Queensland Competition Authority

FACT SHEET

Draft Decision: Transitional arrangements for electricity prices from 1 July 2014

Since 2012–13, the Queensland Competition Authority (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 which offer prices lower, sometimes much lower, than the cost-reflective tariffs paid by other businesses. For example, an irrigator on transitional tariff 62 pays an off-peak rate of 12.669 c/kWh while other businesses with similar consumption pay the cost-reflective off-peak rate for tariff 22 of 18.668 c/kWh. There are almost 10,000 businesses paying prices that are 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 is likely to be 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 close the gap between cost-reflective and most transitional tariffs over seven 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 gap between transitional and cost-reflective prices did not widen in dollar terms.

For 2014–15, we propose to use the same approach to set carbon-inclusive transitional prices. This approach would mean price increases between 13.2% and 19.5%, as shown above.

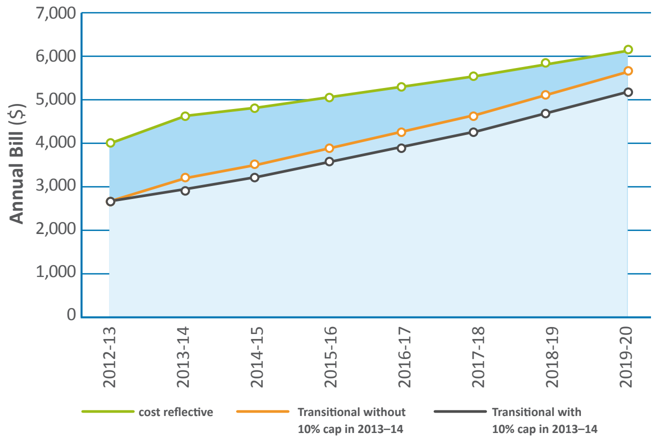
As discussed in a separate fact sheet, if the carbon tax is removed in 2014–15, increases in cost-reflective prices would be small. As a result, our method for setting transitional prices would do little to limit the subsidy provided to customers on transitional tariffs. In these circumstances, we propose to set a floor for transitional price increases of 10%, as shown in the figure above.

Proposed bill increases for customers on transitional tariffs from 1 July 2014

Even with a 10% floor, most customers on transitional tariffs will still be receiving a subsidy at the end of the transition period in 2020, as shown in the figure below.

The QCA's proposed prices for 2014–15 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.

Hypothetical example, if the carbon tax is removed, 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.

Next steps

We are yet to finalise prices to apply from 1 July 2014. We have asked for views on the draft prices from customers, customer groups, the electricity companies and any other interested parties. These will be taken into account when preparing our Final Determination which will be released by the end of May 2014.