

Pricing impacts of Australian Energy Regulator Final Determination 2010-15

Why has the AER reviewed Ergon and ENERGEX's distribution charges?

The Australian Energy Regulator (AER) is part of the Australian Competition and Consumer Commission (ACCC). It is independent of Government and responsible for regulating the amount Ergon Energy Corporation Limited (Ergon) and ENERGEX Limited (ENERGEX) can earn from their networks of powerlines, transformers and substations to transport electricity from the high voltage transmission network to residential and business customers.

Throughout 2009 and 2010, Ergon and ENERGEX submitted proposals to the AER outlining the infrastructure investment and other expenditure they proposed to undertake in the next five years in order to maintain the security and reliability of supply to their customers.

The AER has considered these proposals and determined how much they can charge customers for the distribution services they provide.

How is the price consumers pay for electricity determined?

The Benchmark Retail Cost Index (BRCI) is the mechanism used by the Queensland Competition Authority (QCA) to calculate the regulated retail or notified electricity prices. In general terms, the BRCI for a particular year is calculated by dividing the change in cost of supplying electricity for the State by the State load.

The price consumers pay for electricity is made up of four components:

- costs to create electricity (energy/generation costs)
- costs to build and maintain the high voltage powerline infrastructure (transmission costs)



- costs to build and maintain the network of poles and wires that deliver electricity to consumers (distribution costs)
- costs to connect, bill and manage consumer accounts (retail costs).

For 2000–11, almost half of the cost for electricity (49 per cent) was made up of network costs, which is the total of transmission and distribution costs. Energy costs accounted for slightly less (42 per cent) and retail costs made up 9 per cent of the total cost.

Network costs continue to be the biggest component of electricity tariffs. Despite this fact, at present Queensland consumers do not pay the full cost of the network charges to the distributors.

Is further electricity investment in Queensland needed?

With Queensland's electricity peak demand expected to continue to grow and customer numbers also expected to increase, continued investment in Queensland's electricity network is needed over the next five-year period.

Between 2010–2015 ENERGEX and Ergon will invest almost \$11.9 billion combined on electricity network infrastructure to cope with this increased demand. In addition, approximately \$3.7 billion will be spent on operational expenditure to maintain existing networks and manage vegetation around powerlines.

This investment is essential to maintain the safe and reliable supply of electricity to Queensland consumers and the independent regulator has assessed the expenditures are reasonable and appropriate.

(Please note- the figures quoted above are the same figures reported in the AER's media release. These figures differ from the figures in their determination report, because the report provides "real" figures which account for inflation over the five year regulatory period.)

How will the AER's findings affect electricity prices in Queensland?

From 1 July 2010, the AER is responsible for the economic regulation of Queensland's two distribution businesses, ENERGEX and Ergon, who move electricity from the high voltage transmission network to residential and business customers via a network of powerlines, transformers and substations.

While the QCA is responsible for setting electricity prices, the AER will determine the level of revenue that ENERGEX and Ergon can collect from consumers through their network (distribution) charges.

Network charges are one component of an electricity bill. Energy and retail costs also need to be considered before final costs can be determined by the QCA.

Queensland's regulated retail electricity prices (notified prices) are expected to continue to rise due to the increases in network expenditure forecast by ENERGEX and Ergon in order to ensure the safety and reliable supply of electricity to Queensland households and businesses.

However, Queensland electricity prices remain among some of the lowest in the country.

Why are electricity prices being affected?

ENERGEX and Ergon have proposed extensive network expenditure over the next five years, in order to address increasing peak demand and consumption.

Significant expenditure is required to maintain existing networks and replace aging assets, manage vegetation around powerlines, and meet the challenges and impacts of the annual summer storm season.

The key drivers for high demand growth in Queensland include population increases, changing customer needs with more reliance on energy-intensive appliances and the increased penetration of air-conditioning units in existing premises.

Both businesses have indicated this level of expenditure is necessary to maintain network security and reliability of supply for their customers.

The level of network investment will continue to grow as peak demand continues to grow.

How can I save energy and money?

To find out more about electricity prices in Queensland and about rebates and incentives that can help consumers manage their energy bills, visit www.energy.qld.gov.au

The Queensland Government is offering rebates of up to \$1000 to help eligible households to take advantage of solar hot water to help reduce their energy bills. Replacing an existing electric storage hot water system with a solar water heater will also help to lower a household's greenhouse gas emissions by around two tonnes a year.

For more information visit www.cleanenergy.qld.gov.au or call 13 GET SOLAR (13 438 76527).