

## FACT SHEET

# Changes in regulated electricity prices from 1 July 2012

Based on Final *Determination*,  
13 June 2012

The Independent Pricing and Regulatory Tribunal (IPART) is responsible for setting the maximum electricity prices that regulated electricity retailers can charge to around half of all residential and small business customers in NSW.<sup>1</sup>

We have undertaken a consultative and analytical process to set the prices that will take effect from 1 July 2012 and have made a final decision on those prices.<sup>2</sup>

### Electricity prices are increasing

Average regulated retail electricity prices will increase by around 18% across NSW from 1 July 2012 – or by between an average of 11.8% to 20.6% across different electricity supply areas. These changes follow average increases of 10% and 17% across NSW in 2010/11 and 2011/12 respectively.

**Table 1 IPART’s final decision on regulated average retail electricity price increases from 1 July 2012 (including inflation, %)**

EnergyAustralia	20.6
Integral Energy	11.8
Country Energy	19.7
<b>NSW average</b>	<b>18.1</b>

**Note:** The increases in regulated retail electricity prices are based on average network price increases which have been approved by the Australian Energy Regulator. The NSW average price increase is a volume weighted average.

- <sup>1</sup> We set regulated prices for customers that have not signed a market contract with a retailer or those that have returned to the regulated price (ie, standard contract). Customers on market contracts with retailers pay an unregulated price, however these market-based prices are influenced by changes in the regulated prices.
- <sup>2</sup> We undertook a 9-month consultative process to set electricity prices from 2010 until 2013. This review follows the approach that we established to update key cost inputs.

The average price increases<sup>3</sup> will vary for customers of the 3 regulated electricity retailers as follows<sup>4</sup>:

- ▼ 20.6% for EnergyAustralia customers, which translates to an extra:
  - \$7.00 per week (\$364 per annum) on an average residential customer bill (bringing the total average annual bill to \$2,127), and
  - \$9.07 per week (\$472 per annum) on average for its small business customers (bringing the total average annual bill to \$2,762), and
- ▼ 11.8% for Integral Energy customers, which translates to an extra:
  - \$4.00 per week (\$208 per annum) on an average residential customer bill (bringing the total average annual bill to \$1,972), and
  - \$5.19 per week (\$270 per annum) on an average small business customer bill (bringing the total average annual bill to \$2,561), and
- ▼ 19.7% for Country Energy customers, which translates to an extra:
  - \$8.21 per week (\$427 per annum) on an average residential customer bill (bringing the total average annual bill to \$2,590), and
  - \$10.67 per week (\$555 per annum) on average for its small business customers (bringing the total average annual bill to \$3,364).

IPART has made a series of adjustments since our draft report reflecting more recent data and reflecting issues raised in submissions to our draft report. We have:

- ▼ increased the weighted average cost of capital, reflecting further consideration of the costs of financing generators and retailers in the current unusual market conditions.<sup>5</sup> This increases the energy cost allowance, putting upward pressure on retail prices.
- ▼ updated our inflation forecast to take account of declining rates of inflation, putting downward pressure on retail prices.

The outcome of these adjustments are slightly higher average prices in our final report compared to our draft report. We consider these adjustments are necessary to ensure our updated energy cost allowances are consistent with the terms of reference.

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<sup>3</sup> IPART determines the average price increase across all prices for electricity retailers. The retailers can determine how those increases are applied across different customers, so some customers may see increases that are higher or lower than these levels depending on the commercial decisions of the retailers.

<sup>4</sup> The difference in the average price increases between the three retailers is primarily due to the varying network charges they incur, with smaller increases in Integral Energy's supply area than in the other 2. The increases in dollar terms could be higher for those customers with higher than average electricity usage.

<sup>5</sup> The weighted average cost of capital for a new entrant generator is a key assumption in our modelling of the energy purchase cost allowance. We have increased our WACC assumption from 6.5% in the draft report to 7.1% in this final report.

In response to our draft report retailers submitted that further price increases were necessary to reflect increasing costs of fuel for electricity generation. We do not agree with the retailers' proposals. We have maintained our methodology for updating fuel costs.

## Why are electricity prices increasing again?

Over the past 2 years, the main reasons for the increases in average regulated electricity prices have been:

- ▼ rising network costs (the costs of using the transmission and distribution networks to transport electricity to customers' premises), and
- ▼ rising 'green scheme' costs (the costs of complying with Commonwealth and NSW Government schemes aimed at mitigating increased carbon emissions, including the carbon pricing mechanism and Renewable Energy Target scheme).

This year, the increases outlined in our final decision are primarily driven by:

- ▼ the continuing rise in network costs<sup>6</sup>, which contributes to nearly half of the average 18% price increase, and
- ▼ the introduction of the Commonwealth Government's carbon pricing mechanism, which contributes the other half of the average price increase.

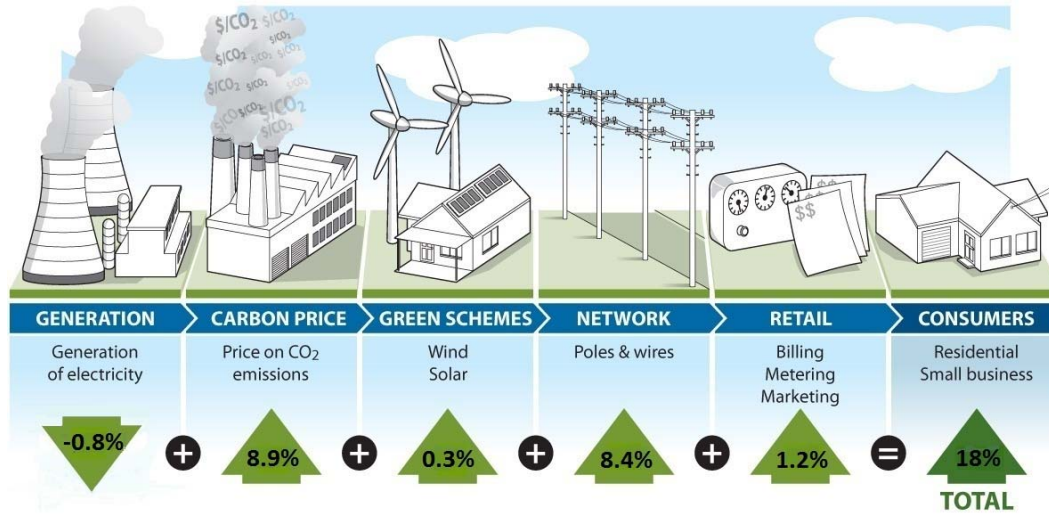
The other costs that contribute to regulated retail electricity prices will remain fairly stable (see Figure 1).

The main reason for the difference in the average price increases in the different electricity supply areas is that they face different increases in their network costs (see Table 2). The Australian Energy Regulator sets network costs that retailers must pay, and we make sure that the retail prices recover the actual network costs that standard retailers incur.

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<sup>6</sup> In our final report we have used average network price increases that were approved by the Australian Energy Regulator in June 2012.

**Figure 1 Drivers of increases in average regulated retail electricity prices on 1 July 2012, across NSW (including inflation, %)**



**Note:** 'Green Schemes' include all of the Commonwealth and NSW Government schemes designed to reduce greenhouse emissions except for the Commonwealth Government's carbon pricing mechanism.


**Table 2 Drivers of increase in average regulated retail electricity prices on 1 July 2012, by Standard Retailer (including inflation,%)**

	EnergyAustralia	Integral Energy	Country Energy	NSW average
Network costs	10.8	1.9	10.3	8.4
Carbon price costs	9.4	9.4	7.9	8.9
Wholesale energy costs	-1.1	-0.9	-0.3	-0.8
Other green scheme costs	0.1	0.5	0.6	0.3
Retail costs and margin	1.4	0.9	1.3	1.2
<b>Total cumulative increases on 1 July 2012</b>	<b>20.6</b>	<b>11.8</b>	<b>19.7</b>	<b>18.1</b>

**Note:** Other green schemes include all of the Commonwealth and NSW Government schemes designed to reduce greenhouse emissions except for the Commonwealth Government's carbon pricing mechanism. While the \$/MWh cost of carbon is similar between the standard retailers, the proportionate increase is smaller for Country Energy because their total retail prices are larger.

## Recommendations to mitigate future electricity price increases

In recent years, electricity retailers' costs have increased significantly and are expected to continue to rise in coming years. This is being driven primarily by the continuing rise in electricity network charges and the costs associated with green schemes. These costs must be passed on to consumers in the form of increased electricity prices, if the retailers are to remain financially viable.



IPART recognises that the percentage rise in average electricity bills is likely to outstrip the percentage rise in average household income and therefore many households will spend an increasing proportion of their income on electricity bills, particularly those in low income, high consumption households.

IPART strongly supports measures that will help to limit electricity prices increases while maintaining the viability of the electricity retail industry.

For that reason, we have made a number of recommendations for consideration by both the NSW Government and the Commonwealth Government with the aim of improving the effectiveness of the rules and laws which govern the industry, and ensuring reliability standards, carbon reduction schemes and subsidies become more effective, efficient and well-targeted. Ultimately, our recommendations are designed to ensure that electricity prices increase by no more than necessary.

IPART's recommendations are detailed in our final report on changes in electricity prices from 1 July 2012 which is released today, as well as our recent submission to the Commonwealth Government's current review of Australia's future energy needs.<sup>7</sup>

We also encourage NSW energy consumers to compare offers from retailers and ensure they have the most appropriate, and cost effective service for their needs.

IPART operates a free electricity and gas on-line price comparison service, [www.myenergyoffers.nsw.gov.au](http://www.myenergyoffers.nsw.gov.au), that lets consumers compare offers from energy retailers in NSW. A complementary phone service is maintained by the Department of Trade and Investment, Regional Infrastructure and Services and is available on 1300 136 888.

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<sup>7</sup> IPART, *Strengthening the Foundation for Australia's Energy Future - IPART's submission to the Draft Energy White Paper 2011*, March 2012.  
[http://www.ipart.nsw.gov.au/Home/Quicklinks/IPART\\_Submissions\\_to\\_External\\_Reviews/IPART\\_Submissions/IPART\\_Submission\\_on\\_Draft\\_Energy\\_White\\_Paper\\_-\\_March\\_2012](http://www.ipart.nsw.gov.au/Home/Quicklinks/IPART_Submissions_to_External_Reviews/IPART_Submissions/IPART_Submission_on_Draft_Energy_White_Paper_-_March_2012)