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Submission on Review of Regulated Retail Tariffs

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AUSTRALIAN
INLAND
ENERGY

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Customer Issues

Issues

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Discussion &
Questions

Remote Location



Business environment

❑ Customers - electricity

- ▶ 20% of NSW or 155,000 square kilometers
- ▶ 19,000 regulated customers
- ▶ Many small communities less than 1,000 population

❑ Growth

- ▶ Very low to negative growth
- ▶ One customer consumes 33% energy

❑ Regional presence

- ▶ Retail outlets in Broken Hill, Wentworth, Balranald; agencies in other centres
- ▶ Approx 25 jobs in far west NSW retail electricity business
- ▶ Community partnerships

Key Issues for Customers

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☐ Incentives for customer behaviour

- ▶ Little incentive to conserve energy (eg demand management)
- ▶ Little opportunity to save money

☐ Cost reflective tariffs

- ▶ Pass through cost of supply to customer
- ▶ Encourage competition

☐ Avoid significant price increases

- ▶ Phase in increases over a period of time
- ▶ Different increases for different customer classes
- ▶ Realistic regulatory constraints to allow retailers to reach target revenue during determination period

Key Issues for Australian Inland

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☐ Tariffs under-recover by \$3m per year

- ▶ True cost of supply is not passed through to customer
- ▶ Competition is not encouraged by unrealistically low tariffs

☐ Tariff structure not cost reflective

- ▶ Complete tariff restructure necessary to prepare for end of regulation (eg network charges)
- ▶ Price signals missing (eg demand management, block tariffs)
- ▶ Cost components not easily unbundled

☐ Demand management options non-existent

- ▶ No ability to encourage savings by customers
- ▶ Current tariffs inflexible and may encourage consumption (eg declining block tariffs)

Key Issues for Australian Inland

☐ Current tariff constraints must be relaxed

- ▶ Short period to install cost reflective tariff structure
- ▶ AI will never meet target revenue levels with current constraints

☐ Target revenue levels under-recovered in most tariff categories

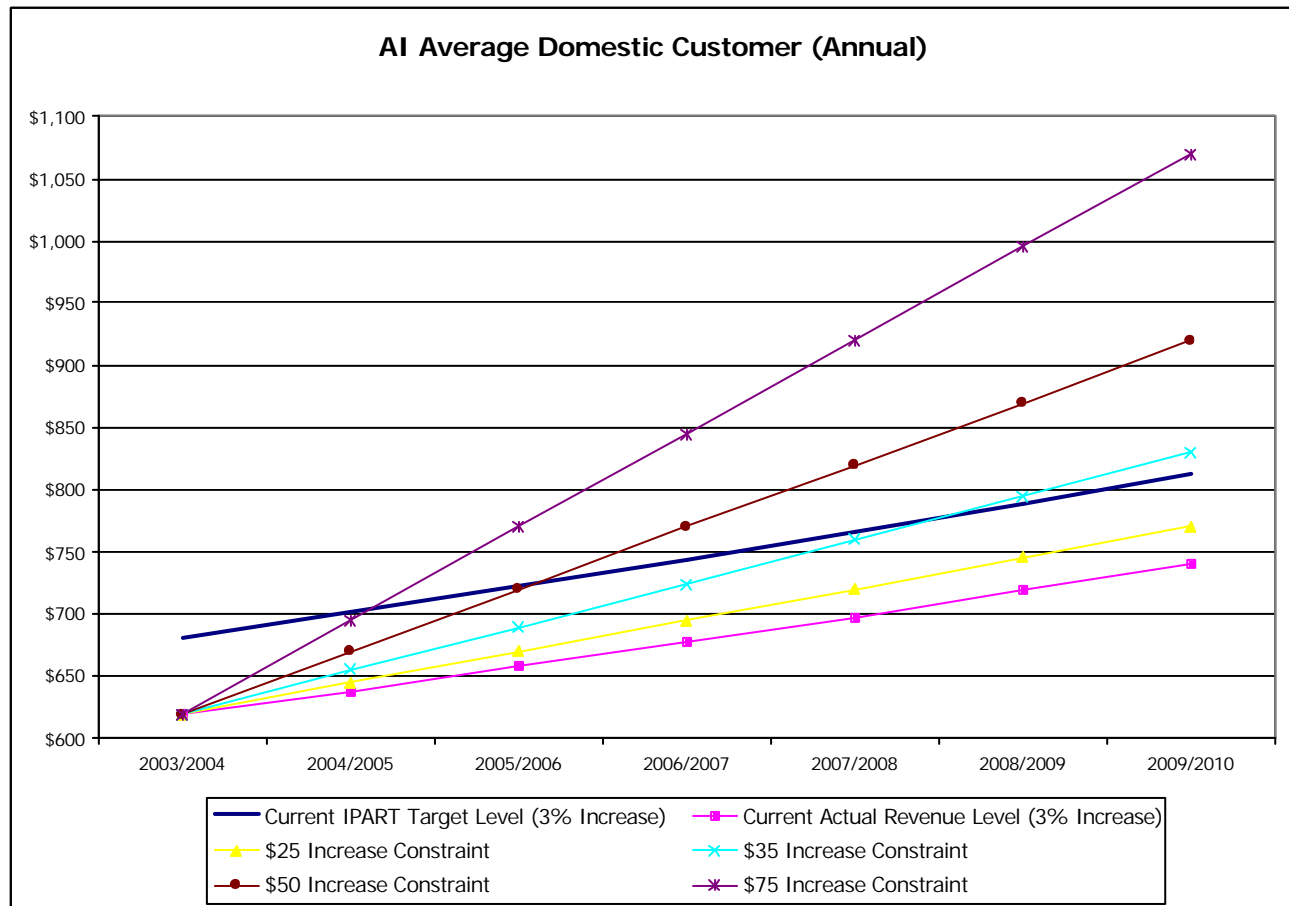
- ▶ Once-off correction inappropriate for customers
- ▶ Phase in stepped change over the determination period
- ▶ Allow flexibility in constraints to address individual tariffs and different customer categories
- ▶ Final result – balance annual price increase over time to manage significant price increases

Key Issues for Australian Inland

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□ Sample constraint levels on average domestic customer



Key Issues for Australian Inland

☐ Tariffs should include full pass through of components:

- ▶ Cost of energy purchases
- ▶ Retail operating costs
- ▶ Retail margin
- ▶ Network charges
- ▶ Other charges (eg market charges, green levy)

☐ Reality of Australian Inland tariffs:

- ▶ Failure to pass through network standing charges (\$2m in 2002-03)
- ▶ Gross margin for 2002-03 was -2%

Australian Inland's preferred form of regulation

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- ☐ Tribunal sets a target revenue ($N + R$) – cost reflective build up of real costs for each component
- ☐ Determine the timeframe for tariff increases, per customer category, depending on significance of price increase
- ☐ Introduce constraints of equal annual increases during the timeframe in order to meet target levels
- ☐ Direct key changes at specific customer tariffs or categories, and not across broad categories

Conclusion

- ❑ **The benefits of restructured tariffs which reflect true costs:**
 - ▶ Improve the management of price increases for customers
 - ▶ Consolidate and simplify AI's price list for customers
 - ▶ Allow for full cost reflectivity
 - ▶ Allow for future unbundling of cost components
 - ▶ Encourage demand management by customers
 - ▶ Specifically allow for full pass through of network standing charges
 - ▶ Allow AI to meet target revenue
 - ▶ Promote commercial business and satisfy our Shareholders

Discussion & Questions

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