

Overview of draft report and determination on electricity retail prices in NSW

From 1 July 2007 to 30 June 2010

Promoting retail competition and investment in the NSW electricity industry

This information paper provides a summary of IPART's draft report 'Promoting retail competition and investment in the NSW electricity industry – regulated electricity retail tariffs and charges for small customers 2007 to 2010' (released on 4 April 2007). The full draft report and draft determination are available on IPART's website.

Overview

IPART is responsible for setting the regulated retail electricity tariffs charged by the Standard Retailers in NSW – Country Energy, EnergyAustralia and Integral Energy – to small retail customers on standard form customer contracts.¹

Since 1 January 2002, all electricity customers in NSW have had the option to choose their retail electricity supplier and negotiate a retail supply contract, or to remain with their Standard Retailer on a regulated tariff. Although customers are increasingly exercising choice and negotiating retail supply contracts, around 70 per cent of customers are still on regulated tariffs.

At the COAG meeting of 10 February 2006, Australian governments agreed to the Ministerial Council on Energy's (MCE's) reform agenda. Part of this agenda is the phasing out of energy retail price regulation where effective competition can be demonstrated, with reviews to commence on 1 January 2007.² In this context, it has asked

¹ That is, customers who use less than 160MWh of electricity per year and have not entered into a negotiated contract.

² Council of Australian Governments' Meeting, *Communiqué*, 10 February 2006, Appendix A to Attachment B, p 8.

IPART to set regulated retail tariffs and charges for small retail customers from 1 July 2007 to 30 June 2010, but to do so in a way that reduces customers' reliance on regulated prices, and facilitates retail competition.

In undertaking its review and making its draft determination, IPART has been guided by the terms of reference it received in mid 2006 from the then Minister for Energy. Under IPART's draft determination total average prices for EnergyAustralia, Integral Energy and Country Energy will increase by 7.7, 8.2 and 7.2 per cent respectively each year, taking into account the expected rate of inflation. These increases are driven by:

- ▼ For EnergyAustralia and Integral Energy higher network charges, energy purchase costs, retail costs and retail margin each contribute approximately equally to the total increase
- ▼ For Country Energy around half of the increase is driven by higher network charges, with higher retail costs and retail margin less important drivers. The increases are partially offset by lower energy purchase costs.

IPART considers that higher retail electricity prices in NSW are justified, and indeed necessary, to ensure that the people in this state continue to have access to a safe and reliable supply of electricity. Over the next three years, the Electricity Tariff Equalisation Fund (ETEF) will be phased out and, as a consequence, NSW electricity arrangements will more closely resemble those in Victoria and South Australia. Prices need to be sufficient to ensure that:

- ▼ Efficient and economic investment in electricity generation occurs
- ▼ Retailers are able to meet their obligations regarding greenhouse gas emissions and purchases of renewable energy
- ▼ They cover the costs of selling electricity in a competitive market, and compensate retailers for the risks that they face
- ▼ They allow recovery of investments in the distribution network associated with increased reliability standards and higher peak demand.

In addition, IPART considers that moving towards a more light-handed form of regulation is justified. Its draft decision is to regulate the average level of prices for each retailer. On balance, IPART considers that there is sufficient competition in metropolitan areas to restrain individual price increases so does not propose limits on individual price movements for EnergyAustralia and Integral Energy. However, IPART will require Country Energy to seek Tribunal approval for individual price increases above a threshold level as it is not convinced that competition is sufficient to restrain individual price increases in the non-metropolitan areas.

Outcomes for customers

It is not possible to precisely forecast the increases in individual tariffs because retailers will have the flexibility to determine the level and structure of individual regulated tariffs. IPART's draft determination stipulates the maximum average increase in regulated prices a retailer can impose each year but at the individual tariff level, prices may increase at a higher or lower rate than the average. The impact on customer bills will also depend on the balance between fixed and variable changes and the structure of network tariffs.

IPART has estimated the average nominal price increases for typical small customers of each Standard Retailer, which provide an indicative picture of likely increases to bills for these customers – See Appendix 1.

James P. Cox

Chief Executive Officer and Full Time Member

Appendix 1 – Indicative increases in electricity bills from 1 July 2007

Table 1 Indicative increases in annual bills for typical customers of Country Energy
(\$/customer, nominal, ex-GST)

Description	2006/07 bill	2007/08 bill	2008/09 bill	2009/10 bill	Increase 2006/07 – 2007/08 (%)	Increase 2007/08 – 2008/09 (%)	Increase 2008/09 – 2009/10 (%)
Residential							
Low usage (3000 kWh per year)	624	676	723	774	8.3%	6.9%	7.0%
Medium usage – no controlled load (5600 kWh per year)	1,004	1,083	1,152	1,225	7.8%	6.4%	6.4%
Medium usage – with controlled load (8900 kWh per year)	1,199	1,292	1,372	1,457	7.8%	6.2%	6.2%
Business							
20 MWh per year	3,573	3,830	4,054	4,291	7.2%	5.8%	5.9%
40 MWh per year	6,915	7,404	7,827	8,273	7.1%	5.7%	5.7%
60 MWh per year	13,598	14,552	15,373	16,238	7.0%	5.6%	5.6%

Note: The 8900 kWh comprises 5,600 kWh on the single rate and 3,300 kWh on Controlled Load A.

The increases are expressed in nominal terms; therefore, they include expected changes in inflation over the period.

Table 2 Indicative increases in annual bills for typical customers of EnergyAustralia
(\$/customer, nominal, ex-GST)

Description	2006/07 bill	2007/08 bill	2008/09 bill	2009/10 bill	Increase 2006/07 – 2007/08 (%)	Increase 2007/08 – 2008/09 (%)	Increase 2008/09 – 2009/10 (%)
Residential							
Low usage (3000 kWh per year)	447	494	536	582	10.3%	8.7%	8.6%
Medium usage – no controlled load (5600 kWh per year)	737	810	876	946	9.8%	8.1%	8.0%
Medium usage – with controlled load (8900 kWh per year)	891	976	1,052	1,132	9.6%	7.7%	7.6%
Business							
20 MWh per year	2,468	2,693	2,895	3,108	9.1%	7.5%	7.3%
40 MWh per year	4,887	5,326	5,718	6,130	9.0%	7.4%	7.2%
60 MWh per year	9,724	10,591	11,364	12,173	8.9%	7.3%	7.1%

Note: The 8900 kWh comprises 5,600 kWh on the single rate and 3,300 kWh on Controlled Load A.

The increases are expressed in nominal terms; therefore, they include expected changes in inflation over the period.

**Table 3 Indicative increases in annual bills for typical customers of Integral Energy
(\$/customer, nominal, ex-GST)**

Description	2006/07 bill	2007/08 bill	2008/09 bill	2009/10 bill	Increase 2006/07 – 2007/08 (%)	Increase 2007/08 – 2008/09 (%)	Increase 2008/09 – 2009/10 (%)
Residential							
Low usage (3000 kWh per year)	504	556	606	661	10.3%	8.9%	9.1%
Medium usage – no controlled load (5600 kWh per year)	824	906	983	1,068	10.0%	8.5%	8.6%
Medium usage – with controlled load (8900 kWh per year)	985	1,083	1,173	1,272	10.0%	8.3%	8.4%
Business							
20 MWh per year	2,726	2,983	3,223	3,484	9.4%	8.0%	8.1%
40 MWh per year	5,388	5,890	6,355	6,863	9.3%	7.9%	8.0%
60 MWh per year	10,712	11,703	12,621	13,622	9.2%	7.8%	7.9%

Note: The 8900 kWh comprises 5,600 kWh on the single rate and 3,300 kWh on Controlled Load A.

The increases are expressed in nominal terms; therefore, they include expected changes in inflation over the period.