

How do energy costs affect electricity prices?

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

How have energy costs changed since 2017–18?

For 2018–19, total energy costs are estimated to decrease by up to 1.9% for all retail tariffs, except for tariffs 31 and 33. This decrease reflects a reduction in wholesale energy costs, which is largely offset by an increase in costs related to the Renewable Energy Target (RET).

Energy costs for tariffs 31 and 33 are estimated to increase by 8.7% and 6% respectively. This increase reflects higher wholesale energy and RET costs. The higher wholesale energy costs for tariffs 31 and 33 reflect an increase in base contract prices (trade-weighted) as more base contracts were required to hedge these tariffs.

What are wholesale energy costs?

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

Why have wholesale prices not dropped more after the recent intervention by the Queensland Government?

As the NEM wholesale spot prices for electricity can be very volatile, most retailers purchase electricity contracts to lock in the wholesale prices they have to pay for electricity in the future.

An example is the base contracts retailers purchased for the summer quarter of 2019 (Figure 1).

Since the Queensland Government intervened through the Powering Queensland Plan, and the progressive announcements relating to the expected entry of around 2,000 MW of large-scale renewable energy generation into Queensland in 2018–19, these contract prices have declined from a peak of over \$100 per megawatt hour (MWh) to around \$85 per MWh (shown in Figure 1).

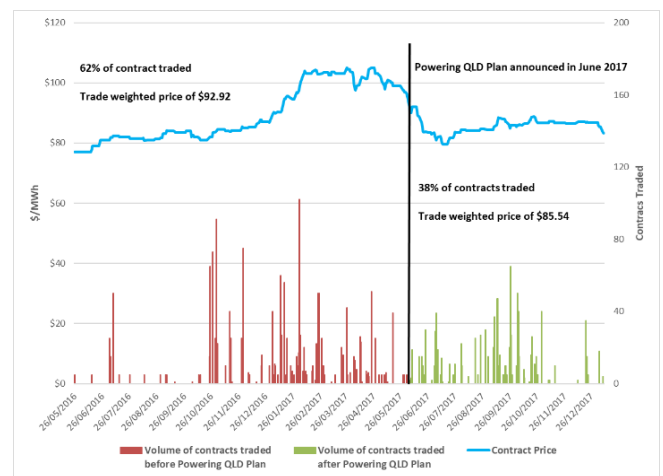
However, retailers had already purchased around 62% of their contracts before the government’s

intervention, and locked in a higher contract price (trade-weighted) of around \$93 per MWh.

Only around 38% of contracts were purchased after the government’s intervention, with retailers locking in a lower contract price (trade-weighted) of around \$86 per MWh for those contracts.

As retailers had largely locked in the price they pay for electricity in advance, wholesale energy costs have not fallen to a level as low as the recent contract prices.

Figure 1: Base contract prices—quarter 1, 2019



What are the Renewable Energy Target costs?

The RET scheme provides incentives for the electricity sector to increase generation from renewable sources and reduce greenhouse gas emissions.

The costs of these incentives are paid by retailers who purchase Large-scale Generation Certificates (LGCs) and Small-scale Technology Certificates (STCs).

Retailers surrender the purchased LGCs and STCs to the Clean Energy Regulator to meet their obligations under the RET scheme.

Why have the RET costs increased?

The RET costs are estimated to increase primarily because the Clean Energy Regulator has increased the number of LGCs that retailers are obliged to surrender per unit of electricity sold, so that retailers meet their RET obligations.

Where can I find more information or make a submission?

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