

Public hearing on Draft Report and Determination

Changes in regulated electricity retail prices
from 1 July 2011

2 May 2011

Format for public hearing

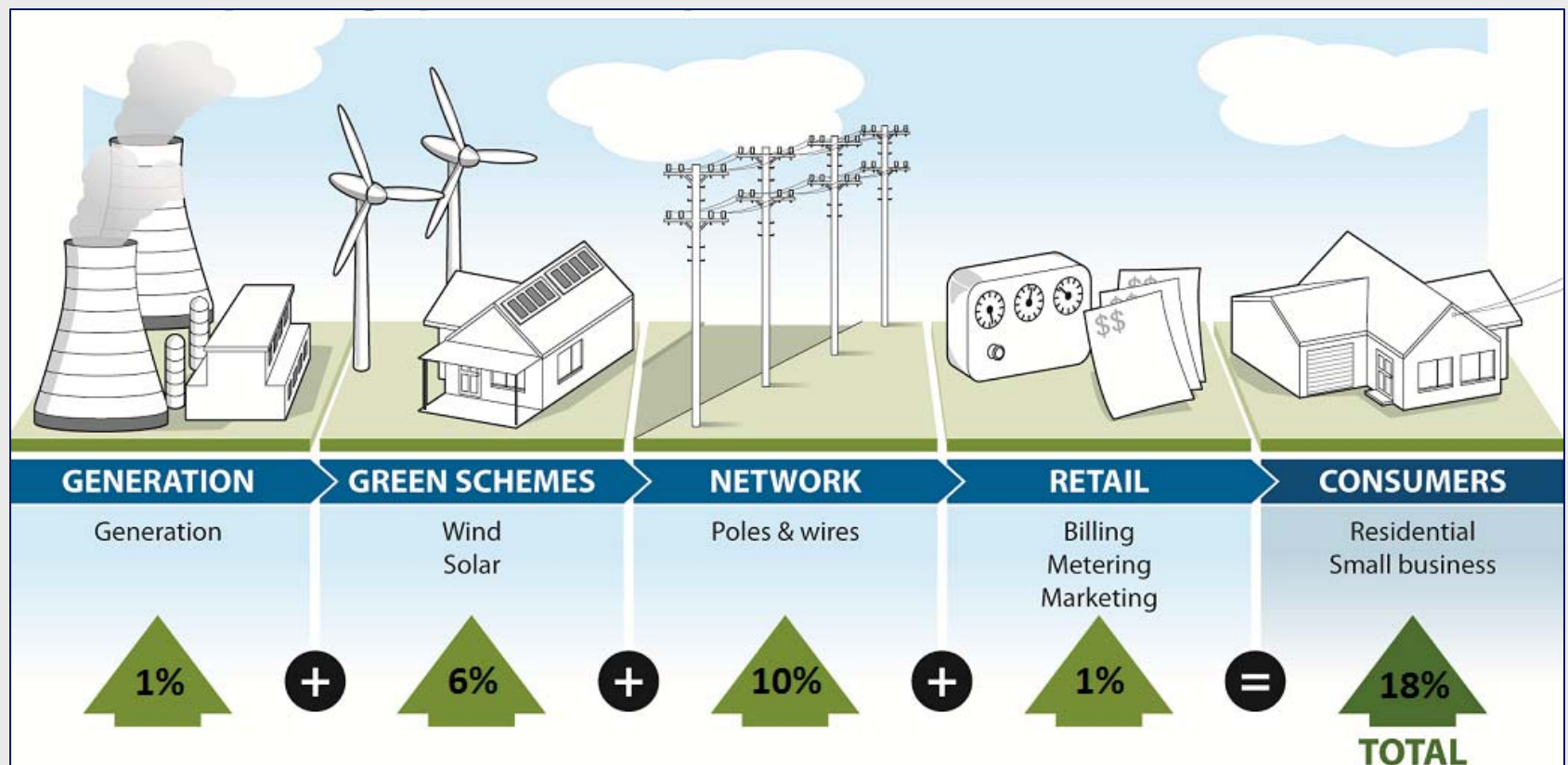
There are 2 sessions:

1. Energy Cost Allowances (10.15am – 11.30am)
2. Impacts on customers and actions to improve electricity affordability (11.30am – 12.45pm)

SUBMISSIONS DUE 12 MAY

Large price increases for 1 July 2011

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



Session 1 - Total Energy Cost Allowances

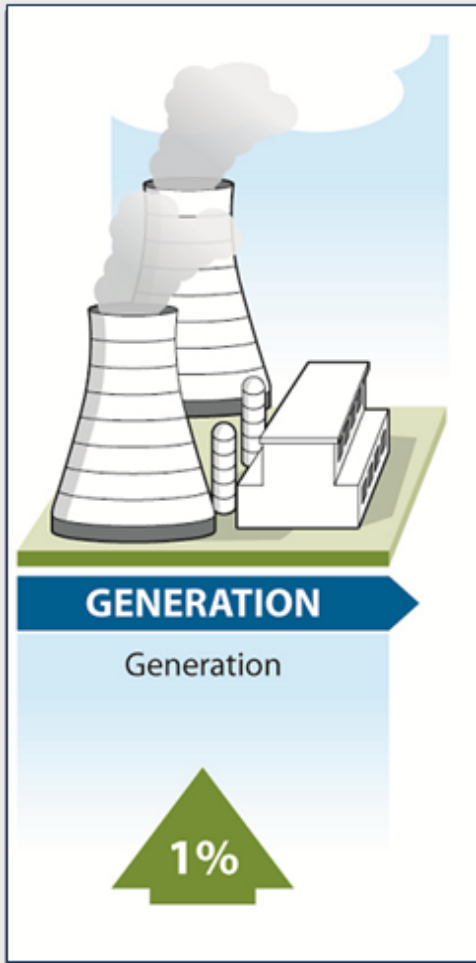
- ▼ The Terms of Reference require us to set an energy cost allowance including:
 - ▼ Energy purchase cost allowance (EPCA)
 - ▼ Other 'green' costs including the RET, GGAS and ESS
 - ▼ Energy losses
 - ▼ NEM fees and ancillary services
- ▼ This annual review updates our decisions on the key components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

Draft decision on Total Energy Cost Allowance and cost pass through applications

Draft decision on energy cost allowance for 2011/12 and cost pass through applications (\$2010/11, \$/MWh)

	2010/11	Draft decision 2011/12	Updated estimate 2012/13
EnergyAustralia			
Update of energy cost allowance	76.28	82.76	82.19
Pass through of costs associated with changes to RET (1 Jan – 30 June 2011)	-	4.60	-
Integral Energy			
Update of energy cost allowance	79.77	87.84	88.14
Pass through of costs associated with changes to RET (1 Jan – 30 June 2011)	-	4.49	-
Country Energy			
Update of energy cost allowance	74.49	82.55	82.83
Pass through of costs associated with changes to RET (1 Jan – 30 June 2011)	-	4.25	-

Energy Purchase Cost Allowance (EPCA)



Frontier Economics' draft advice – LRMC vs market based (\$2010/11, \$/MWh)

	2010/11	Draft decision 2011/12	Updated estimate 2012/13
LRMC			
EnergyAustralia	67.89	67.09	66.57
Integral Energy	70.08	70.38	70.60
Country Energy	63.19	63.06	63.26
Market-based cost			
EnergyAustralia	45.26	48.05	59.37
Integral Energy	47.00	49.96	62.84
Country Energy	43.32	45.79	57.55

How we updated key input assumptions for the LRMC and market-based estimates

- ▼ We sourced the majority of input assumptions from ACIL's draft report for the QCA
 - ▼ We do not consider the input costs used in AEMO's 2010 NTNDP to be suitable for pricing purposes
- ▼ We made a draft decision to include a carbon price of zero for 2011/12 and 2012/13
- ▼ We have made a draft decision to assume energy demand in the NEM is consistent with medium growth case in AEMO's 2010 ESOO

New entrant cost input assumptions used for LRMC estimates

Generation type	2010 determination (ACIL 2009)	2011 annual review Draft decision (ACIL 2010)	2010 determination (ACIL 2009)	2011 annual review Draft decision (ACIL 2010)
	Capital costs (\$2010/11, \$/kW,)		Fixed O&M (\$2010/11, \$/MW/yr)	
Coal	\$2,235	\$2,213	\$49,344	\$50,430
base load gas (CCGT)	\$1,309	\$1,275	\$31,868	\$32,570
peaking load gas (OCGT)	\$942	\$918	\$13,364	\$13,659
	Variable O&M (\$2010/11, \$/MWh)		Fuel costs (NSW min, \$2010/11, \$/GJ)	
Coal	\$1.29	\$1.26	\$1.09	\$1.11*
base load gas (CCGT)	\$1.08	\$1.10	\$5.38	\$5.72
peaking load gas (OCGT)	\$7.92	\$7.88	\$6.72	\$7.14

Source – Frontier Economics, ACIL 2009 and ACIL 2010

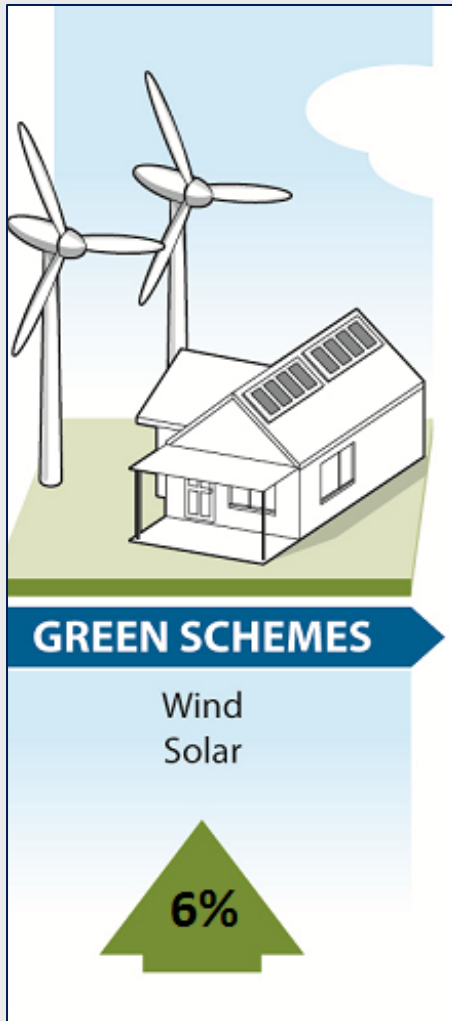
* IPART/Frontier Economics estimate

Cost of complying with 'green' energy schemes

Draft decisions on green cost allowance and cost pass through applications (\$2010/11 \$/MWh)

	2010/11	Draft decision 2011/12	Updated estimate 2012/13
Large scale RET (LRET)	1.82	2.67	3.59
Small scale scheme (SRES)	-	6.07	4.77
Pass through of costs associated with changes to RET (1 Jan – 30 June 2011)	-	4.25-4.60	-
GGAS	0.00	0.00	0.00
ESS	0.72	1.09	1.46

Renewable energy schemes will increase prices by 6% from 1 July 2011



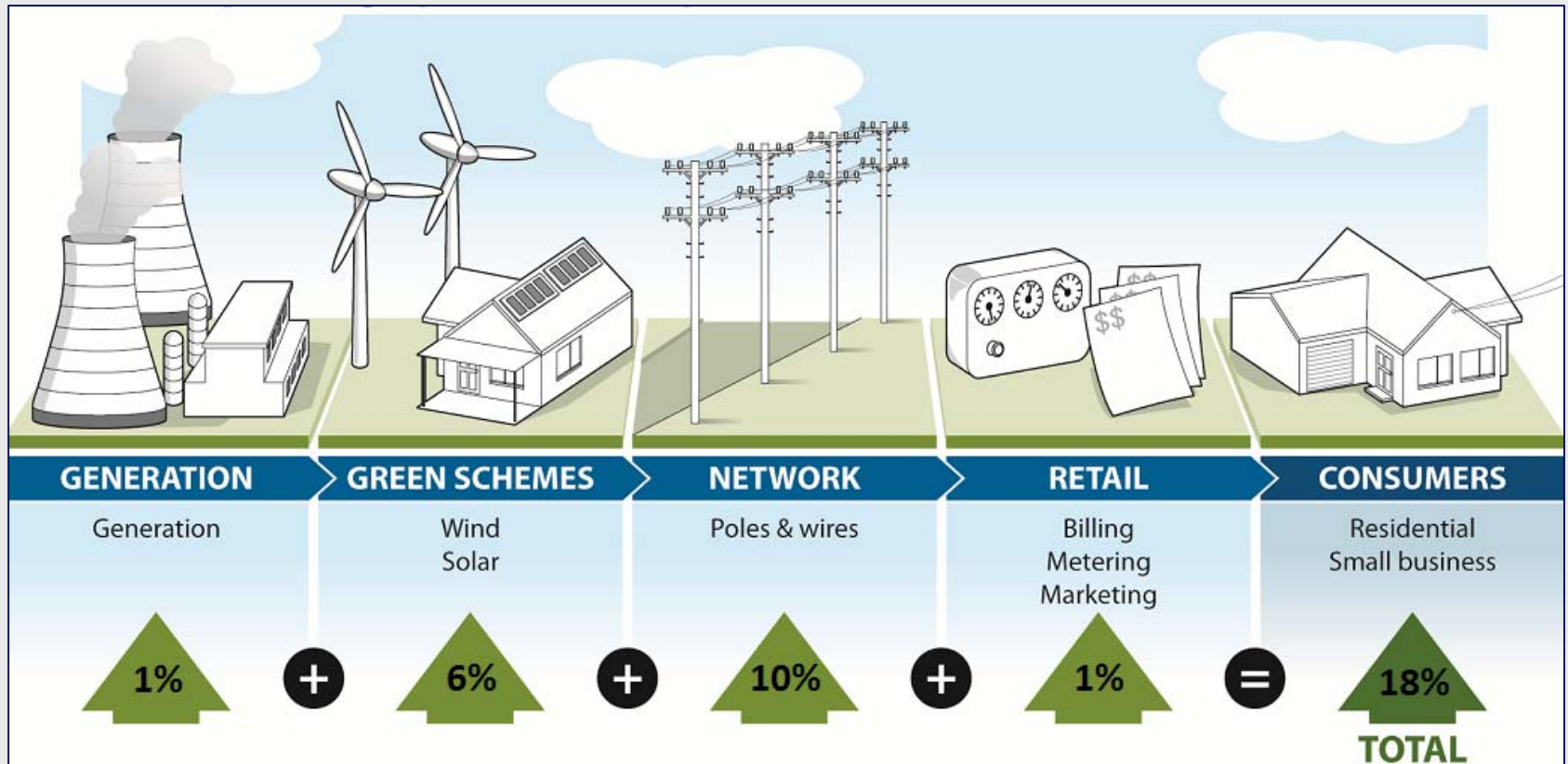
▼ Large scale RET (LRET)

- ▼ Cost of complying with LRET in 2011/12 is \$2.67/MWh

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

- ▼ Large costs on retailers resulting from rapid uptake fuelled by Federal and State Government incentives
- ▼ Annual cost is around \$6/MWh for 2011/12
- ▼ Additional 'catch up' costs of around \$4.25-4.60/MWh
- ▼ Total cost for 18 months to June 2012 is around \$10.50/MWh (\$74 per customer)

Session 2 – Customer impacts and actions to improve affordability



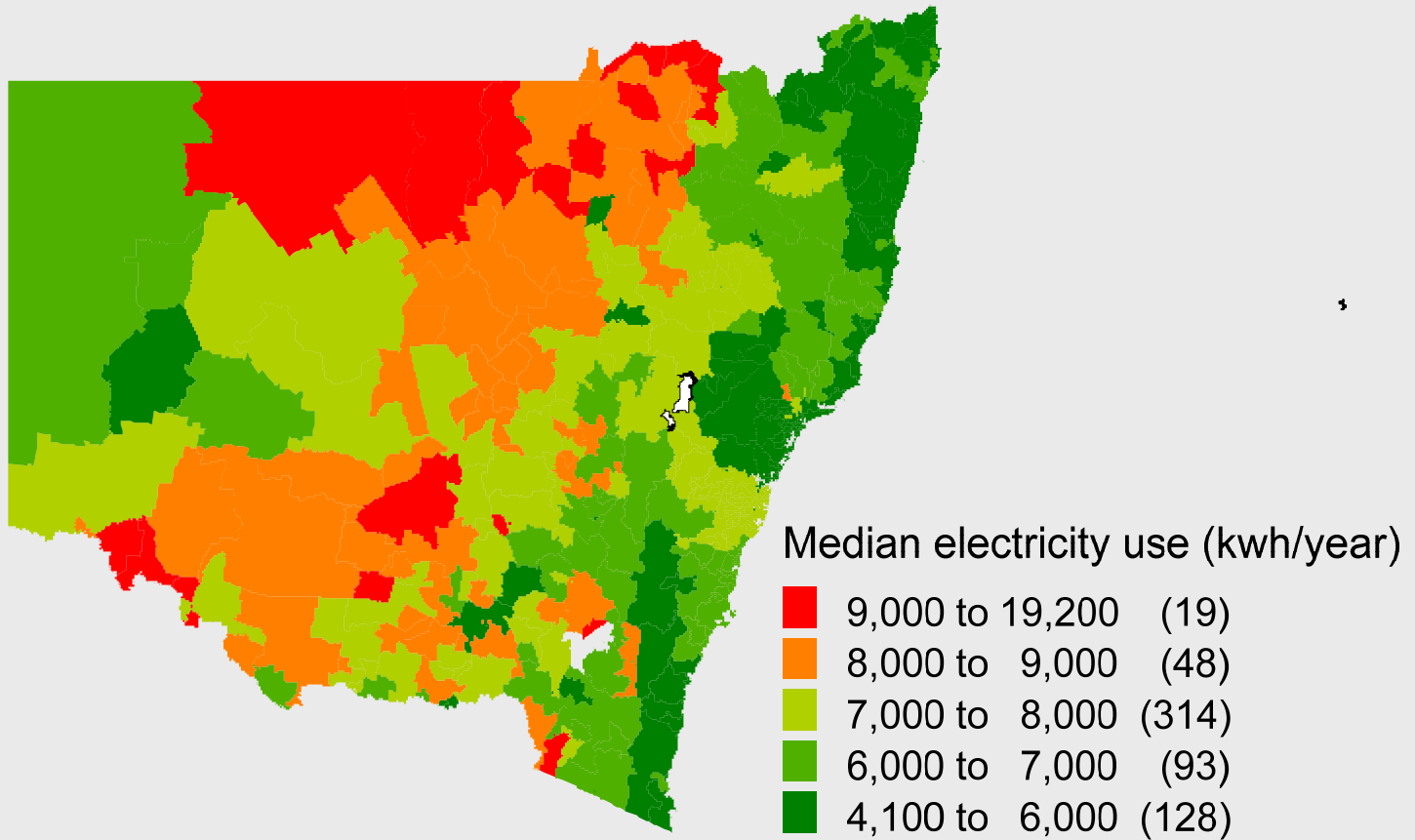
Customers' bills will increase significantly from 1 July 2011

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

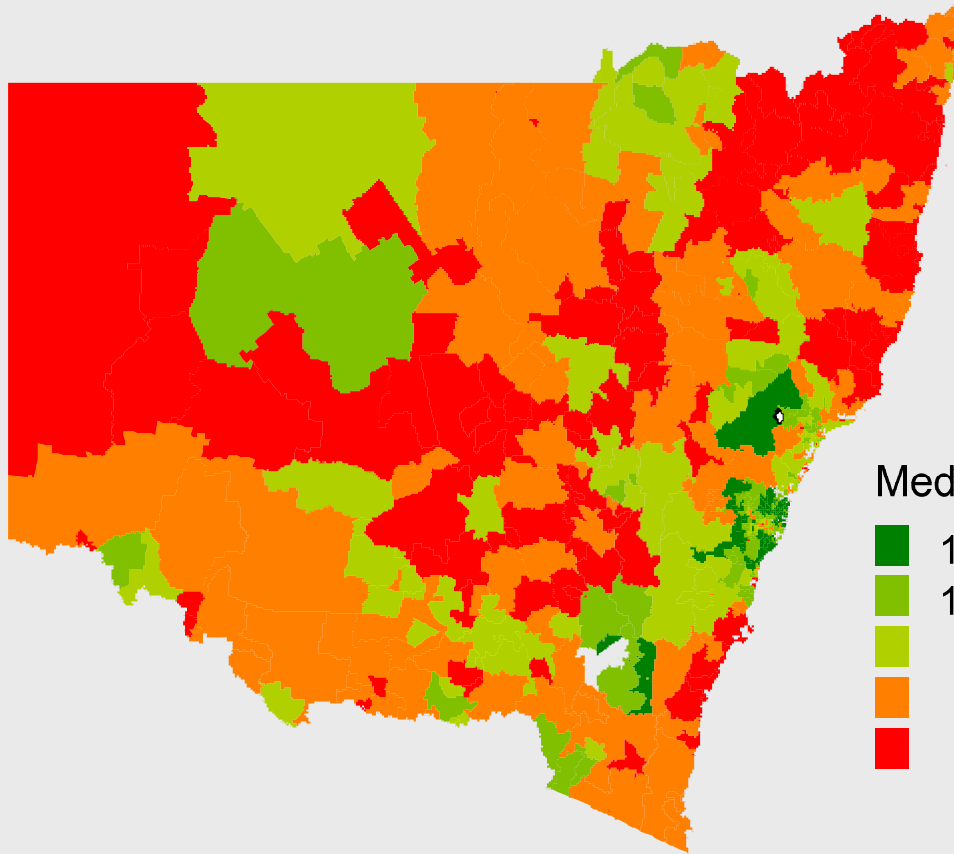
	Current bills (2010/11)	Indicative bills in 2011/12	Increase
EnergyAustralia	1,283	1,513	230
Integral Energy	1,391	1,619	228
Country Energy	1,747	2,063	316

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.

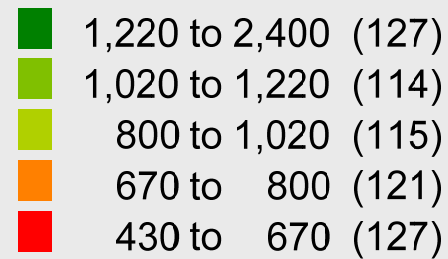
Median electricity use



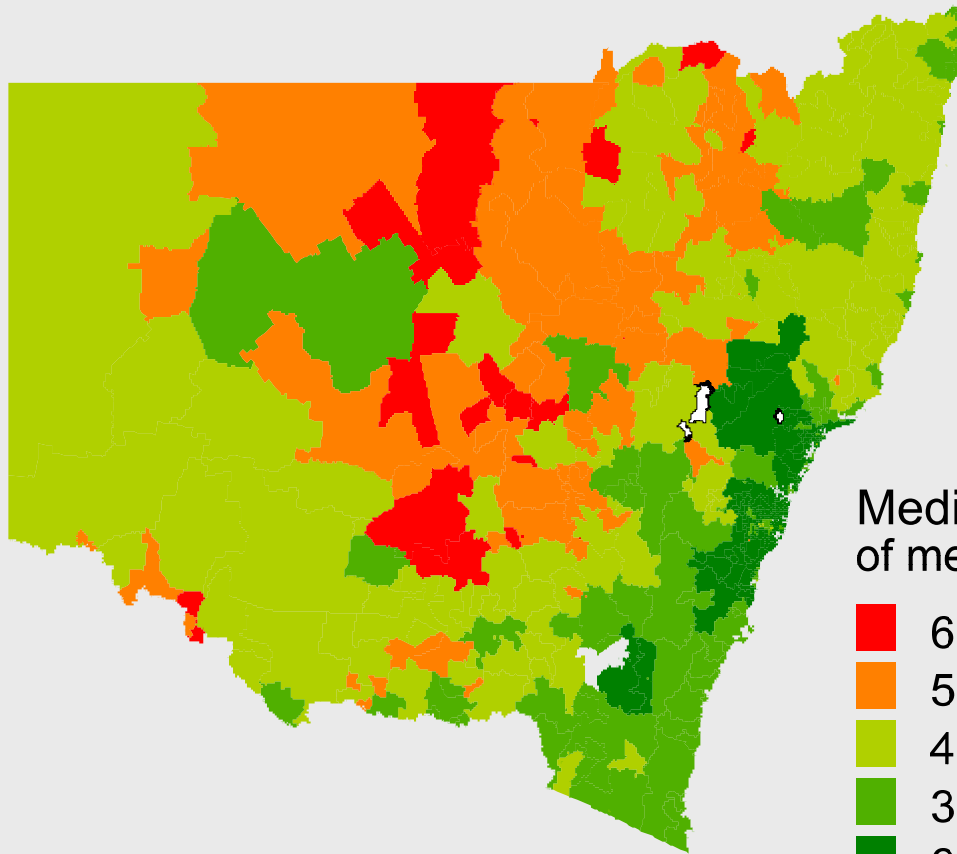
Median household income



Median household income 2006 (\$/week)



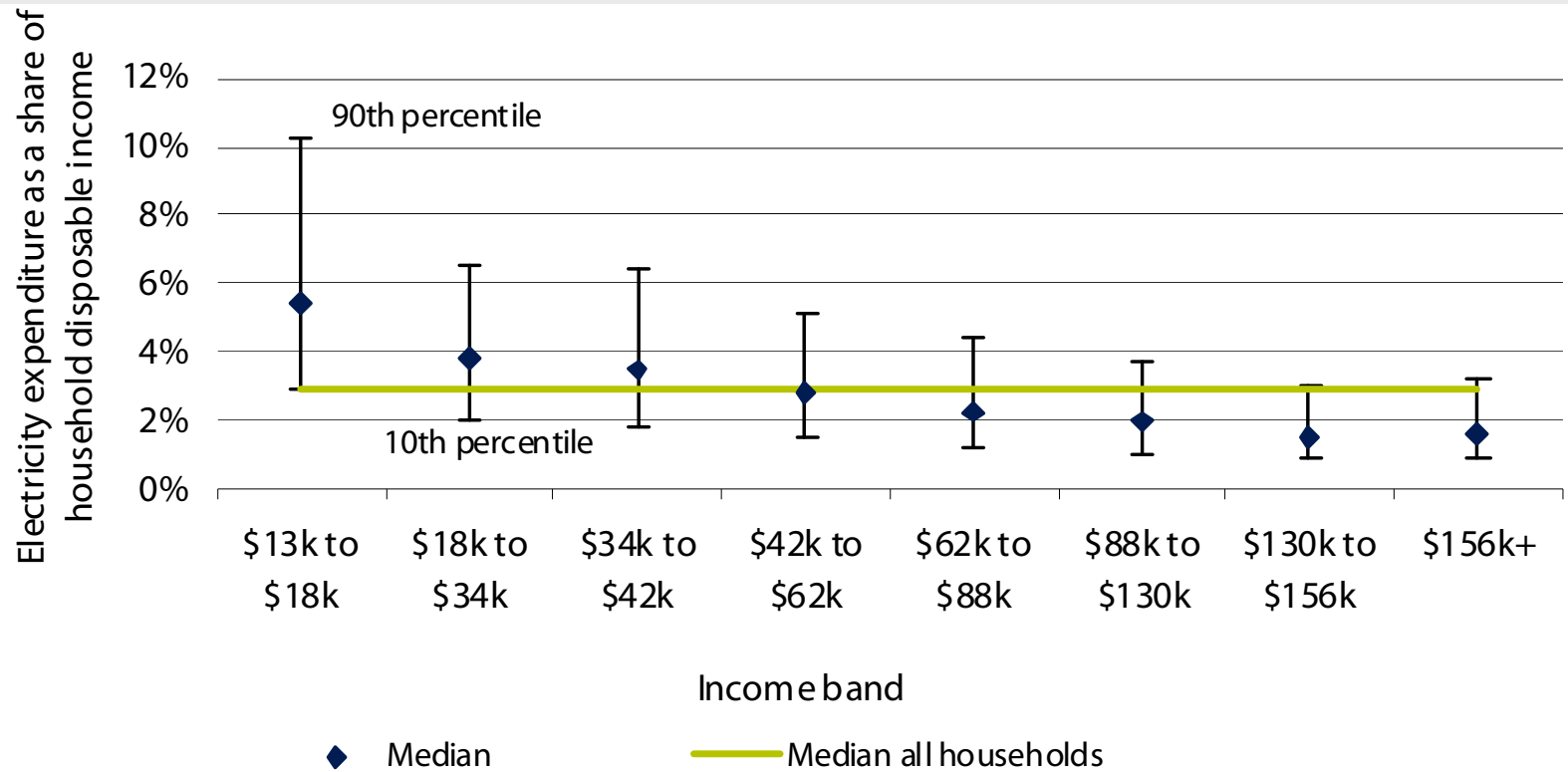
Median electricity bill as a % of income



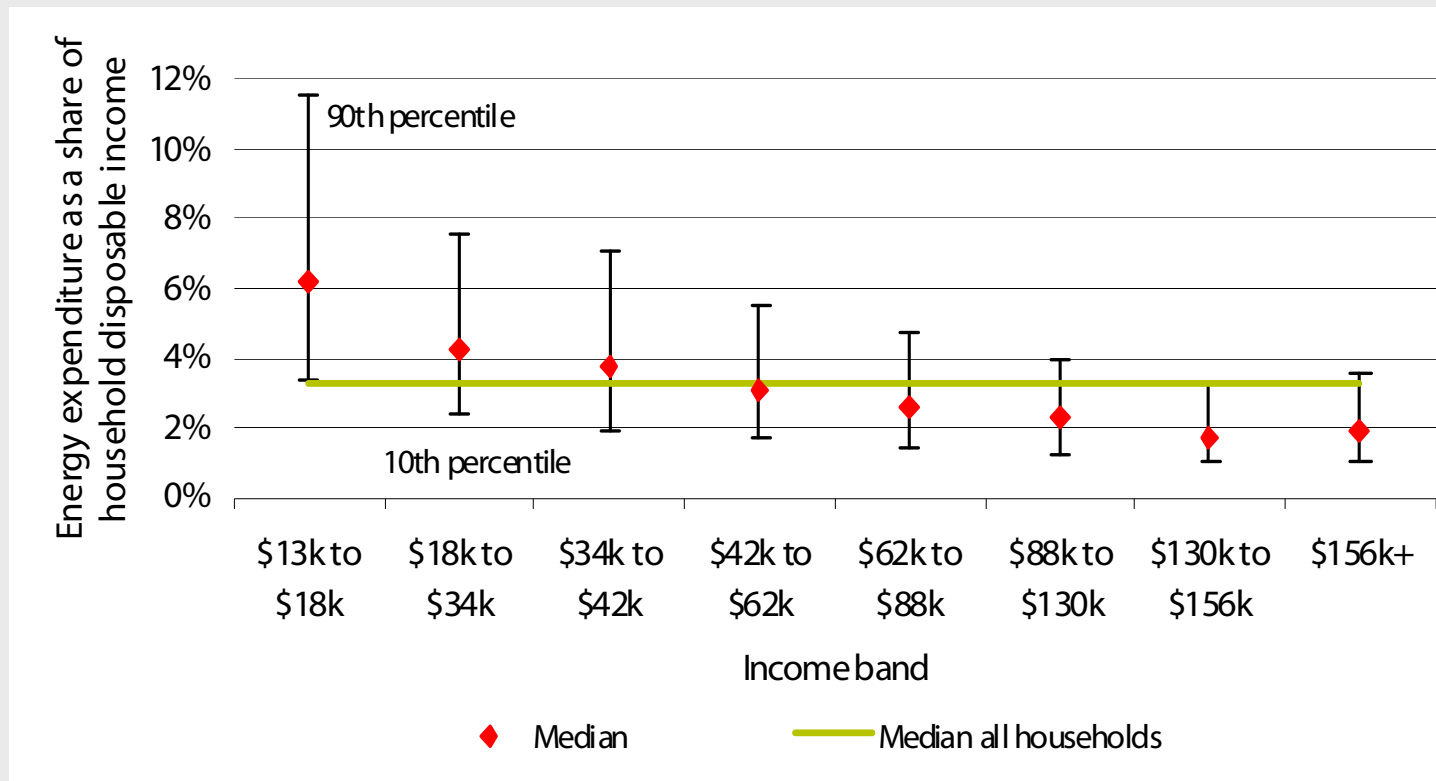
Median electricity bill as a share of median income 2011/12 (%)

■	6 to 10	(22)
■	5 to 6	(60)
■	4 to 5	(118)
■	3 to 4	(114)
■	0 to 3	(287)

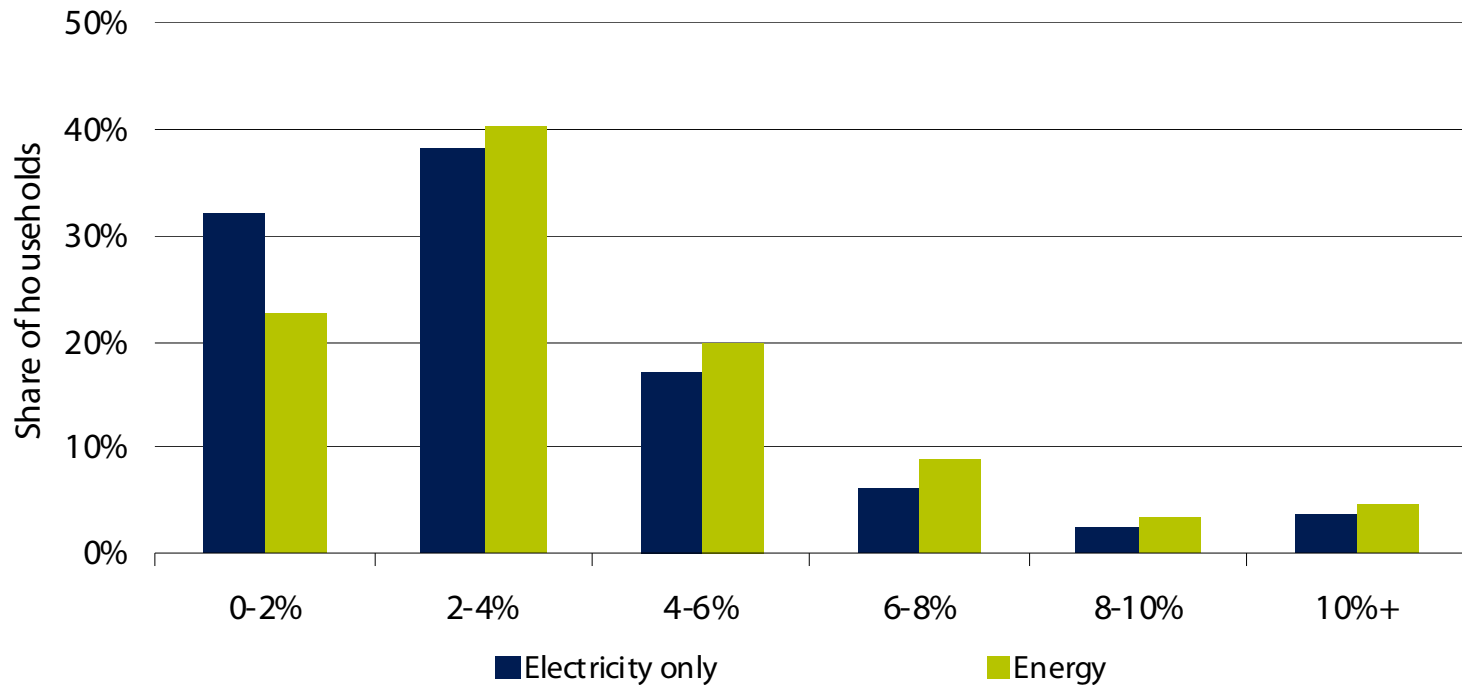
Electricity bills as a share of disposable income, by income band (Sydney and surrounds)



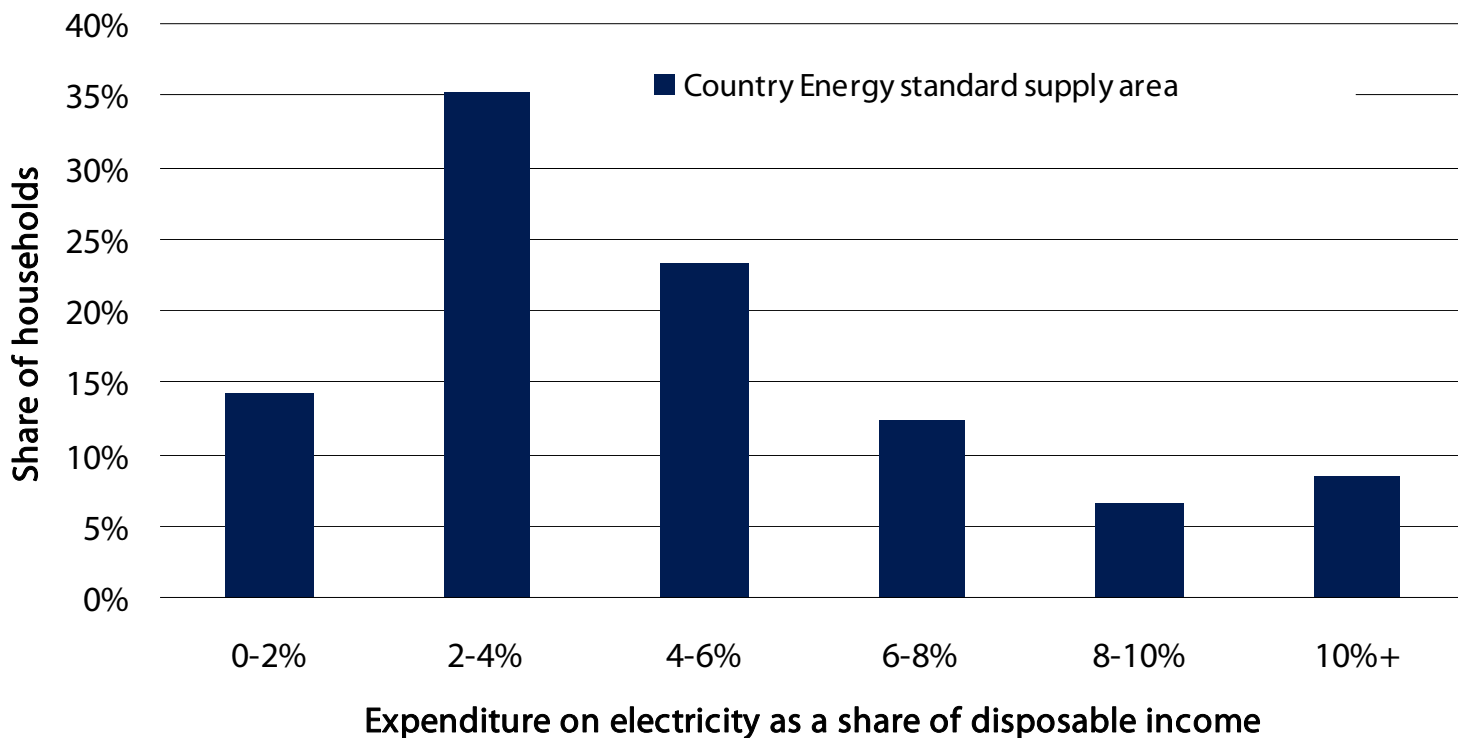
Energy bills as a share of disposable income, by income band (Sydney and surrounds)



Energy bills as a share of disposable income, by share (Sydney and surrounds)



Energy bills as a share of disposable income, by share (Country Energy)



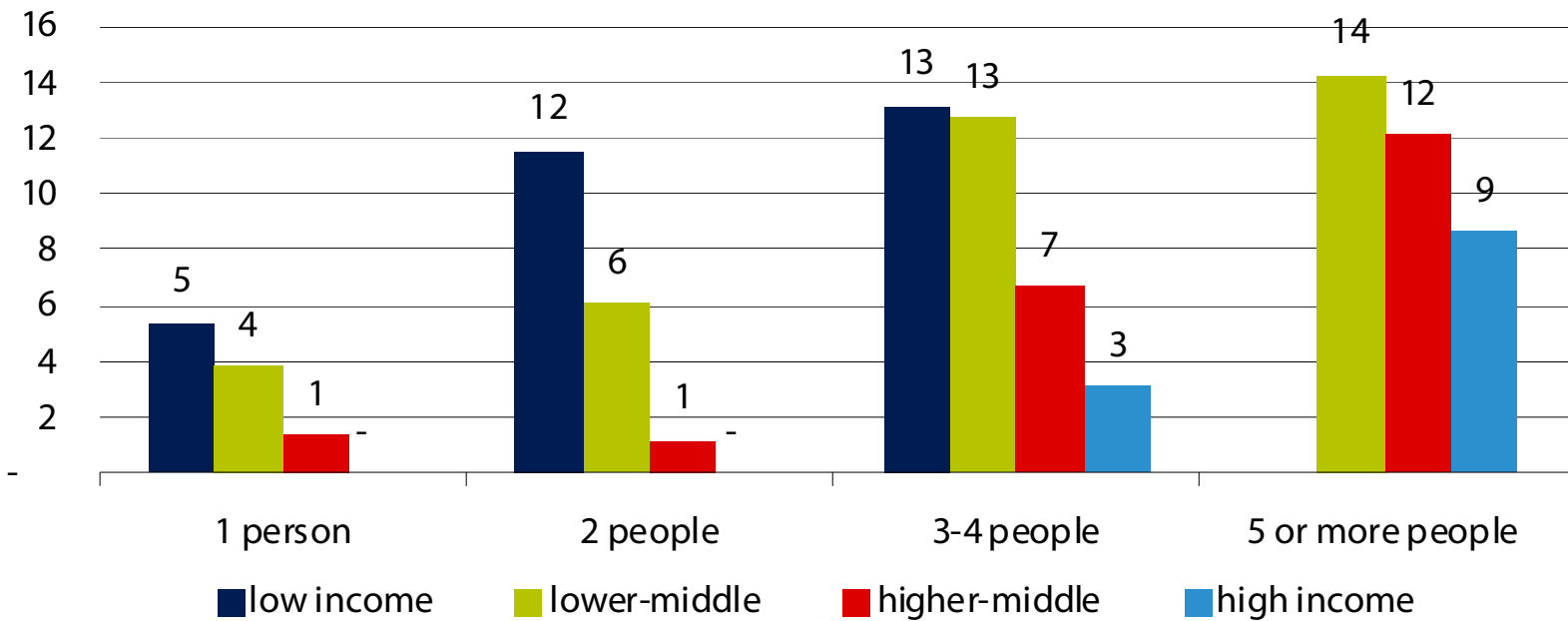
Who is likely to use more electricity and be more vulnerable to price increase?

For low income households (less \$34k pa):

- ▼ larger households – an extra adult¹ adds \$260 a year and an extra child adds \$180 per year
- ▼ larger house size – every extra bedroom adds about \$50 per year
- ▼ live in a detached dwelling – adds about \$280 per year
- ▼ live in the Country Energy supply area – adds about \$450

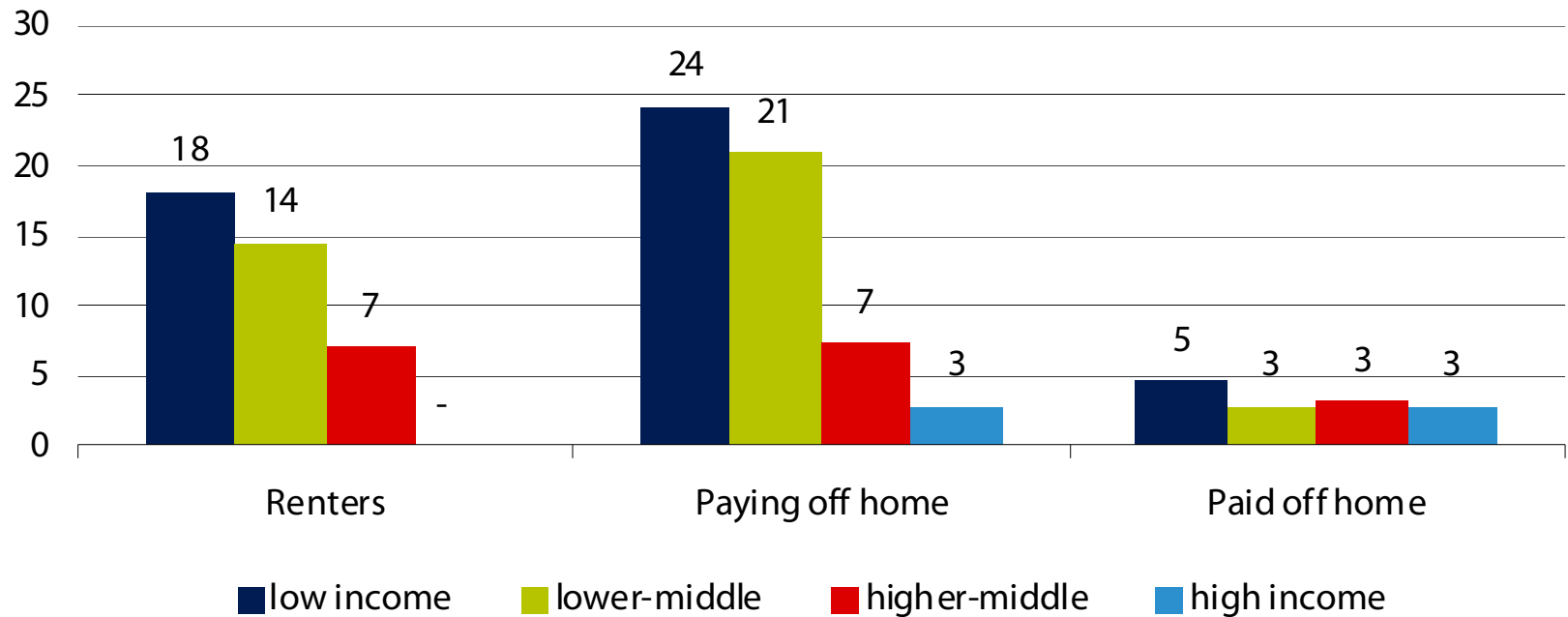
Proportion of households that approached their electricity supplier in the last 3 years because they felt financially unable to pay bills, Sydney

Electricity - by income and number of occupants



Proportion of households that approached their electricity supplier in the last 3 years because they felt financially unable to pay bills (Sydney)

Electricity - by income and how ownership status



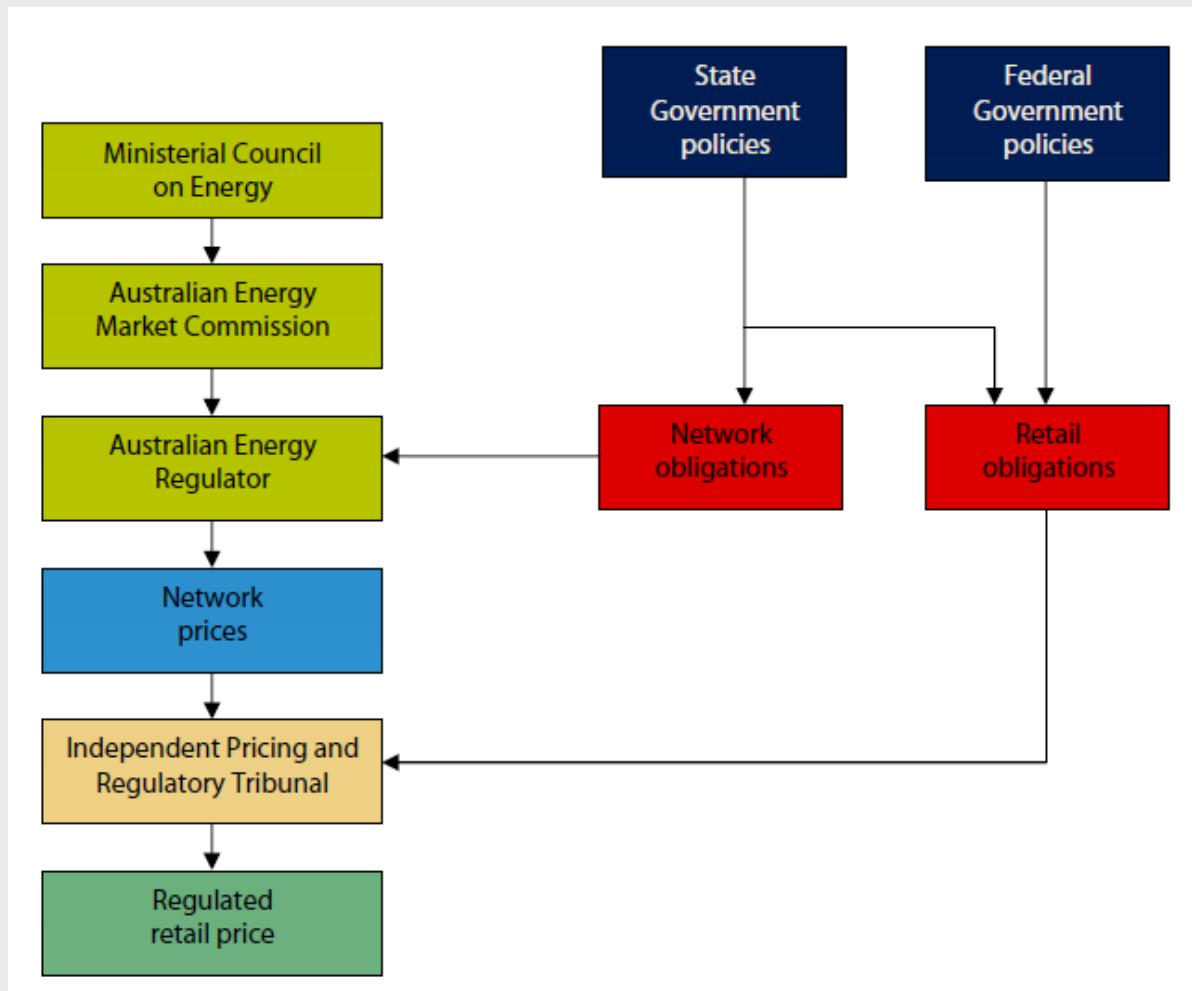
Customer assistance measures

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

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

- ▼ 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

IPART sits within a larger and more complex State and National regulatory framework



Recommendations – network charges

- ▼ 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 NEL 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
- ▼ Align reliability standards with community values
 - ▼ Ensure current standards for network reliability and security align with customers' willingness to pay

Recommendations – green schemes

- ▼ Reduce financial incentives for solar panels
 - ▼ Close the NSW Solar Bonus Scheme to new participants
 - ▼ Consider requiring electricity retailers to contribute to the costs of the Solar Bonus Scheme for existing participants
 - ▼ Advocate that the Federal Government eliminate the solar credits multiplier from the RET scheme
- ▼ Tighten the rules on eligible activities under the Energy Savings Scheme
- ▼ Evaluate all green schemes to ensure they remain cost effective and compliment any national carbon reduction scheme



Independent Pricing and Regulatory Tribunal