many of the issues raised is due directly to the crossover between using Energex and or Ergon networks charges as the basis for the regulated tariff structure and this clearly is not working.

Most other jurisdictions in Australia have different regulated charges that reflect the costs in each distribution area.

## **Network Charges - TUOS and DUOS Charges**

While this may not be directly a responsibility of the QCA in this process, it is an area that we would like to bring to your attention as it does impact directly on the ability to deliver a fair representation of the true network cost for all customers and consistency in the N component of any regulated tariff.

This primarily affects customers in the Energex area using between 100,000 to 300,000 kWh per annum. Recent changes in the structure of the network charges has seen customers in this range face an increase in network charges of between 25% and 67% - well above the average network tariff increase of 16%.

The increases were primarily associated with the way Energex chose to distribute the TUOS or Powerlink transmission use of system charges to all SAC demand customers – i.e. with the major component being a fixed charge of \$10.12 + GST per day.

Customers with smaller consumption will of course pay a disproportionate amount on an average c/kWh basis and this is not reflective of their impact of the upstream infrastructure costs.

As an example a customer classified as small using 99,000 kWh per annum would pay the approximate charges under a SAC non demand network tariff –

DUOS - \$8,519 + GST

TUOS - \$1,690 + GST

Total - \$10,209 + GST or 10.3129 c/kWh

A customer using 101,000 kWh per annum would be forced on to a large market arrangement and their charges under a SAC demand based network tariff (8300) would be as follows -

DUOS - \$7,178 + GST

TUOS - \$5,434 + GST

Total - \$12,612+ GST or 12.4871 c/kWh

This represent as increase of over 21%, however the major increase is associated with the TUOS component being over 200% increase over the average cost for the small customer.

The slightly less DUOS charge for the larger customer represents a fairer user pays outcome and you would expect the larger customer with good load factor to have a slightly lower average cost.

The issue with the TUOS component is there is no incentive to reduce usage or demand as the fixed cost is the majority of the charge.

Also we understand that side constraints are applied to the DUOS component of the network charge but not the TUOS. This provide a grossly indiscriminate way of distributing charge that should be shared evenly and should be considered by the regulatory bodies to ensure customers are both unfairly charged as is clearly the case for these small customers.

What makes it worse is that many of these customers have very good load factors and are amongst the more efficient and consistent electricity customers (i.e. Good utilisation of the upstream infrastructure) and yet they are being punished for no good reason.

The reason we consider this point an important part of the overall review is again the delivery of consistent charges for all customers. With this level of inconsistency affecting the underlying N component of the regulated charges, how is the QCA expected to deliver a fair outcome?

We thank you again for the opportunity to provide this submission and would welcome the opportunity to attend any public workshops on energy and retails costs.

Should you have any questions regarding this submission please contact me on 0414 370 993.

Yours Sincerely

A handwritten signature in cursive script that reads "Andrew McNair".

Andrew McNair  
Principal Consultant