

# Regulated retail electricity prices from 1 July 2011

## Draft Report

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Chairman IPART

14 April 2011

# Overview of the Draft Decision

- ▼ IPART sets the maximum price retailers can charge those on regulated contracts – households, small business
- ▼ A tripling of allowed network expenditure sees network cost pass through adding 10%, and changes to RET scheme add 6%, to give a **17.6%** average price increase on 1 July 2011
- ▼ These price increases are not welcomed:
  - ▼ They will be difficult for everyone, particularly for low income earners with high consumption
  - ▼ Consumers are paying more than necessary for electricity
- ▼ We have made recommendations to improve future affordability and to lead to more efficient costs of electricity supply

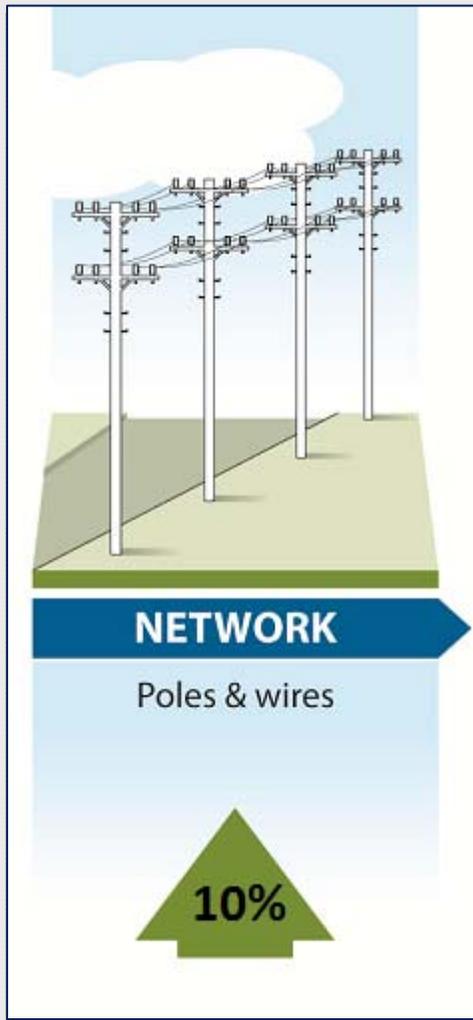
# Our March 2010 decision was driven primarily by increases in network costs

- ▼ IPART made a price determination that established prices for 3 years.

	EnergyAustralia	Integral Energy	Country Energy	NSW Average
1 July 2011 increases announced in March 2010	11.4%	9.6%	13.1%	11.5%

- ▼ For 2011/12 around 80% of this price increase was driven by increased network costs
- ▼ This is an annual update of the key components of retail prices

# Significant increase in network charges (‘poles and wires’)



- ▼ Regulated by the AER and passed through to electricity retailers
- ▼ Allowed network expenditure has increased threefold over 2009/10 – 2013/14 driven by:
  - Higher peak demand
  - Replacement of assets
  - Higher standards for reliability
- ▼ IPART has concerns about why network prices are increasing and has made recommendations to address this

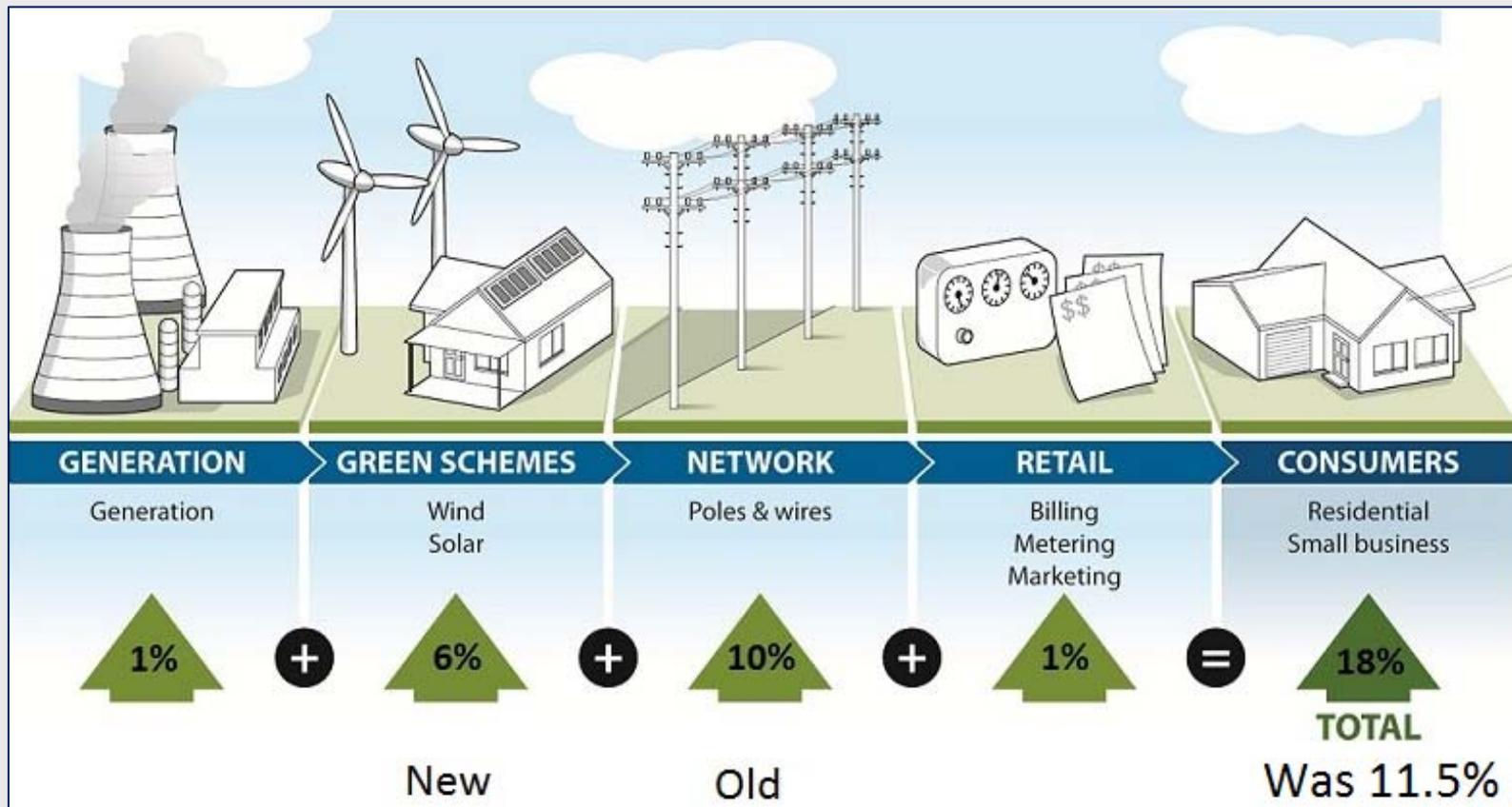
# This update reflects new green scheme obligations

	EnergyAustralia	Integral Energy	Country Energy	NSW average
Increases announced in March 2010	11.4%	9.6%	13.1%	11.5%
Other changes from this update	0.4%	0.6%	0.0%	0.3%
New costs arising from changes to RET	6.0%	6.2%	5.1%	5.8%
<b>Total increases on 1 July 2011</b>	<b>17.9%</b>	<b>16.4%</b>	<b>18.1%</b>	<b>17.6%</b>

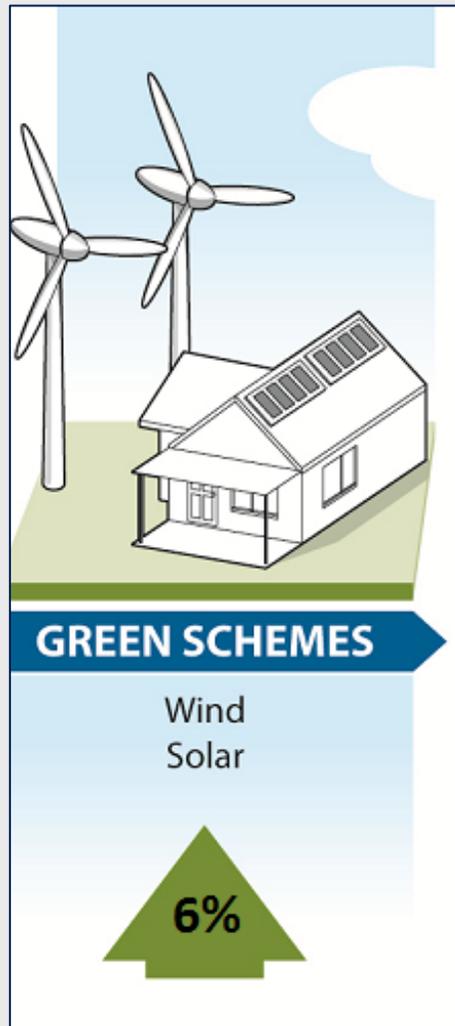
*Note: Figures may not add due to rounding*

# Costs of green schemes add to the already large, network-driven price increases

Average increase from 1 July 2011 across NSW (including inflation)



# The Renewable Energy Target (RET) will increase prices by 6% from 1 July 2011



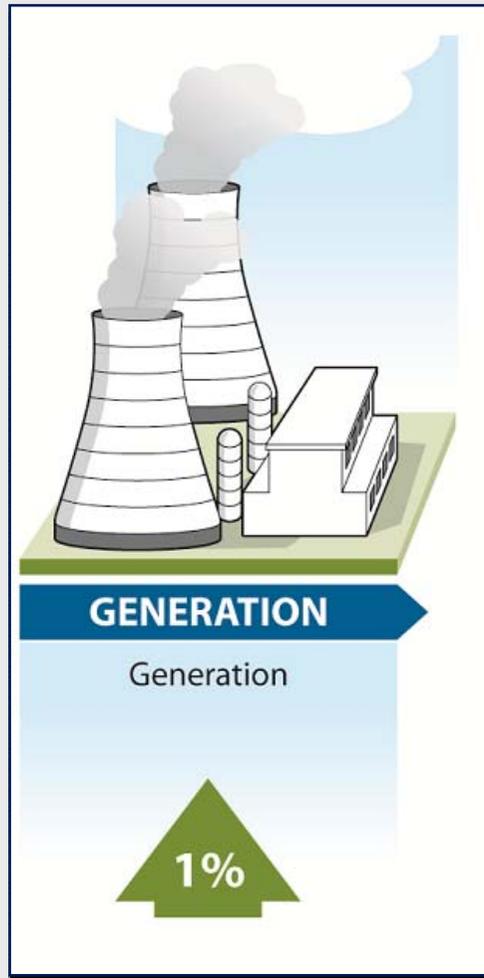
## ▼ Large scale RET (LRET)

- ▼ Cost of complying with LRET in 2011/12 is around \$19 per customer per year

## ▼ Small scale Renewable Energy Scheme (SRES) from 1 January 2011

- ▼ Large costs on retailers resulting from rapid uptake fuelled by generous Federal and State Government incentives
- ▼ Cost for 18 months to June 2012 is around \$74 per customer (\$10.50/MWh)

# Generation costs have remained constant in real terms



- ▼ In real terms, the allowance for costs of purchasing energy is similar to 2010/11 estimates
- ▼ Terms of Reference require us to use the higher of the LRMC and market based estimates.
- ▼ Both of these approaches can be an appropriate basis on which to set prices
- ▼ In future Terms of Reference we would prefer greater discretion in setting the allowance

# Customer's bills will increase significantly from 1 July 2011

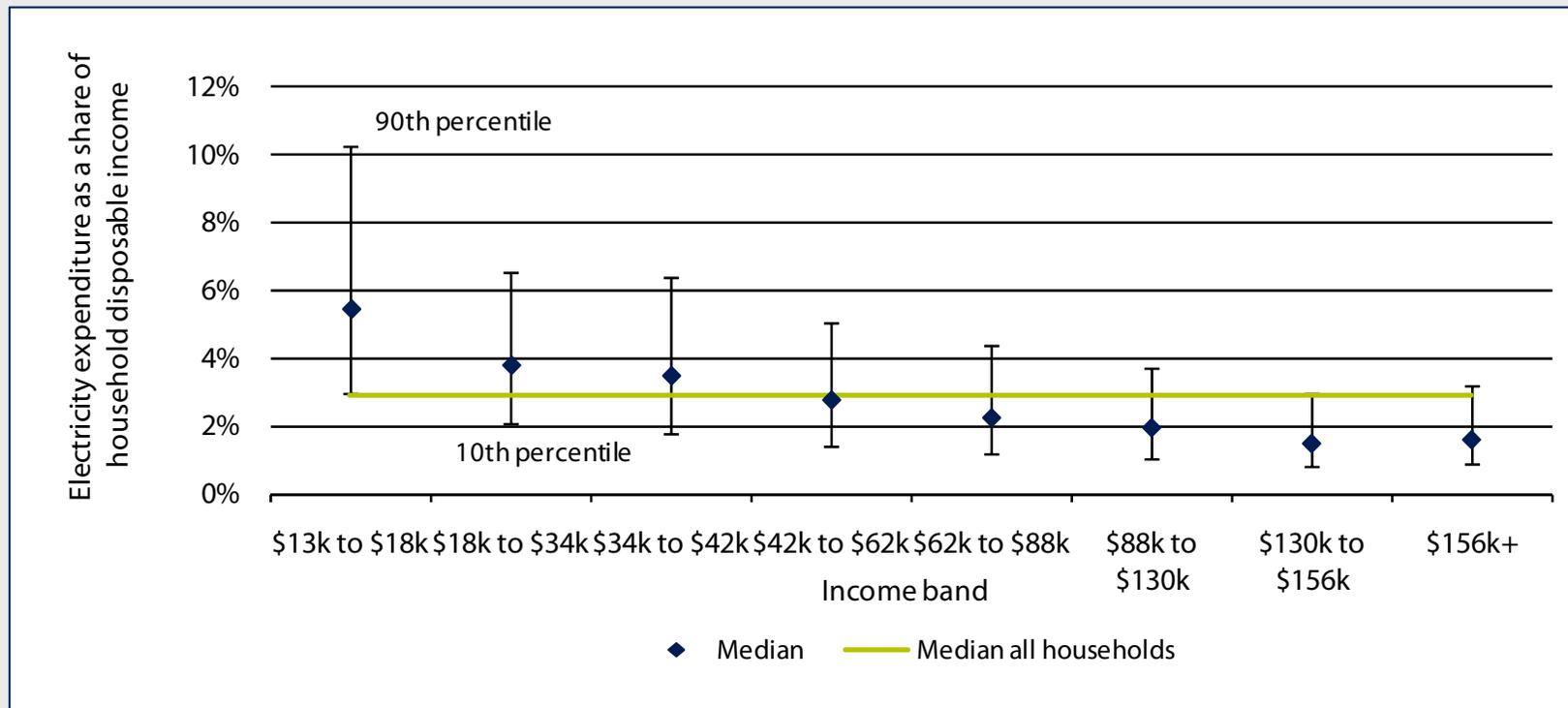
## Annual residential electricity bills 2010/11 and 2011/12 (nominal)

	Current bills (2010/11)	Indicative bills in 2011/12	Increase
EnergyAustralia	1,283	1,513	230
Integral Energy	1,391	1,619	228
Country Energy	1,747	2,063	316

Note: Bills calculated using consumption of 7,000 kWh of per year (of which 30% is on an Off-Peak 1 tariff) and inflation of 2.7%. Bills include GST.

# Low income customers will spend a high proportion of their incomes on electricity bills

## Electricity bills in 2011/12 as a share of disposable income (Sydney and surrounds)



Data source: IPART Household Survey

# What can governments do to ameliorate price increases over longer term?

1. Take action to stem future increases in network costs
2. Use the Solar Summit to consider options to stem future increases in green scheme costs
3. Review customer assistance measures
4. For any future price determination, NSW Government to give IPART more flexibility in any terms of reference

# Take action to stem future increases in network costs

- ▼ The AEMC should initiate a review of the economic regulation provisions in the National Electricity Rules (NER)
  - ▼ The NER places an unusually high burden of proof on the regulator
  - ▼ The NER provides an unbalanced appeal process
  - ▼ The NER is overly prescriptive in relation to determining network businesses' returns
  - ▼ The NER forces the regulator to include all capital expenditure spent in the asset base
- ▼ Ensure current standards for network reliability and security align with customers' willingness to pay

# Use the Solar Summit to consider options to stem future increases in green scheme costs

- ▼ Reduce financial incentives for solar panels
  - ▼ Close the NSW Solar Bonus Scheme to new participants
  - ▼ Advocate that the Federal Government eliminate the solar credits multiplier from the RET scheme
- ▼ Evaluate all green schemes to ensure they remain cost effective

# Review customer assistance measures

- ▼ The NSW Government has announced an increase to the energy rebate

	July 2011	July 2012	July 2013	July 2014
Low Income Household Rebate	<b>\$200</b>	<b>\$215</b>	<b>\$225</b>	<b>\$235</b>
Family Energy Rebate	<b>NA</b>	<b>\$75</b>	<b>\$125</b>	<b>\$150</b>

- ▼ Our analysis shows that the most vulnerable customers are those with low incomes and high consumption. We will help Government in any future reviews of customer assistance measures

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