Queensland Competition Authority

FACT SHEET

Transitional arrangements for electricity prices from 1 July 2014 – updated 24 July 2014

Since 2012–13, the QCA has been required to set regulated electricity prices that reflect the cost of providing the service ('cost reflective' prices).

Some business customers benefit from transitional tariffs with prices that are lower, sometimes much lower, than the cost-reflective tariffs paid by other businesses. For example, in 2013–14 an irrigator on transitional tariff 62 paid an off-peak rate of 12.669 c/kWh (GST exclusive) while other businesses with similar consumption paid the cost-reflective off-peak rate for tariff 22 of 18.668 c/kWh. In 2013-14, there were almost 10,000 businesses paying less than half the actual cost of their electricity supply.

The cost to the Queensland Government of providing subsidised transitional prices was roughly $110 million in 2012–13. The subsidy was even higher in 2013–14. While cost-reflective prices for most customers increased by more than 15% in 2013–14, increases to transitional tariffs were capped by the Government at 10%.

In many cases, moving customers on transitional tariffs to a cost-reflective tariff immediately would cause large bill increases. To reduce the impact of these changes, we have decided to gradually transition tariffs towards cost-reflective levels over a number of years.

How will bills change for customers on transitional tariffs?

The QCA proposed to increase transitional prices for 2013–14 by the same amount, in percentage terms, as cost-reflective prices, plus additional increases to ensure the price differences between transitional and cost-reflective prices did not widen in dollar terms.

For 2014–15, we used the same approach to set carbon-inclusive transitional prices, which resulted in price increases of between 15% and 18%.

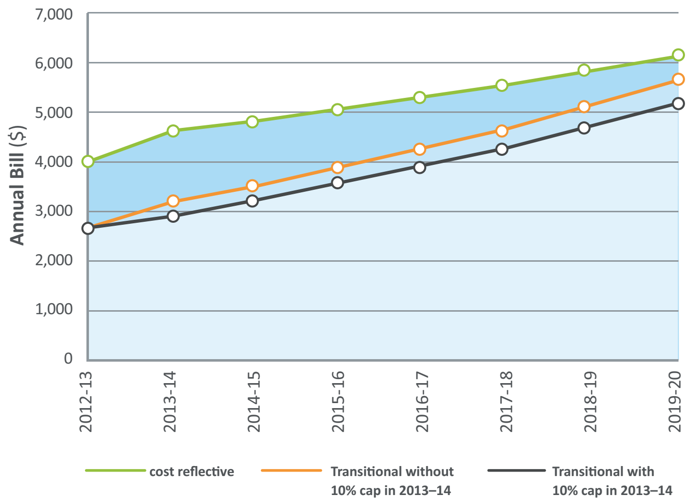
We also produced a set of carbon-exclusive transitional prices that could be applied if the carbon tax was repealed. Given that the increases in carbon-exclusive cost-reflective prices are small, our method for setting transitional prices would do little to limit the subsidy provided to customers on transitional tariffs. Therefore, we set a floor for transitional price increases of 10% if the carbon tax was repealed.

On 17 July 2014, the Commonwealth Government repealed the carbon tax with effect from 1 July 2014. The Queensland Minister for Energy and Water Supply then implemented the carbon-exclusive prices we published in our final determination. These prices will be backdated so that they apply from 1 July 2014.

Even with a 10% floor, many customers on transitional tariffs are likely to be receiving a considerable subsidy by the end of the transition period in 2020.

The QCA's 2014–15 prices do not reverse the effect of the 10% cap imposed in 2013–14. Customers will enjoy a permanent benefit to the end of the transition period due to the 2013–14 cap, as shown in the hypothetical example below.

Hypothetical example of the impact of a 10% floor on transitional price increases on the gap to cost-reflective prices



Based on transitional tariffs aligned to cost-reflective tariffs 20 and 22, which include all irrigation and farming tariffs. Based on carbon-exclusive price increases for 2014–15 and assumed annual growth in cost-reflective prices of 5% thereafter.