

Regulated retail electricity and gas prices from 1 July 2012

Public Forum

30 April 2012

Format for public forum

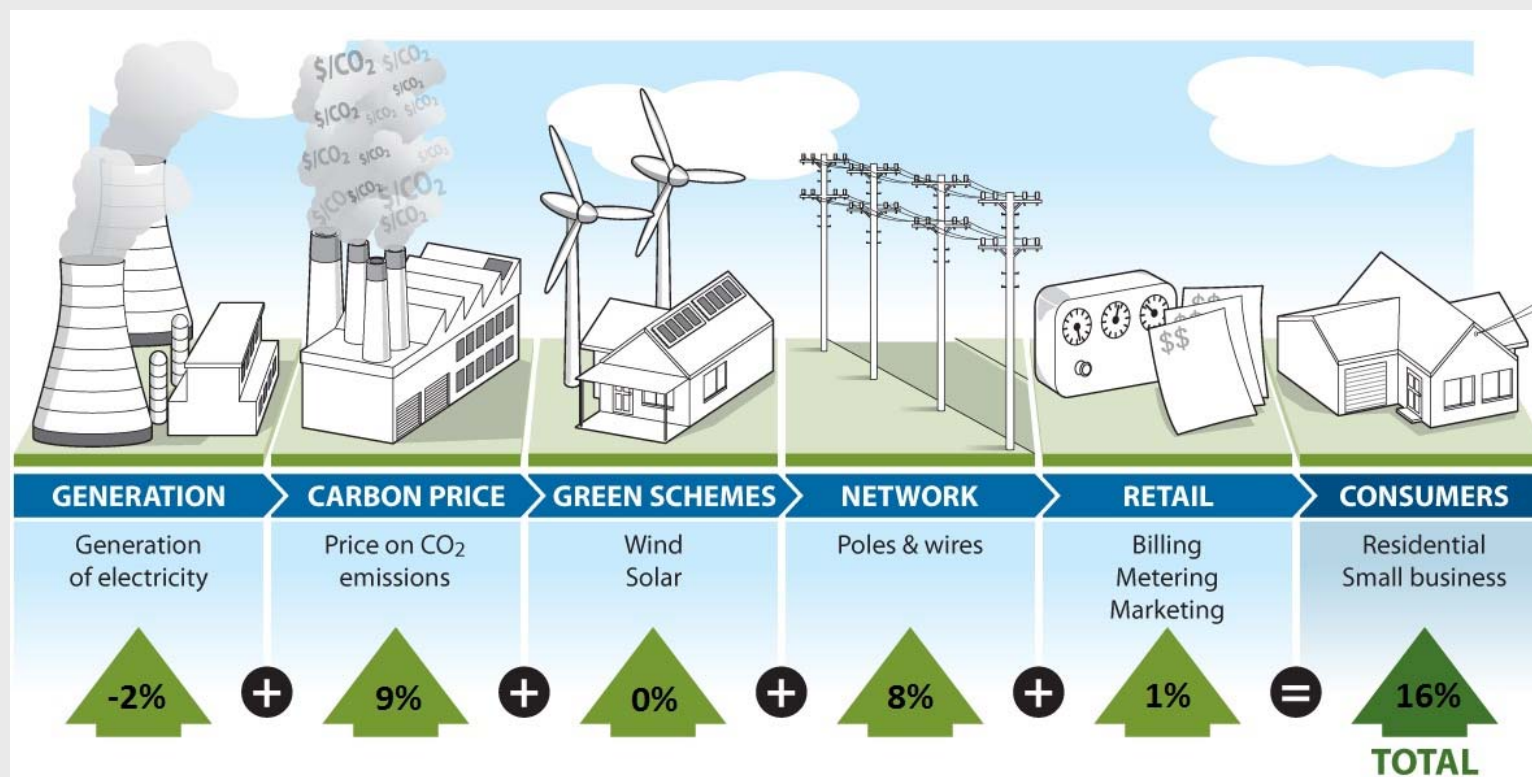
There are 2 sessions:

1. Changes in regulated retail **electricity** prices from 1 July 2012
2. Incorporating the impact of the carbon price into regulated retail **gas** prices in NSW from 1 July 2012

SUBMISSIONS DUE 10 MAY

Overview of draft decision – Significant price increases for 1 July 2012

Average increase from 1 July 2012 across NSW (including inflation)



Updating the Energy Cost Allowances

- ▼ The Terms of Reference require us to set an energy cost allowance including:
 - ▼ Energy purchase cost allowance (EPCA)
 - ▼ Other 'green' costs including the LRET, SRES and ESS
 - ▼ Energy losses
 - ▼ NEM fees and ancillary services
- ▼ This annual review updates our decisions on the key components of the energy cost allowance.
- ▼ We have also assessed the retailers' applications for passing through additional costs associated with changes to their liabilities under the RET

Draft decision on Energy Cost Allowance and cost pass through applications

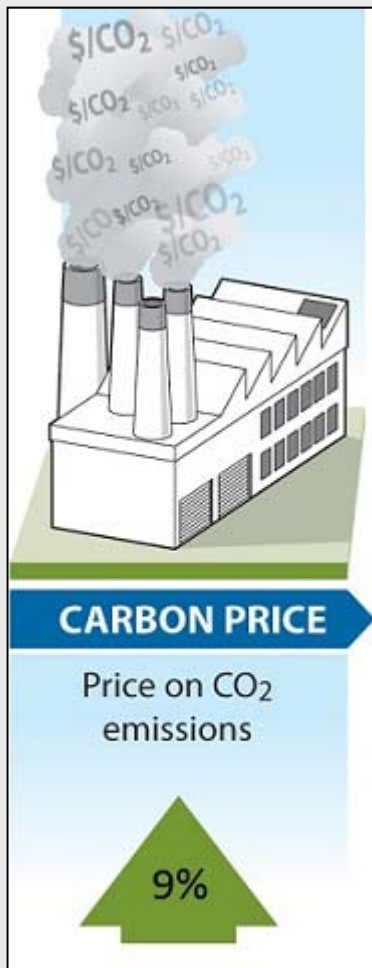
Draft decision on energy cost allowance for 2012/13 and cost pass through applications (\$2011/12, \$/MWh)

	2011/12	Draft decision 2012/13
EnergyAustralia		
Update of energy cost allowance	84.80	98.56
Pass through of costs associated with changes to RET	4.71	2.25
Integral Energy		
Update of energy cost allowance	89.60	103.78
Pass through of costs associated with changes to RET	4.59	2.23
Country Energy		
Update of energy cost allowance	82.56	98.00
Pass through of costs associated with changes to RET	4.24	2.13

Updating the Energy Purchase Cost Allowance (EPCA)

- ▼ Used a consistent methodology to that used in our 2010 Determination:
 - ▼ Estimated the LRMC on a stand alone basis
 - ▼ Market based estimate using a point in time estimate of contract prices
 - ▼ Incorporated carbon costs into generators' marginal costs
- ▼ Updated key input assumptions
- ▼ Set the EPCA using higher of LRMC and market costs

Updated Energy Purchase Cost Allowance – LRMC of generation



Updated estimates of the LRMC of generation (\$2011/12 \$/MWh)

	2011/12	2012/13 (incl. carbon)	2012/13 (excl. carbon)	Impact of carbon
EnergyAustralia	68.65	81.12	61.32	19.8
Integral Energy	72.03	84.59	65.03	19.6
Country Energy	64.54	78.06	58.29	19.8

a

- ▼ In the absence of a carbon price the LRMC has decreased due to a lower WACC
- ▼ Carbon price adds around \$20/MWh to the LRMC
- ▼ Net effect is that the LRMC will increase by around \$13/MWh

Updated Energy Purchase Cost Allowance - Market based energy costs

Updated estimates of the market based energy costs (\$2011/12 \$/MWh)

	2011/12	2012/13 (incl. carbon)	2012/13 (excl. carbon)	Impact of carbon on purchase costs
EnergyAustralia	49.54	66.77	39.98	26.79
Integral Energy	51.51	71.06	42.64	28.42
Country Energy	47.21	65.40	38.93	26.47

- ▼ In the absence of carbon, the market based costs have decreased by around \$9/MWh due to lower demand in the NEM
- ▼ Carbon adds \$26-28/MWh to market based costs
- ▼ Net effect is for an increase of \$17-20/MWh

Updated Energy Purchase Cost Allowance – LRMC remains higher than market costs

Comparison LRMC of generation and the market-based costs (\$2011/12, \$/MWh)

	2011/12(current)	2012/13
LRMC		
EnergyAustralia	68.65	81.12
Integral Energy	72.03	84.59
Country Energy	64.54	78.06
Market-based cost		
EnergyAustralia	49.54	66.77
Integral Energy	51.51	71.06
Country Energy	47.21	65.40

- ▼ LRMC is \$13-14/MWh higher than market based costs
- ▼ Results in prices being 5-7% higher than they would be if set in line with our market based estimates

Cost of complying with other green energy schemes

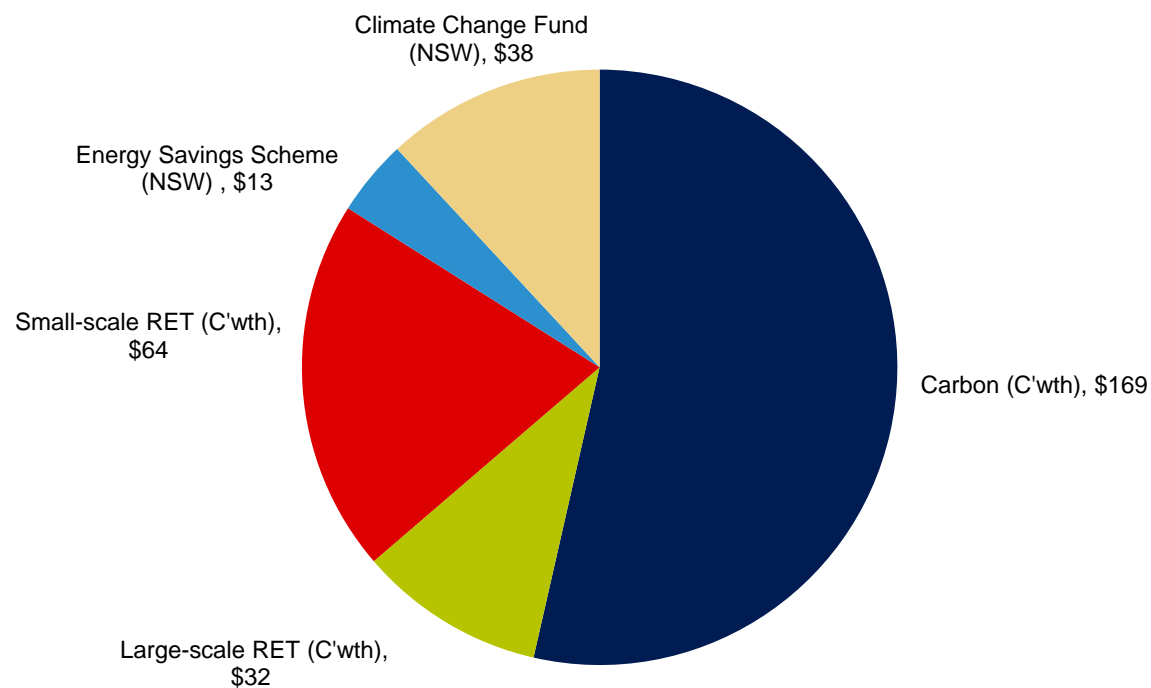
Draft decisions on green cost allowance and cost pass through applications (\$2011/12 \$/MWh)

	2011/12	Draft decision 2012/13
Large scale RET (LRET)	2.71-2.73	3.72-3.75
Small scale scheme (SRES)	6.24-6.34	5.28 – 5.55
Pass through of additional costs associated with changes to RET	4.24-4.71	2.13 – 2.25
NSW Energy Savings Scheme	1.12	1.51

Note: The NSW Government has announced that the GGAS will be discontinued following introduction of the carbon price

The impact of green schemes on regulated electricity retail prices from 1 July 2012

Contribution of green schemes to customer bills in 2012/13 (\$ nominal)



Customer's bills will increase significantly from 1 July 2012

Indicative annual bill for residential customers with average electricity usage in each standard supply area (\$ including inflation)

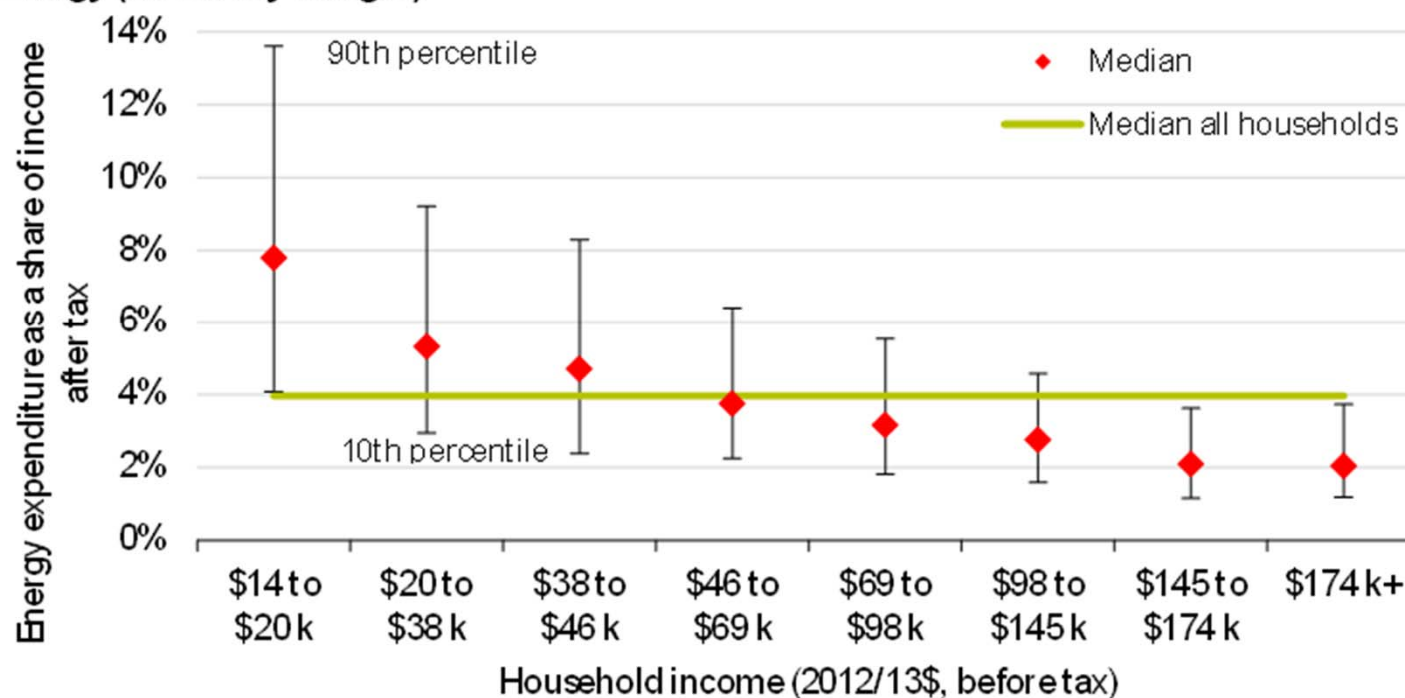
	2011/12 (current)	2012/13	Change
EnergyAustralia	1,763	2,101	338
Integral Energy	1,764	1,946	182
Country Energy	2,163	2,544	381

Note: Bills include GST. Bills calculated using 7,000 kWh of consumption per year and, for each business, the average cost per kWh of supplying all regulated customers.

Low income households with high energy usage will be most affected by the draft decision

Annual spending on energy as a share of disposable household income — Sydney and surrounding regions, 2012/13

Energy (electricity and gas)



Data source: IPART Household Surveys, 2008 and 2010.

Recommendations to mitigate future increases in electricity prices

- ▼ The following should be reviewed to reduce price increases over the longer term:
 - ▼ The National Electricity Rules to remove the bias towards higher electricity network prices
 - ▼ The National Electricity Law to prevent 'cherry-picking' of decisions through merits review
 - ▼ Green schemes to ensure they are efficient, cost effective and complementary to the carbon price. The design of the RET should be improved.
 - ▼ Customer assistance measures, particularly the design and administration of emergency assistance funding to ensure it reaches customers most in need
- ▼ Some of these reviews are currently in place

Session 2 - Incorporating the impact of carbon on regulated gas prices

- ▼ The carbon price will place additional costs on standard retailers in supplying gas to retail customers from 1 July 2012.
- ▼ The VTPAs provide for standard retailers to increase retail gas prices to reflect these additional costs.
- ▼ The standard retailers have proposed increases in residential retail gas prices and our role is to assess whether this increase is reasonable
- ▼ These additional costs will mean that the gas price increases from 1 July 2012 are likely to be larger than was previously indicated.

Impact of carbon on retail gas prices – Retailers proposals

Retailers proposed impact of the carbon price on retail gas prices and bills for typical residential customers

	%	\$
AGL (Greater Sydney region and Central NSW) ^a	6.3%	\$45
Country Energy (SW and inland NSW) ^b	7.1%	\$55
Origin Energy (Albury/Murray Valley) ^c	9.0%	\$75
ActewAGL (NSW regions surrounding the ACT) ^d	5.5-7.6%	\$29-84

^a This assumes a typical customer uses 23GJ of gas per annum. Impact on bills includes GST.

^b This assumes a typical customer in Wagga Wagga uses 32GJ of gas per annum. Impact on bills includes GST.

^c This assumes a typical customer uses 46GJ of gas per annum. Impact on bills includes GST.

^d This assumes a typical customer uses 26GJ, 46GJ and 16GJ of gas per annum in the Capital, Queanbeyan and Shoalhaven regions respectively. Impact on bills includes GST.

- ▼ This does not include impact of changes in gas network prices
- ▼ Likely to be significant increases in gas network prices for AGL customers (Jemena network)

Closing comments – electricity and gas

- ▼ Submissions close 10 May
- ▼ We will release our final decision on electricity and gas in mid-June 2012
- ▼ Regulated retailers will be required to submit retail prices for a compliance review as soon as practicable to facilitate a 1 July 2012 price change



Independent Pricing and Regulatory Tribunal

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