

Draft Decision: Regional electricity prices for 2015–16

The Queensland Competition Authority (QCA) sets regulated retail electricity prices for customers in regional Queensland.

On 10 December 2014, we released our draft determination indicating the electricity prices we expect will apply in the Ergon Energy network area of regional Queensland from 1 July 2015. These prices will not apply to customers in south east Queensland.

The prices indicated in our draft determination are based on the latest forecasts for network, energy, retail and green scheme costs. It is almost certain that some of these costs will change before we release our final determination in May 2015. In particular, network and solar bonus costs could be lower in 2015–16.

Your electricity bill

There are three main stages in supplying electricity to homes and businesses:

- Generating electricity in power stations for sale to retailers
- Delivering electricity through 'poles and wires' to customers
- Selling electricity by retailers to customers.

All these costs must be met to ensure a long-term, reliable supply of electricity.

That said, most customers in regional Queensland do not pay the full costs of supply. The Queensland Government's uniform tariff policy subsidises residential and small business customers.

Electricity prices for these regional customers are set at rates reflecting the lower costs of supply in south east Queensland. The shortfall between Ergon's revenue and its costs is paid by taxpayers; in 2014–15, the subsidy is expected to be \$655 million.

The Government has confirmed that the uniform tariff policy will continue in 2015–16.

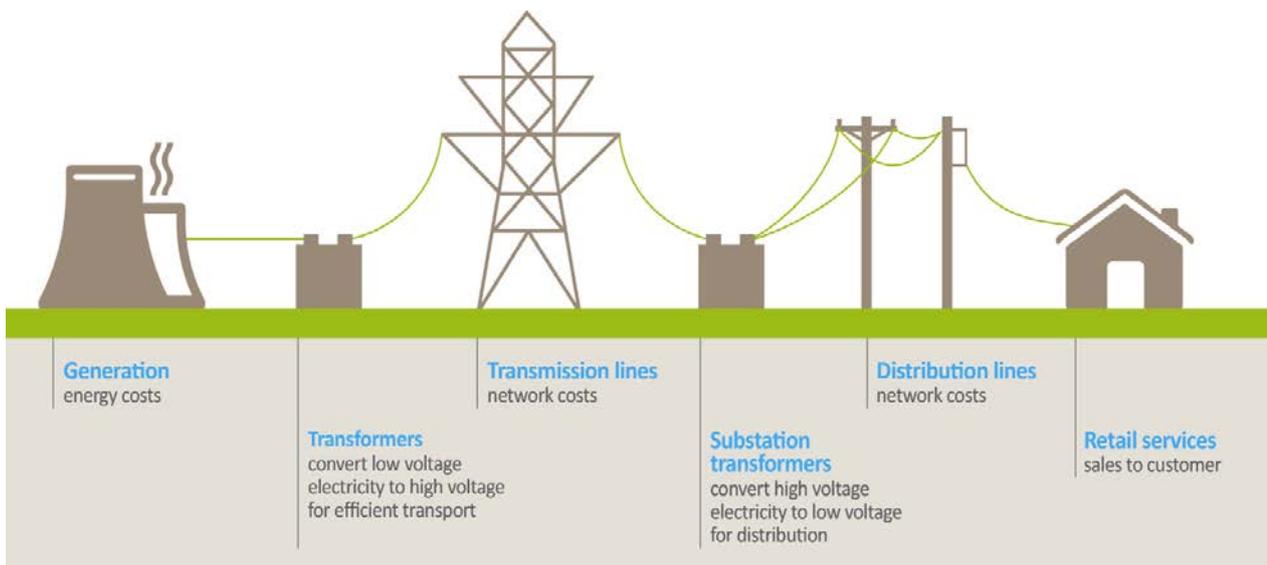
To be consistent with the policy, the QCA will set regional prices in line with what we expect to be retailers' 'standing offer' prices in south east Queensland for 2015–16.

Cost pressures are easing

Electricity prices have risen sharply in recent years because of escalating network, energy and environmental costs. These cost pressures are expected to moderate in 2015–16.

Network charges, which account for about 50% of the typical residential customer's bill, are set by the Australian Energy Regulator (AER). Energex and Ergon have proposed prices for 2015–16 which would see charges increase by about 1.2% (tariff 11) and 0.7% (tariff 20), excluding the costs of the Solar Bonus Scheme. Recent decisions suggest that the AER may approve lower charges.

The QCA has calculated network charges using Energex and Ergon's draft prices. We will revisit these calculations after the AER releases its preliminary determination in April 2015.



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The cost of generating and purchasing electricity accounts for about 20% of the typical residential bill. These energy costs are expected to rise by less than inflation for most tariffs or even fall in some cases.

Feed-in tariff costs under the Solar Bonus Scheme were expected to spike in 2015–16. The latest proposals from Energex and Ergon would reduce this spike by effectively spreading costs over five years. Under this approach, charges to recover solar bonus payments would amount to about 6% (\$89) of the typical bill for a residential customer on tariff 11 in 2015–16, 5% (\$114) of the typical bill for a small business customer on tariff 20 and around 6% (\$500) of the typical bill for a small business customer on tariff 22. These costs have been included in the QCA's draft prices.

The Queensland Government has announced that it intends to remove the cost of the Solar Bonus Scheme from electricity prices from 1 July 2015. If and when this change is made, the QCA will revise its prices.

Residential

On current forecasts, the typical residential tariff 11 customer would see their annual bill increase by 2.7% or \$40 in 2015–16.

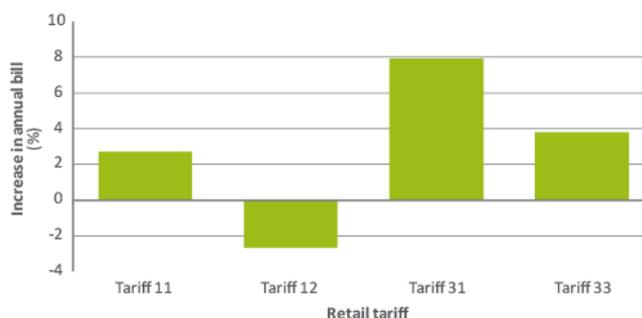
From 1 July 2015, we expect metering costs will no longer be part of the regulated prices set by the QCA. These costs will be recovered through a new charge for residential and small business customers (expected to be around \$43 per year for tariffs 11 and 20 and \$13 per year for tariffs 31 and 33). We have included the expected cost of this new charge in our calculation of customer bill impacts to ensure a like for like comparison with 2014–15 prices.

Most residential customers use cheaper off-peak tariffs for water heating and controlled loads such as pool pumps. Typical customer bills for these tariffs (tariffs 31 and 33) will increase because of the introduction of the metering charge and, for tariff 31, higher energy costs.

Customers on the time of use tariff 12 will see a new structure which includes peak prices for summer months only. The typical customer's annual bill is expected to decrease by around 2.7%.

The chart below shows expected changes in annual bills for typical customers on each residential tariff.

More information is available in our separate fact sheet for residential tariffs.



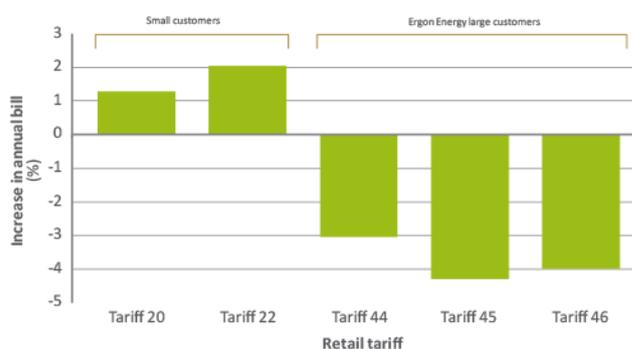
Business customers

On current forecasts, typical small business customers on tariffs 20 and 22 would see bill increases of between 1.3% and 2%. Typical large customers on tariffs 44, 45 and 46 would see bill decreases of between 3% and 4.3%.

A new business time of use tariff (tariff 22A) will be introduced, based on Ergon Distribution's network tariff structure. As a small number of customers may be disadvantaged by the new structure, we propose to retain the old tariff 22 for two years. The old tariff 22 will be closed to new customers from 1 July 2015.

The chart below shows how bills would change for typical business customers on the five main business tariffs.

More information is available in our separate fact sheet for business tariffs.



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Transitional tariffs

Around 36,000 customers are supplied under transitional or obsolete tariffs. As noted above, the uniform tariff policy means small business tariffs for regional customers are set well below the actual costs of supply. In many cases, transitional tariffs recover even less of the costs of supply than these small business tariffs.

In 2013, we proposed to phase out most transitional tariffs in 2020. Two tariffs with relatively few customers and offering prices similar to other business tariffs – Tariff 41 (large) and 43 (large) – will be removed from 1 July 2015.

Over the next five years, the QCA will adjust the remaining transitional tariffs based on changes to standard business tariffs. Over time, the gap between transitional and standard business tariffs will need to narrow so that the final adjustment in 2020 (when transitional tariffs expire) is feasible for customers.

Assuming that the price increases calculated for standard business tariffs occur, the QCA proposes to increase all transitional tariffs by 5% in 2015–16. If these anticipated price increases for standard tariffs do not eventuate, the QCA will reassess its position on transitional tariffs.

More information is available in our separate fact sheet for business tariffs.

Help with your bill

If you are struggling to pay your electricity bill, you should discuss your situation with your retailer. Retailers offer support to their customers in hardship.

The Queensland Government offers support to customers in some circumstances. For more information contact the Department for Energy and Water Supply:

website – www.dews.qld.gov.au/energy-water-home/electricity/rebates

phone – 13 QGOV (13 74 68)