

**Australian Inland Energy and Water**

**SUBMISSION TO IPART  
RE  
MID-TERM REVIEW OF REGULATED RETAIL PRICES  
OF ELECTRICITY TO 2004**

**MARCH 2002**

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Australian Inland Energy and Water welcomes the opportunity to make a submission to the Independent Pricing and Regulatory Tribunal (IPART) regarding the mid-term review of its current determination, *Regulated Retail Prices for Electricity to 2004, December 2000*.

This submission primarily identifies general concerns with the December 2000 determination, and highlights any factors that have altered materially since that time, that should be reconsidered for the periods 2002/03 and 2003/04.

### **General concerns**

There are two constraints applying to price increases for regulated retail electricity prices, namely:

- Whether existing prices are below the relevant Target level as at 30 June each year, (Price change date) in which cases prices can increase by the relevant CPI calculation, and
- that increased prices do not result in the total amount of any bill (including GST) for residential or business customers exceeding the greater of a nominated percentage increase or nominated monetary amount.

Whilst it is relatively easy to determine compliance with the latter requirements, compliance with the Target level requirements is not straightforward, when comparing block tariffs with minimum and standing charges, to a combination **N + R** Target tariff, both incorporating only single fixed charges and variable kWh charges.

The available scenarios from the comparison are:

- The existing tariff at price change date will be below the Target level over the whole 0 – 160,000kWh pa range
- The existing tariff at price change date will be above the Target level over the whole 0 – 160,000kWh pa range
- The existing tariff at price change date will cross-over the Target level at some point in the 0 – 160,000kWh pa range, with different consumption levels being above or below the target tariff

Where tariff analysis indicates that a crossover point occurs between target level and actual tariff charged, then a separate revenue test must be applied to determine whether the total revenue recovery from that tariff would increase if a CPI increase was applied.

To undertake this revenue comparison accurately assumes that customer numbers and consumption patterns are identical between years. Assuming that part of the range of a retail tariff is above the target tariff line, then the retailer should be allowed to re-structure the tariff such that all of the tariff range will be below the target tariff line after the price change date by applying a lower CPI increase than that allowed by the CPI adjustment formula.

Although controlled load tariff target levels should be calculated independent of primary tariffs, and without the addition of a further Fixed R component, if considered integrated within a customer's monthly or quarterly account (as they appear to the customer), the influence of controlled-load tariff added to a primary tariff also influences the difference between overall price and combined target price, with the percentage of controlled load per month relative to primary consumption significant.

Examples of AIEW tariffs with and without a crossover to the target tariff level are shown in Appendix 1.

### **Energy losses**

The Tribunal used a maximum loss factor assumption of 19.5% for customers connected to the AIEW network for the period 2001 – 2004.

However, in reality total loss factors, being the product of distribution and transmission loss factors, have been significantly higher during 2001/02, and despite tentative changes to the DLF values for 2002/03, the overall loss factor for many areas will continue to be above the nominal 19.5% assumed by IPART, remaining at the 25 – 27% levels.

Loss factors for 2001/02 and tentative factors for 2002/03 are tabulated in Appendix 2.

### **Network charges**

Network charges are set annually by the DNSP in accordance with the Pricing Principles methodology and constraints imposed by IPART, and are applied transparently to each customer's supply, irrespective of the retailer involved.

As the network charges are varied by financial-year as are retail charges, the network charges are simply added to the retail component. There has been no change in this area that affects the calculation of regulated retail prices to 2004.

### **Retail Gross Margin**

Retail operating costs that fell within the range of \$40 - \$60 per customer per year (2001 dollars) plus a 1.5 – 2.5% net profit margin were used to derive the retail component of target levels.

Whereas a typical operating cost per customer for 2000/01 for other NSW distributors are in the \$60 - \$70 range, the cost per customer for AIEW during 2000/01 was \$119.20, 75% higher than normal NSW costs, and between 198% and 298% higher than the costs modeled by the Tribunal.

Accordingly, the \$37.50 per customer per annum (indexed by CPI adjustment) is clearly inappropriate as the fixed component of the Target retail tariff. There are certain fixed costs in maintaining an electrical retailing business, that are unrelated to the number of customers, that should be allocated to retailer's depending upon a

further assessment criteria, with a lower fixed component per customer reflecting the customer-related fixed costs.

### Annual CPI indexation

Annual CPI indexation of the variable R component of the regulated retail tariff increased between 2000/01 to 2001/02 by 2.92%, identical to the overall CPI adjustment applied to the network tariffs, with the domestic network tariff component increasing by 4.98% in accordance with the network determination.

Whilst there was no differential between general CPI cost increases and the maximum increase in retail tariffs, effectively there was no additional scope to increase return to offset costs that are in excess of the allowed target revenue, as identified in this submission.

Therefore, AIEW argues that the CPI weighting factors should be more aligned with indexed annual CPI increases over the immediate preceding period (March to March), rather than being weighted (averaged) over a longer lagged time period as in the formula, with GST correction. GST correction should not apply for periods 2002/02 onwards.

	2000/01	2001/02	2002/03
Annual weighted CPI increase (%)		2.92%	2.87%
Fixed (annual \$)	37.50	38.60	39.70
Fixed (monthly \$)	3.13	3.22	3.31
Fixed (quarterly \$)	9.38	9.65	9.93
Domestic variable (c/kWh)	5.87	6.04	6.21
Controlled load variable (c/kWh)	3.96	4.08	4.19
Rural variable (c/kWh)	5.87	6.04	6.21
Rural controlled load variable (c/kWh)	3.95	4.07	4.18

For example, the CPI indices for June 2000 and June 2001 were 126.20 and 133.80 respectively. The CPI indices for March 2000 and March 2001 were 125.20 and 132.70 respectively.

The percentage change over the year (June – June) is  $7.6/126.20 \times 100 = 6.02\%$ .  
The percentage change over the year (March – March) is  $7.5/125.20 \times 100 = 5.99\%$ .

The 5.99% increase should have been the minimum applied for the period 2001/02 rather than the weighted 2.92% from the formula, and the percentage increase from March 2001 to March 2002 should be applied to the period 2002/03.

### Controlled load charges

The variable retail component of the controlled load tariffs for AIEW during 2000/01 was 4.08 cents/kWh (urban) and 4.07 cents/kWh (rural). By comparison, the variable retail rural controlled load component for other rural NSW distributors were between 6.7% and 8.8% higher than the urban variable controlled load component.

Although the distribution loss factor applying to all customers was identical during that year, in reality the actual loss factor and cost of supply is significantly higher to rural customers than to urban customers.

Although the Tribunal intended to achieve consistency between distributors in the rural controlled load tariff variable component, AIEW argues that there should be a margin between the urban and rural components, with the rural component being at least 4.28 cents/kWh to reflect the higher cost of distribution in rural areas, and the fact that there are no differences in distribution loss factors between urban and rural customers, either in 2001/02 or within the proposed 2002/03 values.

## **Conclusion**

Australian Inland Energy and Water recommends that the Tribunal re-examine the December 2000 determination relating to regulated retail electricity prices for small customers, considering that there has been material change in the following factors:

- Energy losses
- Retail gross margin
- Rural controlled load variable component

In addition, AIEW believes that the annual CPI indexation should not discount the effect of the GST (for 2002/03 onwards) and that the CPI percentage increase should be based on the percentage point change for the period immediately prior to the next pricing period, that is from March to March of the preceding year.

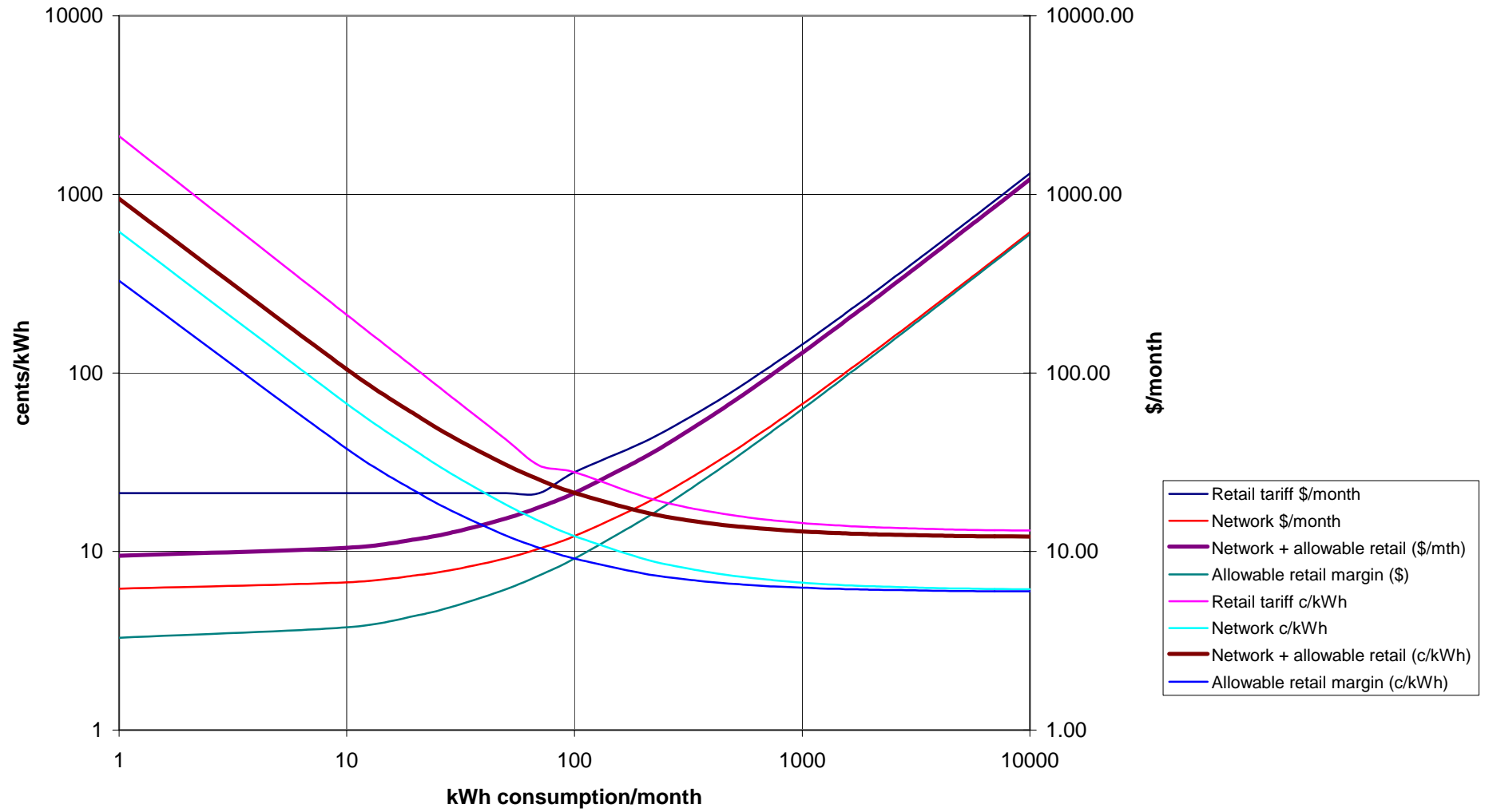
Finally, AIEW believes that the criteria for determining whether an existing tariff can increase should be re-examined, particularly where the existing tariff does not exceed the target tariff level at all points in the consumption range that covers 0 – 160,000kWh per annum.

Assuming that part of the range of a retail tariff is above the target tariff line, then the retailer should be allowed to re-structure the tariff such that all of the tariff range will be below the target tariff line after the price change date by applying a lower CPI increase than that allowed by the CPI increase.

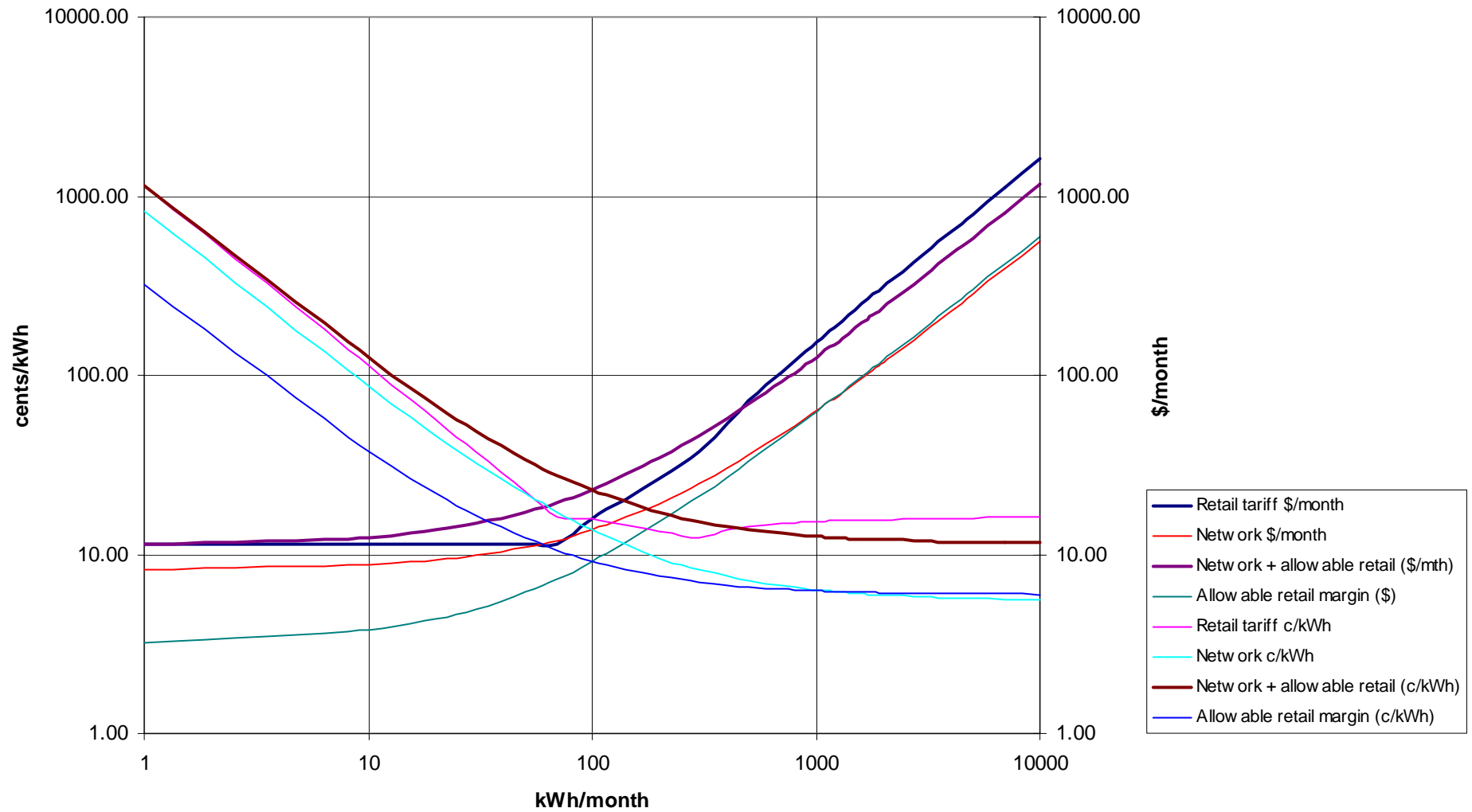
Such re-structuring could be addition or removal of block boundary points, identical pricing structure for adjacent blocks, or a rebate calculation based on following a single variable rate with fixed network plus retail components.

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### AIEW Nthn 2001/02 General Supply regulated retail tariff - no controlled load



AIEW Northern 2001/02 Rural regulated tariff - no controlled load



## Appendix 2      Loss factor calculations

2001/02 Loss factors					
Area	P/Code	DLF	TNI	TLF	Overall loss
Broken Hill, and surrounding areas	2880	1.1058	NBKG	1.0851	1.1999
Menindee and surrounding areas	2879	1.1058	NBKG	1.0851	1.1999
Wilcannia, White Cliffs and surrounding areas	2836	1.1058	NBKG	1.0851	1.1999
Tibooburra and surrounding areas	2880	1.1058	NBKG	1.0851	1.1999
Wentworth, Curlwaa, Pooncarie & surrounding areas	2648	1.1412	VRCA	1.0987	1.2538
Dareton, Coomealla	2717	1.1412	VRCA	1.0987	1.2538
Gol Gol, Monak, Trentham Cliffs	2738	1.1412	VRCA	1.0987	1.2538
Buronga, Mourquong, Boeill Creek	2739	1.1412	VRCA	1.0987	1.2538
Euston and surrounding areas	2737	1.1745	VRCA	1.0987	1.2904
Balranald and surrounding areas	2715	1.1058	NBAL	1.0492	1.1602
Moulamein, Melool	2733	1.1058	NDN8	1.0703	1.1835
Kyalite, Speewa Island	2734	1.1058	NDN8	1.0703	1.1835
Koraleigh, Speewa Island	2735	1.1058	NDN8	1.0703	1.1835
Goodnight, Tooleybuc	2736	1.1058	NDN8	1.0703	1.1835
Murray Downs (NSW) - Swan Hill postcode	3585	1.1058	NDN8	1.0703	1.1835



2002/03 Loss factors (assuming no change to TLF or Powercor DLF)						
Area	P/Code	DLF	TNI	TLF	Overall loss	% change
Broken Hill, and surrounding areas	2880	1.0790	NBKG	1.0851	1.1708	-2.42
Menindee and surrounding areas	2879	1.0790	NBKG	1.0851	1.1708	-2.42
Wilcannia, White Cliffs and surrounding areas	2836	1.0790	NBKG	1.0851	1.1708	-2.42
Tibooburra and surrounding areas	2880	1.0790	NBKG	1.0851	1.1708	-2.42
Wentworth, Curlwaa, Pooncarie & surrounding areas	2648	1.1414	VRCA	1.0987	1.2541	0.02
Dareton, Coomealla	2717	1.1414	VRCA	1.0987	1.2541	0.02
Gol Gol, Monak, Trentham Cliffs	2738	1.1414	VRCA	1.0987	1.2541	0.02
Buronga, Mourquong, Boeill Creek	2739	1.1414	VRCA	1.0987	1.2541	0.02
Euston and surrounding areas	2737	1.1598	VRCA	1.0987	1.2743	-1.25
Balranald and surrounding areas	2715	1.0790	NBAL	1.0492	1.1321	-2.42
Moulamein, Melool	2733	1.0790	NDN8	1.0703	1.1549	-2.42
Kyalite, Speewa Island	2734	1.0790	NDN8	1.0703	1.1549	-2.42
Koraleigh, Speewa Island	2735	1.0790	NDN8	1.0703	1.1549	-2.42
Goodnight, Tooleybuc	2736	1.0790	NDN8	1.0703	1.1549	-2.42
Murray Downs (NSW) - Swan Hill postcode	3585	1.0790	NDN8	1.0703	1.1549	-2.42