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Electrical and Communications Association
Representing the electrical and communications industry in Queensland

9 August 2011

Mr Gary Henry
Director Electricity and Gas
Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

Via e-mail <electricity@qca.org.au>

Dear Mr Henry

Re: Review of Regulated Retail Electricity Tariffs and Prices

The Electrical and Communications Association (ECA) and Master Electricians welcomes an opportunity to provide a response to the QCA's call for submissions as part of the *Review of Regulated Retail Electricity Tariffs and Prices 2011*.

ECA is conscious of the intention of the current Minister to consolidate a new tariff structure for electricity by 2012. This is in response to a number of factors, including public concerns at the rising price of electricity within Queensland. Note Attachment 1.

The **Electrical and Communications Association** (ECA) is the leading voice of the eletrotechnology industry and is committed to improving and advancing this sector. ECA is registered as an industrial organisation under Queensland legislation with its operation in Queensland. The association's website is: <http://www.ecaq.asn.au>.

Master Electricians Australia Ltd (MEA) is a not-for-profit organisation that provides a national accreditation program to electrical contractors seeking to differentiate themselves from other contractors - similar to that process adopted by Master Builders within the construction industry. MEA is a partner organisation of ECA and operates nationally.

References to ECA and opinions expressed by the ECA, within this submission, should be read as both the ECA and Master Electricians.

For the purposes of this submission, the ECA has limited its comments to Part 1 of the current Tariff Schedule "Tariffs for Domestic, Commercial and Rural Applications". These comprise the majority of tariffs accessible to residential and commercial users. (*Queensland Government Gazette No.35. 31 May 2011*)

Queensland is to be commended for its efforts to introduce an element of choice within the marketplace. Most recently the Minister announced the recent introduction of Tariff 33 for residential customers.

This tariff, aimed especially towards pool users, provides a targeted measure through which consumers can be empowered to make a conscious and rationale decision about achieving savings.

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Yet despite a total of 17 different tariffs being described under Part 1 of the Tariff Schedule, the reality is most households are unlikely to access any more than three separate tariffs under their current contracts – and most likely only one or two (depending on their hot water supply).

For most domestic, urban users, choice generally revolves around the following:

Tariff	Usage	Conditions
Tariff 11	Normal domestic power, lighting and continuous hot water	Standard residential metered supply
Tariff 31	“Off peak” (10:00pm to 7:00am) supply to a permanently connected device (e.g. hot water heater)	Standard residential metered supply
Tariff 33	Controlled supply to a specific socket (e.g. pool filter). Supply will be available for a minimum 8 hours per day.	Standard residential metered supply. <i>*Requires installation by a licenced electrician</i>

With options somewhat limited, the onus falls to consumers to manage their own consumption patterns in order to realise savings, manage load on the system and ultimately contribute, in partnership with suppliers, in efforts to achieve efficiencies in the allocation and utilisation of resources.

ECA welcomes continued moves by the QCA, the Minister, network suppliers and retailers to reform tariff structures to achieve the goals above.

The Authority seeks stakeholders’ views on the issues raised above, in particular the suitability of the Energex tariff structure as a basis for meeting retail pricing objectives. The Authority is also interested in any other matters concerning the setting of network tariffs which stakeholders consider important to be considered in this review.

(Extract QCA Issues Paper, Review of Regulated Retail Electricity Tariffs and Prices)

ECA’s supports a dynamic price structure within the Queensland market.

We believe that altering residential consumption patterns in order to better manage the load on Queensland’s electricity network and to deliver cheaper pricing to consumers **will only be achieved through the significant uptake of Controlled Load Tariffs** rather than a move to the inclining block regime.

The ECA agrees with the assessment made within the QCA Issues Paper that the current network tariffs do not provide a suitable basis on which to construct a number of the proposed retail tariffs that have been suggested for the Queensland retail market. This would include both the government’s preferred inclining block tariff and controlled load tariffs as supported by the ECA. Despite this, the ECA does note that in response to a request from the QCA, Energex have released a draft network tariff regime, which includes a “draft” network inclining block tariff, prepared in response to the terms laid out in the Ministerial Direction.

We support:

- the targeted introduction of controlled load retail tariffs that are aimed at improving choice for consumers and delivering efficiency in the management of demand;
- by extension, the introduction of controlled load network tariffs, in order that these tariffs can be replicated within the retail market;
- the promotion by both government and industry of the diversity tariff options, thereby encouraging consumers to be more aware of their options under a new tariff structure;
- the removal of obsolete tariffs, thereby removing confusion and offering a greater clarity regarding the new tariff structure;
- allowing consumers to move more readily between plans and across tariffs with little or no penalty, and based around personal preferences, household size, experience and time of year. ECA believes this could be delivered through the use of existing technology such as Internet based access to their account settings. Such outcomes are already widely adopted in online banking and via internet service providers to allow users to monitor their net usage;
- a program to roll out contemporary meter technology, such as interval meters (and other smart meter technology), allowing consumers to effectively monitor and manage their use patterns in real time;
- the continued promotion and the greater use of smart technology within both existing and new households. Examples such as residential access to power storage within batteries and solar power improve the capacity of individual households to both manage load and contribute back to the supply grid;

The ECA/Master Electricians notes the Ministerial media release of 11 May 2011 in which the broad principles of a new tariff structure were outlined.

The central element of this announcement was the proposal for the state to move to an inclining block tariff structure for Tariff 11. The release also foreshadowed the possibility of the introduction of a time-of-use tariff *“for those customers with an interval meter installed.”*

ECA/Master Electricians has for some time now been afforded the opportunity to be an authoritative and unbiased commentator on a wide range of state-based reforms and pricing policies implemented by state governments. We offer the following observations.

- **Flat Tariffs** employed within the current structure appear to be the fairest tariff at present, with a genuine “user pays” process in place. A flat tariff however offers no incentive for users to use less power, or use power outside of peak demand times. As acknowledged by the Minister, the current reliance on a flat tariff structure is failing to deliver savings to consumers and provides the government with a strong catalyst for reform. In fact, the simplicity of the flat tariff belies many of its weaknesses as Queensland moves to achieve a complex range of outcomes across, pricing, demand management, resource allocation and infrastructure costs.

- **Controlled Load Tariffs** can be described as a specifically targeted tariff. They provide *real benefits* but are underutilised because of a number of issues such as the current requirement to hard wire appliances and no back up for one odd day per year when power is needed at the wrong time. This weakness could be overcome through smarter technology such as the installation of a “booster switch” which could allow the consumer to manually boost their supply under times of extreme need (and still under the discretion of the supplier). Greater customer education is needed from both energy retailers and electrical contractors to provide a greater awareness about the ongoing benefits of supporting this type of expanded tariff regime in both domestic and commercial situations.

The adoption of this type of tariff can cover an array of possible new options for installing both wired and socket outlets within the household (internally and externally). These installations might conceivably adopt a colour coding to clarify their use and the associated tariff. Using a demand management approach and competitive pricing these tariffs could be employed within households (particularly new builds or renovations) to allow the consumption of cheaper priced electricity subject to acknowledged demand constraints (including zero power supply). Such tariffs are well placed to be used in a variety of settings throughout a household and could include dishwashers, second televisions, free standing lights, outdoor pool lighting, power for tools and other portable appliances. This is combined with an acknowledged demand for housing driven by factors including population growth in SEQ and demand post floods and natural disasters.

ECA believes strongly that the large-scale reinvestment into these tariffs will see a major impact on peak loads and reduce prices.

A block tariff is a tariff that has different prices depending on how much electricity you use.
(Source: Tariff Review Fact Sheet 2009, Qld Mines and Energy)

The structure incorporates a fixed price component as a separate network charge to cover the infrastructure charge to deliver power to households across the network and a variable component aligned to the pricing strategy.

In its review of 2009 the QCA noted, with reference specifically to the inclining block tariff

“While the Authority accepts (as noted in chapter 3) that inclining block and declining block tariffs offer some benefits in certain situations, these tariff structures are a generally poorly targeted instruments for achieving demand management objectives as, on their own, they do not distinguish between consumption in peak and off-peak times. “

Review of Electricity Pricing and Tariff Structures - Stage 2 Final Report. QCA Nov 2009.

ECA continues to agree with this assessment.

- **Inclining Block tariffs** – mean the more you use the more you pay. Inefficient or excessive electricity use is discouraged with this type of tariff as the more electricity that is consumed, the more expensive it becomes. Conversely, those who use energy wisely pay a cheaper rate. This type of tariff is used to encourage a reduction in total energy consumption. Most other states across Australia have a form of inclining block tariff for domestic tariffs. Yet the inclining block tariff sees the

government supporting a “penalty regime” in order to discourage use through a strategy of higher pricing when consumption rises.

The inclining block tariff is seen to discriminate against larger households and families on the basis that they are generally unlikely to be able to modify their consumption levels. This type of tariff does not require new meters to be installed. However, this tariff does not necessarily reduce peak demand and as such, may not reduce the infrastructure investment required in the longer term

- **Declining Block tariffs** where the more you use the less you pay. This type of tariff does not encourage consumers to save electricity as the more electricity that is used, the cheaper it becomes. The tariff has not been employed in Queensland for some time. (Source: *Tariff Review Fact Sheet 2009, Qld Mines and Energy*)
- **Time of Use Tariffs** employ a variable pricing structure to electricity use at specific times of the day. Despite the evident attraction, often enhanced by a marketing focus on cheaper rates, the interstate experience with this tariff has been very disappointing. In practice the tariff provides an excessive peak period with virtually no discount on the shoulder. Generally there is limited opportunity for the average household to actually take advantage of lower prices. Households end up actually paying more after being encouraged onto the tariff with the lure of paying less. (See Table 1 below). The customers who do save money are those who already use power at odd times of day such as shift workers. The recognition of these facts within competitive markets such as NSW has meant a generally poor update; resulting in little benefit towards the management of peak loads.
- **Maximum demand tariffs** seek to limit demand to a predetermined amount by the supplier. If this maximum is not met the normal tariff would apply, if it is exceeded the customer is billed at the higher penalty tariff. These tariffs are generally far more suited to commercial applications with consistent load demands. The ECA believes they are not suitable for domestic situations without significant support through new technologies such as battery banks and smart metering.

Table 1 – Time of Day Tariff Outcomes

Current NSW Time of Day Tariff

Service	Rate	Rate (inc. GST)
Peak Energy	27.5700¢ per kWh (excl. GST)	30.3270¢ per kWh (incl. GST)
Shoulder Energy	21.4400¢ per kWh (excl. GST)	23.5840¢ per kWh (incl. GST)
Off-Peak Energy	10.3400¢ per kWh (excl. GST)	11.3740¢ per kWh (incl. GST)
System Access Charge	68.00¢ per day (excl. GST)	74.80¢ per day (incl. GST)

Peak Energy: Electricity supplied from 1 pm to 8 pm on *business days*.

Shoulder Energy: Electricity supplied from 7 am to 1 pm and from 8 pm to 10 pm on *business days* and 7am to 10pm on weekends and public holidays.

Off-Peak Energy: Electricity supplied from 10 pm to 7 am on every day

Normal Domestic Tariff

First 1,750kWh per quarter*	18.9300¢ per kWh (excl. GST)	20.8230¢ per kWh (incl. GST)
Balance*	20.9600¢ per kWh (excl. GST)	23.0560¢ per kWh (incl. GST)

System Access Charge 52.00¢ per day (excl. GST) 57.20¢ per day (incl. GST)

Source: Integral Energy NSW.

What is clear from **Table 1** above is that whilst NSW consumers might be tempted by the prospect of time of day pricing of Off Peak energy being supplied at 11 cents per kWh, this rate is only available after 10:00pm at night and before 7:00am.

All other tariffs in NSW, including the standard System Access Charge, are higher for consumers under the Time of Day Scheme than they are under the regular tariff regime. It is hardly of surprise to find consumers tempted by the promise of time of day rates promoted as being as nearly half their current rate signing up, only to find they are hit with a tripling of their bill under the new scheme.

Based on these observations, the ECA confirms its general opposition to the use of the inclining block tariff.

We note that in previous reviews of electricity pricing, including the QCA's 2009 Review, the authority did not include a recommendation in support of the inclining block tariffs and we believe that despite the recognised need to manage supply, in particular peak loads, there continues to be a lack of support for the inclining block model.

The Authority seeks stakeholders' views on the issues that should be considered in relation to the pass through of network costs, in particular, should network and retail costs be separately identified on a customer's bill?

(Extract QCA Issues Paper, Review of Regulated Retail Electricity Tariffs and Prices)

The ECA supports efforts to provide consumers with greater transparency with respect to pricing. As such we would support network and retail costs being identified separately on the consumer's bill and in manner, consistent with QCA recommendations that is "simple and logical for consumers to understand."

The ECA/Master Electricians welcomes the state's commitment toward reforming the tariff structure. We look forward to the opportunity to provide further submissions.

Yours sincerely



Malcolm Richards
Chief Executive Officer

Attachment 1

