

Overview of final 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 final 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 14 June 2007). The full report and 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 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 determination, IPART has been guided by the terms of reference it received in mid 2006 from the then Minister for Energy.

¹ That is, customers who use less than 160 MWh 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.

Under IPART's determination EnergyAustralia will be able to increase its total average regulated retail electricity price by 7.3 per cent in each year of the determination, while Integral Energy's can increase by 8.1 per cent per year, and Country Energy's can increase by an average of 7.0 per cent per 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 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 people continue to have access to a safe and reliable supply of electricity and to provide an adequate return to compensate for risk to provide incentive to invest in the electricity industry. 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.
- ▼ 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.
- ▼ Retailers are able to meet their obligations regarding greenhouse gas emissions and purchases of renewable energy.

In addition, IPART considers that moving towards a more light-handed form of regulation is justified. It has decided to regulate the average level of prices for each retailer. In the metropolitan market, the vast majority of EnergyAustralia's and Integral Energy's regulated customers are on one or two regulated tariffs. Where customers are on the same tariff, they face the same price – whether or not they are 'attractive' to the competitive market.

On balance, IPART considers that, having regard to current tariffs, there is sufficient competition in metropolitan areas to restrain individual price increases so it has not set limits on individual price movements for EnergyAustralia and Integral Energy. However, Country Energy must seek IPART's approval for individual price increases above a threshold level as there are fewer customers on the major tariff and IPART is not convinced that competition is sufficient to restrain individual price increases in the non-metropolitan areas.

The price increases in the final determination are similar to those under the Tribunal's draft determination. However, the final determination includes an annual review of the market-based electricity purchase cost allowance during the determination (in 2008 and 2009). The annual reviews are limited to address the risk of significant changes in the wholesale price of electricity. If an annual review concludes that the market-based electricity purchase cost allowance for that year is significantly different from what is already included in the determination, then IPART will reconsider the level of tariffs.

Outcomes for customers

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

Michael Keating, AC
Chairman

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)	604	658	697	739	8.9%	6.0%	6.0%
Medium usage – no controlled load (5600 kWh per year)	1,001	1,092	1,156	1,225	9.1%	5.9%	5.9%
Medium usage – with controlled load (8900 kWh per year)	1,197	1,308	1,385	1,466	9.3%	5.8%	5.9%
Business							
20 MWh per year	3,564	3,879	4,112	4,359	8.9%	6.0%	6.0%
40 MWh per year	6,904	7,518	7,968	8,446	8.9%	6.0%	6.0%
80 MWh per year	13,586	14,795	15,679	16,620	8.9%	6.0%	6.0%

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.

The 2006/07 bills are typical for Country Energy residential customers on main Urban Domestic tariff and Urban Domestic Off-peak 1 tariff. Non-residential customers are on the main Urban Business tariff.

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)	444	476	512	549	7.2%	7.5%	7.3%
Medium usage – no controlled load (5600 kWh per year)	724	777	834	896	7.2%	7.5%	7.3%
Medium usage – with controlled load (8900 kWh per year)	878	943	1,014	1,089	7.3%	7.6%	7.4%
Business							
20 MWh per year	2,650	2,842	3,054	3,278	7.2%	7.5%	7.3%
40 MWh per year	5,539	5,942	6,387	6,858	7.3%	7.5%	7.4%
80 MWh per year	11,316	12,141	13,054	14,018	7.3%	7.5%	7.4%

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.

The 2006/07 bills are typical for EnergyAustralia residential customers on the Domestic All time and Controlled Load- Off peak 1 tariff. Non-residential customers are on the General Supply All Time LV tariff.

**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)	505	544	588	636	7.8%	8.1%	8.2%
Medium usage – no controlled load (5600 kWh per year)	824	888	960	1,039	7.8%	8.1%	8.2%
Medium usage – with controlled load (8900 kWh per year)	985	1,063	1,151	1,247	8.0%	8.3%	8.4%
Business							
20 MWh per year	2,724	2,935	3,172	3,430	7.7%	8.1%	8.1%
40 MWh per year	5,384	5,800	6,266	6,775	7.7%	8.0%	8.1%
80 MWh per year	10,702	11,528	12,454	13,466	7.7%	8.0%	8.1%

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.

The 2006/07 bills are typical for Integral Energy residential customers on the Domestic tariff and Off-peak 1 tariff. Non-residential customers are on the General Supply tariff