

## CONSUMER SUMMARY

# Changes in regulated electricity prices from 1 July 2011

Based on *Final Determination*, June 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.<sup>1</sup>

We have completed a consultative and analytical process to set the price changes that will take effect from 1 July 2011.<sup>2</sup> We have also estimated 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.<sup>3</sup> 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 final report.

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<sup>1</sup> 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).

<sup>2</sup> 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. As part of this annual review we released a draft report in April 2011 and held a public forum. We considered all submissions. The price increases in this final decision are largely consistent with our draft decision.

<sup>3</sup> 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.

## 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.

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)
- ▼ 15.5% for Integral Energy customers (an increase of around \$216 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).<sup>4</sup>

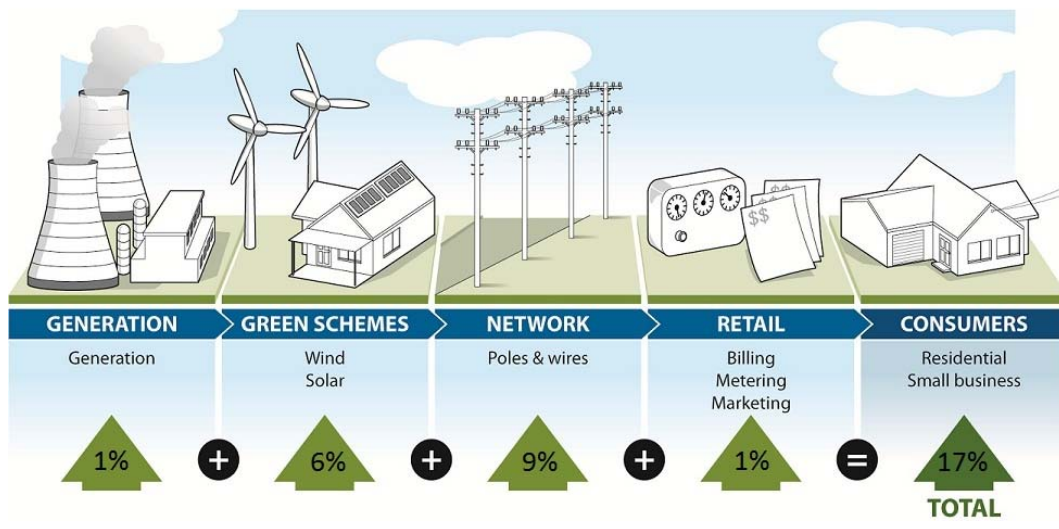
The main reason for these price increases is the increased costs that the retailers incur to transport electricity across the poles and wires (network costs) – this will add 9% to retail prices on 1 July 2011. These network costs that must be paid by the retailers are the largest part of the electricity 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.)

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<sup>4</sup> For customers on regulated 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.

Our estimates of price increases for 1 July 2012 remain largely unchanged, with average prices increasing by 10% for EnergyAustralia and Country Energy customers and 2% for Integral 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 welcome the NSW Government’s suspension of its Solar Bonus Scheme and its recent announcement to review network reliability standards. We also welcome the announcement by the Federal Government to reduce the subsidies for installing solar PV. Over the longer term these policy changes should lower electricity prices. We continue to make recommendations to further limit price increases stemming from inappropriate policy settings relating to network costs and green schemes.



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 final 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 the NSW Government take immediate action to ensure that there are sufficient Energy Accounts Payment Assistance (EAPA) vouchers to assist customers that are in unexpected financial distress after the 1 July 2011 price changes and to extend the eligibility for the Low Income Household Rebate to Health Care Card holders who live in retirement villages and are separately metered.

We also recommend that NSW Government should review customer assistance measures to ensure that the package of measures is helping the financially disadvantaged customers that are experiencing difficulty in paying their electricity bills. We can assist the NSW Government through our detailed analysis and consultative processes.

## **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.

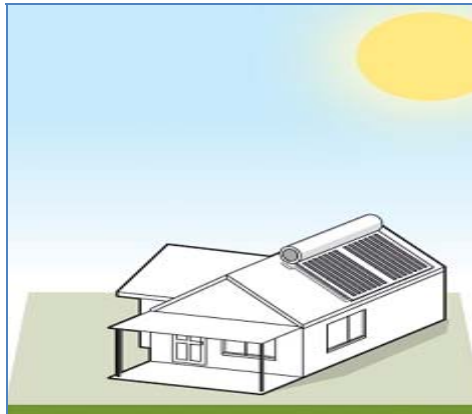
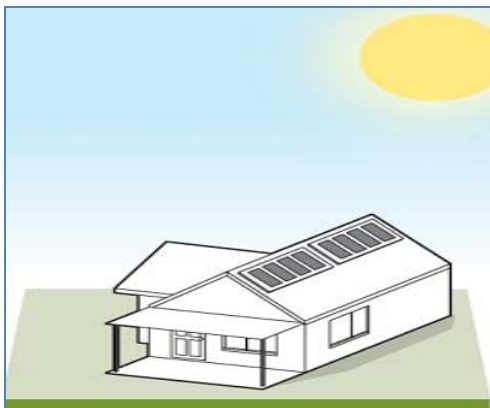
Some of the costs of small scale solar PV systems are recovered through higher electricity prices via the Federal Government's Renewable Energy Target (RET). The RET provides an up-front subsidy to customers installing solar PV systems or solar hot water systems (and other renewable technology) by allowing 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 currently 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.

Since the release of our draft report, the NSW and Federal Governments have announced reductions to the level of subsidy paid to customers who install solar PV:

- ▼ The NSW Government has suspended the Solar Bonus Scheme to new participants.
- ▼ The Federal Government announced that it will reduce the subsidy for installing solar panels (the solar credits multiplier) from 1 July 2011 and phase out this support by 1 July 2013.

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**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 until 30 June 2011 (to around \$6,000). The multiplier will reduce to 3 on 1 July 2011.
- ▼ NSW Solar Bonus Scheme (Feed-in tariff) provides around:
  - \$1,280 per year until 2016 for customers receiving the 60c rate
  - \$430 per year until 2016 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