Submission Paper

Review of Regulated Retail Electricity Tariffs and Prices

Response to the QCA Issues Paper

August 2011

ENERGEX Limited
GPO Box 1461
Brisbane QLD 4001
ABN 40 078 849 055

energex
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Table of Contents

1 Introduction

ENERGEX Limited (ENERGEX) welcomes the opportunity provided by the Queensland Competition Authority (QCA) to submit comments on the *Review of Regulated Retail Electricity Tariffs and Prices Issues Paper*.

ENERGEX fully supports a robust and consultative approach to electricity pricing reform. Obtaining the understanding and support of our customers in designing and implementing new tariffs will be a major consideration in the review of ENERGEX's network tariffs

Whilst the Issues Paper covers a wide range of issues, ENERGEX's comments and responses are limited to the specific QCA questions regarding the treatment of network costs and some other general comments.

1.1 General Comments

ENERGEX is committed to delivering safe, reliable and affordable electricity in a commercial environment that recognises the need to balance customer outcomes with effective risk and price management. As an electricity distribution business operating in the national electricity market, the challenge for ENERGEX is meeting peak demand at a price customers are prepared to pay.

Solid economic growth, together with increasing population numbers and the ever increasing use of energy-intensive appliances such as air-conditioners, computers and large screen televisions is resulting in higher peak demand. Accordingly, meeting peak demand continues to play a major part in ENERGEX's growth challenge.

Demand during peak periods drives network investment. Due to the legacy nature of the notified tariffs, the network pricing signals of the impact of customers' electricity use on network costs are not reflected in the current regulated retail tariff. ENERGEX is of the view that sending cost reflective price signals to customers in regard to their usage of the network will provide significant benefits in terms of encouraging customers to minimise demand at peak times and in the long term reducing the total cost of delivered energy.

ENERGEX therefore supports the objective of cost reflective tariffs and the direct pass-through of network costs for all customers through the regulated retail tariffs as set out in the Minister's Direction Notice.

ENERGEX acknowledges that there will be a price impact on customers as a result of this review. However the network tariffs proposed are designed to provide a number of customer options to manage usage and hence costs.

This will be supported by raising customer awareness of the options available to them through a customer information campaign.

2 Response to Questions

ENERGEX's responses to the questions raised in the Issues Paper regarding the treatment of network costs are provided below.

2.1 ENERGEX's network tariffs

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.

ENERGEX network prices are approved by the Australian Energy Regulator (AER) on an annual basis and must comply with Chapter 6 of the National Electricity Rules. These prices seek to recover the cost of distribution and transmission network services through a cost reflective, combined network use of system charge (NUoS).

ENERGEX's network tariff structure and prices for 2011-12 are included in ENERGEX's Pricing Proposal approved by the AER and published on its website.

Full retail competition (FRC) in Queensland commenced on 1 July 2007. Prior to FRC, notified prices for retail electricity generally varied each year in line with changes in the consumer price index (CPI), subject to the approval of the responsible Minister. With the commencement of FRC, the Queensland Government developed a new method for revising notified prices each year and delegated this responsibility to the QCA. The new method (called Benchmark Retail Cost Index (BRCI)) requires the notified price of electricity to be adjusted annually according to changes in the cost of providing electricity. The BRCI approach to the determination of the notified price of electricity does not involve a bottom up calculation of the efficient price of retail electricity each year. Rather, the existing price of electricity is escalated on the basis of the change in the index to reflect the expected change in the underlying cost of supplying electricity to consumers. The annual increase is then applied to the prevailing retail prices. This approach has been adopted in the last five years.

Network tariffs generally comprise about 50 percent of the final retail tariff for small customers, and form a sub-component of this tariff. ENERGEX network tariffs have also evolved over time. With deregulation of the industry in the late 1990s, ENERGEX has developed its network tariffs based on its cost of supply and the demands of customers in terms of capacity, security and supply reliability.

ENERGEX therefore agrees with the QCA's assessment that the existing suite of network tariffs do not fully align with the published regulated retail tariffs for 2011-12; primarily due to the BRCI methodology i.e. incremental rather than cost stack.

Currently ENERGEX has only a flat rate network tariff for domestic customers and this is mapped to Tariff 11 in the Gazette. The proposed tariff reforms set out in the Minister's Direction Notice include a new inclining block retail tariff (IBT) and a voluntary time of use (ToU) retail tariff for domestic customers.

The Direction requires the QCA to adopt a cost reflective N+R pricing model under which the network costs (N) are to be treated as a straight pass through to customers. The proposed N+R approach to the regulated retail tariffs will therefore require a single network tariff to be mapped to each retail tariff.

To comply with the above, ENERGEX has undertaken a review of the existing network tariff schedule to align with the objectives set out in the Direction Notice. This has included a proposed consolidation of the current network tariffs for business customers and the development of a proposed IBT and ToU tariff structure for domestic customers.

Appendix A includes a proposed tariff map indicating which network tariff ENERGEX expects to map to each of the regulated retail tariffs.

2.1.1 Proposed changes to ENERGEX network tariffs for domestic customers

Inclining Block Tariff (IBT)

To comply with Minister's Direction Notice, ENERGEX is proposing the introduction of a new inclining block network tariff to replace the existing flat-rate domestic network tariff. A new voluntary domestic ToU network tariff is also proposed as an alternative option for these customers.

Given the limitation of existing metering capability, ENERGEX views the introduction of an IBT as a step towards more cost reflective regulated retail tariffs. The rationale behind an IBT is that high consumption customers use significantly more energy and that a greater proportion of this additional energy is generally consumed within the peak period. From an energy conservation and demand management perspective, an inclining block tariff can also be an incentive for high use customers to reduce consumption or move to ToU.

For the general tariff for domestic customers, ENERGEX is proposing a three step inclining block structure with steps placed at 5,000 and 10,000 kW.h per annum (excluding energy consumed on controlled load tariffs). The number of steps and the placement of these steps have been chosen to send the strongest price signal to

the highest users whilst minimising the price impact on customers with average consumption or below. Appendix B provides further details on the proposed structure.

Time of Use (ToU)

A new voluntary ToU network tariff is also under development. This new tariff will provide an alternative tariff option for larger users who normally consume outside of the peak period or are able to make changes to move their demand away from the peak to off-peak or shoulder.

The objective of ToU tariffs is to provide a signal to customers to encourage usage during periods of low demand on the network and discourage usage during periods of high demand when the network is highly utilised. Peak demand on domestic substations typically occurs between 4pm – 8pm.

ENERGEX is proposing a three part ToU tariff which includes off-peak, shoulder and peak periods similar to those available in some other jurisdictions. This will provide a sharper signal around peak demand and customers with more flexibility to move demand away from the peak period, which will be limited to 4pm – 8pm on weekdays only.

ENERGEX has run successful campaigns which raise awareness of peak periods and educate customers to reduce their demand between 4pm – 8pm. The proposed times for the domestic ToU network tariff are consistent with this message. Appendix C provides further details on the proposed structure.

In relation to micro-generation such as solar PV, a ToU tariff could be used to compliment the feed-in tariff to deter customers from shifting load into the peak period in order to maximise output from the generation during the middle of the day. It could also act as an incentive for micro-generation to feed into the network during the peak period thereby delivering additional network benefits.

Controlled load tariffs

Controlled load tariffs have delivered demand management benefits to ENERGEX for many years and will continue to be an integral part of ENERGEX's demand management strategy. ENERGEX has two controlled load network tariffs which map to the current regulated retail tariffs as follows:

- Tariff 31 (Super Economy) is generally available from 10pm – 7am. This tariff is typically used to connect larger electric hot water heating systems.
- Tariff 33 (Economy) is available for a minimum of eighteen hours and is generally unavailable (switched off) for up to four hours during the peak

period. This tariff is typically used to connect smaller electric hot water heating systems, air-conditioners, pool pumps and white goods.

With the introduction of the IBT and ToU network tariffs for domestic customers, ENERGEX will be reviewing the controlled load network tariffs to ensure alignment of the tariff components and cost signals. ENERGEX also proposes a review of the terms and conditions associated with the controlled load tariffs.

2.1.2 Proposed changes to ENERGEX network tariffs for business customers

ENERGEX has an existing business two part ToU tariff with peak and off-peak times. To enable a stronger demand signal and improve customer flexibility ENERGEX is proposing to modify the business ToU to include a shoulder period. This will also be consistent with the structure proposed for domestic ToU network tariff and reflects the impact of business loads on system peak demand. Appendix D provides further details on the proposed structure.

The proposed changes to the business ToU network tariff will require the meters for existing customers on these tariffs to be reprogrammed. Whilst ENEREX acknowledges that an immediate transition onto the new ToU structure would be preferable, this cannot be achieved in practice due to the high number of site visits required. ENERGEX therefore proposes a transition plan be implemented to manage these customers from the existing two part ToU across onto the new ToU times over an agreed period of time. This will require the existing two part ToU tariff to remain available to existing customers for the duration of the transition period.

ENERGEX currently has four non-demand network tariffs for small business users. These are Small flat-rate, Medium flat-rate, Small ToU and Medium ToU and are typically mapped to Tariff 20 and 22 in the regulated retail tariffs. To simplify this structure and to enable a one to one mapping with the regulated tariffs, ENERGEX is proposing to consolidate these tariffs into a Business flat-rate and a Business ToU.

This approach may result in a higher fixed charge than the existing small flat-rate and ToU network tariffs; however the volume component will be adjusted to reflect the higher fixed charge.

2.1.3 Other Comments regarding the suitability of ENERGEX network tariffs

ENERGEX's network prices are based on tariff classes which group customers together on an economically efficient basis which reflects their demand characteristics with regards to transaction costs in South East Queensland (SEQ).

From 1 July 2012 non-residential customers in SEQ consuming over 100MW.h per year will no longer have access to a regulated retail tariff. The majority of ENERGEX's large customers, particularly those whose network price component is calculated on an individual basis, are already on market tariffs.

However, large customers in Ergon Energy's distribution area will continue to have access to the regulated tariffs.

Tariffs 42, 43 and 53 are the current regulated retail tariff options most appropriate for large customers. The structure of these regulated retail tariffs does not align with ENERGEX's existing network tariffs for similar customers, for example both Tariff 43 and 53 have a time of use components whereas ENERGEX's demand network tariffs do not.

Network prices are subject to approval by the AER and as such ENERGEX is unable to create customised tariffs for customers outside of its distribution area. We therefore propose to map the network tariff which most closely aligns with the regulated retail tariffs. Appendix A shows the proposed mapping. ENERGEX recognises that this proposal may not be the optimum solution and welcomes views on the alternative options that are consistent with its obligations under Chapter 6 of the National Electricity Rules.

From 1 July 2012 the regulated retail tariff for street lighting will apply to Ergon Energy's distribution area only. ENERGEX proposes that the fixed charge per lamp per annum rates contained in the notified regulated retail tariffs are based on Ergon Energy's Alternative Control Service (ACS) Street lighting service rates as these will apply to Ergon Energy customers only. The volume component however, could be based on the ENERGEX's network tariff as per Appendix A.

The QCA have raised the issue of the Rural Subsidy Scheme and Part 5 of the regulated retail tariff gazette which includes special tariffs for customers of Ergon Energy in drought declared areas. ENERGEX submits that decisions regarding the Rural Subsidy Scheme and drought relief as a matter of social policy and should not be deliberated in this review.

2.2 Process for passing through network costs

The Authority seeks stakeholders' views on any 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 bill?

ENERGEX notes that the existing regulated retail tariffs are 'bundled' tariffs, intended to recover costs across the whole electricity supply chain. These tariffs are a legacy from the previously vertically integrated industry and do not reflect the actual cost of supply. Due to the 'bundled' nature of the regulated retail tariffs, ENERGEX's network pricing signals are generally not seen by the customer.

ENERGEX therefore supports the proposed N+R approach to retail pricing as this provides the opportunity for the network costs to be fully reflected in the regulated retail tariff. This should provide a sufficient price signal to give customers the opportunity to respond accordingly.

ENERGEX believes customers should be provided with sufficient information to make informed decisions regarding their electricity usage, balanced with the need for simplicity and added value to the customer. Any costs associated with the proposal to separately identify network and retail costs on a customer's bill should only be considered if the benefits of doing so can be justified.

However, ENERGEX acknowledges the issues raised by the retailers during the QCA's 2009 review and supports the QCA's alternative proposal to provide this information as a minimum in a separate tariff schedule.

2.3 Maintaining alignment of retail and network tariffs

The Authority seeks stakeholders' views on how this issue might be best addressed.

ENERGEX submits its Pricing Proposal to the AER for approval on 30 April each year in accordance with Chapter 6 of the National Electricity Rules and the Queensland Distribution Determination 2010-11 to 2014-15 which requires ENERGEX to adjust its network prices by the March CPI figure each year.

ENERGEX notes the QCA's concerns regarding the restricted timeline between which ENERGEX's network prices are approved by the AER and the publication of the regulated retail tariffs.

To assist the process, one option might be for ENERGEX to provide the QCA with draft network prices at the same time they are submitted to the AER. These draft prices would be subject to approval by the AER and can be updated when approved.

3 Other Comments

3.1 Customer awareness

In ENERGEX's view, a customer awareness campaign will be a critical element of any tariff reform. This campaign should, as a minimum, outline the proposed changes, how they will impact retail prices and ways customers can manage their usage to minimise their electricity bills.

ENERGEX submits that an integrated approach to a campaign led by the Queensland Government and the QCA would the most effective way to ensure a successful implementation.

3.2 Availability of ToU ready meters

In principle ENERGEX believes that ToU metering should be encouraged because of its potential to contribute to a reduction in peak network demand. However, resources and meter availability are likely to limit the availability of ToU option to customers in the short term.

ENERGEX currently has approximately 268,000 ToU capable meters installed which will need to be reprogrammed to facilitate the tariff change. Where the customer does not have a ToU capable meter, ENERGEX proposes to replace the meter at no cost to the customer. However, where additional costs are required to upgrade the wiring or distribution board on a customer's premises, these costs should be met by the customer.

A phased roll out of ToU metering to facilitate the ToU tariff option is required from a practical perspective. ENERGEX is considering various options such as first come basis, minimum threshold or on a geographical basis. A key consideration of the preferred option or options will be dependent on the availability and efficient use of resources.

3.3 Customer initiated changes in tariff

To limit transaction costs and ensure pricing signals are not distorted by constant changes in customer tariff assignment, ENERGEX currently allows customers only allowed one tariff change per twelve month period.

The Government has indicated that following the introduction of the new tariffs, domestic customers who have voluntarily moved onto the ToU tariff and then decide to revert back onto the IBT can do so at no cost.

Whilst ENERGEX has no objection to the principle of tariff reversion, it is important to note that additional costs will be incurred if the process is not managed in an orderly manner. ENERGEX proposes to work with the Queensland Government and the QCA to clarify the terms under which a customer can revert at no cost, for example aligning the option to revert to the meter reading cycle on a particular interval e.g. annual.

3.4 Multiple metering points at a premise

A change to tariffs under the current proposal has the risk of introducing a number of unintended consequences, such as encouraging residences with large consumption to request multiple metering points in order to reduce consumption at a metering point below the IBT threshold.

ENERGEX seeks the QCA's support to establish a framework that allows the management of connection rules to preserve the spirit of the objectives under this review. In this regard, ENERGEX proposes a 'tariff rules' application in conjunction with the regulated retail tariff to avoid inappropriate behaviours. These 'tariff rules' could also be supplemented as an attachment to the Queensland Electricity Connection and Metering Manual (QECMM).

3.5 Transition of customers from obsolete tariffs

There are a number of customers still on obsolete notified tariffs. The transition of these customers to alternative tariffs will require joint consultation with the customer and the customer's retailer.

In the case of the General ToU tariff T22 this may require the existing two-part ToU structure to remain available for existing customers. ENERGEX therefore agrees with the QCA that additional time will be required to transition these customers to new tariffs[1].

3.6 Approval of network tariffs by the AER

ENERGEX's network tariffs are subject to approval by the AER. The proposed changes to the tariff structure will require ENERGEX to demonstrate compliance with the National Electricity Rules.

[1] QCA Issues Paper: Review of Regulated Retail Electricity Tarrifs and Prices June 2011, p 33

3.7 Future tariff reform

ENERGEX believes that tariff reform is an ongoing process with the ultimate aim of achieving efficient and cost reflective pricing signals. However, ENERGEX also recognises that incremental steps to achieving this objective are required to minimise the impacts on customers and the market. The proposed changes outlined in Section 2 reflect these constraints.

In the longer term, a comprehensive review of the controlled load tariffs is required. When these tariffs were first established, the focus was to both minimise the use of the then high cost peaking generating plant (e.g. diesel or turbine generators) on cold winter evenings and to make use of the storage capacity of water heaters. However, the change in the paradigms such as the deregulation of the electricity market and technological advancements suggests further work is required to reflect the changing nature of the application of these tariffs.

In the longer term, ENERGEX is investigating more contemporary control load tariffs to take advantage of the emerging demand enabled devices such as air conditioners and electric vehicles. Tariffs such controlled ToU energy with incentives or payments for the availability of controllable load are more suitable and pragmatic to apply in such circumstances. An example of this is a demand management reward, paid regularly to customers who permit the demand management of suitably enabled devices.

4 Appendices

4.1 Appendix A – Proposed Tariff Map

2012-13 Tariff Mapping				Notified Tariffs – Queensland Gazette															
				T11 Existing	T20 Existing	T22 Existing	T31 Existing	T33 Existing	T41 Existing	T43 Existing	T53 Existing	T71 Existing	T81 Existing	T91 Existing	T11 (A) New	T62 Existing	T65 Existing	T66 Existing	T67 Existing	T68 Existing
ENERGEX Network Tariffs	NTC	Description	Approx current cust. numbers	*IBT – Domestic*	*Flat – Business*	*TOU – Business (Times to be reviewed)*	*Flat – Controlled Load 1*	*Flat – Controlled Load 2*	*Demand – min 75kW*	*Demand – min 400kW*	*Demand – HV*	*Public Lamps*	*Flat – Unmetered (Rename Required)*	*Watchman Lights*	*TOU – Domestic*	*TOU – Farm*	*TOU – Irrigation*	*Flat/ Demand – Irrigation*	*Flat – Farm*	*Flat – Irrigation Drought Area*
	8400	*IBT – Domestic*	*1,227,588*	✓																
	8450 New	*TOU – Domestic*	*n/a – proposed tariff*												✓					
	8500 **8600**	*Flat – Small Business* *Flat – Medium Business* ***Combined into one tariff***	*73,932 (Small)* *19,422 (Medium)*		✓														✓	✓
	8700 **8800**	*TOU – Small Business* *TOU – Medium Business (Times to be reviewed)* ***Combined into one tariff***	*7,265 (Small)* *8,278 (Medium)*			✓										✓	✓			
	9000	*Flat – Controlled Load 1*	*216,000*				✓													
	9100	*Flat – Controlled Load 2*	*511,000*					✓												
	9600	*Flat – Unmetered*	*n/a – volume charge only*									✓	✓	✓						
	8300	*Demand – small*	*4,795*						✓									✓		
	8100	*Demand – large*	*403*							✓										
	8000	*HV Demand*	*29*								✓									

Obsolete Retail Tariffs

Notified Tariff	Description
Tariff 21	*Declining Block Tariff – Business*
Tariff 37	*TOU – Non – domestic heating*
Tariff 63	*TOU – Farm*
Tariff 64	*TOU – Irrigation*

Other Energex Network Tariffs

NTC	Description	Approx current cust. numbers	Proposal for 2012-13
9400	*Flat – Streetlights*	*n/a – volume charge only*	Network tariff to be removed – all unmetered supply is to be mapped to NTC 9600.
9500	*Flat – Watchman lights*	*n/a – volume charge only*	Network tariff to be removed – all unmetered supply is to be mapped to NTC 9600.
8200	*Demand – medium*	3,041	Network tariff to be removed – all existing customers transferred to Demand Small or Demand Large
Site specific	*Demand/Capacity – Large Customers*	488	Designed for customers > 4 GWh – ENERGEX network tariff only, not available in the gazette

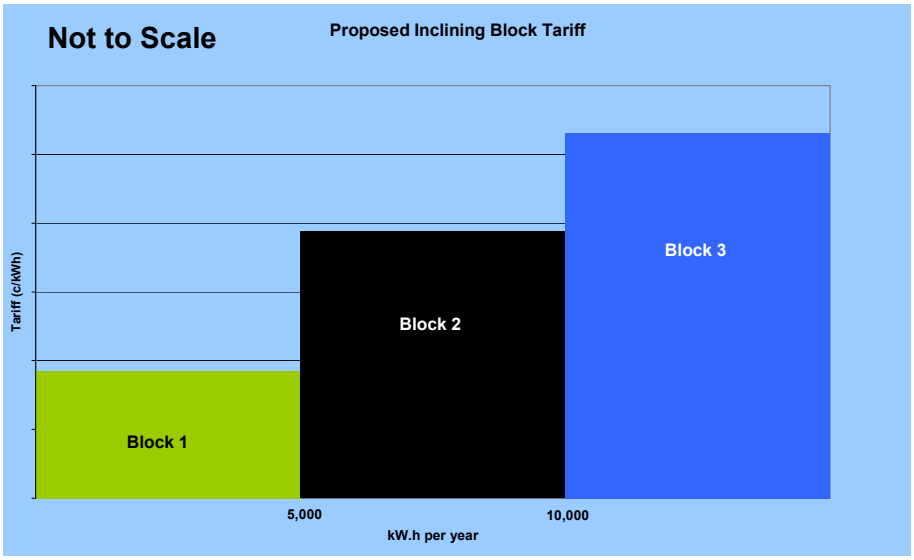
4.2 Appendix B – Proposed Inclining Block Tariff

Fixed Service Charge (c/day)
+
Consumption charge (c/kWh) based on the following inclining block structure:

Block 1 - 0 - 5000 (kWh per annum)
Block 2 - 5001 - 10000 (kWh per annum)
Block 3 - 10,001 + (kWh per annum)

Note: we anticipate the above would be billed on a pro-rata basis

The proposed structure is illustrated below:



4.3 Appendix C – Proposed Domestic Time of Use Tariff

Proposed structure for the domestic time of use:

Fixed Service Charge (c/day)
+
Consumption charge (c/kWh) based on the following time of use structure:

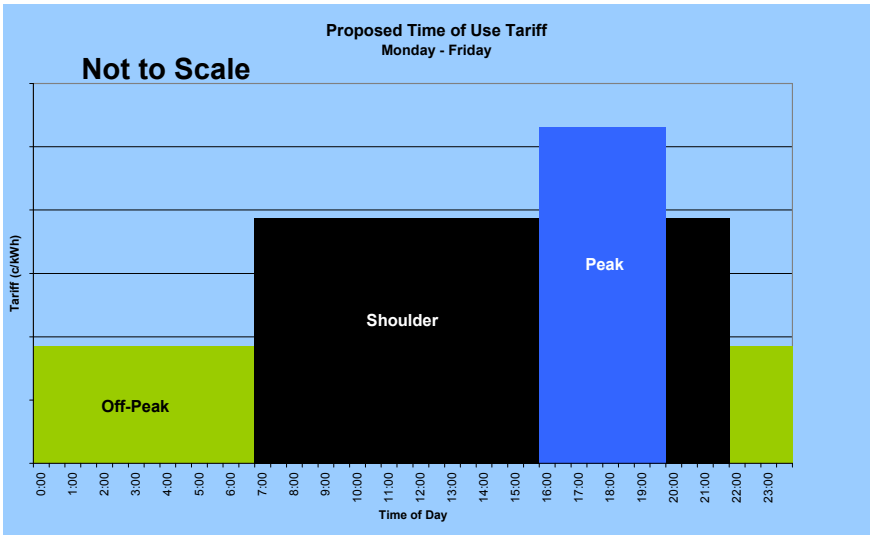
Monday to Friday (inclusive of public holidays)

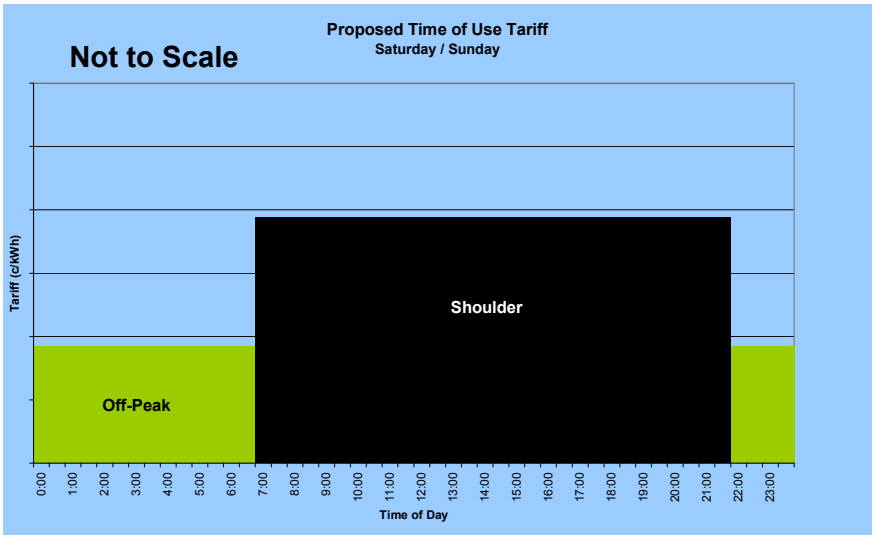
- Off peak 10pm – 7am
- Shoulder 7am – 4pm, 8pm – 10pm
- Peak 4pm - 8pm

Saturday/Sunday

- Off peak 10pm – 7am
- Shoulder 7am - 10pm
- No Peak

The proposed structure is illustrated below:





4.4 Appendix D – Proposed Business Time of Use Tariff

The proposed changes to the times associated with business non-demand time of use:

Fixed Service Charge (c/day)
+
Consumption charge (c/kWh) based on the following time of use structure:

- Off peak 9pm – 7am
- Shoulder 7am – 12pm
- Peak 12pm – 9pm

The proposed structure is illustrated below: