

Country Energy

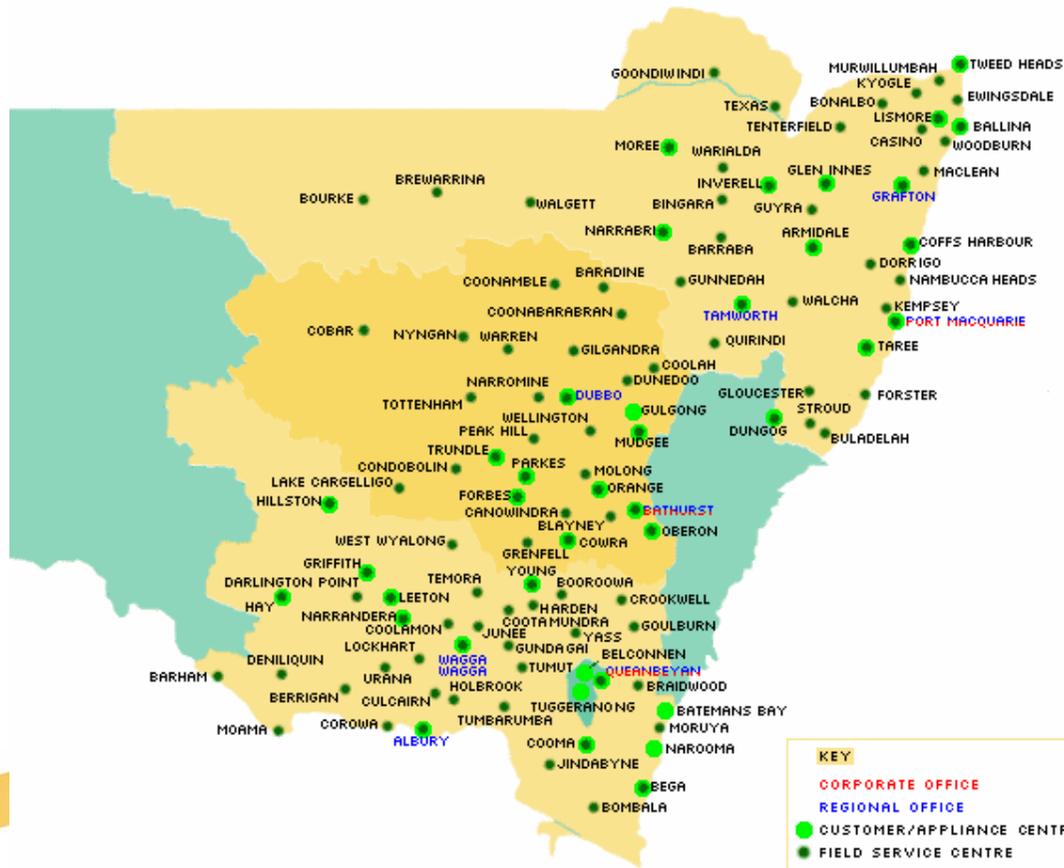
Presentation to IPART Pricing

Issues Working Group

May 2003



Country Energy Distribution Area



Distribution Characteristics

- Second largest distribution network infrastructure in the world
- Over 700,000 customers
- 582,000 km²
- 180,000 kilometres of line
- 1.35 million electricity poles
- 110,000 substations,
- 20 per cent of the State's energy and demand.
- Lowest density of customers per asset length
- The lowest energy density per asset length
- The second lowest consumption per customer



Fixed Charges (Network Access Charge)

- Fixed charges are intended to recover the fixed costs of operating the network.
- The fixed charge is associated with the provision of the following network services, which are fixed in terms of costs:
 - Maintenance of assets dedicated to the customer's supply
 - Customer related operating and maintenance costs such as the system control centre, emergency and technical response;
 - Meter reading, billing and account processing;
 - For rural customers, the distribution substation and high voltage network connection; and
- These costs are allocated to network price classes on the basis of the number of customers in each class.
- Country Energy does not presently fully recover all fixed costs through the fixed charge.
- Changes in the fixed charge are limited to regulatory price constraints.

TUOS Recovery

- Approximately 20% of Country Energy's costs are TUOS charges from TransGrid, PowerLink and Energy Australia
- Under the current determination, CE is permitted to pass those costs on.
- CE has passed on TUOS increases for only two of the four years over which abnormal increases have occurred

Why increase?

- Transmission charges have increased by 8.25% (average) each year for the last 4 years.
- This will be the second year where CE will pass through those previous increases

Financial year	TUOS + IDT's \$'000's	Increase Above CPI-X \$'000's	% of NUOS
1999/2000	80,607	-	0.00%
2000/2001	92,028	8,763	1.88%
2001/2002	96,438	7,821	1.61%
2002/2003	107,425	12,716	2.45%
2003/2004	110,714	10,995	1.98%

- Significant under-recovery. \$26.7 million by the end of 2003/04
- FRC costs have still not been recovered even though approved by IPART

Unders & Overs Account

Projected balance on the Unders-and-Overs Account (\$'000)

Financial year ending		2001	2002	2003	2004
Actual/ expected revenue	\$'000	467,058	484,409	518,264	556,194
Over/(-under) recovery for year	\$'000	3,000	- 8,062	- 18,670	- 1,872
Closing balance on U/O account	\$'000	4,151	- 3,903	- 23,372	- 26,710



Unification and rationalisation of prices

- Differences in network prices between the predecessor organisations that merged to form Country Energy.
- Gradual harmonisation and merging of some network prices over the forthcoming regulatory period
- Reduce the number of existing network prices from 103 down to a few major Country Energy wide network price structures
 - TOU, large TOU, three rate demand, non-time of use, controlled load, un-metered supply, with combinations of urban, rural, residential and business classes.
- Below average prices in the southern region, despite similar network costs.
- P nought adjustment in 2004/05 and the smoothed revenue path to 2009 to provide Country Energy with sufficient scope for rebalancing of prices during the forthcoming regulatory period.

Reducing the Number of Tariffs – Tariff Options for New Premises

Tariff Code	Description	HV Other	LV Other	Rural	Urban
N1	Non-TOU			Y	Y
N2	Non-TOU Domestic			Y	Y
T1	TOU over 100 MWh/yr		Y		
T2	TOU 100 MWh/yr or less.			Y	Y
T3	TOU Domestic			Y	Y
C1	Controlled Load 1			Y	Y
C2	Controlled Load 2			Y	Y
C4	Controlled Load 1 Business			Y	Y
C5	Controlled Load 2 Business			Y	Y
D3	3 Rate Demand Option 1	Y	Y		
D4	3 Rate Demand Option 2		Y		
S1	Seasonally Adjusted Demand		Y		
P3	Public Lighting TOU NUOS		Y		

Introduction of more sophisticated price structures

- Country Energy may consider the introduction of seasonal signals during the forthcoming regulatory period by modifying price structures to reflect the differences between summer and winter demand. The network price would aim to reduce constraints within the network during the summer period by encouraging customers to shift their loads.

Expanded application of TOU prices

- TOU (and demand) network prices will be progressively expanded to increasing numbers of residential and business customers over the forthcoming regulatory period, providing signals for improved load management.



The level of revenue recovered through fixed charges

- Greater revenue from fixed charges would
 - improve the allocative efficiency of network prices
 - reduce the importance of demand forecasts.
- Customers sensitive to fixed charges
- Country Energy would like to gradually move towards a position where 30% of the average residential account was fixed.

The merging of peak and shoulder periods

- Few Customers have access to natural gas
- Higher proportion of consumers heat using electricity
- Hence, CE is still winter peaking



Capacity Charge to Reflect Customers' Long Term Impact on Network Augmentation

- Reflects the long term cost of providing network connection services to supply a customer's long term maximum demand.
- Customers are reluctant to accept the unavoidable high fixed component of a period of 12 months.
- Many customers are rural manufacturers with seasonal operations. (and some don't coincide with our peaks)
- Country Energy may make this type of network price available, as an option, in the future. (as three rate capacity)
- For customers with a high annual load factor this should be the most cost effective network price.

Business Network Prices

- Phasing in of TOU and demand based prices,
- possible introduction of seasonal prices,
- Business customers are likely to be subject to a much quicker rollout of smart meters than residential customers,
 - increased opportunity to manage their energy consumption and peak demand.
 - Customers will be able to select which structure is better aligned with their consumption patterns.
 - safety net energy only tariffs will be available but will only be attractive to customers with very bad load factors.
 - during the forthcoming regulatory period all business customers will have been transitioned from their current network prices to TOU or demand price.
- Country Energy intends to close a number of our existing business network prices. This is part of an overall strategy to eventually have a single set of Country Energy wide network price structures.
- It is intended that Country Energy will continue to provide locational based signals to large industrial customers to ensure that network development occurs where it is most appropriate.

Domestic Network Prices

- All new customers will be placed on the TOU network price.
- Does not mean interval metering
- TOU energy metering will capture the great majority of environmental benefits of half hour price signals at a greatly reduced cost.



TOU Metering

- Country Energy has been providing TOU meters to new connections in order to facilitate the take up of TOU network prices.
- Country Energy now has some 50,000 of these meters installed.
- Country Energy now wishes to make obsolete all single energy flat rate network prices so that new connections will commence on TOU prices.
- Experience has shown the attempt to “sell” TOU compared to single rate block prices is too slow to replace the decline in the controlled load consumption.

TOU Bill Presentation

- Country Energy proposes to show TOU consumption on the bills of those existing customers who have the appropriate meter installed but who are on single rate prices.



Impact On Typical Customer Bills

- Country Energy proposes to amend all network price components at July 2004.
- The change is as a consequence of higher revenue requirements.
- It is not envisaged that any customers will be financially distressed by the new prices.
- Until the Determination process is finalised it is not possible to definitively state the level of price changes, to do so may only serve to unnecessarily concern customers.