

How do energy costs affect electricity prices?

We use a ‘network costs plus retail costs’ methodology to determine regulated electricity prices in regional Queensland. Energy costs are a component of the overall retail cost.

What components make up energy costs?

Retailers incur wholesale energy costs when they purchase electricity to meet customers’ electricity needs. Wholesale energy and renewable energy target (RET) costs make up the bulk of energy costs.

How have energy costs changed? For 2019–20, we expect total energy costs to drop by around 11–16% (for most small and large customer tariffs). This reflects a reduction in wholesale energy costs and costs related to the RET. See chart below showing energy cost changes over time.

What are wholesale energy costs and why have they changed? Retailers incur wholesale energy costs when they purchase electricity from the National Electricity Market (NEM). Compared to the last year, wholesale energy costs are expected to drop for most retail tariffs by \$6–\$13/MWh. This is due to lower price volatility in the NEM resulting from the entry of around 5,200MW of renewable investment, and potential changes in the operation of the Wivenhoe pumped storage facility (with the establishment of CleanCo by the Queensland Government). For customers on tariff

31, wholesale energy costs have increased. This is because around 65% of the tariff 31 usage occurs between 10 pm and 2 am. The entry of wind and solar generation does not affect wholesale prices during these periods. Wholesale energy costs for tariff 31 are estimated to increase by \$3.65/MWh.

What are the RET costs? The RET scheme provides incentives to encourage more renewable energy generation and reduce greenhouse gas emissions. The RET scheme consists of the large-scale renewable energy target (LRET) and small-scale renewable energy scheme (SRES).

The costs of these incentives are paid by retailers who purchase Large-scale Generation Certificates (LGCs) and Small-scale Technology Certificates (STCs). Retailers surrender the purchased LGCs and STCs to the Clean Energy Regulator to meet their obligations under the RET scheme.

How have RET costs changed? Overall RET costs are estimated to drop by \$2.92/MWh and LRET costs by \$4.34/MWh. This reflects a reduction in the LGC forward prices since they were estimated last year. SRES costs are estimated to increase by \$1.42/MWh, due to the strong uptake in small-scale energy systems.

Where can I find more information or make a submission? You can find out more and/or make a submission on our website: www.qca.org.au

Change in energy costs over time

