

Information session

Regulated retail electricity prices for regional Queensland in 2023–24

Draft determination

March 2023



Welcome and objective

At today's information session, we want to:

- inform stakeholders of the key aspects of the QCA's draft determination, including the:
 - estimated impact of the draft prices on customers' bills
 - factors the QCA considers when making a decision
 - new issues for this review
- provide information to help stakeholders with their submissions.



Burning issues?

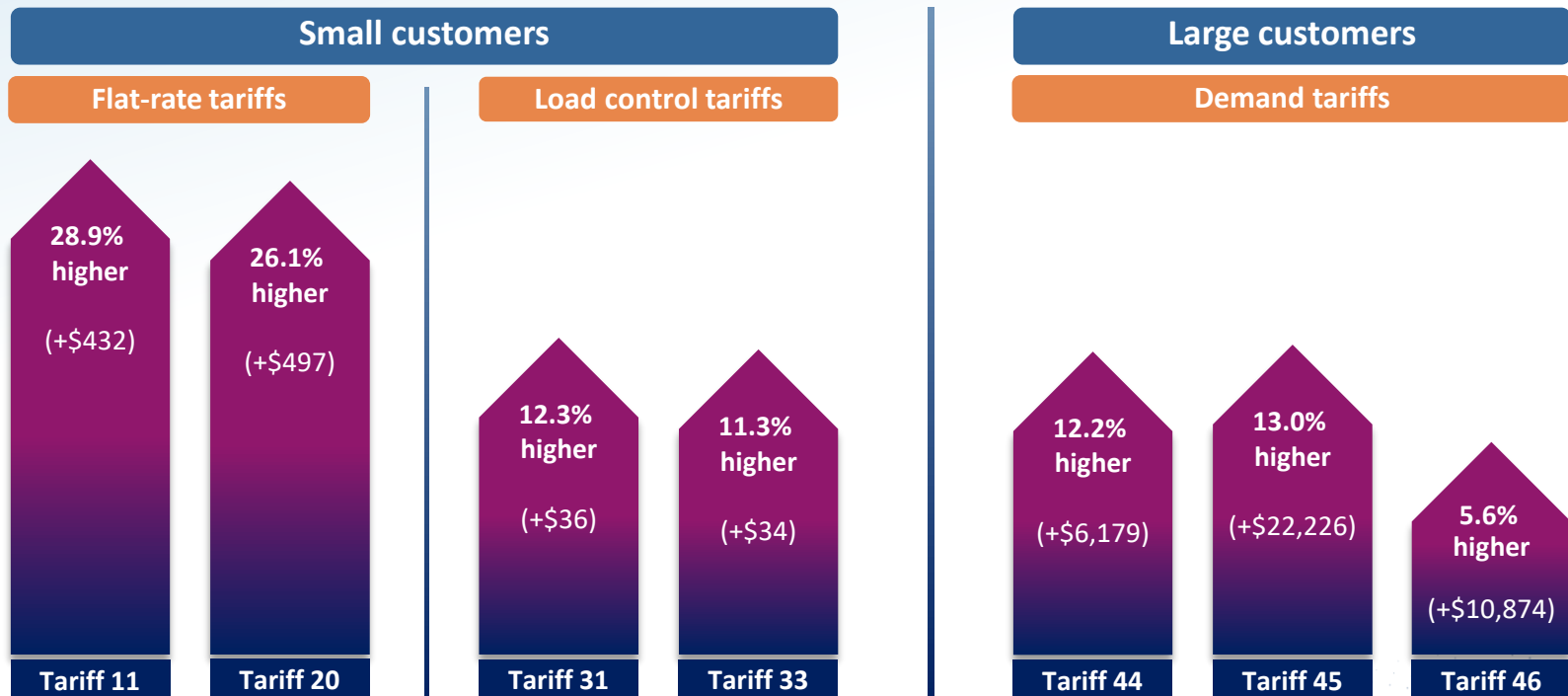
- Can be general / high level
- Can be specific detailed



Overview of draft prices / customer impacts

Bills are expected to be higher in 2023–24 due to an increase in estimated energy costs and to a lesser extent, increases in retail and network costs.

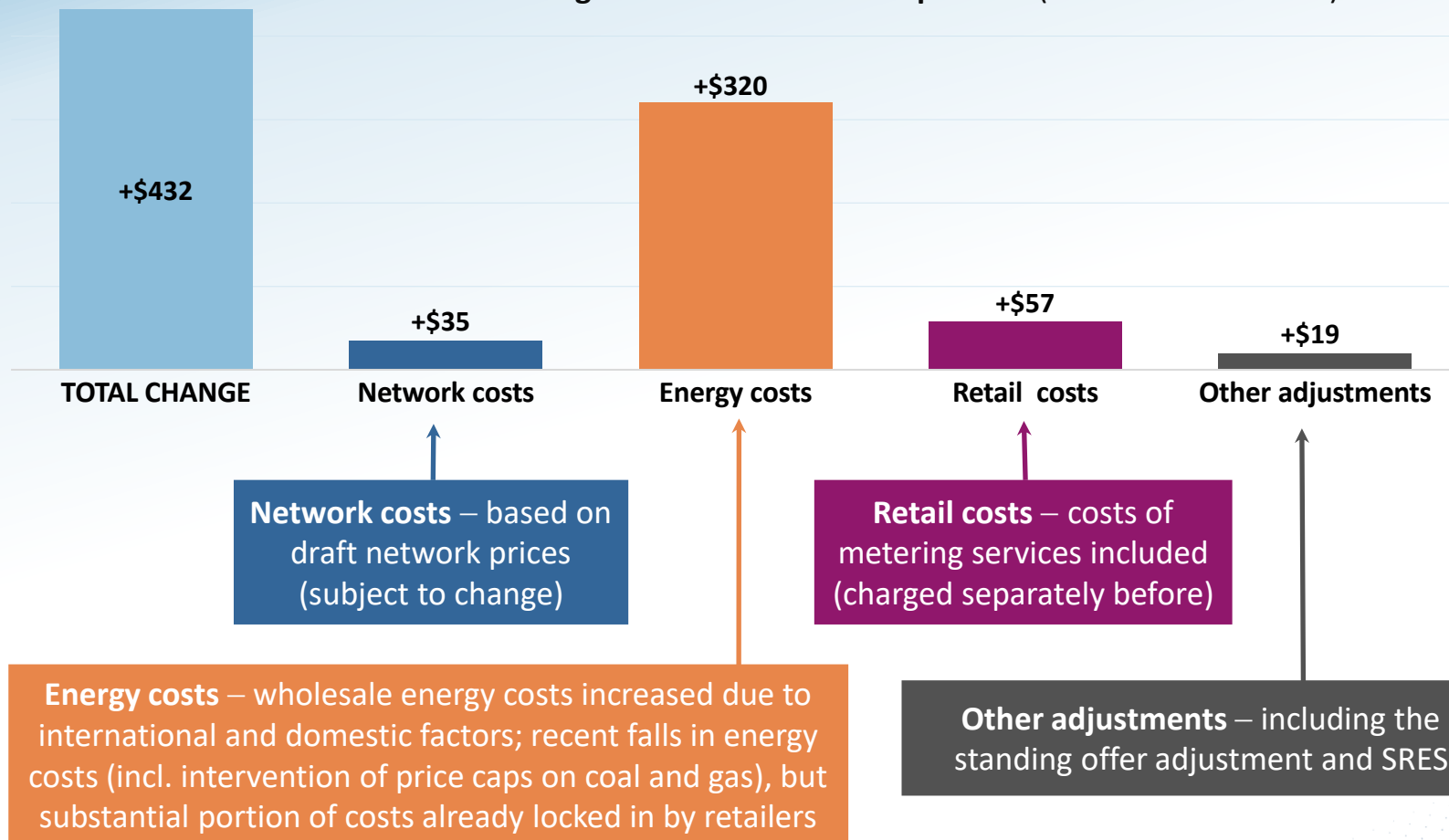
Expected change in annual bills for typical customers (compared to 2022–23)





Reasons for increased prices

Tariff 11—Change in individual cost components (2022–23 to 2023–24)



Note: Totals may not add up due to rounding.



Relevant legislative framework

The Queensland Minister for Energy has the power to set regulated retail electricity prices under the Electricity Act, but can delegate the task to the QCA.

In making a determination, we must consider matters set out under the:

- **Electricity Act – costs, competition; and**
- **Minister’s delegation.**

We perform other regulatory roles under the **QCA Act** and **other legislation** but the **Electricity Act** applies to our determination of notified prices.



Overarching framework

The overarching framework includes matters in the Electricity Act and the Minister's delegation and include:

- costs of supplying the service
- using the **network plus retail (N+R) framework**
- continuing to apply the government's **uniform tariff policy (UTP)**
- setting two new tariffs and small customer metering costs.

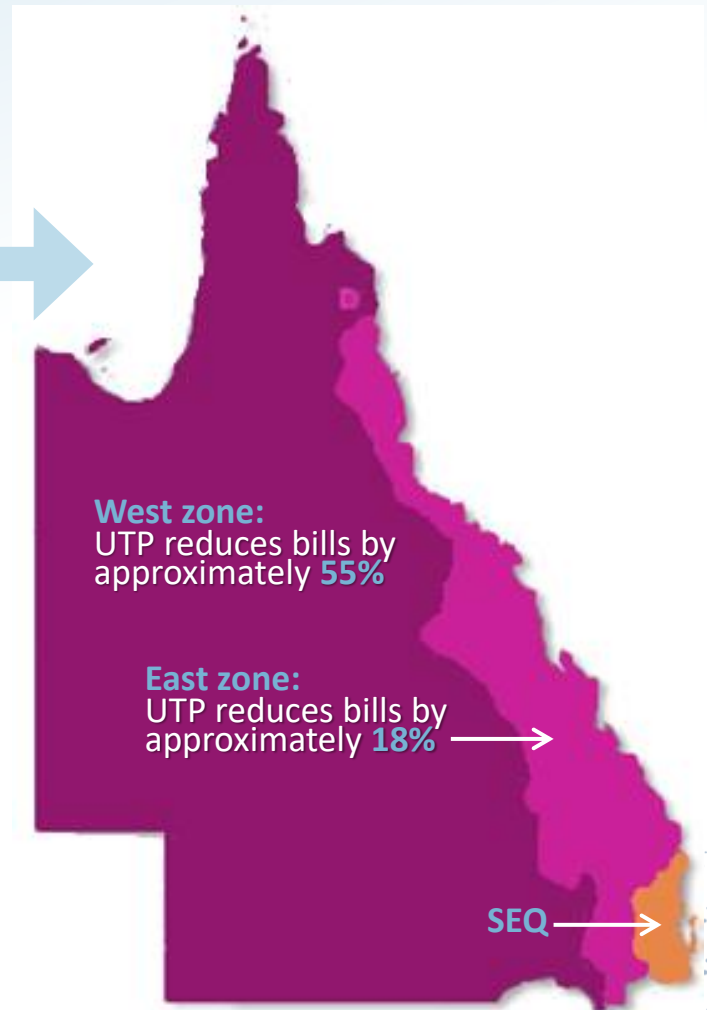
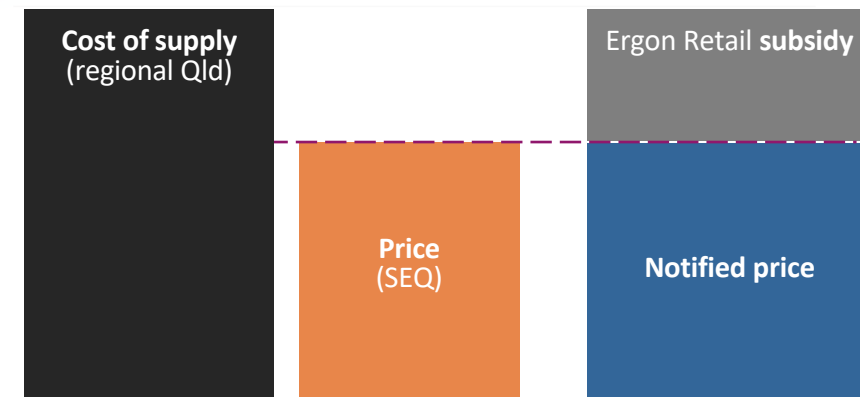


Uniform tariff policy

The uniform tariff policy (UTP) is the mechanism we can apply to address affordability issues.

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 via a **community service obligation subsidy** to Ergon Retail (around \$568 million in 2022–23).

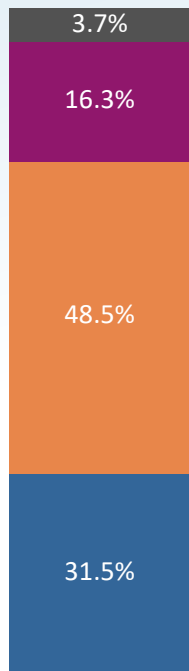




N+R Framework

There are four primary cost components in our cost build-up methodology, which determine prices.

Total bill
(tariff 11)



Cost components:



Other adjustments

include matters we are required to consider (e.g. the standing offer adjustment).



Retail costs

include costs for customer services, administrative tasks and metering services.



Energy costs

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



Network costs

include costs to transport electricity via the electricity network.

Costs determined by us, based on competitive market

Costs / prices regulated by the AER



Network costs

Network costs are the costs of transporting electricity through transmission and distribution networks. These are regulated by the Australian Energy Regulator.

Consistent with the Minister's delegation, **we pass through network prices** into retail tariffs as follows:

| For small customer standard retail tariffs | For large customer standard retail tariffs |
|--|--|
| Based on Energex (SEQ) network prices | Based on network prices in Ergon's lowest cost region connected to the NEM |

Network costs have increased for most small and large customer tariffs.

For typical customers, network costs have increased as follows:

| | | |
|---------------------------------------|---------------------------------------|-------------------------------------|
| Tariff 11 +\$35.14 or +6.1% | Tariff 20 +\$22.53 or +3.1% | Tariff 44 +\$546 or +1.9% |
|---------------------------------------|---------------------------------------|-------------------------------------|



Network costs may change as we will use updated cost information in our final determination.



Energy costs

The main component of energy costs is wholesale energy costs. These are the costs retailers incur when they purchase electricity for their customers through the national electricity market (NEM).

Retailers use **hedging strategies to manage risk** when purchasing from the NEM.

Our estimates

- use a market-based approach that simulates the NEM from a retailer's perspective
- are based on ASX energy futures contract prices, as these are publicly available
- use ASX data until 20 January 2023.

Energy costs have increased for small and large customer tariffs.

For typical customers, energy costs have increased as follows:

Tariff 11

+\$320.44 or +52.2%

Tariff 20

+\$350.77 or +52.2%

Tariff 44

+\$5,616 or +29.5%

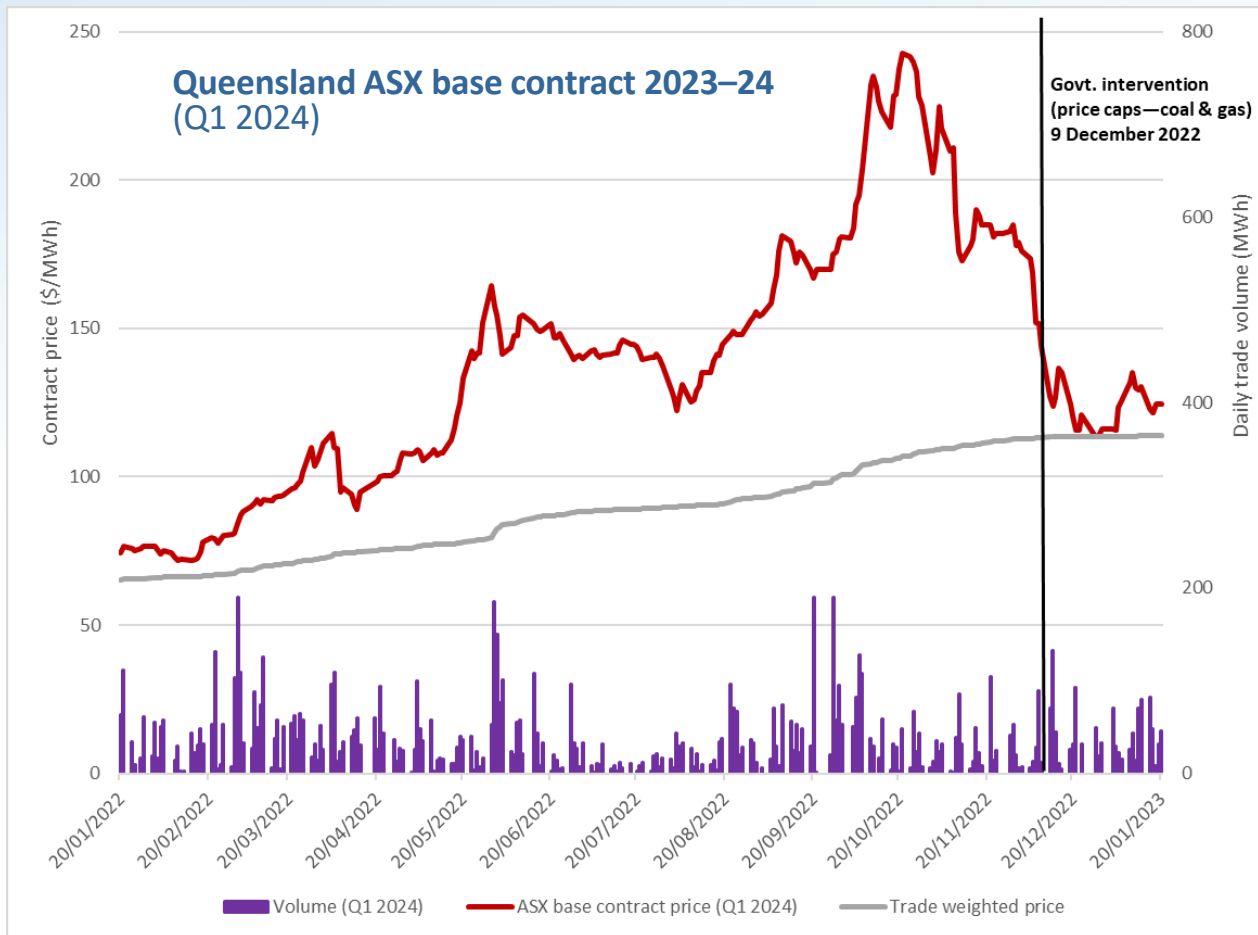


Energy costs will change as we will use an additional three months of contract data in our final determination.



Impact of government price caps

Retailers manage their spot price risk by **locking in a price in advance** for part of their electricity needs by purchasing ASX contracts.



For our draft determination **91%** of trade volume traded **before** the price cap was implemented



Retail costs

Retail costs are the costs of running a retail electricity business, including customer services, billing and administrative tasks.

- We estimate retail costs using established benchmarks (based on costs in a competitive market)
- These costs are recovered through fixed and variable charges.

This year, **retail costs for small customers include metering costs**, consistent with the Minister's delegation.

Retail costs have increased for small and large customer tariffs. For typical customers, retail costs have increased as follows:

| | | |
|--|---|--------------------------------------|
| Tariff 11 +\$57.08 or +22.2% | Tariff 20 +\$101.04 or +22.4% | Tariff 44 +\$409 or +11.4% |
|--|---|--------------------------------------|

Note: To facilitate a like-for-like comparison, we have included metering costs in the small customer tariffs for 2022–23 when determining the change in retail costs.



Other adjustments

The standing offer adjustment (SOA) is intended to reflect the value of more favourable terms and conditions in standard contracts relative to market contracts

Our estimate reflects the potential fees small customers in SEQ on market contracts could incur annually (that would not be incurred on a standard contract).

We applied a
SOA of 4.56%
(0.86% increase from
last year)

The small scale renewable energy scheme (SRES) cost pass-through reflects the number of certificates retailers are required to purchase and surrender to the Clean Energy Regulator (CER).

Based on the CER's SRES liabilities, we compared the 2022–23 actual costs to the allowance in last year's notified prices. Our draft prices incorporate an over-recovery of 2022–23 SRES costs in 2023–24 notified prices (leading to a reduction in other costs).

Overall, other costs have **increased for small customers** but **decreased for large customers**.



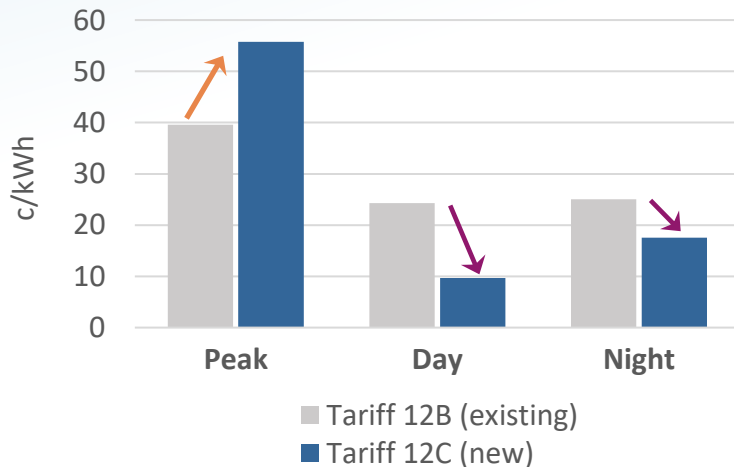
Two new time-of-use tariffs

The Minister asked us to develop two new residential and small business time-of-use tariffs that are intended **to incentivise customers to use more electricity during non-peak periods**.

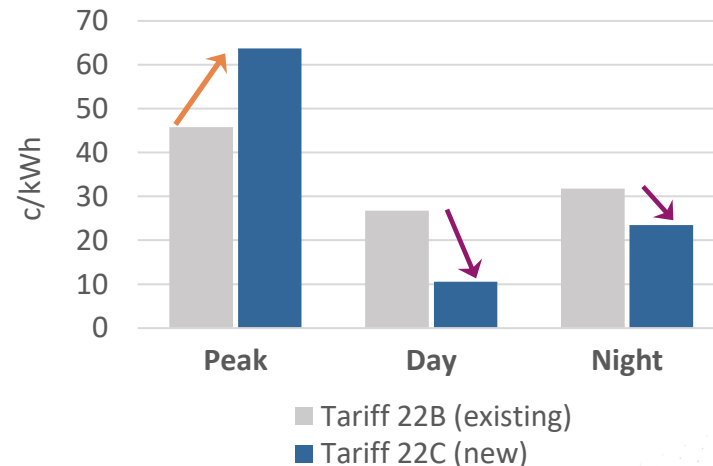
These new tariffs are based on existing tariffs 12B and 22B, but with **stronger price signals** (bigger differential between peak and non-peak periods).

*Not restricted to EV / battery customers

Residential — new vs existing tariff



Small business — new vs existing tariff



- For residential tariffs: Peak – 4 to 9 pm; Day – 9 am to 4 pm; Night – all other times (9pm to 9am)
- For small business tariffs: Peak – 4 to 9 pm weekdays; Day – 9 am to 4 pm; Night – all other times (weekdays, 9pm to 9am, and on weekends, 4pm to 9am)



Way forward

- **Submissions due by 14 April 2023**

Information on how to make a submission is available on our website (www.qca.org.au/submissions/).

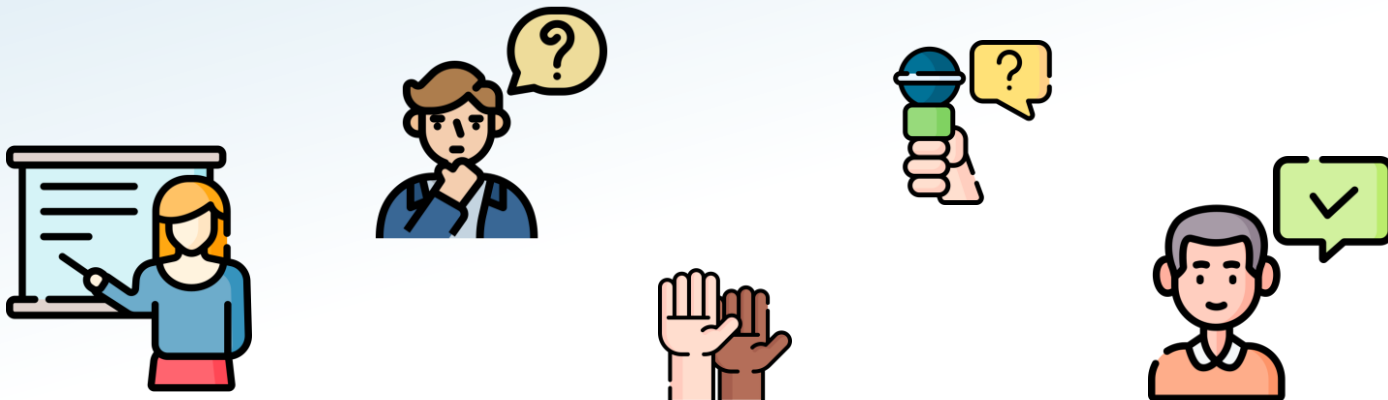
- **Final determination by 9 June 2023**

The new prices will apply from 1 July 2023.



Question and answer session

Please keep in mind that this Q&A session is to provide clarification on matters in our draft determination.



We encourage stakeholders to provide written submissions about matters you want the QCA to consider when making the final determination.

**Thank you for participating in today's
information session.**