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Submission to

Review of Regulated Retail Tariffs and Charges for Electricity 2007 to 2010 Issues Paper

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Total Environment Centre (TEC) is pleased to comment on the Tribunal's review of retail tariffs and charges. Our submission is focused on the ability of the Tribunal to encourage more efficient electricity consumption through the uptake of demand management.

1. Form of regulation

TEC strongly supports a maximum tariff based on the network plus retail (N+R) cost components. The other proposed options have particular problems:

Monitoring prices where competition is considered effective is a too light-handed approach at this early stage of the move towards FRC, particularly considering the current lack of 'churn' in the NSW market.

Establishing 'opt-in' safety net tariffs presents problems for low-income consumers that may lack information on how to choose this option.

Applying a weighted average price cap (WAPC) should not be adopted as this option allows too much room for retailers to manipulate tariffs and charges. A WAPC can fail to result in an actual cap on prices for customers as retailers can move customers from one tariff to another and juggle other charges to stay within the overall cap. Further, allowing retailers to operate under a WAPC would dramatically reduce the ability for the Tribunal or other stakeholders to monitor retailer practices due to the capacity for the WAPC to foster highly complex and opaque pricing behaviour by retailers. The resources required for appropriate regulatory oversight would be too great to carry out properly.

As the Tribunal notes, the WAPC can also become a disincentive for the adoption of demand management (DM) by retailers, encouraging inefficiency and contradicting clear Government policy objectives to increase the uptake of DM.

Setting maximum tariffs based on N+R is favoured by TEC as long as the Tribunal ensures that the variable R component provides enough flexibility to accommodate the requirements of advanced interval meters, including higher variable tariffs for critical peaks and remote load control. Tariffs that accommodate advanced interval meters are discussed further below.

2. Risk, demand management and the long run marginal cost of generation

As ETEF is phased out and NSW moves towards full retail competition (FRC), it is important that all strategies for managing risk are considered, in particular, demand management. To date, DM has been ignored as a risk management tool for use by retailers. The Tribunal should address this lack by recognising and encouraging the use of DM as a hedge and risk management strategy by retailers.

DM can significantly reduce total electricity costs, in particular retail costs, by meeting customer demand more efficiently than new generation. The potential of DM to reduce customer demand is as high as 70% according to some studies.[1] Of most importance to retailers, DM can significantly reduce demand at peak times, when retailer exposure to volatile pool prices is greatest.

Generous risk management payments, however, will reduce the incentive for retailers to manage risk by reducing demand. This will result in unnecessary costs to consumers. When assessing hedge and risk management costs, therefore, the Tribunal should consider reducing these costs according to the potential for DM to reduce risk.

To make the risk management benefits of DM clear to retailers, the Tribunal's assessment of LRMC, to be undertaken by an external consultant, should include an analysis of the cost and ability of DM meet the load profiles of customers remaining on regulated retail tariffs. This analysis should specifically address DM options for electricity retailers.

3. Metering and time of use tariffs

TEC strongly supports the roll out of advanced interval meters across NSW. To assist with this process, the Tribunal should ensure that appropriate advanced interval meter tariffs are made available to all customers remaining on a regulated retail tariff.

There is presently no requirement for retailers to offer tariffs appropriate to advanced metering systems. This has resulted in a situation where networks are installing meters but customers cannot access a tariff to make use of the technology.

To remedy this situation, the Tribunal should require all retailers to offer at least one regulated cost-reflective tariff that enables the customer to make use of advanced interval meters.

The Tribunal should also ensure that tariffs for advanced metering systems are not limited to simple static price periods (for example, the three standard time-of-use periods: peak, off-peak and shoulder). Instead, tariffs should be compatible with the full range of operations made possible by advanced interval meters, such as remote communications, remote load control, and unscheduled critical peak periods.

TEC recommends a cost-reflective tariff that includes a dynamic peak component of at least .40c per KWh.

[1] COAG Ministerial Council on Energy, Energy Efficiency and Greenhouse Working Group, "Towards a National Framework for Energy Efficiency – Issues and challenges" November 2003

4. Cost of compliance with green energy obligations and new schemes

The Tribunal should continue to allow for the costs of the Mandatory Renewable Energy Target (MRET) and the NSW Greenhouse Gas Abatement Scheme (GGAS) but should take account of the changing requirements for greenhouse gas reductions based on emerging science and increased community demands for Government action to reduce emissions.

It is important that the Tribunal ensures that price fluctuations for RECs and NGACs do not result in windfall gains for retailers and unnecessary costs for consumers.

At the same time, the Tribunal should take account of new Government requirements, such as a National Emissions Trading Scheme or a NSW Renewable Energy Target. While the costs for these schemes are expected to be low, it is important that the Tribunal provides a mechanism that provides flexibility for the costs of these obligations to be passed onto consumers in an equitable and transparent manner.

5. Optional Green Power component to all new residential tariffs

TEC recommends that the Tribunal continues its approach towards voluntary Green Power products when the optional 10% Green Power component becomes available to all new or moving customers.

The price of Green Power products is subject to growing competition as most retailers now offer an accredited product. Prices for these products are dependent on many factors, including the price of RECs in the market. It is preferable to allow the market to discover the right price for this commodity rather than add an additional regulated tariff that includes the Green Power component if the customer does not opt out.

6. Lack of detail for consumers

TEC is concerned that there are no specific outcomes mentioned for consumer for actual prices in the review. While we understand that the Issues Paper deals with tariff principles, the community needs to understand the impact of those principles if it is expected to provide informed comment on the proposals. An indication of what average retail prices are now and what they are expected to be under different regulatory options would be helpful.