

Information booklet

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# Regulated retail electricity prices in regional Queensland, 2023–24

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Final determination

June 2023



# Summary

## About our review



The Minister for Energy, Renewables and Hydrogen asked us to set notified prices and two new retail tariffs to apply in regional Queensland in 2023–24. Consistent with previous determinations, we were asked to have regard to:

- the network plus retail (N+R) cost build-up methodology—which means that we pass through network costs (the N component) and estimate energy and retail costs (the R component) for each tariff
- the Queensland Government's uniform tariff policy (UTP)—which provides that 'wherever possible, customers of the same class should pay no more for their electricity, and should be able to pay for their electricity via similar common price structures, regardless of their geographic location'.

This information booklet summarises the key issues and outcomes of our review. Our final report and technical appendices (available on our [website](#)) provide more detail.

## Key takeaways



- In recent years, the electricity market has experienced extraordinary volatility and uncertainty. Several international and domestic factors have put upward pressure on wholesale energy costs.
- Increases in wholesale energy costs are the key driver of increases in notified prices for 2023–24. Bills for typical customers on all major tariffs will increase—we illustrate this with bill impact charts on the following page.
- As in previous determinations, we used the N+R cost build-up methodology and had regard to the UTP when setting notified prices. The UTP allows us to set notified prices for most customers below the actual costs of supply.
- This year, we also developed two new retail tariffs intended to encourage small customers to make the most of charging options during the day, when network utilisation is low and solar PV generation is high.

The notified prices and two new retail tariffs, will apply from 1 July 2023.

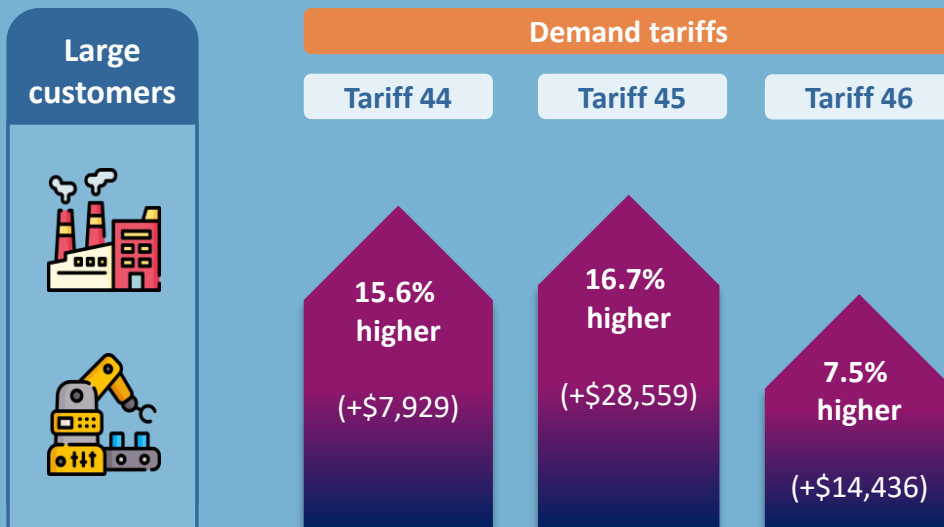
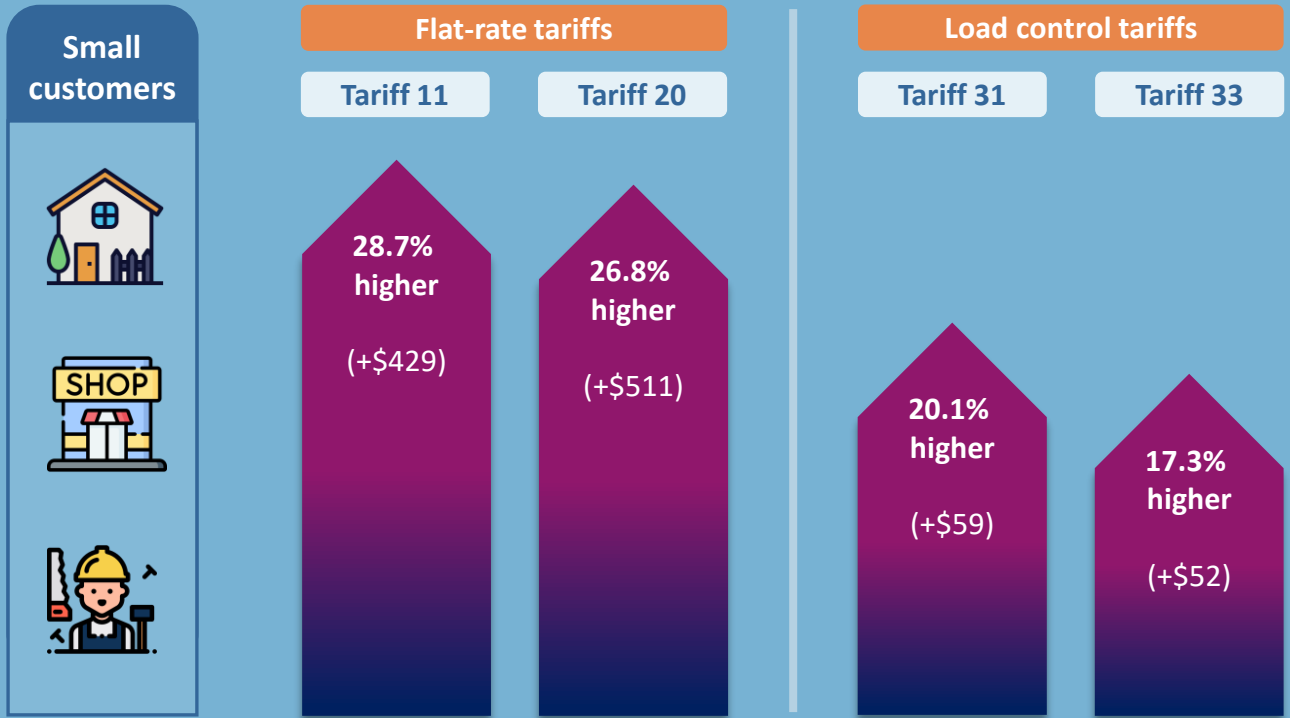




# Bill increases in 2023–24

Electricity prices are higher because of increases in underlying costs

Change in annual bills for typical customers (compared to 2022–23)\*



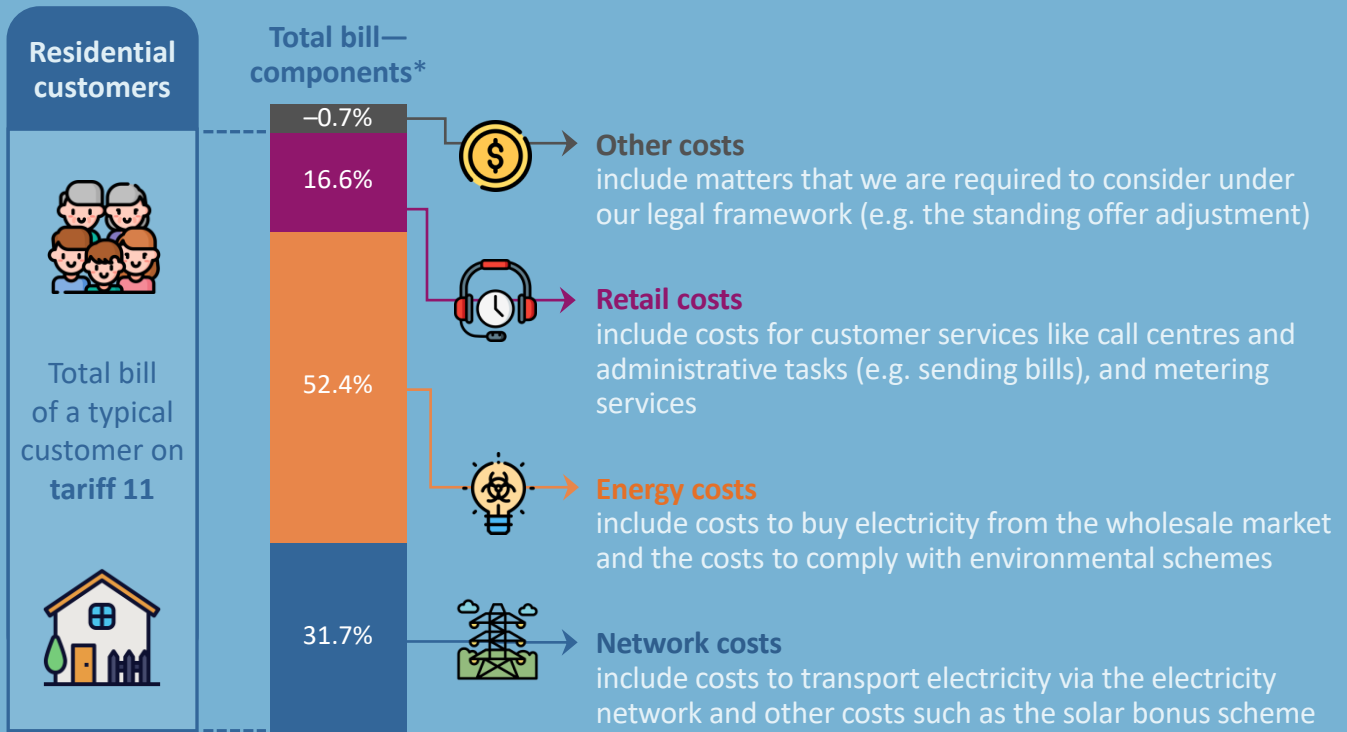
Prices increase less for large customers (relative to small customers) due to a smaller increase in wholesale energy costs. This is because large customers have flatter consumption profiles compared to small customers, which is less expensive to hedge.

\* These bills are based on median usage data for each tariff and include GST. Values have been rounded to the next dollar.



# Cost components of an electricity bill

Our cost build-up methodology includes four primary cost components



## Some cost components increased significantly compared to last year

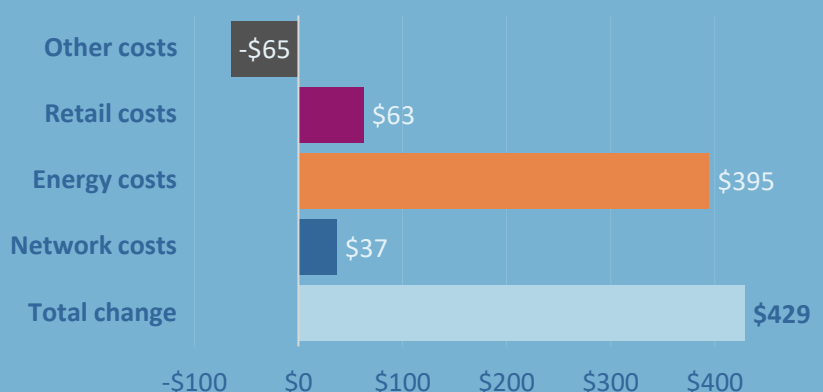


Most cost components increased this year, especially (wholesale) energy costs. We explain the reasons on pages 6–7.



The UTP allows us to set notified prices for most customers at a lower level than the actual costs of supply (see page 8).

Change in individual cost components, tariff 11 (2022–23 to 2023–24)\*

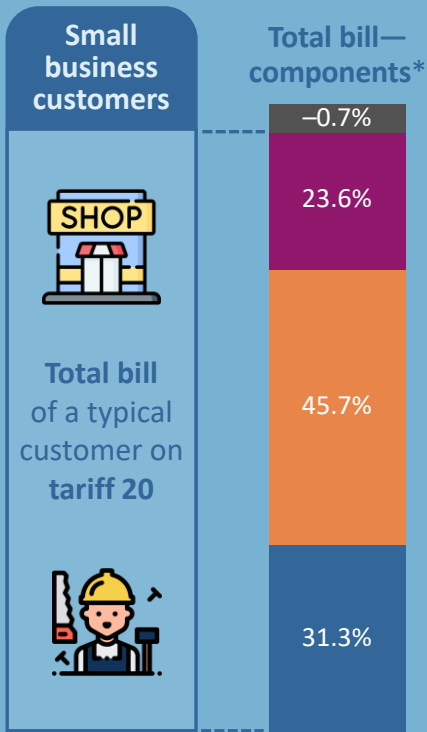


\* The bill composition and cost components are illustrated for tariff 11—residential (flat-rate)—one of the most common tariffs in regional Queensland; values have been rounded. The bill composition and cost components of the most common small and large business tariffs are shown on page 5.

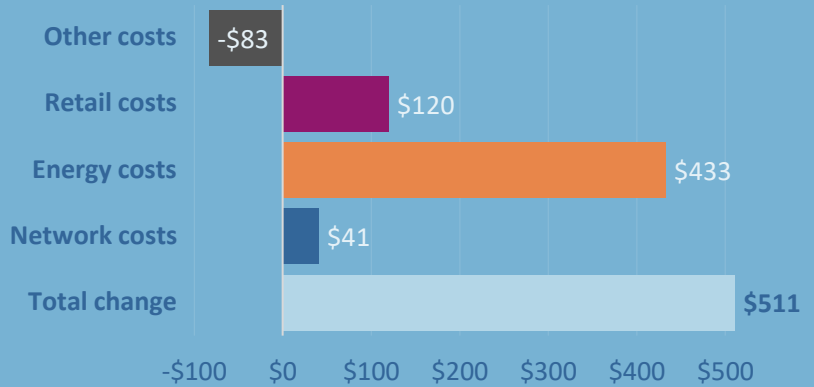


# Cost components of an electricity bill

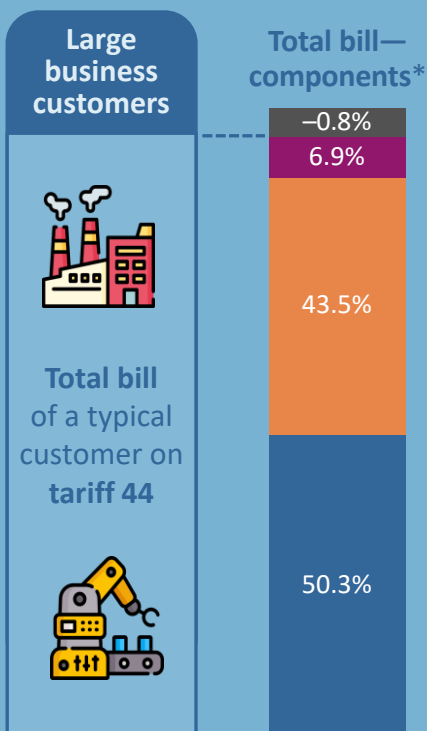
## Costs for business customers increased



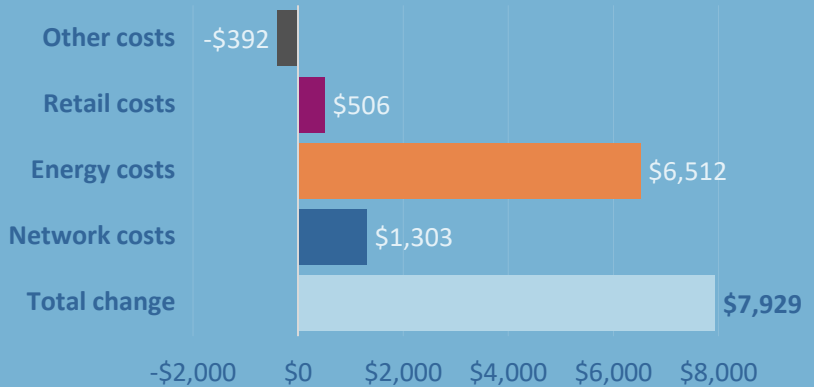
### Change in individual cost components (2022–23 to 2023–24)\*



The total bill of a typical customer on tariff 20 will increase by \$511, driven primarily by the increase in energy costs (+\$433), which make up nearly 46% of the total bill.



### Change in individual cost components (2022–23 to 2023–24)\*



The total bill of a typical customer on tariff 44 will increase by \$7,929, driven mainly by the increase in energy costs (+\$6,512), which make up nearly 44% of the total bill.

\* Values have been rounded.



# Reasons for the cost increases



## Energy costs increased due to higher wholesale costs

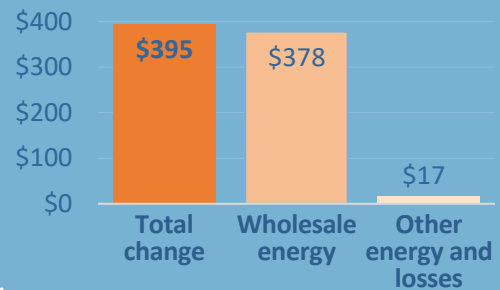
### Wholesale costs are determined by prevailing market conditions and financial markets

Wholesale energy costs are the costs retailers incur when they buy electricity from the spot market, the National Electricity Market (NEM).

To manage spot price volatility, retailers adopt a range of hedging strategies. For example, retailers buy ASX contracts to lock in a price for supplying electricity to customers at a later date.

Our approach to estimating wholesale energy costs incorporates a hedging strategy that a prudent retailer would adopt to manage spot price risk using ASX contracts. The ASX contract data we use is publicly available.

### Change in individual energy cost components, tariff 11 (2022–23 to 2023–24)\*



\* Values have been rounded. Similarly, wholesale energy costs were the main reason for the increase in energy costs for small and large business customers.

### The market outlook led to an increase in ASX contract prices

The increases in wholesale energy costs primarily reflect the substantial increase in ASX contract prices, which is driven by market participants expecting higher spot prices and greater price volatility, likely due to:

- higher gas and coal prices
- uncertainties around the availability and reliability of coal-fired power plants and their impacts on the supply–demand balance in the Queensland region.



### Price caps for gas and coal were implemented

In December 2022, the Australian and Queensland governments introduced temporary price caps for gas and coal, which are key input costs for thermal electricity generators. Gas and coal supply contracts for electricity generation were capped at \$12/GJ and \$125/tonne respectively (for at least 12 months).



### However, prices remain high

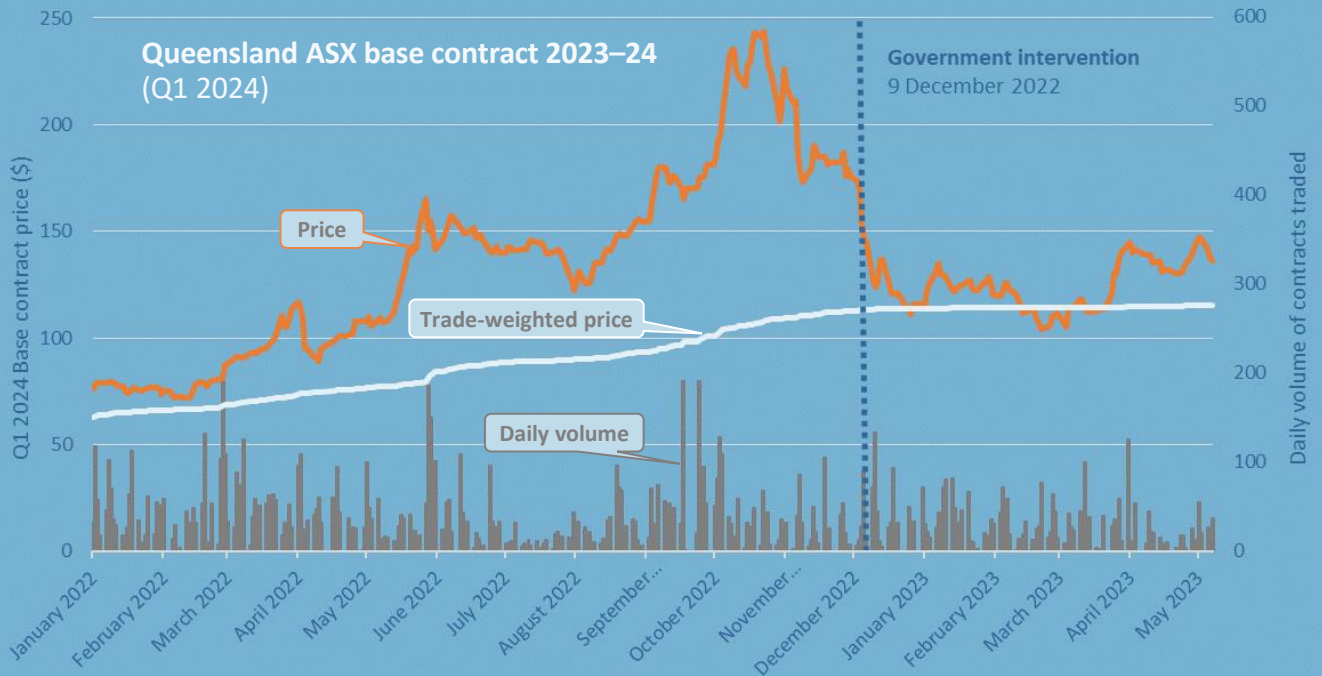
Since the government intervention, contract prices have been lower, fluctuating between \$105/MWh and \$147/MWh (see the chart on page 7, which shows ASX base contracts for the summer quarter of 2023–24, i.e. Q1 2024). However, contract prices remain elevated relative to their trading history (see the orange line in the chart).



As a result, the trade-weighted contract price has continued to increase (the white line in the chart). As the trade-weighted price is a key input in determining wholesale energy costs, it is a key driver of the increases in electricity prices this year.



## Reasons for the cost increases (cont.)



### Retail costs now include the costs of metering services

The Minister asked us to consider incorporating the costs of metering services for small customers as part of the R component (specifically retail costs). Although customers paid metering costs in previous years too, these costs were not included in our bill calculations (nor in the retail costs).

Metering costs are higher this year, because we were asked to determine small customer metering costs based on the costs of providing all metering services, including type 6 and advanced digital meters (see page 10). Previously, metering costs were based on type 6 meters only.



### Network costs have increased

We pass through the relevant network prices approved by the AER. Based on these prices, network costs have increased for most customer groups.



### Other costs have decreased

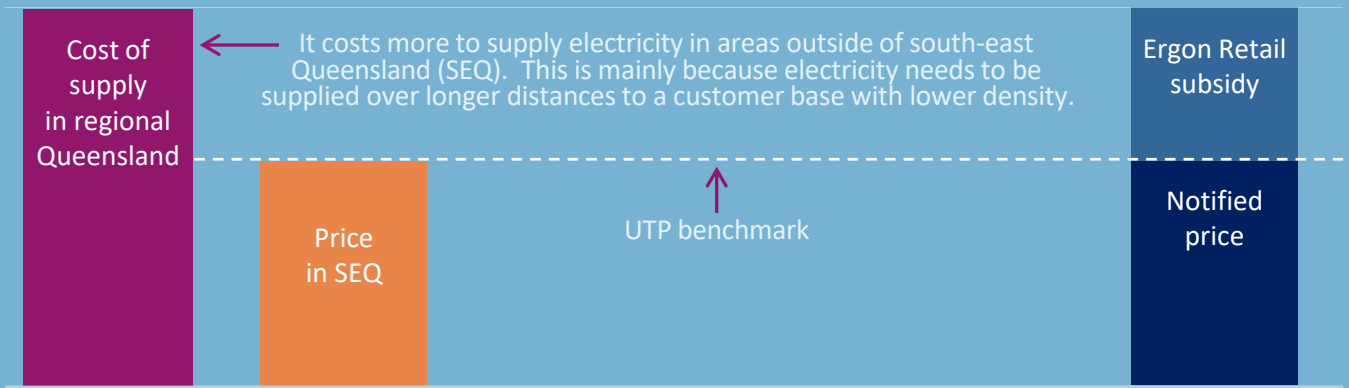
The smallest of the four cost components—other costs—is the only cost component that decreased for both small and large customers. This is mainly because we reduced the standing offer adjustment in small customer notified prices from 4.56% to 0% (see page 9).



# The uniform tariff policy lowers prices

## A Queensland Government policy to help customers in regional Queensland

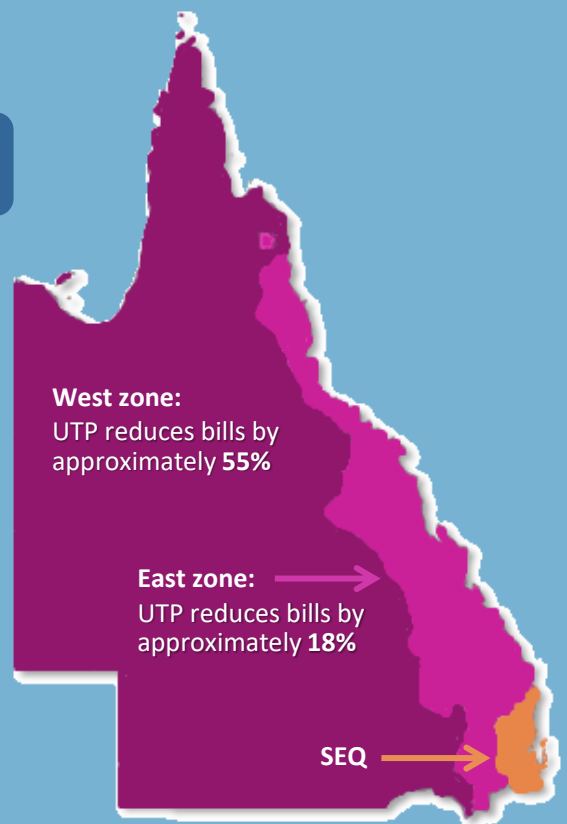
As in previous years, the Minister asked us to consider the UTP, which provides that ‘wherever possible, customers of the same class should pay no more for their electricity, and should be able to pay for their electricity via similar common price structures, regardless of their geographic location’.



The UTP allows us to set notified prices for most customers at a level lower than the actual cost of supply.

The Queensland Government covers the cost difference by paying a community service obligation subsidy to Ergon Retail (around \$635 million in 2022–23)\*.

Because of this subsidy, most customers in regional Queensland pay less than the actual costs to supply electricity.



\* Expected amount, including \$66.6 million associated with isolated systems.





# Comparing notified prices to SEQ prices

## Notified prices were reduced following our comparison

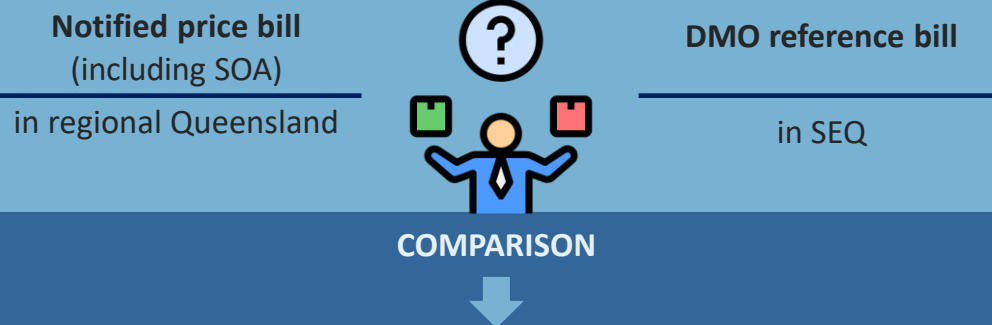
As in previous years, the Minister asked us to consider the costs and benefits associated with standing offers in SEQ, as well as the AER's default market offer (DMO) for standing offer customers in SEQ, when we set notified prices for small customers.

### Standing offer adjustment (SOA)

We calculated a SOA of 4.56% for small customers to reflect the value of more favourable terms and conditions in standard contracts relative to market contracts. This is based on an assessment of additional fees that SEQ customers on market offers could incur (on top of their annual bill). Customers on standing offers will not incur those additional fees.

### DMO comparison

We made adjustments to better compare the relevant notified price bills to the DMO reference bills in SEQ.\*



The relevant notified price bills (including a SOA of 4.56%) exceeded the DMO reference bills for SEQ determined by the AER.

### SOA reduction

We reduced the value of the SOA for all small customer tariffs to 0%. While the AER does not set a DMO price for each tariff we set, we applied this SOA reduction to all small customer tariffs to maintain price relativity between small customer tariffs. This lowered bills for all small customers in regional Queensland.

\* Including adjustments to notified prices to account for differences in the treatment of GST and consumption levels.



# New matters

The Minister asked us to develop two new tariffs and determine metering costs

## Two new retail tariffs



Building on the existing small customer time-of-use (TOU) tariffs 12B and 22B, we were asked to develop two new tariffs with wholesale energy components that produce **greater price differentials between the peak and non-peak periods**.

Such price differentials are intended to **incentivise customers to use more electricity during non-peak periods** (i.e. during daytime hours when network utilisation is low and rooftop solar PV generation is high).



This approach is likely to provide **stronger price signals** to residential and small business customers than the existing TOU tariffs and encourage customers to **take up charging during daytime hours**.

## Metering costs for small customers



We were asked to consider basing small customer metering costs on:

- the costs of type 6 meters and advanced digital meters (ADMs)
- the share of customers on ADMs.

Using these inputs, we estimated the **metering costs for small customers** to be:

- **17.71 c/day** (for primary tariffs)
- **3.39 c/day** (for secondary tariffs).

## Manual read of advanced digital meters



An ADM is typically read remotely, but its remote communication function can be disabled. We were asked to consider setting a retail charge for customers who have voluntarily chosen to have the remote communication function of their ADM disabled (type 4A meter).

We based the **charge for manually reading a type 4A meter** on the AER-approved special meter read fee for Ergon Energy Network for 2023–24, which is **\$40.98**.



# Support for electricity customers

Customers have access to various support measures and resources

## Government schemes, concessions and other programs and resources

- The [Energy Bill Relief Fund](#) will deliver rebates to eligible small customers in 2023–24. Queensland pensioners and seniors may also be eligible for other electricity [rebates](#).
- The [Home Energy Emergency Assistance Scheme](#) provides one-off emergency assistance for households facing payment difficulties due to an unforeseen emergency or short-term financial crisis that has occurred in the past 12 months.
- The [Electricity Tariff Adjustment Scheme](#) helps businesses transition from obsolete to standard tariffs, providing transition rebates on electricity bills (eligibility requirements apply).
- The [ecoBiz program](#) helps small to medium businesses develop an action plan to reduce energy costs, including by tracking usage and providing on-site coaching to identify opportunities to implement initiatives.
- The [Drought Relief from Electricity Charges Scheme](#) provides drought-declared farming businesses with relief from supply charges on electricity accounts used to pump water for farm or irrigation purposes.
- The Queensland Government's website provides further information on [energy concessions](#) and [support for businesses](#).

## Hardship policies

- Under the National Energy Retail Law (NERL), retailers have obligations to help customers in financial hardship (or facing payment difficulties).
- Ergon Energy Retail's [Customer Assist program](#) is available to eligible customers experiencing financial hardship (e.g. payment plans).

## Dispute resolution

- [Energy and Water Ombudsman Queensland](#) has information for customers on how to lodge a complaint or resolve a dispute involving their electricity, gas or water supplier.

## Other resources and information

- [Queensland Farmers' Federation](#) has information on electricity prices, understanding your bill, government schemes and concessions, and specific information and programs available to different industries and customers.
- Ergon Energy Retail has information to assist [households](#), [businesses](#) and [farming customers](#).
- The [Queensland Government's concession finder](#) has information on energy concessions available to an individual customer, based on their specific circumstances.
- The Australian Government has advice for households and businesses on its [energy.gov.au website](#) on how to manage bills and improve energy efficiency and sets out the rebates and assistance available in different jurisdictions, including Queensland.
- [Energy Made Easy](#) allows customers to compare energy plans and tariff options based on their energy consumption patterns and other relevant details.