

## **IPART RELEASES DRAFT DETERMINATION ON REGULATED RETAIL ELECTRICITY PRICES FROM 1 JULY 2009**

**Embargoed until 10.00am, 12 March 2009**

Today IPART released its draft report for 2009/10 of the electricity purchase allowance that is included in regulated electricity prices. IPART requests stakeholders to provide comments on the draft report by 14 April 2009.

In June 2007 IPART made a determination of retail electricity prices for residential customers and small businesses who have decided not to be supplied under a contract in the competitive market. Under the 2007 determination standard retailers were able to increase regulated electricity prices each year to account for:

- ▼ increases in network charges to fund improvements in network reliability
- ▼ increased electricity purchase costs
- ▼ increased retail operating costs, and
- ▼ increased retail margins.

Because wholesale electricity costs vary substantially from year to year, IPART also decided to review each year whether it has allowed the right amount for electricity purchase costs for the next financial year. IPART has issued its draft report for the 2009 review (for electricity purchase costs during 2009/10).

IPART Chairman Dr Michael Keating said: "IPART has concluded that wholesale purchase costs have increased substantially and that the allowance for electricity purchase costs should increase to reflect this. If the electricity cost allowance is insufficient some retailers may be unwilling to supply customers and incentives to invest in new generation capacity when it is needed may be inadequate."

As a result of the increase in the electricity purchase allowance alone, retail prices will increase by 6 per cent for EnergyAustralia and Integral Energy and 5 per cent for Country Energy.

At the same time the retail determination requires retailers to pass on to regulated customers the network price increases that are determined by the national regulatory body, the Australian Energy Regulator (AER). The AER has recently issued a draft determination that provides for substantial increases in network prices. As a result of the network price increases alone, regulated retail prices will increase by 12.6 per cent for EnergyAustralia, 9.5 per cent for Integral Energy and 12.7 per cent for Country Energy. The AER will provide a final decision by the end of April 2009.

These two amounts, together with the other retail components allowed for in IPART's 2007 determination and inflation, results in a substantial increase in electricity prices. A typical residential customer of EnergyAustralia or Integral Energy on regulated tariffs can expect to pay around \$3.45 more per week for electricity from 1 July 2009. A typical customer of Country Energy

can expect to pay \$4.10 more per week. This represents an increase of around 21.5 per cent, 18.9 per cent and 18.5 per cent for regulated residential customers of EnergyAustralia, Integral Energy and Country Energy, respectively.

The proposed price increases are substantial and have the potential to significantly impact on households, especially low income households. IPART notes that the NSW Government's Energy Reform Strategy sets out a range of consumer protection measures, including:

- ▼ Increasing the pensioner rebates
- ▼ Extending energy rebates to include recipients of carers allowances, sickness allowances and special benefits
- ▼ Funding to establish a customer assistance policy and
- ▼ Increased funding for the Energy Accounts Payment Assistance (EAPA) Scheme.

IPART's draft decision and consultants report are available on IPART's website <<http://www.ipart.nsw.gov.au>>. Submissions on IPART's draft report are due on 14 April before a final report will be released by 20 May 2009, for implementation on 1 July 2009.

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## **Background**

Since 1 January 2002, all electricity customers in NSW have had the option to choose their retail electricity supplier and enter into a negotiated retail supply contract, or to remain with their standard retailer on a regulated tariff.

There are two main components of retail electricity prices – network charges and retail charges.

From 1 July 2009 network charges will be regulated by the Australian Energy Regulator. In its November 2008 draft decision for the NSW distribution businesses, the Australian Energy Regulator signaled price increases of 15 to 24 per cent plus inflation on 1 July 2009. These distribution charges, together with the transmission charges (which are increasing by 4 per cent plus inflation) comprise the network charges and contribute around 45 per cent of the end bill paid by customers. The AER's final determinations are due to be released in April 2009 and will commence on 1 July 2009.

Network prices are passed through directly into retail tariffs. Network charges increases for EnergyAustralia and Integral account for approximately between 50 - 60 per cent of the overall increase. For Country Energy the network price increase account for approximately 70 per cent of the overall increase.

The retail component is set by IPART's 2007 retail determination. A customer's total bill is the sum of the network and retail components.

The NSW standard retail suppliers and the areas in which they are required to offer regulated tariffs are:

- ▼ EnergyAustralia:- Sydney, Central Coast and Hunter regions
- ▼ Integral Energy – Western Sydney, Blue Mountains, Southern Highlands, Illawarra and Shoalhaven regions
- ▼ Country Energy – remainder of NSW.