

File Ref: 549641

30 May 2013

The Honourable Mark McArdle MP  
Minister for Energy and Water Supply  
Level 13, Mineral House  
41 George Street  
BRISBANE QLD 4000

Dear Minister *Mark*

#### FINAL PRICE DETERMINATION ON REGULATED RETAIL ELECTRICITY PRICES 2013-14

In accordance with your Delegation of 12 February 2013, the Authority has prepared its Final Price Determination on Regulated Retail Electricity Prices for 2013-14. The Final Determination will be released on 31 May 2013. A copy is attached for your information.

The Authority has determined the prices to apply in 2013-14 using the network plus retail cost build-up methodology required by the Delegation. In doing so it has had regard for the likely effect on competition, the Government's Uniform Tariff Policy and the need for transitional arrangements for certain customer groups.

In its Final Determination, the Authority has decided to transition the main residential tariff (Tariff 11) to cost-reflectivity in three steps over the three-year delegation period. On this basis, the annual bill for a typical residential customer on Tariff 11 (consuming 4,250 kWh per year) is expected to increase by 22.6% (or \$268) in 2013-14. This is slightly higher than the 21.4% increase envisaged at the time of the Authority's Draft Determination.

The price increases for 2013-14 are mainly driven by increased network costs, with Energex and Ergon Energy increasing underlying network charges by around 19% and 17% respectively. These increases reflect:

- (a) Large increases in the distributors' revenue allowed by the Australian Energy Regulator (AER);
- (b) The significant costs that the distributors have incurred in complying with the Queensland Solar Bonus Scheme;
- (c) The catch-up from the Government's 2012-13 Tariff 11 freeze, which was partly funded by a \$40 million subsidy to Energex;
- (d) Additional revenue (allowed by the AER) to make up for under-recovered revenue in earlier years due to lower than forecast consumption; and
- (e) The impact of declining consumption (some part of which is included in the Solar Bonus Scheme costs above) which means that network charges must be increased to recover the allowed revenue.

The next biggest cost driver is the cost of energy, which is expected to increase by around 9% due to rising uncertainty in the market (which has increased the risks faced by retailers) and a consequent tightening of supply in the wholesale energy market.

Retail operating costs have also increased, by 24%. This is a result of the benchmarking approach being updated to take account of the most recent interstate estimates of retail operating costs. While the percentage increase is significant, retail cost is the smallest price component and therefore the impact on costs is less than for networks or energy costs.

In addition, the retail margin, which is a percentage of total costs, has increased from 5.4% to 5.7%, due to an updated assessment of the return that retailers require to commit capital to their businesses and accept the risks associated with providing retail electricity services.

As a transitional measure, the Authority has retained most obsolete tariffs for a period of seven years, as many customers on these tariffs would otherwise face significant price impacts if they were required to move immediately to a cost-reflective tariff. The seven-year transitioning period will allow these customers to achieve some return on past investments and to adjust their consumption to better suit the new cost-reflective tariffs.

The increases for transitional tariffs range from 14% to 24%, slightly higher than anticipated in the Draft Determination due to larger increases in underlying costs.

The Authority has allowed new customers access to (most of) the retained obsolete tariffs (to be referred to as transitional tariffs from 1 July 2013) on the basis that a clear sunset date is set for the transitional period and new customers accessing these transitional tariffs will be subject to the same conditions as existing customers. This change will ensure that new and existing business customers are treated equitably in the transition to cost-reflective prices.

As required, the Authority will publish its Final Price Determination, and gazette bundled notified prices, on 31 May 2013. I have attached a copy of the Press Release that will accompany the release of the Final Determination for your reference.

Also, in accordance with your Direction under section 253AA of the *Electricity Act 1994* of 3 April, the Authority has estimated the cost impacts of the carbon price and RET scheme on a typical household bill. The table below shows the amounts the Authority estimates the carbon price and RET scheme will contribute to the annual retail electricity costs associated with typical levels of consumption for customers on tariffs 11, 31 and 33. Around 42% of tariff 11 customers are also on tariff 33, compared to around 18% on tariff 31. So the combined impact of the carbon tax and the RET scheme for the typical residential customer on tariff 11 and 33 is expected to be \$258.63.

**Table 1: Carbon Price and RET Scheme Cost Impacts for 2013-14**

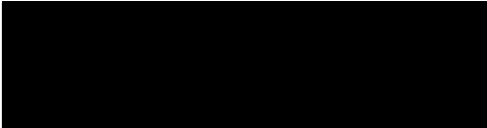
	<i>Median Electricity Use kWh/year</i>	<i>Carbon \$/year</i>	<i>RET \$/year</i>	<i>Total \$/year</i>
Tariff 11	4250	121.15	55.24	176.39
Tariff 31	2000	57.33	26.00	83.32
Tariff 33	2000	56.25	26.00	82.24

*Totals may not add due to rounding*

*Amounts reflect the impact of carbon price and RET scheme on customer bills inclusive of losses, margin, headroom and GST.*

Should you have any questions regarding this Final Price Determination or the calculation of carbon and RET costs, please do not hesitate to contact me on 0419 835 218.

Yours sincerely



Malcolm Roberts  
Chairman