

12 April 2012

Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

**RE: Submission on the Draft Determination of Regulated Retail Electricity Prices 2012-13**

Dear Sir /Madam

We acknowledge the need to review the regulated tariff charges and structures to better reflect the cost of supply of electricity to customers in Queensland. Many changes in the proposed 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 22**

Previously this tariff encouraged the use of electricity in the off peak times. The proposed 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 – that of course provides benefit to the network. There is not enough differential in the peak and off peak rates – they appear not to 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 should be closer to 5 or 6 c/kWh rather than the proposed 2.097 c/kWh.

The proposed changes in this tariff also seem to be in conflict with the introduction of the new residential Tariff 12 that does provide incentive for customers to use off peak with the new structure. Why does Tariff 22 not have the same or similar structure? It is supposed to be a Time of Use Tariff and this is not reflected in the charge structure. Why the dramatic change?

**Tariff 41**

This tariff appears applicable only to customers below 100 MWh per annum regardless of location. We do not understand why you would have this tariff for small customers as it appears there would be very few if any who will benefit on this tariff. For any customer to benefit (compared to Tariff 20) they would require a load factor in excess of 70%.

The documentation also states the impact for customers on this tariff will decrease by 15%. You CANNOT compare small customers on the new proposed Tariff 41 as the current (Tariff 41) structure does not provide for customer of this size – i.e. for a customer to benefit on the current Tariff 41 structure they would have to use in excess of 195,000 kWh per annum.

Based on the assumptions used in the document (80000 kWh and 80 kW demand) the customer will see an average cost of over 40 c/kWh – see example below.

Energy – 80000 kWh per annum

Demand – 80 kW per month

Proposed Tariff 41 Charges

Energy = 80000 x 9.811 c/kWh  
= \$7,848.80

Demand = 80 kW x \$19.703/kW per month  
= 80 x \$19.703 x 12  
= \$18,914.88

Service Fee = 1705.714 c/day x 365  
= \$6225.86

Total Charges = \$32,989.54

Average Cost = 41.2369 c/kWh

The apparent high average cost is partly due to the poor example provided which is not very typical of a customer's use (with such a poor load factor of less than 12%) however our view is the high Service Fee of \$17.05714 per day will not make this tariff suitable for any customer (even with a good load factor) and therefore we do not understand the purpose of this tariff or are we misinterpreting something? The structure makes sense in its current form but the charges do not.

**Impact of Larger (below 100 MWh) Residential Customers**

The assumption in the document is based on a high Tariff 11 user with 11,000 kWh per annum. As you may be aware there are many larger residential customers such as Bodies Corporate on the Residential Tariff 11 for their common areas that use significantly more than 11,000 kWh and in some cases well over 100,000 kWh per annum.

In relation to the Small Market customer, one average sized Body Corporate Management company we have worked with has approximately 200 Bodies Corporate who consume between 10 MWh and 100 MWh with many on Tariff 11. The total number of customers in this group could be well into the thousands in QLD.

The impact of the inclining block tariff for these customers will see increase between 12% and over 40% for the larger sites. Our concern here with the introduction of the new tariff is a significant price increase and the ability in particular of the Retailers and Network to be able to facilitate the change to a more appropriate tariff. This is based on our current experience where such changes can take 2 to 3 months or more to complete.

There is also a concern for customer's installations with plug in type meters – will the network have suitable Time of Use meters to replace the older single rate meters?

There is considerable concern with the clause in Tariff 22 where "Residential customers can only access this tariff providing it is in conjunction with a residential tariff at the same NMI". How does this impact on Bodies Corporate currently on Tariff 11 or 22?

Does this mean residential customer will not be able to access this tariff? Those already on Tariff 11 are not able to change to a more suitable tariff like Tariff 20 or Tariff 22 forcing larger Body Corporate customers to accept up to a possible 40% increase in charges. The alternative is Tariff 12 but again will the network companies be in a position to provide these meters?



Residential owners in these properties will be potentially impacted twice with a Tariff 11 increase for their residential accounts and with increased body corporate fees passed through. Has enough consideration been given to the impact on larger Residential "Small Market" customers and their options?

### **Large Residential Customers**

Do you include Bodies Corporate in this category? While we agree that there are generally greater benefits for larger customers of this type in negotiating a market contract, does a Body Corporate (in the Energex distribution area) have the right to remain on a regulated tariff? If so what tariff choice is available to them? Obviously Tariff 11 will not be suitable so is their only choice Tariff 12?

Also there are many large residential customers (i.e. Bodies Corporate) in the Ergon area currently supplied on Tariff 41 and 43. With the proposed tariff for "Business" customers does this mean residential customer do not have access? If so what are their choices?

### **Impact of Removal of Benchmark Tariff for Large Market Embedded Customers in Energex Area**

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

We understand the intention is to remove tariffs as a benchmark for all embedded tenants who consume over 100,000 MWh certainly for the Energex distribution area. Does this also apply to the Ergon distribution area as well?

We also understand the intention is for the landlord or owner to pass on the cost of electricity to the large tenants at the same cost the landlord or owner pays for electricity to the site (i.e. the average bulk price). This would be seen by all landlords and owners as a very uncommercial arrangement and unsustainable in the current tight retail and commercial environments.

Landlords and Owners are subject to additional costs in on supplying electricity to tenants such as but not limited to the following examples –

- Employing billing companies to read meters and prepare invoices
- The cost of collection of payments
- The cost of providing payments plans where tenants face hardship
- Bad debts incurred when a tenant goes out of business
- Engaging consultant to assist with the negotiation of supply agreements
- Bank charges and interest charges due to the timing of payment of bulk electricity account and collection of payment from the tenant
- Maintaining and providing billing data to tenants on request
- Meter repair, maintenance, compliance, etc
- Providing billing data

Another difficulty arises in delivering average cost billing due to the very poor performance of many retailers in delivering account on time. This can occur during the transfer to a new retailer with delays of several months being very common and with recent billing system changes some customer are still to be billed after six months.

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.

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.

A more palatable arrangement would be to allow for the negotiation of a contestable style agreement based on published network tariffs and other regulated charges along with the tenant's ability to negotiate the energy charges in accordance with the market at that time.

Alternatively an administration fee or charge needs to be allowed to cater for the likes of bad debt and other costs (as mentioned above) associated with maintaining the electricity supply to the tenant – in the same manner as any retailer.

There are also some circumstances where commercial properties have co-generation and tenants have access to this power. The cost for any electricity used by this means is recovered through the current regulated tariff structure under agreement with the tenant.

Where a landlord is forced to supply electricity at the average cost, this could cloud the issue in working out the average cost of the supply of electricity to a tenant – is it the average cost of the negotiated electricity agreement or is it the effective cost of the electricity supplied through the co-generation. With the higher gas prices in Queensland the cost for providing electricity through co-generation is generally higher than the negotiated market rates.

This again reinforces the need to allow for commercial negotiation between the landlord and tenant.

A concern of many property owners is the very specific and immediate impact that these proposed changes will have on the valuation of the properties. Those landlords that have been lucky enough to refinance in the current environment will be put under significant pressure if these changes are passed and apply immediately from 1 July 2012.

If the proposed changes are passed, then one suggestion by a property owner at the very least was to have a 'grandfathering period' so that landlords have time to make necessary adjustments and give landlords/financiers time to negotiate an outcome that prevents more landlords and owners being forced into financially disadvantageous arrangements by their banks.

An important point that may have been missed in all of this is that any apparent profit made in any commercial or retail embedded network is not "cream" and is an income stream that forms part of the overall financial/economics of operating the commercial or retail centre.

Continued financial viability for both the landlords or owners and their large tenants must be through a commercial negotiation process and not some regulatory imposition thrust on them simply because the industry does not provide any other alternative.

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

Yours Sincerely



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