

Review of electricity pricing and tariff structures

On 25 June 2009, the Premier and the Treasurer directed the Queensland Competition Authority (QCA) to review electricity pricing and tariffs in Queensland.

The Direction requires the QCA to:

- Look at different methods for calculating retail electricity prices in Queensland. We must have a method for calculating prices that includes the costs of supplying electricity (including network costs) and also accounts for all State and Commonwealth Government environmental obligations
- Consider Queensland's existing retail electricity tariffs and possible alternative tariff structures that would help manage peak electricity demand and give customers an incentive to use electricity more efficiently.

A copy of the Ministers' Direction Notice and a letter from the Minister for Natural Resources, Mines and Energy and Minister for Trade regarding the review can be downloaded from the QCA website at: www.qca.org.au

When will the pricing review be finished?

The QCA is required to provide a final report and recommended option to the government in two stages:

1. A review of the existing electricity pricing methodology and alternative methodologies by no later than 31 August 2009.
2. A review of existing and alternative tariff structures by no later than 30 November 2009.

Why review electricity tariffs?

We want to investigate a tariff structure that:

- ✓ Rewards people for lowering their energy use
- ✓ Provides an incentive to reduce peak demand
- ✓ Reduces the need to build expensive infrastructure that we all pay for.



Remember, the more electricity we use, the more we need expensive infrastructure to support demand, then the more we pay through our electricity bill.

Electricity tariffs in Queensland have remained mostly unchanged in structure since their introduction in the mid-1990s. We need to look at both the existing electricity tariff structures and alternatives which may allow consumers to manage electricity consumption more efficiently.

It is important to review electricity tariffs to give incentives to reduce peak demand and help minimise price increases in the future.

This is because electricity infrastructure is very expensive to build. New electricity infrastructure costs billions of dollars each year, and this cost is included in the price everyone pays for their electricity.

We have to constantly build new infrastructure to make sure we can meet the maximum amount of electricity that consumers use at any one time (peak demand) and still ensure reliable supply.

In reality this peak demand may only happen for a few hours each year when consumption of electricity is at its maximum (e.g. due to extremely hot weather). Therefore we all pay the cost for something that is not needed most of the time.

So if we manage or reduce our demand at peak times, we can use the infrastructure we already have more effectively and we shouldn't need to build as much expensive new infrastructure. This means there is a better chance that over time our electricity price increases won't be as large because we'll need less infrastructure to meet demand.

Electricity infrastructure includes power stations, transmission towers and substations and the distribution poles and wires that deliver electricity to our homes, as well as the people who maintain thousands of kilometres of wires throughout the state.

What does this mean for prices?

Essentially the QCA has been asked to investigate the cost recovery through the existing tariffs and whether there are alternative pricing structures which cover costs and help people to manage their consumption better. The QCA has been asked to consider the benefits and issues of at least:

- Inclining block tariffs — where prices may be higher for very high consumers. That is, the more you use, the more you pay
- Time-of-use tariffs — where prices may be lower when demand is lower and higher when demand is at its peak
- Controlled load tariffs — where electricity might only be available at certain times for certain appliances and switched off at peak times, making the price lower. This happens now with many electric hot water systems.

An explanation of these tariffs is provided below.

Block tariffs

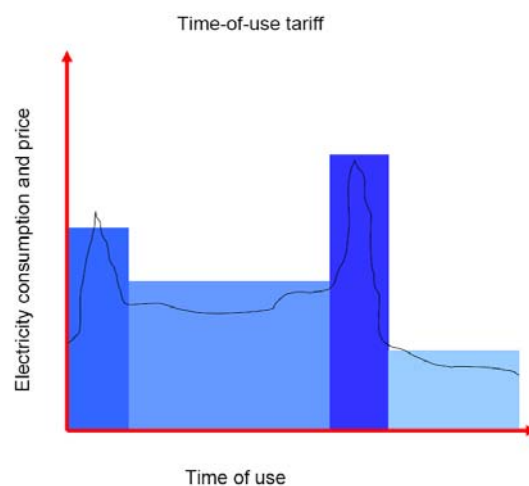
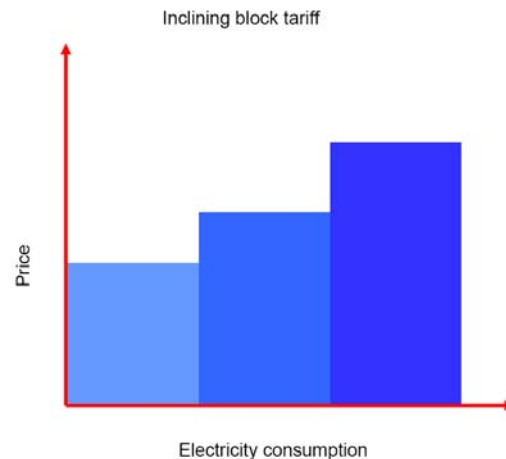
A block tariff is a tariff that has different prices depending on how much electricity you use.

Inclining block tariffs – mean the more you use the more you pay. Inefficient or excessive electricity use is discouraged with this type of tariff as the more electricity that is consumed, the more expensive it becomes. Conversely, those who use energy wisely pay a cheaper rate.

This type of tariff is used to encourage a reduction in total energy consumption. Most other states across Australia have a form of inclining block tariff for domestic tariffs. This type of tariff does not require new meters to be installed.

However, this tariff does not necessarily reduce peak demand and as such, may not reduce the infrastructure investment required in the longer term.

This is also quite different from declining block tariffs – where the more you use the less you pay. This type of tariff does not encourage consumers to save electricity as the more electricity that is used, the cheaper it becomes. This type of tariff has not been used for domestic tariffs in Queensland for many years.



Time-of-use tariffs

Time-of-use tariffs apply different prices to electricity use at specific times of day and/or week, such as weekday daytime, weekday evening or weekends. These tariffs can be designed to encourage consumers to move consumption to certain periods, generally when demand is lower, and discourage use at times of higher demand. Should this type of tariff be implemented, it may require new meters capable of distinguishing consumption at different times (interval meters). All newer meters installed over the past few years have this functionality. The QCA will consider this when it examines the benefits and issues of time-of-use tariffs.

Controlled load tariffs

Controlled load tariffs switch electricity off to certain hard-wired appliances at peak demand times, rewarding customers who agree to this service with a lower price.

Queensland currently has two domestic controlled load tariffs:

Tariff 31 — A super economy night rate generally used for larger hot water systems which are permanently hard-wired. Electricity supply is guaranteed for at least 8 hours each day (generally overnight).

Tariff 33 — An economy rate off peak tariff generally used for appliances such as hot water systems and pool pumps which are permanently hard-wired. Electricity supply is guaranteed for up to 18 hours per day.

The QCA may consider additional interruptible or controlled load tariffs that might help reduce demand at peak time and deliver lower prices to consumers.

What does this mean for electricity consumers?

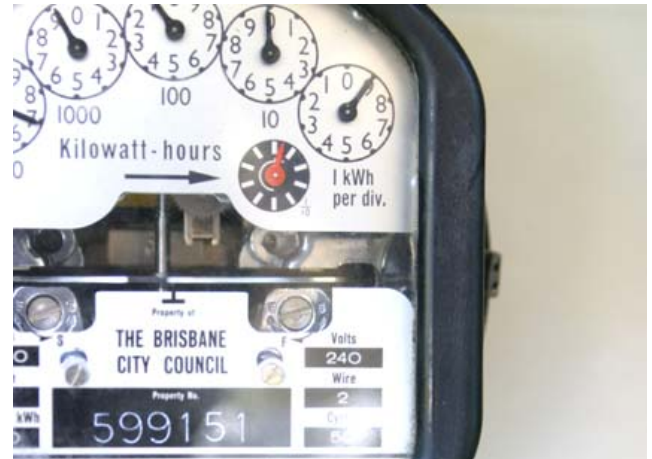
In simple terms, the government has asked the QCA to examine whether there is a better way of charging consumers for electricity — including business, industry and domestic consumers.

Essentially, the QCA will be looking at pricing mechanisms that might encourage consumers to reduce non-essential demand at peak times when it is more costly, and switch to using electricity when it is cheaper, at lower demand times.

At the moment we are paying the same price on the standard tariff for all consumption, regardless of whether it is at expensive peak demand times or when demand is lower and therefore cheaper. Many people might wish to change their consumption patterns to take advantage of cheaper prices.

This is a review to examine whether costs for consumers can be better managed and better price signals delivered.

The government looks forward to community and industry input to consider this challenging issue, and will await the final recommendations of the QCA on this matter before considering any changes.



What about the environment?

Not only is it necessary to consider whether there is a better way to assist in managing future electricity price increases, there is also a need to manage Queensland's growing carbon emissions.

In 2008, the Queensland Government released its plan for Tomorrow's Queensland, Toward Q2. A key ambition defined under this strategy is for Queenslanders to slow the march of climate change. This includes a target of a reduction by one-third Queenslanders' carbon footprint with reduced car and electricity use.

How can I save energy and money?

Sometimes just small changes can make all the difference.

The Queensland Government's *ClimateSmart Home Service* helps everyone do their bit to save energy, money and the environment. The service costs just \$50 and will help you reduce your home's energy use and carbon footprint. It can also help you save up to \$325 on your water and energy bills a year. For more information visit www.climatesmarthome.com

Some simple no cost and low cost *EnergyWise* tips are available on the Queensland Mines and Energy website. These outline some steps you can take right now to cut your energy use and your energy bill. Visit www.dme.qld.gov.au

July 2009