

Regulated retail electricity prices from 1 July 2011

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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
- ▼ IPART has undertaken detailed analysis on price impacts on different customers including low income earners with high consumption
- ▼ 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
- ▼ annual update of the key components of retail prices

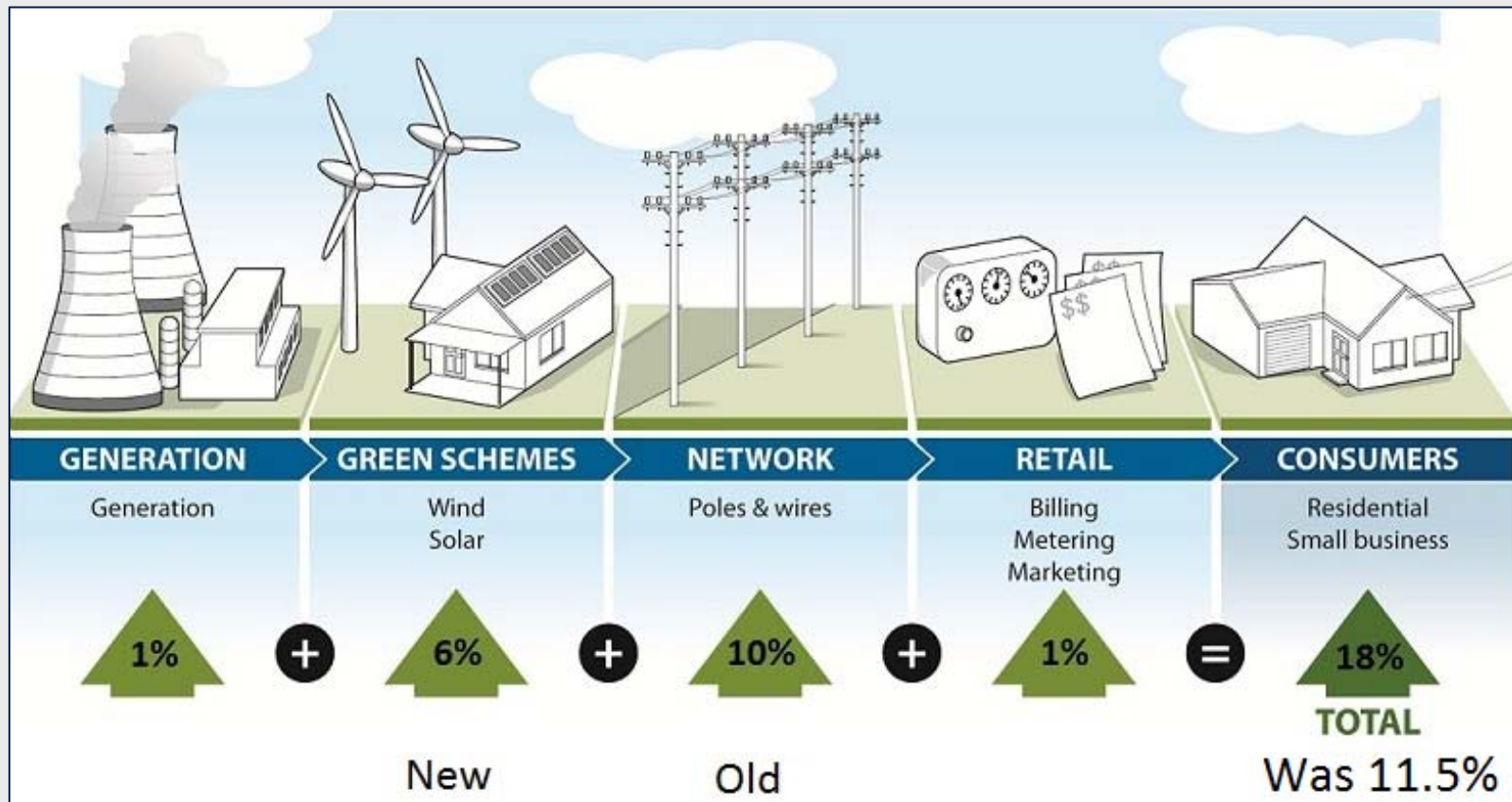
This update reflects new green scheme obligations

	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%
Total increases on 1 July 2011	17.9%	16.4%	18.1%	17.6%

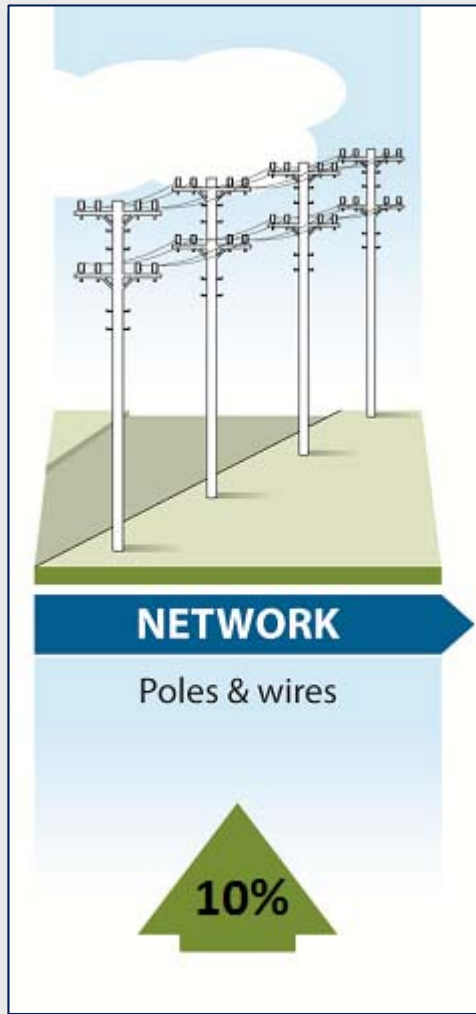
Note: Figures may not add due to rounding

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

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

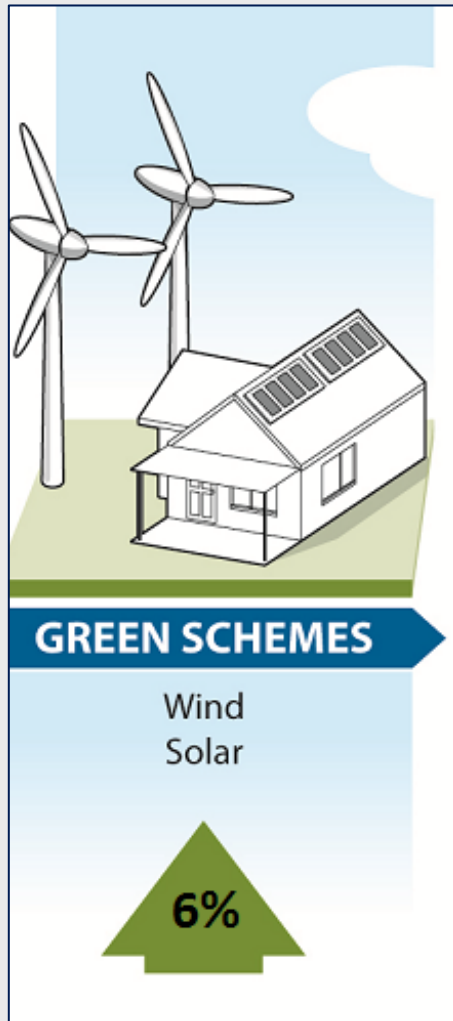


Significant increase in network charges (‘poles and wires’)



- ▼ Regulated by the AER and passed through to electricity retailers
- ▼ Allowed network expenditure has increased threefold over between the 2004-2009 and 2009-2014 regulatory periods, driven by:
 - Higher peak demand
 - Replacement of assets
 - Higher standards for reliability
 - Changes in the regulatory framework, NER
- ▼ Higher peak demand and asset replacement push up prices; we note that there are no strong incentives for demand management by distributors
- ▼ Concerns that higher reliability stds and the NER driving up prices unnecessarily

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



▼ Large scale RET (LRET)

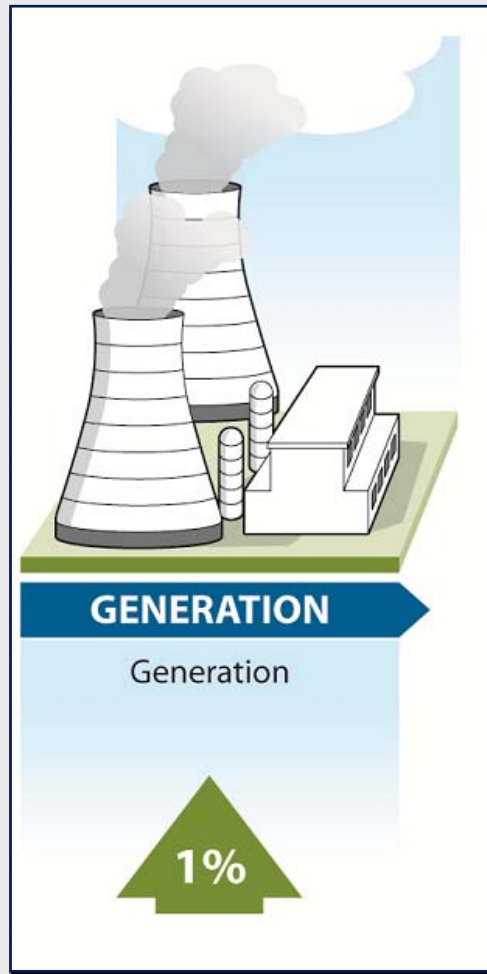
- Cost of complying with LRET in 2011/12 is around \$19 per customer per year

▼ Small scale Renewable Energy Scheme (SRES)

- 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)
- Annual cost is around \$6/MWh or \$42 per customer per year

Paying for NSW Solar Bonus FIT could have added another 5-10% to retail prices. When added to the 6% arising from RET, green cost would have added more to retail prices than the network price increases

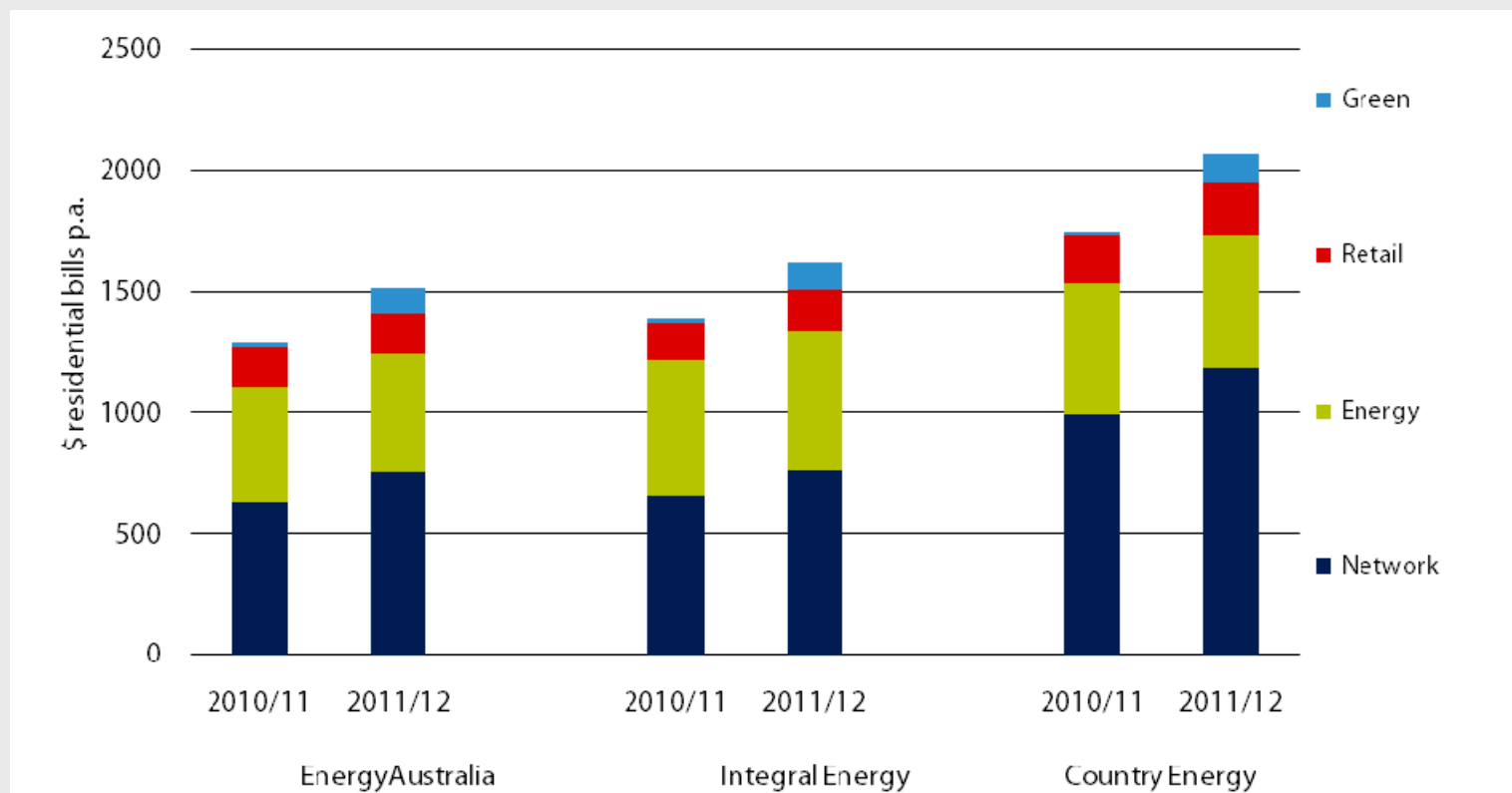
Generation costs have remained constant in real terms



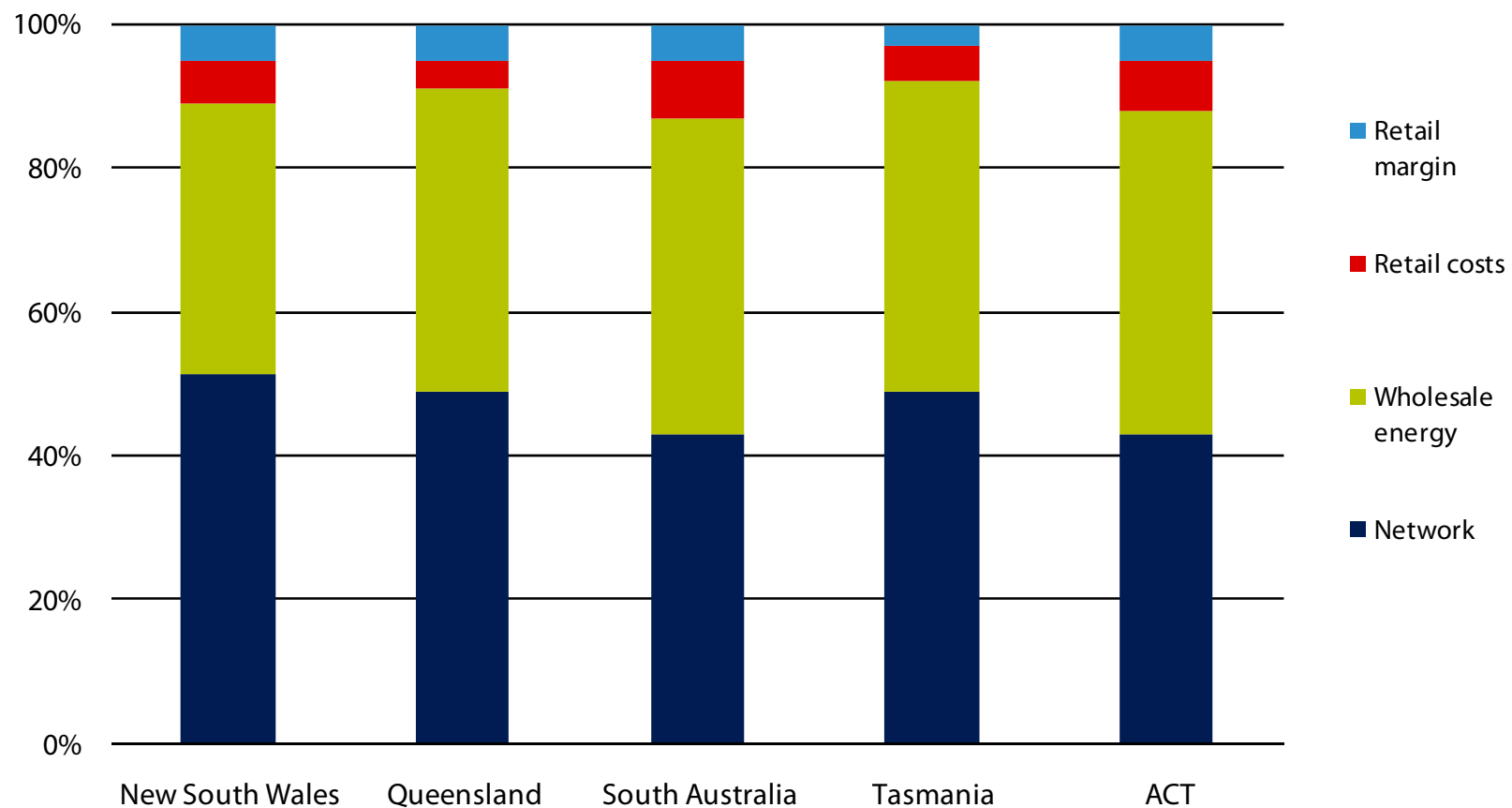
- ▼ In real terms, the allowance for costs of purchasing energy is similar to 2010/11 estimates
- ▼ Terms of Reference require us to use the higher of the LRMC and market based estimates.
- ▼ Both of these approaches can be an appropriate basis on which to set prices
- ▼ Customer bills are currently around 8-10% higher than if they were set in line with market prices
- ▼ Market based estimates are more volatile because they are sensitive to the supply-demand balance. However, over longer term expect market price to reflect LRMC
- ▼ In future Terms of Reference we would prefer greater discretion in setting the allowance

Bills differ between areas mostly because of different network costs

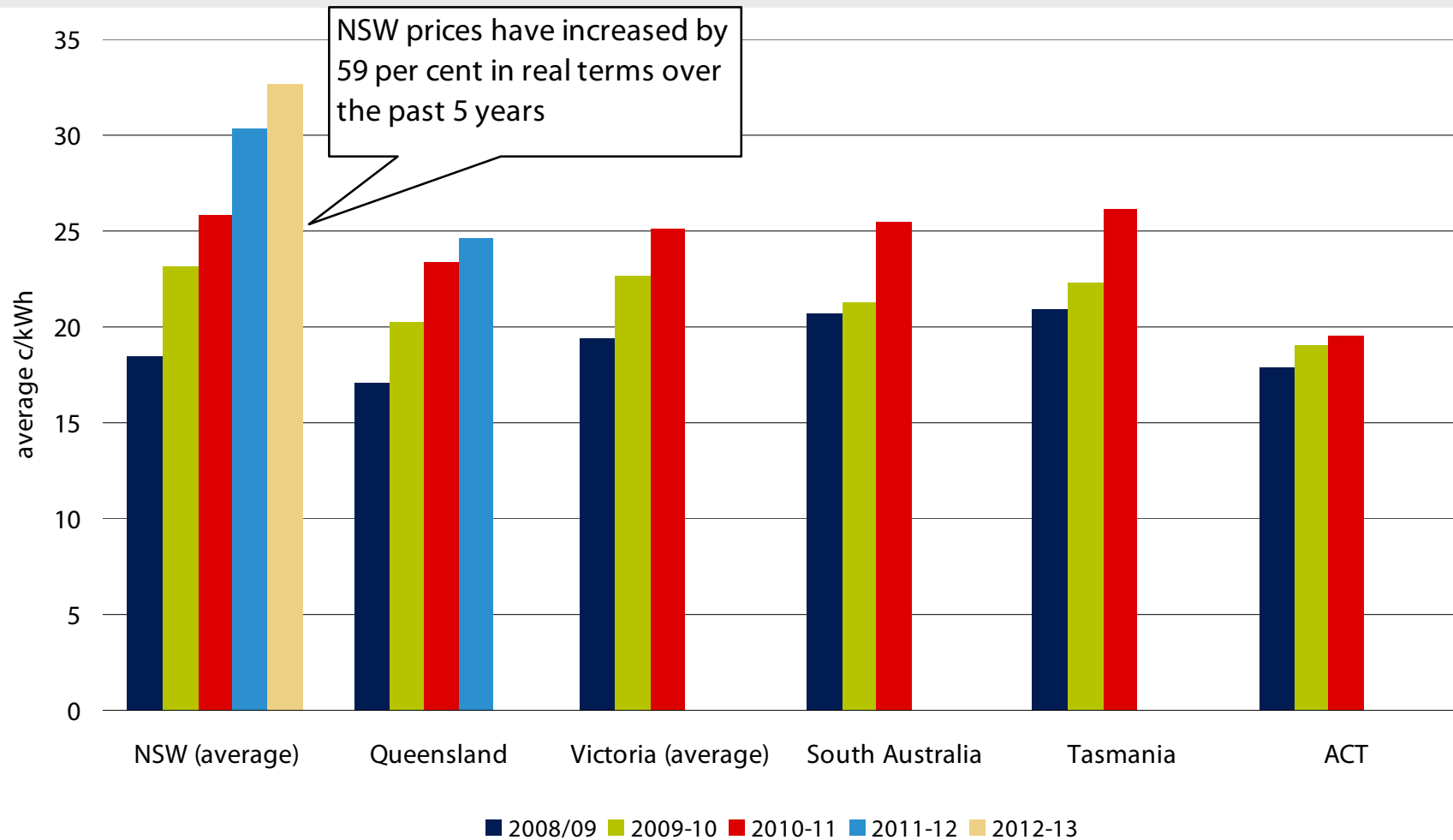
Annual residential electricity bills 2010/11 and 2011/12 (nominal)



Network costs are a larger component of prices in NSW



NSW prices will go from one of the lowest to one of the highest



Customer's bills will increase significantly from 1 July 2011

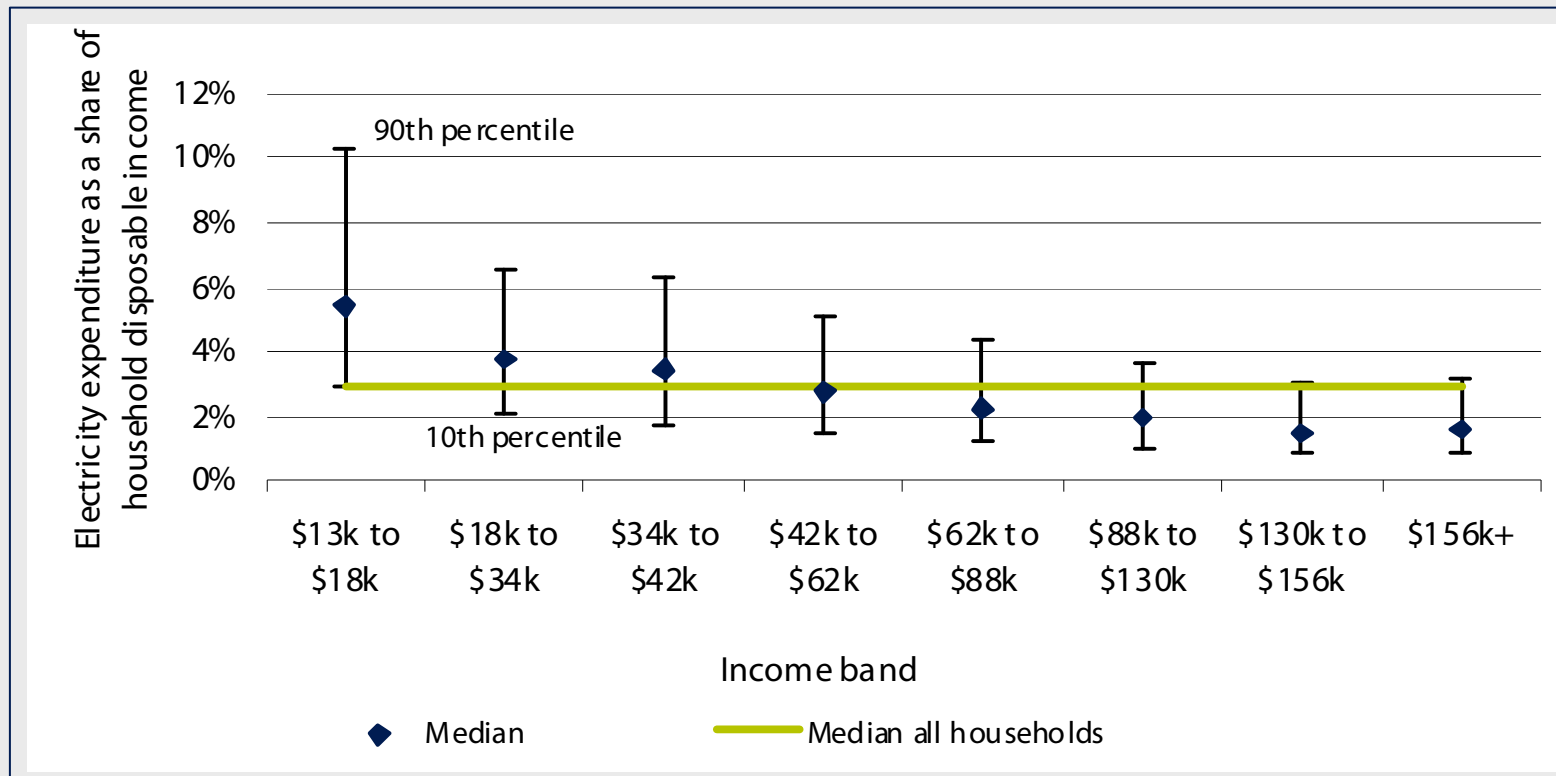
Annual residential electricity bills 2010/11 and 2011/12 (nominal)

	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.

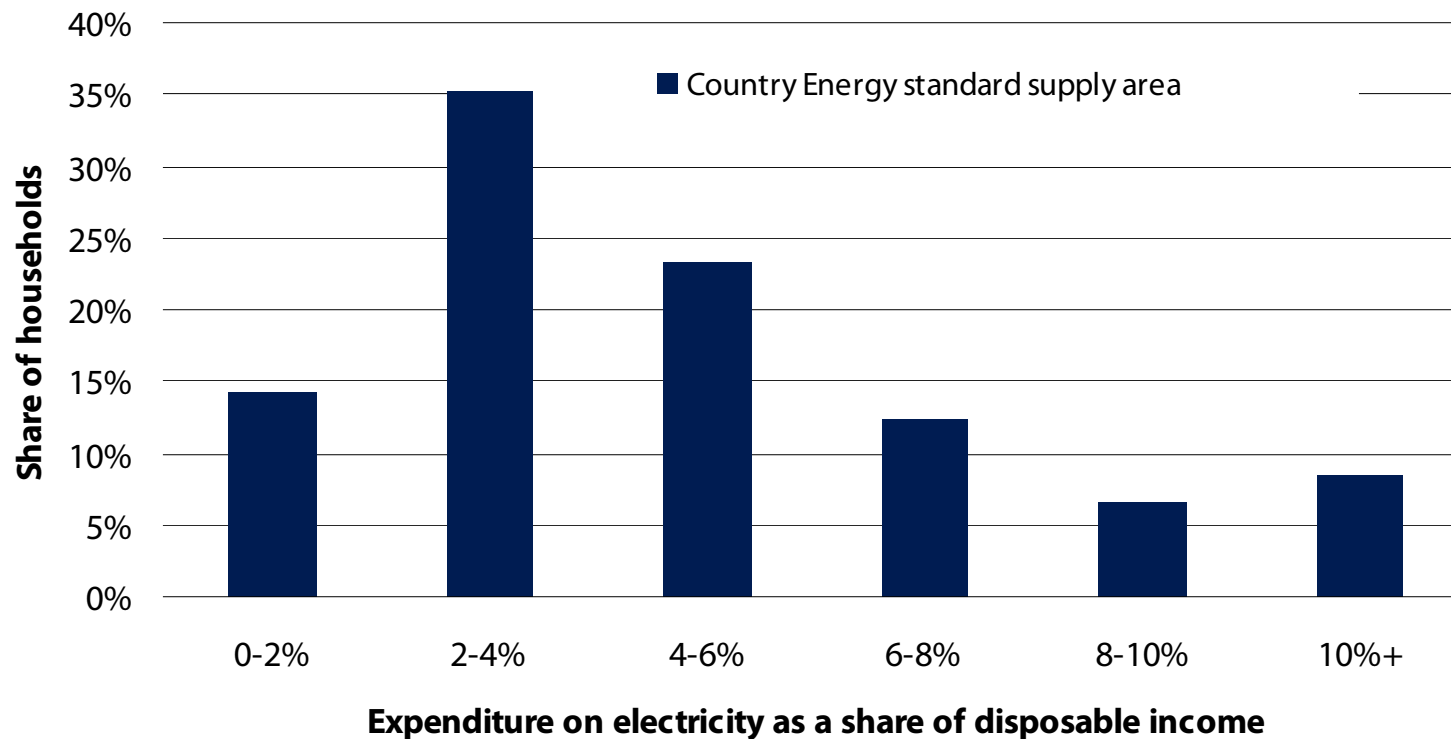
Low income customers will spend a high proportion of their incomes on electricity bills

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



Data source: IPART Household Survey

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
- ▼ not have access to energy rebates

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
 - ▼ an unusually high burden of proof on the regulator
 - ▼ an unbalanced appeal process
 - ▼ overly prescriptive in relation to determining network businesses' returns
 - ▼ regulator must 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	\$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

Overview of the Draft Decision

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- ▼ 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



Independent Pricing and Regulatory Tribunal

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