

Queensland
Competition
Authority

DRAFT DETERMINATION

2016-17 Retail Electricity Prices



Today's workshop

Today's workshop aims to:

- Encourage submissions to the draft determination
 - Submissions close 20 April 2016
 - www.qca.org.au/submissions
- Explain our determination to help inform your submissions

Other relevant reviews in progress:

- Queensland Productivity Commission electricity pricing enquiry
 - Examining underlying drivers of electricity prices
 - Workshops:
 - Townsville 12 April 2016
 - Mt Isa 13 April 2016
 - Cairns 14 April 2016
 - More information: www.qpc.qld.gov.au
- Australian Energy Regulator review of Powerlink revenue proposal
 - Submissions due 28 April 2016
 - More information: www.aer.gov.au

Framework

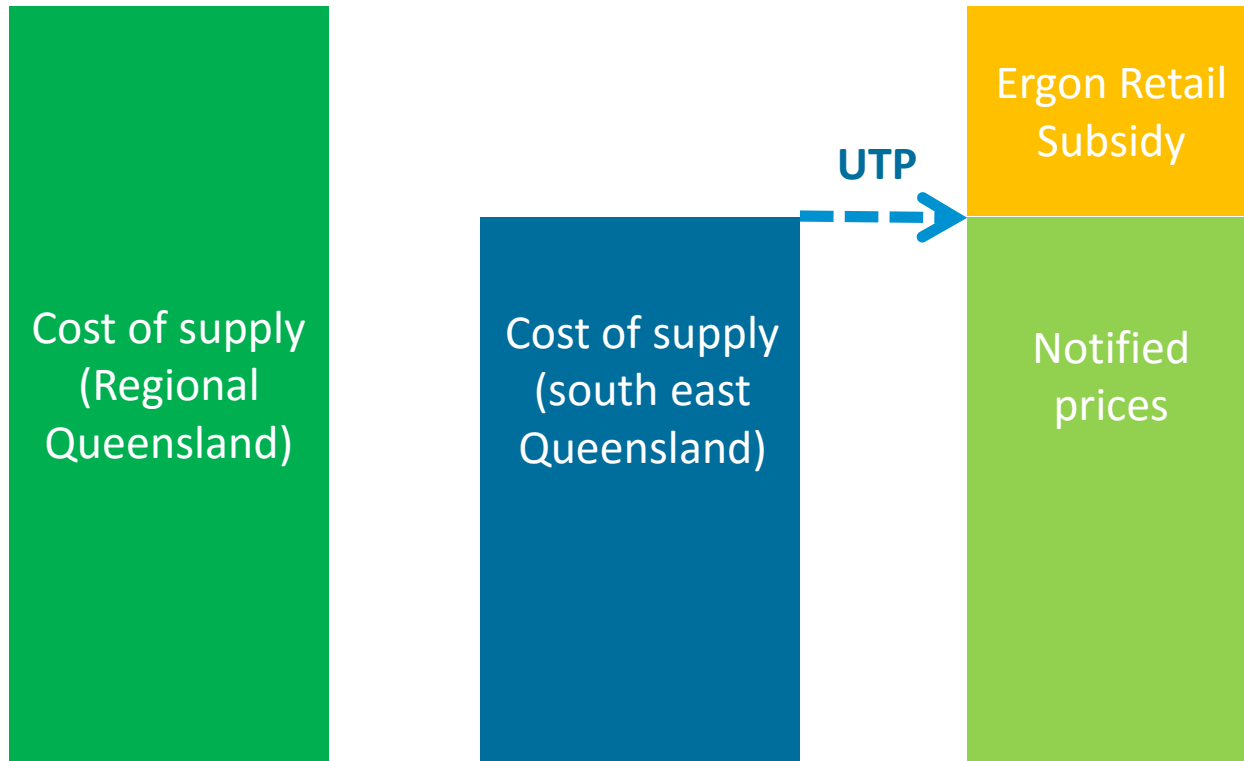
Under the Electricity Act the QCA must have regard to:

- The actual costs of supply
- The effect on competition
- Any other matters required by the Minister's delegation

The Minister's delegation requires the QCA to consider:

- Notified prices apply in regional Queensland only
- The Queensland Government's uniform tariff policy
- Using a Network(N) + Retail(R) approach, where the N is a pass through
- Maintaining transitional arrangements

Uniform tariff policy



Uniform tariff policy

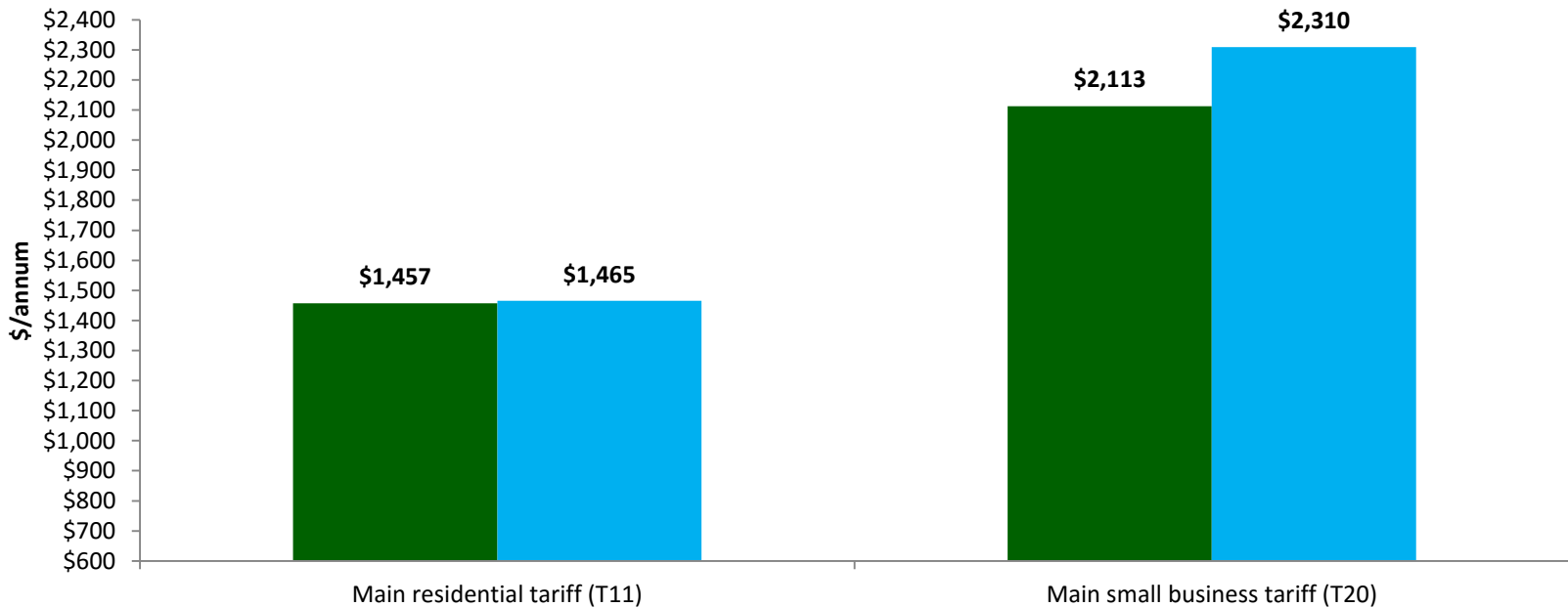
- Taxpayer funded policy to subsidise regional electricity prices for most customers
 - \$599.9m in 2014-15
- The delegation defines the Uniform Tariff Policy as:

Wherever possible non-market customers of the same class should pay no more for their electricity regardless of geographic location

And for residential and small business tariffs:

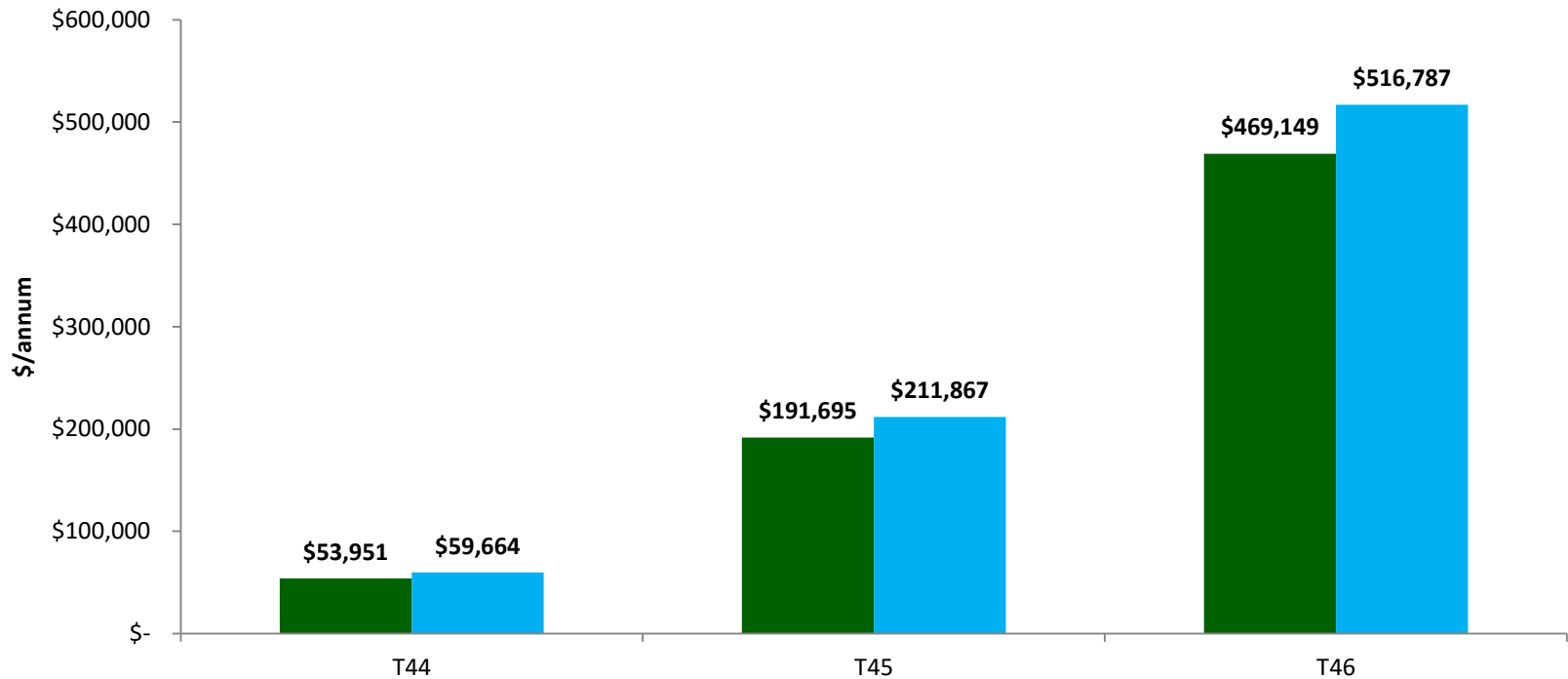
The Government considers that regulated prices for regional Queensland for small customers should broadly reflect expected prices for customers on standing offers in SEQ

Impacts - typical small customers



Cost drivers	Contribution to overall change	
	Tariff 11	Tariff 20
Energy (including RET)	4.5%	4.8%
Retail costs (fixed)	-4.7%	-0.7%
Retail costs (variable)	3.3%	4.5%
Network	-2.4%	0.4%

Impacts - typical large customers



Cost drivers	Contribution to overall change
Energy (including RET)	7-7.5%
Retail	0.6%
Network	2.1-2.8%

Transitional and obsolete tariffs

- Approach is broadly consistent with previous determinations
- We propose to maintain transitional arrangements for 2016–17
- Tariffs increase in line with standard business tariffs, and an escalation factor, to limit transitional and obsolete tariffs falling further below cost in dollar terms
 - In light of recent increases and that customers will be more than half way through the transition period escalation factors have been limited to 1.1
 - As a result tariffs will increase by between 10.3 per cent and 11.5 per cent, rather than between 11.7 per cent and 15.6 per cent
- QCA will review decision on transitional tariffs based on final changes in other standard business tariffs

Tariffs	Period retained	Draft 2016-17 increase
21, 62, 65, 66	4 years	10.3%
20 (large), 22 (small and large), 37	4 years	11.5%

Methodology

- Methodology is consistent with previous years, with the exception of retail costs
- Network costs based on draft tariffs and prices supplied by distributors
- Wholesale energy costs were based on forecasts by ACIL Allen, using a hedging, or market-based, approach
- Retail costs were estimated by ACIL Allen based on benchmarks of the latest market data and cost data from retailers
- Headroom maintained at 5% for large customers

Network Costs

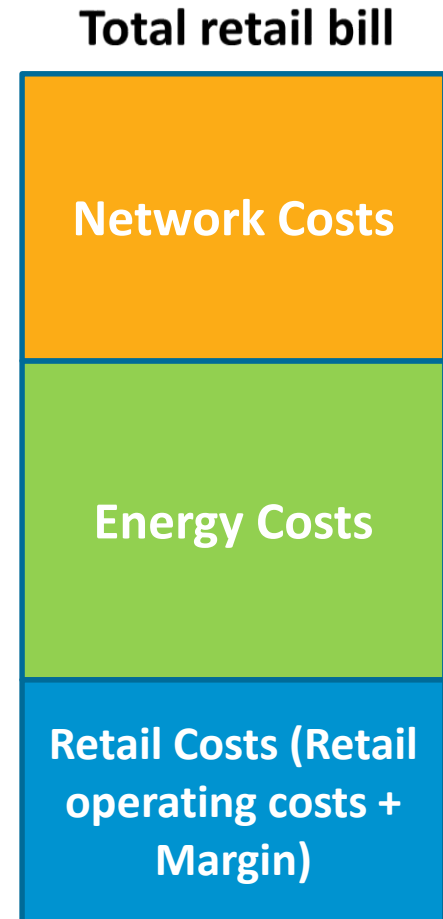
- Draft determination uses draft network tariffs supplied by distributors
 - Will be updated in final determination
- Tariffs 12A, 14, 22A and 24 based on Ergon network charges reduced to SEQ (Energex) cost levels
- Other residential and small business tariffs based on Energex network tariffs
- Large customer tariffs based on Ergon East zone, Transmission region 1
- Network costs are stable compared to previous years

Energy Costs

- ACIL Allen's analysis showed that there had been a significant increase in energy costs
- Primarily driven by wholesale energy costs and Renewable Energy Target (RET) costs
 - Wholesale energy cost increases:
 - Electricity demand from LNG production
 - Fuel costs for gas-fired generators
 - Increase in peakiness of small customer loads
 - RET costs have increased significantly since the revised RET target was implemented

Retail Costs

- To identify benchmark retail costs in deregulated markets ACIL Allen:
 1. Calculated average total retail bills based on retailers market offers
 2. Deducted network costs and estimated energy costs
 3. Made adjustments where necessary for state-specific costs
 4. The residual is total retail costs, including margin
- ACIL Allen then compared retailer cost data to benchmark results
- The QCA used this information to determine the split between fixed and variable retail charges



Retail Costs

The analysis of market data identified that compared to the IPART benchmark:

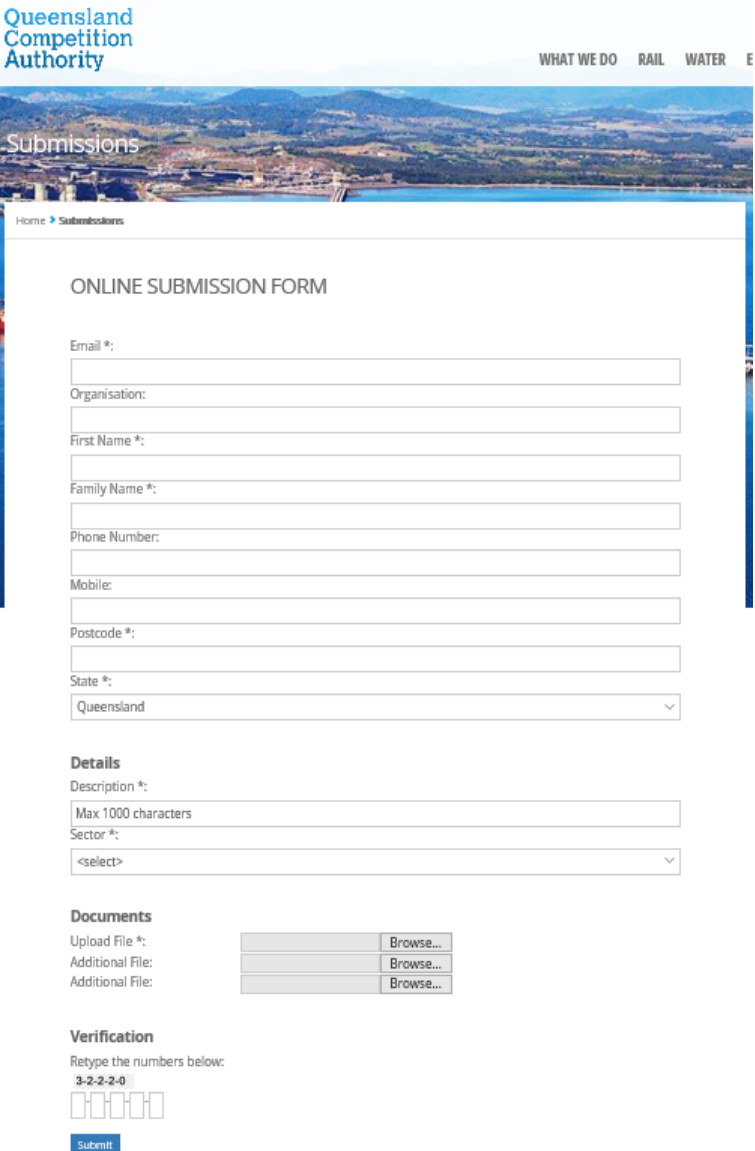
- Retailers were recovering a greater proportion of retail costs from variable charges
- Retailers incurred different levels of retail cost between small business and residential customers
- There was insufficient data to estimate retail costs for large customers
 - The QCA used its 2015-16 approach for these customers

Standing offer adjustment

- Retail costs were using data from market offers
- As the delegation required residential and small business customer tariffs to reflect standing offer prices these tariffs were then adjusted to reflect the difference in price between market offers and standing offers

How to make a submission

- online submission form at www.qca.org.au/submissions
- Submissions are due by 20 April 2016



Queensland Competition Authority

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Submissions

Home > Submissions

ONLINE SUBMISSION FORM

Email *:

Organisation:

First Name *:

Family Name *:

Phone Number:

Mobile:

Postcode *:

State *:
Queensland

Details

Description *:
Max 1000 characters

Sector *:
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Documents

Upload File *:
 Browse...

Additional File:
 Browse...

Additional File:
 Browse...

Verification

Retype the numbers below:
3-2-2-2-0

Submit

Next steps

- Conducting workshops until 7 April
- Submissions close 20 April
- Final determination released by 31 May 2016

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Questions?

