Queensland Competition Authority

# FACT SHEET - 2017-18 forecast energy costs

## How do energy costs affect electricity prices?

The QCA uses a network plus retail cost methodology to determine notified electricity prices in regional Queensland. Energy costs are one of the components that contribute towards the retail cost.

## How are electricity prices and energy costs expected to change in 2017–18?

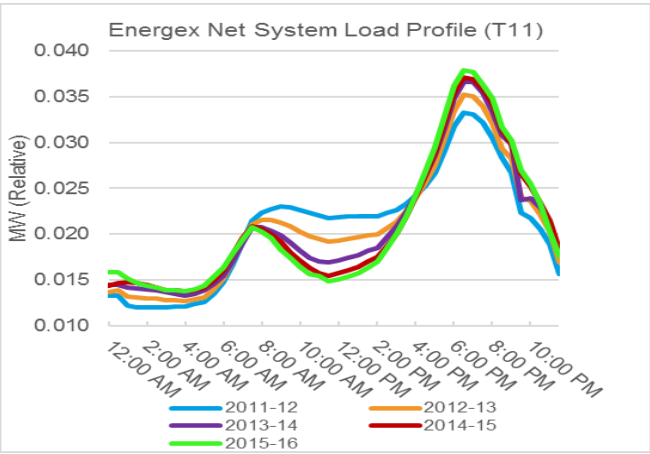
In 2017–18 electricity prices are forecast to increase by 1.0 to 2.3 per cent for typical small electricity customers and by 1.5 to 3 per cent for typical large electricity customers. The main reason electricity prices are forecast to increase is because of rising wholesale energy costs and large-scale renewable energy target costs (LRET).

## What are wholesale energy costs and why have they increased?

Wholesale energy costs are the costs that electricity retailers incur when purchasing electricity for their customers from the National Electricity Market (NEM).

The QCA's consultant, ACIL Allen has advised that wholesale energy costs are expected to increase in 2017-18 as a consequence of the tightening supply-demand balance within the NEM and increasing fuel costs for gas fired power stations. These can be attributed to an increase in demand from in-field gas compression from LNG associated export facilities, limited investment in new generation capacity in the NEM and in Queensland to balance out increased demand and the planned shutdown of the Hazelwood power station in Victoria.

In addition, over the past few years net system load profile (NSLP) demand has dropped during the day due to the increased penetration of rooftop solar PV, while peak demand at night has increased. These changes can be seen in the chart below, and result in an increased weighting of the NSLP during the evening peak.




Generally, when this happens, wholesale energy costs become more expensive. This is because more expensive electricity generators, predominantly gas fired, must be used to provide electricity during the evening peak period.

## What are large-scale renewable energy target costs and why have they increased?

The LRET is an annual target of electricity to be sourced from large-scale renewable power sources. Under the LRET, electricity retailers must purchase certificates created by generators producing electricity from renewable power sources or pay a penalty.

ACIL Allen have advised that, based on the latest forecasts, there will be a shortage of certificates in 2018, which will cause the price of certificates to increase to close to the penalty level.

While there have been a reasonable number of large-scale renewable energy projects announced recently, which should see the supply of certificates increase noticeably in the future, these projects are still under construction and only a limited number will be commissioned into operation in the 2017-18 financial year.

## Does the QCA consider affordability when determining energy costs?

The QCA applies the Queensland Government's Uniform Tariff Policy (UTP), which states that the price of electricity for small customers in regional Queensland should reflect available standing offers in south east Queensland. In order to be consistent with UTP, the QCA estimates energy costs from the perspective of an electricity retailer operating in south east Queensland. The UTP results in households and businesses in regional Queensland saving over $500 million in electricity costs. In addition, the QCA has maintained transitional and obsolete tariff arrangements for some regional customers.

## Where can I find out more information or make a submission?

You can find out more and make a submission on our website www.qca.org.au.