

CONSUMER SUMMARY

Changes in regulated electricity prices from 1 July 2011

Based on *Draft Determination, April 2011*

1 Consumer summary

The Independent Pricing and Regulatory Tribunal (IPART) is responsible for setting the maximum average electricity prices that electricity retailers can charge to around two thirds of residential and small business customers in NSW.¹

We are currently going through a process to set the price changes that will take effect from 1 July 2011.² We will also estimate the price changes from 1 July 2012 to give customers an idea of future price increases.

On 1 March 2011 the NSW Government sold its retail businesses. TRUenergy bought EnergyAustralia and Origin Energy bought both Integral Energy and Country Energy. This decision will apply to the new owners of these businesses.³ The new owners are continuing to use the existing brand names (EnergyAustralia, Integral Energy and Country Energy) and we use these brand names in our report.

1.1 Electricity prices are increasing

In March 2010 we estimated that average price increases for customers of 10% to 13% would apply from 1 July 2011. We have reviewed our estimates and found that they remain largely unchanged, except for the additional costs associated with changes that the Federal Government has made to its Renewable Energy Target (RET) scheme. These changes will add 6% to electricity prices on 1 July 2011.

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- ¹ We set regulated prices for customers that have not signed a market contract with a retailer or those that have returned to the regulated price (ie, standard contract).
 - ² We undertook a 9 month consultative process to set electricity prices from 2010 until 2013. This review follows the approach that we set up to update key cost inputs.
 - ³ Customers that were on a regulated price remain on the regulated price, and these prices will change in line with this decision. Customers that have signed a market contract with a licensed retailer are not affected by this decision and their prices will change in line with their market contract terms..

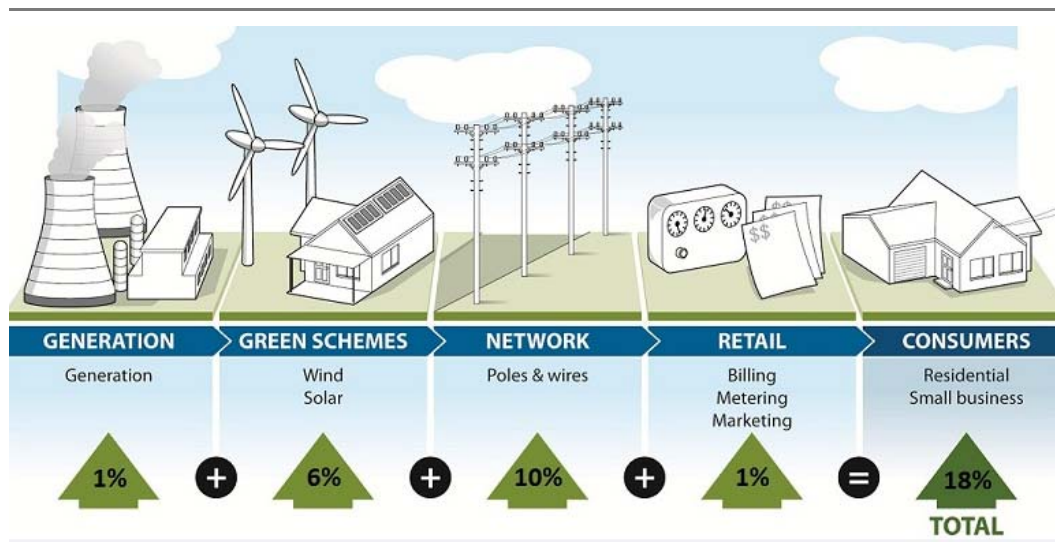
With the additional green costs, the electricity prices that retailers can charge will increase on 1 July 2011 by an average of:

- ▼ 17.9% for EnergyAustralia customers (an increase of around \$230 on an annual bill of \$1,283)
- ▼ 16.4% for Integral Energy customers (an increase of around \$228 on an annual bill of \$1,391) and
- ▼ 18.1% for Country Energy customers (an increase of around \$316 on an annual bill of \$1,747).⁴

The main reason for these price increases is the increased costs that the retailers incur to transport electricity across the poles and wires (network costs) – this will add 10% to retail prices on 1 July 2011. These network costs that must be paid by the retailers are the largest part of the electricity bill and have increased significantly in recent years. The Australian Energy Regulator sets the network costs that the retailers must pay and we make sure that the retail prices recover the actual network costs that the retailers incur.


The costs the retailers incur in complying with government green schemes are increasing rapidly, and will add 6 percentage points to prices on 1 July 2011. (Attachment A – ‘paying for small scale solar’ provides an outline of the interaction between Federal and NSW Government programs that have contributed to a significant increase in the take-up of solar, and the resulting effect on retail costs and therefore electricity prices.)

Figure 1.1 Contributions from the supply chain to overall price increases on 1 July 2011



Note: Green Schemes include the Federal Government’s RET scheme and the NSW Government’s Greenhouse Gas Reduction Scheme and Energy Savings scheme. However it is the changes to the RET scheme that results in additional green costs and higher electricity prices. The generation and retail costs increases are broadly consistent with inflation.

⁴ For customers on regulated prices.



Our estimates of price increases for 1 July 2012 remain largely unchanged, with average prices increasing by 10% for EnergyAustralia customers, 2% for Integral Energy customers and 9% for Country Energy customers.

1.2 Recommendations to the NSW Government about improving electricity affordability

In recent years retailers' costs have increased significantly and will continue to increase in coming years. This will lead to rising electricity prices. We are concerned about these cost increases and about the price of electricity, particularly for low income households.

The 2 drivers of the 1 July 2011 price change are increasing network costs and the costs of complying with green schemes, which the retailers must pass on. We are recommending policy changes to limit the price increases flowing from these cost drivers. These recommendations are aimed at making electricity more affordable over the long term.

Further, our new customer impact analysis confirms that the most vulnerable customers are low income customers that consume a lot of electricity. These include customers in regional NSW. Therefore, the significant increases in bills set out in our draft decision are likely to have a significant impact on these most vulnerable customer groups. Recognising the more immediate affordability issues associated with electricity prices, we recommend that Government should adopt targeted assistance measures to help financially disadvantaged customers that are experiencing difficulty paying their electricity bills. We offer our assistance to the NSW Government by providing detailed customer impact analysis for its current and future reviews of customer assistance measures.

1.3 How can consumers provide comment on the draft decision?

We are now asking the community to provide comments on our draft report, in particular on our updated cost estimates and our draft recommendations. We will hold a public hearing on 2 May 2011 before submissions are due on Thursday 12 May 2011.

We will consider issues raised in the public consultation and make our final decision in mid-June in time for a 1 July price change.

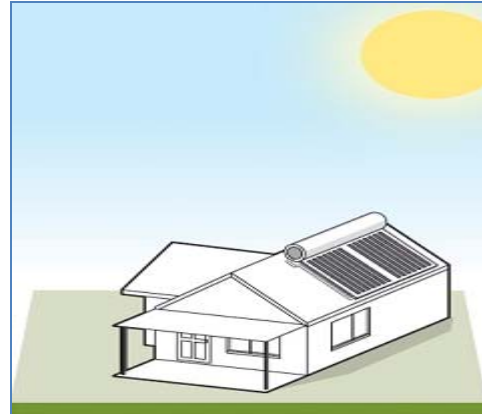
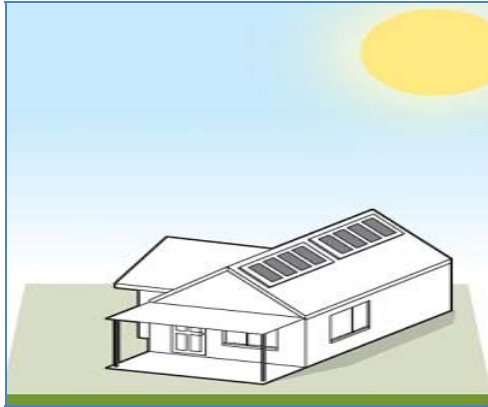
A Paying for small scale solar technologies

Both State and Federal Governments have programs to encourage the uptake of small scale solar photo voltaic (PV) generation systems and solar hot water systems (see Box A.1 below). The generosity of the combination of State and Federal programs has led an unexpectedly high uptake of small scale solar PV systems.

Some of the costs of small scale solar PV systems are recovered through higher electricity prices via the Federal Government's Renewable Energy Target (RET). The RET provides an up-front subsidy to customers installing solar PV systems or solar hot water systems (and other renewable technology) by allowing them to create certificates. The Federal Government then requires the retailers to buy these certificates. This adds to the retailers costs, thereby increasing electricity prices. These arrangements will add around 6% to electricity prices on 1 July 2011.

Taxpayers meet the costs of other solar schemes, including the NSW Solar Bonus Scheme (the feed in tariff) and NSW and Federal Government rebates for hot water.

We are concerned that these programs interact to increase electricity prices and promote relatively high cost abatement (or reductions in greenhouse emissions). For the same amount of money, better environmental outcomes could be achieved.

Box A.1 Federal and State Government Financial incentives for small scale solar**Solar PV incentives**

For a 1.5 kW system (as an example):

- ▼ Total value of certificates created over life of system is provided upfront by the Federal Government's RET (around \$1,200)
- ▼ The RET solar multiplier increases this total value by 5 (to around \$6,000). The multiplier will reduce to 4 on 1 July 2011.
- ▼ NSW Solar Bonus Scheme (Feed-in tariff) provides around:
 - ▼ \$1,280 per year until 2016 (up to around \$9,000 in total) for customers signed to the old 60c rate
 - ▼ \$430 per year until 2016 (up to around \$2,500 in total) for customers signing to the current 20c rate

Solar hot water incentives

- ▼ Total value of certificates created over life of system is provided upfront (up to \$2,280) by the RET
- ▼ Federal Government rebate of \$1,000 if replacing an electric hot water system
- ▼ NSW Government rebate of \$300 if replacing an electric hot water system