Queensland Competition Authority

Information booklet

Regulated retail electricity prices for regional Queensland in 2023–24

Draft determination

March 2023

Summary

About our review

The Minister for Energy, Renewables and Hydrogen has asked us to set notified prices and two new retail tariffs to apply in 2023–24. As in 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
- Queensland Government's uniform tariff policy (UTP), which ensures 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 of our review. Our draft report and technical appendices provide more detail.

Key takeaways

- The electricity market has been experiencing extraordinary volatility and uncertainty. Several international and domestic factors have put upward pressure on wholesale energy costs. Due to significantly higher costs, notified prices for 2023–24 will be higher too. For example, Tariff 11 (residential flat-rate) is expected to increase by 28.9%.
- We applied the same cost build-up methodology to set notified prices as in previous determinations. Applying the UTP allows us to set notified prices for most customers at a level lower than the actual costs of supply.
- We developed two new retail tariffs to encourage residential and small business customers to make the most of charging options during the day when network utilisation is low and solar PV generation is high.

Submissions

We invite interested parties to make submissions on our draft determination of notified prices for regional Queensland in 2023–24 and any issues raised in our report. Submissions are **due by 14 April 2023.**

Higher bills are expected in 2023–24

Higher bills are expected due to an increase in estimated energy costs and to a lesser extent, increases in retail and network costs.

Expected change in annual bills for typical customers (compared to 2022–23)*

Small customers

Flat-rate tariffs

Tariff 11	Tariff 20
28.9% higher (+$432)	26.1% higher (+$497)

Load control tariffs

Tariff 31	Tariff 33
12.3% higher (+$36)	11.3% higher (+$34)

Large customers

Demand tariffs

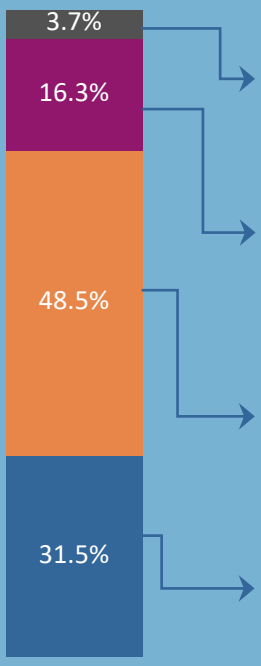
Tariff 44	Tariff 45	Tariff 46
12.2% higher (+$6,179)	13.0% higher (+$22,226)	5.6% higher (+$10,874)

Prices are expected to increase less for large 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.

* Bills have been calculated based on median usage data for each tariff and include GST. Bill values have been rounded to the next dollar.

Cost components of an electricity bill

There are four primary cost components in our cost build-up methodology.



Cost components:

Other adjustments
include matters that we are required to consider under our legal framework (e.g. the standing offer adjustment).

Retail costs
include costs for customer services like call centres, administrative tasks (e.g. sending bills) and metering services.

Energy costs
include costs to buy electricity from the wholesale market and the costs to comply with environmental schemes.

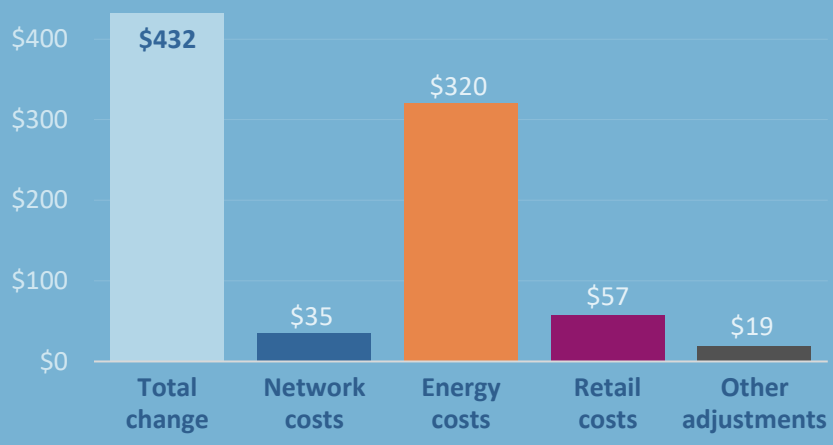
Network costs
include costs to transport electricity via the electricity network and other costs such as the solar bonus scheme.

Some of these costs are expected to increase significantly compared to last year.

All cost component are expected to increase this year, especially energy costs. We explain the reasons on pages 5–6.

The UTP allows us to set notified prices for most customers at a lower level than the actual costs of supply (see page 7).

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; figures have been rounded.

Reasons for the cost increases

Energy costs are expected to increase due to higher wholesale costs.

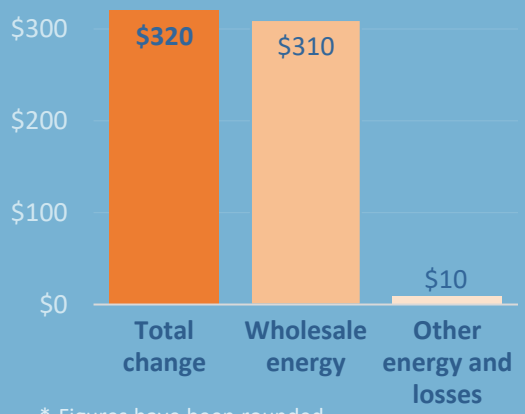
Wholesale costs are determined by prevailing market conditions and financial markets

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

To manage spot price volatility, retailers adopt a range of hedging strategies. For example, retailers buy ASX contracts and other products. This allows retailers to lock in a price for electricity that they will deliver to consumers at a fixed price 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. ASX contract data is used as it is publicly available and provides transparency.

Change in individual energy components, Tariff 11 (2022–23 to 2023–24)*



* Figures have been rounded.

ASX contract prices increased due to market outlook

Our approach reflects an increase in ASX contract prices, as market participants were expecting higher future spot prices and greater price volatility. Likely reasons for this are:

- 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 generators. Wholesale gas and coal prices for electricity generation are effectively capped at $12/GJ and $125/tonne respectively (for at least 12 months).

However, costs were already partially locked in

When the price caps took effect, retailers had already locked in a portion of their costs for 2023–24 using the ASX contracts. This can be demonstrated using the ASX base contracts for Q1 2024 (see the chart on the next page), which show that around 91% of the contracts were locked in before the implementation of the price caps. This means that only 9% of the ASX contracts traded were influenced by the price caps.

Our approach uses ASX data from March 2020 until 20 January 2023 (inclusive). It therefore captures the higher prices of ASX contracts that retailers acquired, before the government intervention. We will use ASX data until late April/early May 2023 for our final determination.

Reasons for the cost increases (cont.)

Costs of metering services are now included in retail costs

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.

In addition, metering costs are estimated to be higher, therefore leading to higher retail costs. The Minister asked us to determine small customer metering costs based on the costs of providing all metering services, including Type 6 and advanced digital meters (see page 8 for more information).

Network costs are expected to increase

Based on the draft network prices provided by Energy Queensland, network costs are estimated to increase for most customer groups. We expect to use the AER-approved network prices for our final determination.

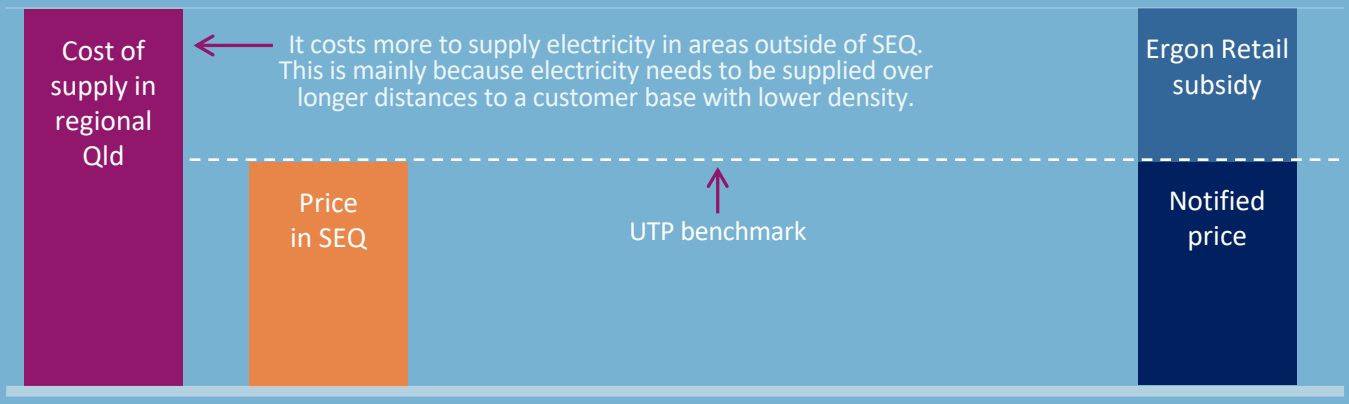
Other adjustments higher as underlying costs are expected to increase

This cost component includes items like the standing offer adjustment, which is added as a percentage of the bill—that is, they are applied to the other three cost components (i.e. network, energy and retail costs). As these cost components are expected to increase, the adjustment is being applied to a higher base, which leads to a larger increase overall.

Uniform tariff policy lowers prices

A Queensland Government policy to help customers in regional Queensland.

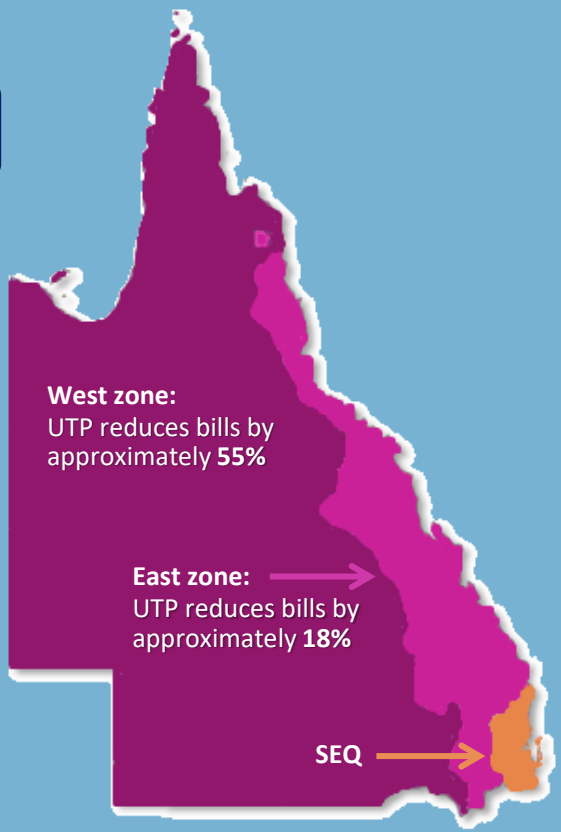
As in previous years, the Minister asked us to consider the UTP, which provides that 'wherever possible, customers of the same class should pay no more for their electricity, and should be able to pay for their electricity via similar common price structures, regardless of their geographic location'.



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 (expected to be $568 million in 2022–23).

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



Additional matters considered

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

New retail tariffs

Building on the existing time-of-use (TOU) tariffs 12B and 22B for small customers, 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 setting metering costs for small customers based on:

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

We have estimated the metering costs for small customers to be:

- 17.59 c/day (for primary tariffs)
- 3.37 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. The Minister asked us to consider setting a retail charge for customers who have voluntarily chosen to have the remote communication function of their ADM disabled.

Our draft position is to base the charge for manually reading a type 4A meter on the AER-approved special meter read fee for Ergon Energy Network, which is $37.62.

Stakeholder engagement

Draft determination

We have published our draft determination, which is available on our website.

This information booklet provides an 'at a glance' overview of the price-setting process, the bill impacts and additional issues we considered.

Information sessions

We plan to hold information sessions on our draft determination in regional Queensland in March and April 2023.

Subscribe to our email alerts to keep up to date with the latest developments (including how to register for the sessions and when they will be held). Information on how to attend will be provided to registered participants via email.

Submissions

Public involvement is an important element of our decision-making processes. We invite stakeholders to provide submissions on issues raised in the draft, or other matters considered relevant to our price determination.

Submissions on the draft are due **by 14 April 2023**. Information on how to make a submission is available in our draft report and on our website.

Final determination

We will make a final determination **by 9 June 2023**.

The notified prices will apply from 1 July 2023.

[End of information booklet]