

A collage of various images representing different aspects of rural life and industry. The images include: a wind turbine, a family (a man and a child), a field, a sunset, a barn, a wind farm, a country store, and a field of yellow flowers. The collage is set against a background of a large, stylized green and yellow circular graphic.



**Review of electricity regulated retail tariffs to 2007 – Draft
Determination**
14 May 2004

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1 Introduction

Country Energy is pleased to provide this response to the Independent Pricing and Regulatory Tribunal of New South Wales's Review of Gas and Electricity Regulated Tariffs – Draft Report and Draft Determination.

This review provides an opportunity to review the framework under which regulated retail prices are managed, to ensure equitable price outcomes can be delivered to all customers.

Country Energy has in excess of 300 regulated retail electricity tariffs, accumulated over the years before Country Energy's formation in July 2001. While Country Energy has had limited success in reducing the number of applicable regulated retail tariffs in the past two years, regulatory constraints have compromised Country Energy's ability to deliver consistent prices to all customers.

Country Energy believes that the Tribunals draft decision has responded to the constraints experienced under the current framework and has recognised the important link between network and retail pricing outcomes. This will allow the transition of prices to more equitable levels, provided that a number of issues detailed throughout this submission are addressed.

Country Energy believes that the proposed limits on price movements, if not restructured, will limit tariff rationalisation in the upcoming regulatory period.

This submission details Country Energy's position on a range of issues as outlined in the Tribunals Draft Report and Draft Determination. A summary of the recommendations contained within the paper are provided below.

Section	Key Recommendations
2. Form of Regulation	<ul style="list-style-type: none"> ➤ Country Energy supports the Tribunal's draft decision to retain the N+R approach as such believes it should be adopted as the form of regulation.
3. Cost Reflective Prices	<ul style="list-style-type: none"> ➤ Country Energy supports the implementation of Energy Australia's proposal of weighting a standard R component to peak, shoulder and off peak periods. ➤ Country Energy believes that target R components generally reflect accurate costs of supply under current circumstances. ➤ Country Energy believes that the fixed R recovering 85% of retail costs and variable R recovering 15% of retail costs is appropriate.

Section	Key Recommendations
4. Limits on Price Movements	<ul style="list-style-type: none"> ➤ The removal of individual tariff constraints will assist the tribunal in addressing the key objectives of this review without delivering unacceptable price shocks to consumers, as a degree of price controls will still be in place. ➤ Country Energy supports the Tribunals draft decision in relation to limits on increasing customer's bills. ➤ Country Energy recommends that the price limits on the R component are further relaxed for the 2006 and 2007 financial years to CPI+5. ➤ Country Energy questions the practicality of a price constraint that limits increases in the fixed R component of any customer's bill to a maximum of \$5 per annum. ➤ To ensure tariff restructuring can occur, the greater of a fixed dollar amount or the percentage increase allowed under the price limit formula, should be introduced.
5. Other issues	<ul style="list-style-type: none"> ➤ Standard retail suppliers should have the ability to pass through credit card costs to customers if they choose. ➤ Country Energy's recommends that the process for introducing a expanded dishonour fee should commence and that the determination allow for such a fee if and when the Electricity Supply Act 1995 is amended.

2 Form of Regulation

The Tribunal's draft decision is to retain a form of regulation based on N+R.

The primary reason for regulated retail tariffs remaining under the target retail tariff is essentially the inability to transition these tariffs due to the price constraints in place. The current determination does not always allow an increase in the regulated retail tariff equivalent to the increases seen in the underlying costs of supply.

The aim should therefore be to establish a regime of default tariffs that delivers efficient and equitable prices to customers and discourages retailers from misallocating resources. The current determination, in theory, would meet these objectives; however, the side constraints limit the effective transitioning of regulated retail tariffs. Country Energy is supportive of the current N+R form of regulation but believes the limit on price movements need addressing, which is what has been reflected in the draft decision.

Our overall aim is to reduce the number of existing retail prices from in excess of 300 down to a few Country Energy wide retail price structures. This will enhance simplicity, ensure equal treatment of all customers and encourage demand management.

The draft decision provides an important link between network and retail price setting which allow network price signals to flow through to customers. This would significantly improve any demand side management initiatives in the future.

The approach can be consistently applied to all of the standard retail suppliers due to the similarities of the proposed form of regulation compared to the current form of regulation. The key advantage of this option is that it does not attempt to create a vastly different approach, but rather significantly simplifies the existing framework.

The Tribunal's current determination has been in operation since 2001. During this period, Country Energy argues that stakeholders have accumulated a thorough understanding of the current framework.

The proposed form of regulation is relatively transparent, as the current target tariff is effectively maintained within the framework. The only real difference to the current form of regulation are the limits on price movements, which in fact would greatly simplify the process whilst also providing a clear signal of cost reflectivity.

Direct pass through of network charges, ensures that at a minimum current cost reflectivity levels are maintained. Under recoveries can also be reduced provided that the retail component constraint allows sufficient correction of historical issues during the regulatory period.

The relevant information requirements for price changes will generally not significantly vary to that of the current form of regulation. Country Energy envisages that each regulated retail tariff submitted for a price change would be accompanied by the relevant network component and retail component for the period immediately preceding the proposed price change date and also following the proposed price change date. The total average change allowed would be a full pass through of the network component increase plus the allowed retail component increase.

The total increase allowed is subject to the allowed network price increase plus the allowable retail component increase. The proposed form of regulation would provide a simplistic measure to ensure standard retailer suppliers are complying with the requirements.

Country Energy supports the Tribunal's draft decision to retain the N+R approach and as such believe it should be adopted as the form of regulation.

3 Cost Reflective Prices

3.1 Level of target tariffs

The Tribunal's draft decision is that the target values for the fixed and variable R components of the regulated retail tariffs are those set out in Table 3.1.

Country Energy believes that an important consideration when determining the level of target tariffs is to ensure that the target tariffs are reflective of underlying costs. As detailed in Country Energy's previous submissions to this review, Country Energy proposed the introduction of a new target being the peak component of time of use tariffs. This would ensure that any time of use pricing will be cost reflective, the correct price signals are sent to the customer and demand management can be encouraged.

There are many benefits to demand management, and Country Energy believes that progressive roll out of time of use prices to customers has the potential to reduce average electricity prices for consumers, change consumption patterns, and provide environmental benefits. Time of Use pricing should give customers control over the price they pay for electricity by encouraging the customer to consume energy in off peak times.

Country Energy's distribution business is proposing to incorporate a number of new network prices into its price schedule in order to more appropriately tailor low voltage prices to the domestic and business market.

The number of residential and small business customers on Time of Use network prices are currently quite low when compared to standard tariffs, however the number of customers on Time of Use tariffs will progressively increase over the forthcoming regulatory period, to provide signals to customers to better manage their loads, and to reflect the cost of supplying energy at peak supply periods.

The major restriction on the introduction of more TOU network prices has been the absence of adequate metering technology, particularly for smaller domestic and business customers. The gradual introduction of meters with a capability of measuring usage over different time periods will enable the greater deployment of TOU network prices.

All new residential customers will be placed on the time of use network price. It is proposed that a domestic customer will no longer elect to be placed on a single rate price. Due to their higher contribution to the network peaks, business customers will be transferred more rapidly. It is expected that during the forthcoming regulatory period all business customers will have been transitioned from their current network prices to time of use.

Therefore, it is important to ensure that retail targets can accurately reflect pricing structures such as Time of Use. The retail component specified in the draft determination is split into a fixed and variable component, *Variable R*.

The variable R has been determined for each retailer, in three categories as shown below:

- Standard;
- Off Peak; and
- Extended Off Peak.

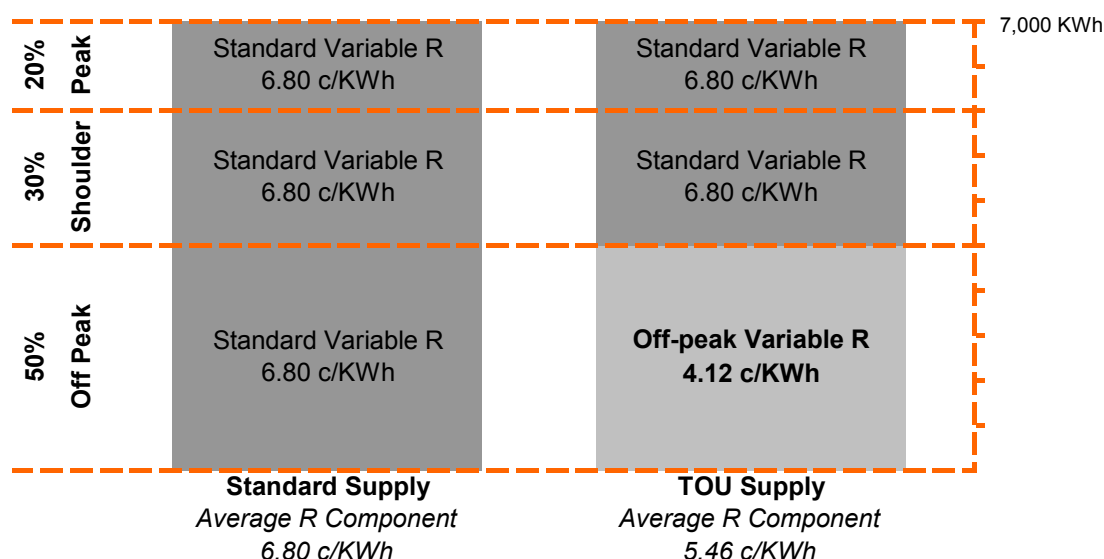
These are further differentiated by urban and rural classifications.

Under the draft determination, the peak and shoulder components of time of use tariffs are compared and assessed against the standard variable R. Country Energy has analysed the effects of moving customers to time of use pricing, in particular the target levels. Country Energy has developed a number of scenarios surrounding the transition of single rate customers to Time of use prices.

This analysis concluded that the current standard targets are not cost reflective, and the impact on revenue, and in particular gross margin, would be in some instances severe. This means the price signals to customers are effectively lost, and even if a customer chose to more closely manage consumption, there would be little or no price incentive, effectively undermining this possible demand management initiative.

The issue is graphically depicted below. Under this scenario two equivalent customers consume 7,000 KWh per year with 20% of energy consumed in the peak period, 30% in the shoulder period and all remaining energy in off peak periods. The difference between the two customers is that one is supplied energy under a standard single rate tariff and the other is supplied energy under off peak periods.

Figure 1 R components for standard and Time of Use supply



After applying the target tariffs to each of the customers, the average R component is 6.80 c/KWh for the standard supply and 5.46 c/KWh for the Time of Use supply. Therefore, for exactly the same usage pattern, the R component for the Time of Use supply is significantly less than the R component for the standard supply. Additionally the average R component for the Time of Use supply is below cost reflective levels.

This arrangement encourages customers to move to Time of Use pricing, but will not encourage customers to change behaviour, because the price is set below cost reflective levels.

The Tribunal noted that the determination attempts to ensure that the Long Run Marginal cost is recovered on average by retailers. The Tribunal also noted that the energy prices and the R component in the current determination are calculated to ensure that retailers receive the average LRMC based on their own consumption profiles.

Country Energy believes that as the transition of customers from standard tariffs to Time of Use tariffs progresses, the recovery of the average R component and long run marginal costs will not be achieved as demonstrated in the example above.

Inaccurate target levels will result in the regulated tariff not being representative of the underlying costs of supply, which ultimately is an impediment to delivering benefits to customers, particularly if a regulated tariff is significantly below the costs of supply but is also at the target level. Customer may therefore be disadvantaged by not having the option to participate in the competitive market if the target tariff is below cost reflective levels.

It is important to ensure that the correct price signals are sent to customers. To meet the demand management objectives of Country Energy, the retail component must also be appropriately structured. Additionally Country Energy's gross margin over time may be adversely impacted, as the number of customer's moving to time of use pricing increases.

The Tribunals draft decision of retaining the existing target components will compromise the incentive for retailers to offer demand side management initiatives as the purchase price will not accurately reflect reality.

The Tribunals seeks comments on the approach proposed by Energy Australia that the determination contain a standard R component for single rate tariffs and a Time of Use R component that would be weighted to the peak, shoulder and off peak components. Country Energy endorses this proposal provided that:

- On average the standard R component for single rate tariffs is equivalent to the Time of Use R component;
- The peak, shoulder and off peak components should be weighted annually based on consumption in these periods of customers consuming under a Time of Use tariff;

In summary, Country Energy believes it is imperative that target tariff structures accurately reflect cost of energy and as such we endorse the implementation of Energy Australia's proposal of weighting a standard R component to peak, shoulder and off peak periods.

3.2 Cost to be recovered through tariffs

The Tribunal's draft decision is that the level of the target R component be set to reflect the following costs (expressed in 2004/05 dollars):

- *Energy purchase costs of \$50 per MWh.*
- *NEMMCO fees and ancillary services costs of \$1 per MWh.*
- *Energy losses which vary by retailer.*
- *Retail operating costs of \$65 per customer per year.*
- *Net retail margin of 2 per cent.*

Country Energy believes that target R components generally reflect accurate costs of supply under current circumstances. However in Country Energy's case the levels of targets are somewhat academic, as Country Energy's recovery of target revenue is and will continue to be under recovered for the entire Regulatory period.

3.3 Structure of target tariffs

The Tribunal proposes that regulated retail tariffs have a fixed and variable structure. However, there is scope for retailers to propose alternative structures (for example, inclining block tariffs) provided the price limits are satisfied. The Tribunal proposes that the fixed R and variable R recover 15% and 85% of total retail costs respectively.

The Tribunal has proposed that the fixed R and variable R recover 15% and 85% of total cost respectively. As discussed in Country Energy's previous submissions the majority of retail operating costs are largely fixed, in that churn of customers will not see a reduction in costs. Variable operating costs, theoretically would decrease through customer churn, however in reality for total variable operating costs to decrease a significant proportion of customer would need to churn. As such, variable costs should be considered as fixed, until a significant churn of customer to full retail competition occurs.

It is also appropriate that the tariff represents the fixed and variable costs of supply. Country Energy agrees that the costs of supplying energy to small retail customers include fixed and variable components and as such, for default tariffs to be cost reflective, they must be structured to reflect both fixed and variable costs.

Country Energy maintains a multitude of regulated retail tariffs with vast and varied structures. There are a number of legacy tariffs which recover the fixed costs of supply via a minimum charge. For most customers, the total amount that would be billed under a minimum charge tariff compared to a fixed charge tariff is minimal. In our experience, the minimum charge tariffs appear to confuse customers where a fixed charge tariff provides simplicity and transparency to customers.

Our preference would be to abolish all minimum charges and replace them with fixed charges, however for customers the limits on price movements are breached and the tariff restructuring can not occur. The Tribunal's draft decision is that the fixed R component of any regulated retail tariff on a customer's bill must not increase by more than \$5 per annum. This constraint will severely limit the restructuring that can

occur, particularly where the tariff has a minimum charge or no fixed charge at all. This issue is further discussed in section 4.4 – Limits on increasing the fixed retail component.

Whilst Country Energy supports the fixed and variable structure for regulated retail tariffs, we believe that limits on price movements inhibit our ability to transition tariffs to this structure.

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4 Limits on Price Movements

4.1 Limits on increasing over recovering tariffs

The Tribunal's draft decision is that, in the regulatory period commencing 1 July 2004, tariffs that are above target should not increase in nominal terms.

The Tribunal's draft decision is that at each price change Country Energy must compare each individual regulated retail tariff to the target tariff. Regulated retail tariffs above the target tariff must not increase in nominal terms and those that are below must be increased subject to price constraints.

This approach means that retailers are not able to pass through network increases for over-recovering tariffs. This erodes any price signals from distributors and could therefore undermine any demand management initiatives established through network tariff structures.

The target tariff N+R should be set to reflect the underlying costs and be used to determine a price path, but individual tariff changes should be determined by the retailer. The tariff constraints will effectively limit the level of tariff rationalisation that can be achieved.

Country Energy gives preference to a form of regulation which provides scope to address tariff rationalisation and cost reflectivity issues. We believe that it should be at a retailer's discretion on how increases to regulated retail tariffs are applied. It is in the retailers' best interest to reduce the number and level of under recovering tariffs, and to also address issues with over recovering tariffs.

Country Energy has a significant range of tariffs. At the end of the current regulatory period Country Energy will have 65% of tariffs being below target levels. Almost 20% of Country Energy's tariffs are more than 20% below the target, and at the other extreme 11% of tariffs are 20% above cost reflective levels.

This means that customers throughout rural New South Wales are paying vastly different amounts for essentially the same service. This is far from an equitable pricing outcome. This is obviously a source of frustration for both Country Energy and its customers. Under the current and draft framework it is extremely difficult to address this anomaly.

We believe that the Tribunal should reconsider its draft decision in relation to this limit on price movements. As outlined in our previous submissions we believe this is a layer of regulation that could be removed in simplifying the framework.

4.2 Limits on increasing customers bills

The Tribunal's draft decision is that price limits for each regulated retail tariff should be expressed as a price limit on customers' bills according to the formula:

$$Allowed\ increase = \Delta CPI + \left\{ \left(\frac{N_t - N_{t-1}}{N_{t-1}} - \Delta CPI \right) \times \frac{Network\ Revenue}{Regulated\ retail\ revenue} \right\} + \left\{ \Delta R \times \left(1 - \frac{Network\ Revenue}{Regulated\ retail\ revenue} \right) \right\}$$

The current target tariff as specified in the current determination allows pass through of network changes, however in reality the retail side constraints do not always allow pass through of network increases to the customer. This occurs when the increase of the network charges is greater than that of the total increase allowed under the retail determination. The result is that tariffs can not maintain cost reflective levels, and ultimately erosion of the retail gross margin.

The Tribunal's draft decision on limits on increasing customer's bills would address issues such as network increases outweighing allowable retail increases at each price change. Direct pass through of network charges, ensures that at a minimum current cost reflectivity levels are maintained. Under recoveries can also be reduced provided that the retail component constraint allows sufficient correction of historical issues during the regulatory period.

Country Energy welcomes the Tribunal's draft decision in relation to limits on increasing customer's bills.

4.3 Limits on increasing the retail component of tariffs

The Tribunal's draft decision is that price limits should be imposed on the R component of the tariff. These price limits should be:

- (1) CPI+1% for EnergyAustralia and Integral Energy
- (2) CPI+3% for Country Energy and Australian Inland.

The Tribunal's draft decision is that price limits on residential and business tariffs should be the same.

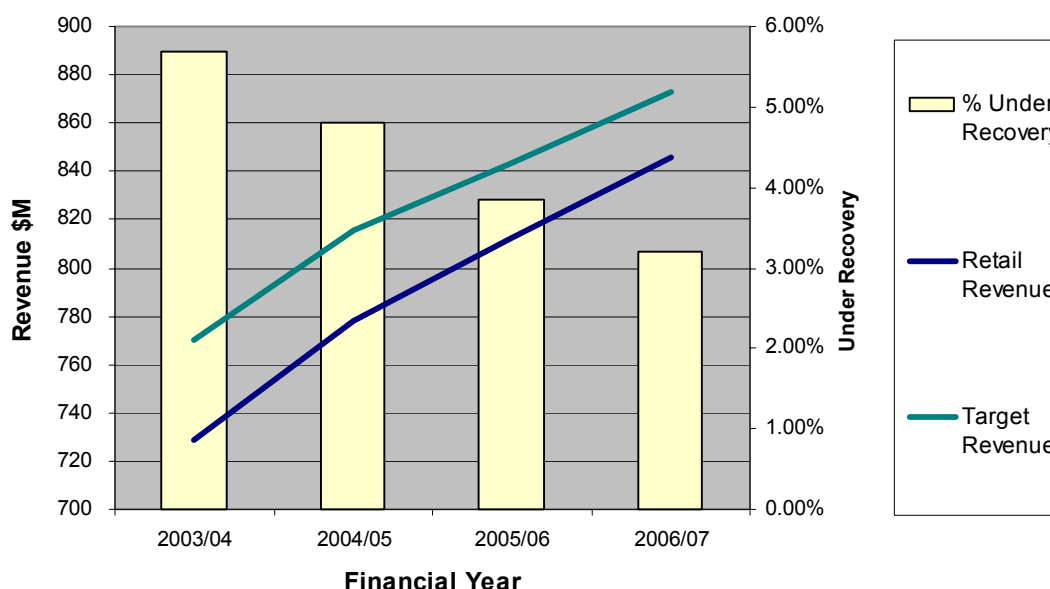
Country Energy has modelled the draft determination and determined the average increases for customers and total levels of under recoveries for the period of the determination. The table below demonstrates that by the end of the regulatory period assuming the draft determination is adopted; approximately 50% of tariffs will be under recovering, which is an improvement of approximately 8% from 2004/05.

Figure 2 Percentage under recovered under CPI+3

% under recovered	2004/05	2005/06	2006/07
Tariffs	58.47%	52.69%	49.59%
Customers	68.17%	51.53%	45.22%
Consumption (GWh)	68.02%	53.12%	46.83%

Our analysis has shown that in 2006/07 Country Energy will be under recovered by approximately \$27 million or 3.2%. For the entire regulatory period under the draft determination Country Energy will have under recovered by in excess of \$95 million.

Figure 3 Regulated retail revenue vs target revenue with CPI+3 retail component increase



Although there is an improvement in the total under recovery when comparing regulated revenue to target revenue, Country Energy believes that the under recovery can be further reduced without delivering unacceptable price shocks to customers.

Country Energy has modelled a price limit on the R component of CPI+3% in 2004/05 followed by CPI+5% in the remaining years of the regulatory period. Country Energy considers that an R component price limit of CPI+5% in 2004/05 may deliver a degree of unacceptable price shocks due to the network increase proposed in that year. However, in the latter years the network price increases are significantly reduced and as such an increased R component price limit could be considered.

As shown in the table below, by the end of the regulatory period approximately 44% of tariffs will be under recovering, compared to 50% in the CPI+3 scenario recommended in the draft determination. The number of customers on under recovering tariffs has also dramatically improved to 33%, compared to 45% under the draft determination.

Figure 4 Percentage under recovered under CPI+3 in first year followed by CPI+5

% under recovered	2004/05	2005/06	2006/07
Tariffs	58.47%	50.41%	44.21%
Customers	68.17%	45.23%	33.18%
Consumption (GWh)	68.02%	46.84%	34.73%

A comparison of a number of options is displayed below. As shown the under recovery in the final year of the regulatory period improves by almost 1% under the CPI+5% scenario.

Figure 5 Retail component scenarios

	2004/05 Average Increase	2005/06 Average Increase	2006/07 Average Increase	Under recovery in 2006/07 (\$M)	Under recovery in 2006/07 (%)	Under recovery for entire period
CPI + 3% in all years	6.78%	4.39%	4.10%	27.03	3.20%	95.82
CPI + 3% in first year than CPI + 4%	6.78%	4.60%	4.29%	23.76	2.80%	90.86
CPI + 3% in first year than CPI + 5%	6.78%	4.81%	4.42%	20.99	2.46%	86.48

In summary, Country Energy recommends that the price limits on the R component are further relaxed for the 2006 and 2007 financial years. This adjustment would further ensure, tariffs are at, or transitioning to, target levels by the end of the regulatory period. A relaxed price limit on the R component in the latter years would also ensure that there is a balance between achieving cost reflectivity and impacts on customers.

4.4 Limits on increasing the fixed retail component

The Tribunal's draft decision is that the fixed R component of any customer's bill must not increase by more than \$5 per annum.

As discussed above Country Energy maintains a multitude of regulated retail tariffs with vast and varied structures. There are a number of legacy tariffs which recover the fixed costs of supply via a minimum charge or entirely via a variable charge.

The draft determination specifies that where practicable regulated retail tariffs should be structured in a fixed and variable structure.

5.5 Although the test of whether a regulated retail tariff is at the Target level is by reference to the standard retail supplier's total revenue from that tariff (calculated in accordance with clauses 5.3 and 5.4), where practicable a standard retail supplier should ensure that regulated retail tariffs reflect the structure and levels specified in clause 5.2.

Country Energy believes that a fixed and variable structure as specified in clause 5.2 of the draft determination is preferable as this structure represents the cost of supply. However a number of Country Energy's regulated retail tariffs are not structured in this fashion and to address this issue significant tariff restructuring needs to occur. Country Energy is concerned that clause 7.1 will not allow the necessary restructuring to occur.

7.1 A standard retail supplier must ensure that the Fixed R component of a regulated retail tariff does not increase by more than \$5 per customer per year.

The Tribunal's draft decision that a fixed R component of any regulated retail tariff on a customer's bill must not increase by more than \$5 per annum will severely limit

Country Energy's ability to restructure tariffs that do not currently recover fixed costs via a specific fixed charge.

It is important to remember that while customer level side constraints theoretically apply to individual customers, they actually apply to classes of customers as you can not adjust a tariff for just one customer, because any tariff change will impact all customers on the tariff.

Unwinding current tariff structures to a fixed and variable component, in most cases is difficult without:

- foregoing revenue and consequently breaching the determination; or
- conversely, breaching side constraints.

Restructuring complex tariff structures can be extremely difficult, and as such, any introduction of such structures in a regulated environment must be given careful consideration as it may take many years to unwind or remove a tariff if the tariff does not represent the underlying costs of supply

Country Energy questions the practicality of such a price constraint that limits increases in the fixed R component of any regulated retail tariff on a customer's bill to a maximum of \$5 per annum due to the impact this price constraint will have on Country Energy's ability to resuture tariffs.

Further to ensure tariff restructuring can occur, the greater of a fixed dollar amount (such as \$10 for each regulated retail tariff on a customers bill) or the percentage increase allowed under the price limit formula, would suffice in ensuring fixed charges can be introduced whilst still protecting customers from unacceptable price shocks.

The relaxation of the fixed R component price control will allow Country Energy to restructure tariffs in accordance with the determination. This proposal will not have any adverse impacts on customers, as the price limits applied to a customer's bill will be adhered to.

Country Energy proposes that

- Clause 7.1 – "A standard retail supplier must ensure that the fixed R component of a regulated retail tariff does not increase by more than \$5 per customer per year" be removed from the determination; and
- Clause 7.3 be expanded to include an annual fixed dollar constraint to operate in conjunction with the price limit formula as follows:

A standard retail supplier must ensure that the total amount of bills that would be issued to any customer for a year commencing on a price change would not exceed the greater of

Total Previous Year's bills X (1 + allowed increase from price limit equation)

Or

Total Previous Year's bills + \$35

4.5 Other issues

The draft report states that a time of use tariff is to be considered as a single tariff as shown below.

2.2.12 A time of use tariff, which contains more than one variable rate for consumption depending upon the time that the consumption occurs, is considered to be a single tariff. Accordingly:

(a) the reference in clause 5.2(c) to no Fixed R being allowed for off-peak means, in respect of a time of use tariff that is relevant for peak and off-peak periods, that there is one Fixed R for that time of use tariff; and

(b) the references in clause 5.2(d)(i), (ii) and (iii) to 'each tariff' set out in the table for Variable R include references to each relevant rate which forms part of a time of use tariff.

The draft report also states that each regulated retail tariff must be compared to the corresponding target level as shown below.

6.3 Subject to clause 6.4, a standard retail supplier who has a regulated retail tariff that, immediately prior to a Price change date, is below the Target level for that tariff and for that Price change date (calculated under this Determination), must increase that regulated retail tariff up to, but not exceeding the Target level for that tariff and for that Price change date. The increase in the tariff is to be effective from the Price change date.

As discussed throughout this submission Country Energy has several hundred regulated prices. Within these regulated prices are many time of use tariffs, were due to historical reasons, customers may be on a similar shoulder and off peak component but different peak components. Therefore, there is an array of combinations of tariffs that would need to be grouped in order to comply with clause 2.1.12. For Country Energy to comply, price submissions and implementations would be incredibly labour intensive, and would dramatically increase the total number of regulated retail tariffs.

Country Energy believes that the clause 2.1.12 should not be applicable in the case of clause 6.3.

Country Energy believes that treating time of use component as a single tariff, particularly in relation to clause 6.3, will not assist Country Energy in rationalising the number of tariffs. In fact the outcome will be the opposite.

Cost reflectivity and tariff rationalisation will be achieved much sooner, if time of use components were treated as separate tariffs for the purposes of clause 6.3. Therefore Country Energy proposes that clause 2.2.12 not apply to assessing a regulated retail tariffs recovery compared to target levels.

5 Other Issues

5.1 Introducing new regulated retail tariffs

The Tribunal's draft decision is that the only new regulated retail tariff for 2004/05 should be EnergyAustralia's proposed Time of Use Business tariff for customers with a type 5 meter.

Country Energy's view is that the determination should allow for the introduction of new regulated retail tariffs. Standard Retail suppliers should be allowed sufficient scope to introduce new tariffs, provided that the proposed tariff complies with the determination.

The draft determination states that the introduction of new tariffs is subject to criteria as listed under clause 4.2.

4.2 A standard retail supplier may not introduce a new retail tariff to apply during the period to which this Determination applies, unless:

(a) the standard retail supplier sends a written request to the Tribunal (in which case the Tribunal may request the Minister, under section 43EA(2) of the ESA, to make a referral to the Tribunal); and

(b) pursuant to a referral from the Minister under section 43EA of the ESA, the Tribunal makes a new determination under section 43EB of the ESA covering that new retail tariff.

Country Energy believes that the process and timing for introducing new regulated retail tariffs should not be confined to price change dates and as such clause 4.2 should be applicable to the entire regulatory period. The ability to introduce new tariffs is important.

There are a number of demand management initiatives being currently explored at Country Energy involving Time of Use pricing. If the introduction of new tariffs was confined to 1 July each year, there could be significant delays in being able to deliver benefits to customers.

Given the required level of consultation required under clause 4.2 to implement a new tariff, the introduction of a new regulated retail tariff should not be limited to 1 July each year.

5.2 Regulated retail charges

The Tribunal's draft decision is not to amend regulated retail charges over the next regulatory period.

Country Energy requests that the Tribunal allow for the introduction of credit card payment fees and dishonour fees.

In relation to credit card fees, on 1 January 2003, the Reserve Bank's standard and regulations on merchant pricing came into force. The standard removes the restriction imposed by the international credit card schemes which prevents merchants from recovering from cardholders the costs of accepting credit cards. The standard provides that neither the rules of a designated credit card scheme nor any participant in the scheme may prohibit a merchant from charging a credit cardholder any fee or surcharge for use of a credit card in a transaction.

The standard will apply to the MasterCard and Visa credit card schemes; the Bankcard scheme does not impose restrictions on merchant pricing. On 1 January 2003, the undertakings provided by American Express and Diners Club to the Reserve Bank to remove merchant restrictions in their respective schemes also came into force. Surcharging can vary from 1% to 10%.

This means retailers businesses and service providers are allowed to charge credit card holders a fee or surcharge for credit card transactions. These reforms are part of the Reserve banks overhaul of the credit card system which is aimed at promoting greater efficiency, transparency and competition within the credit card network.

Under a negotiated contract, retailers are able to pass these costs onto customers provided that the negotiated contract allows this. Standard retail suppliers should have the ability to pass through this cost to customers if they choose.

Another charge which should be introduced is the expansion of the dishonour fee. Under the current provisions of the Retail miscellaneous charges list retailers can charge twice the regular fee charged by the Bank to which the cheque is presented. However, there are no dishonour fees in relation to direct debit.

If a customer does dishonour a direct debit, banks pass these costs onto retailers. For example, Country Energy is charged \$2.50 for every direct debit dishonour. In addition to this cost there is the internal administration cost of following up with the customer. If the customer dishonours three times, retailers have to generate reports, cancel the direct debit and notify the customer of that action and appropriate recourse.

The Tribunal noted in its draft report that the Electricity Supply Act 1995 limits the retail charges to those listed in Table 6.1 of the report. Standard retail suppliers should be able to reflect this cost to the customer in the event that they do not meet their payment obligations. Accordingly Country Energy's recommendation is that the process for introducing this charge should commence and that the determination allow for such a fee if and when the Electricity Supply Act 1995 is amended.