Queensland Competition Authority

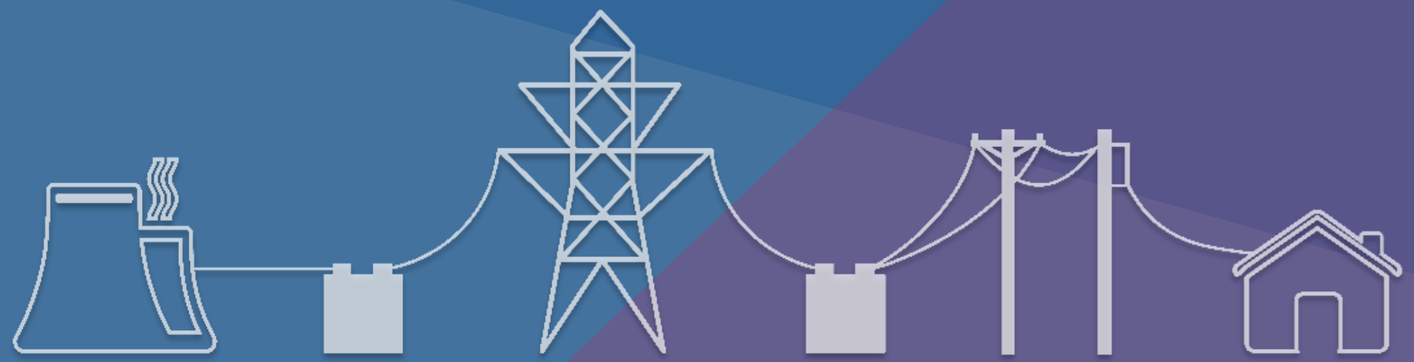
Information booklet

Regulated retail electricity prices for 2022–23

Applying to customers in regional Queensland

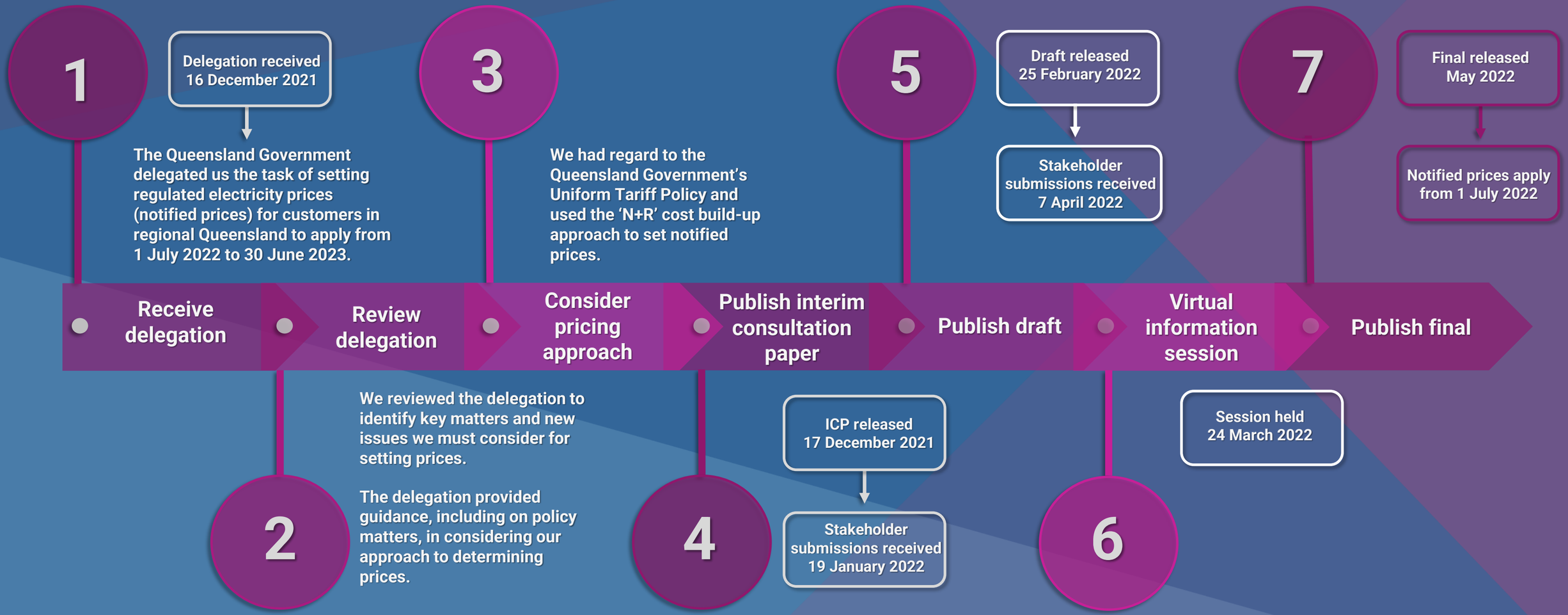
Final determination

May 2022



How do we set electricity prices?

Our process and timeline for this review are described below.



This booklet is not a substitute for, and should be **read in conjunction with, our final determination**.

What does the final determination mean for bills?

Bills for both small and large customers are set to increase.

Small customer flat rate tariffs

Tariff 11

9.2% higher

$1,409

up from

$1,290 last year

Tariff 20

10.2% higher

$2,334

up from

$2,119 last year

Small customer load control tariffs

Tariff 31

20.5% higher

$289

up from

$240 last year

Tariff 33

21.6% higher

$296

up from

$244 last year

Large customer demand tariffs

Tariff 44

15.7% higher

$44,458

up from

$38,413 last year

Tariff 45

21.2% higher

$176,918

up from

$146,023 last year

Tariff 46

20.7% higher

$386,103

up from

$320,002 last year

Bill values are calculated based on median usage data for each tariff and include GST.

Why are bills increasing?

The increase in small and large customer bills is mainly because of an increase in estimated energy costs, although estimated network costs have also increased for large customers.

Increases in energy costs

Retailers need to purchase electricity from the National Electricity Market. In recent months, there has been a substantial increase in the cost to purchase electricity.

Reasons for this increase include:

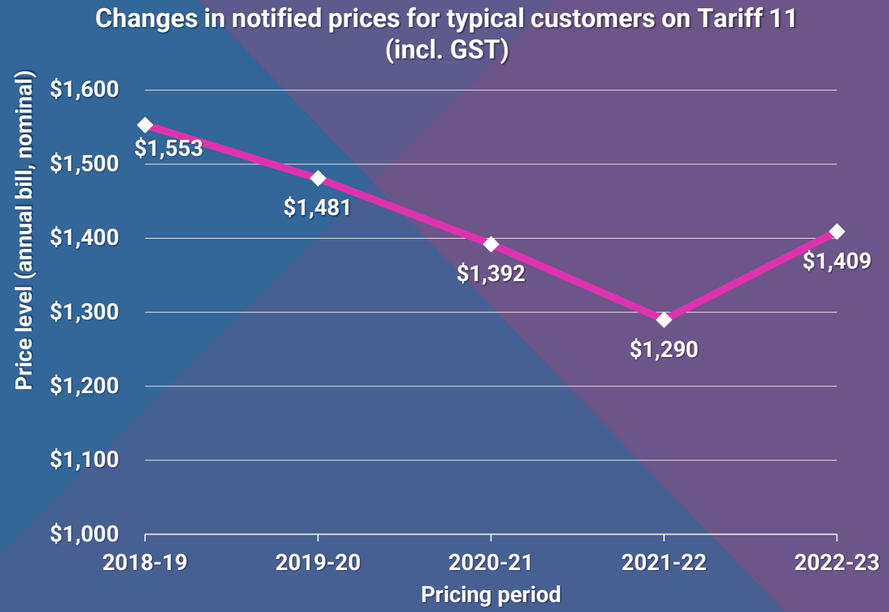
- Significant episodes of high demand, including due to the record temperatures in northern and central Queensland in early March.
- Reduced generation availability from coal-fired and gas-powered power plants due to an increase in unplanned outages.
- Higher coal and gas prices, with the war in Ukraine and sanctions against Russia contributing to the increase, adding uncertainty to markets already impacted by global supply constraints.

Increases in network costs

Network costs (the costs to transport electricity) have increased for large customer tariffs. This increase reflects the network prices approved by the Australian Energy Regulator.

Increases in the broader context

While notified prices are set to increase, the annual bill for a typical customer on tariff 11 remains around the same level as two years ago (2020–21), in nominal terms.



We expect electricity price increases to be felt beyond regional Queensland. Price caps for residential customers in south east Queensland are set to increase by 11.3 per cent compared to 2021–22.

We encourage customers facing payment difficulties to contact their retailer to find out what support is available. Retailers have obligations to help customers that are in financial hardship or face payment difficulties.

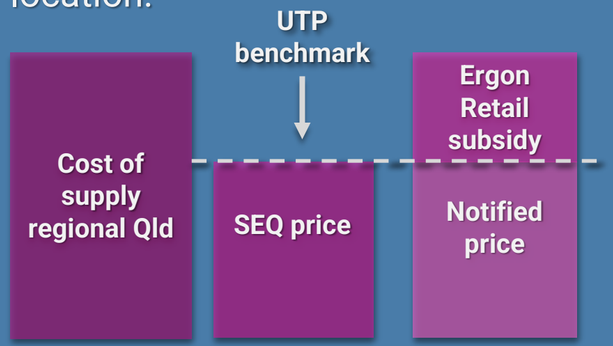
What is our pricing approach?

The Minister asked us to consider using a framework and pricing approach similar to past determinations.

Applying the government's

Uniform tariff policy

… which states that **wherever possible**, customers of the same class **should pay no more for their electricity**, and should pay via **similar common price structures**, regardless of their geographic location.



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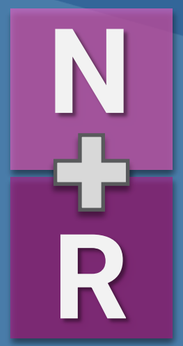
Continuing to use the

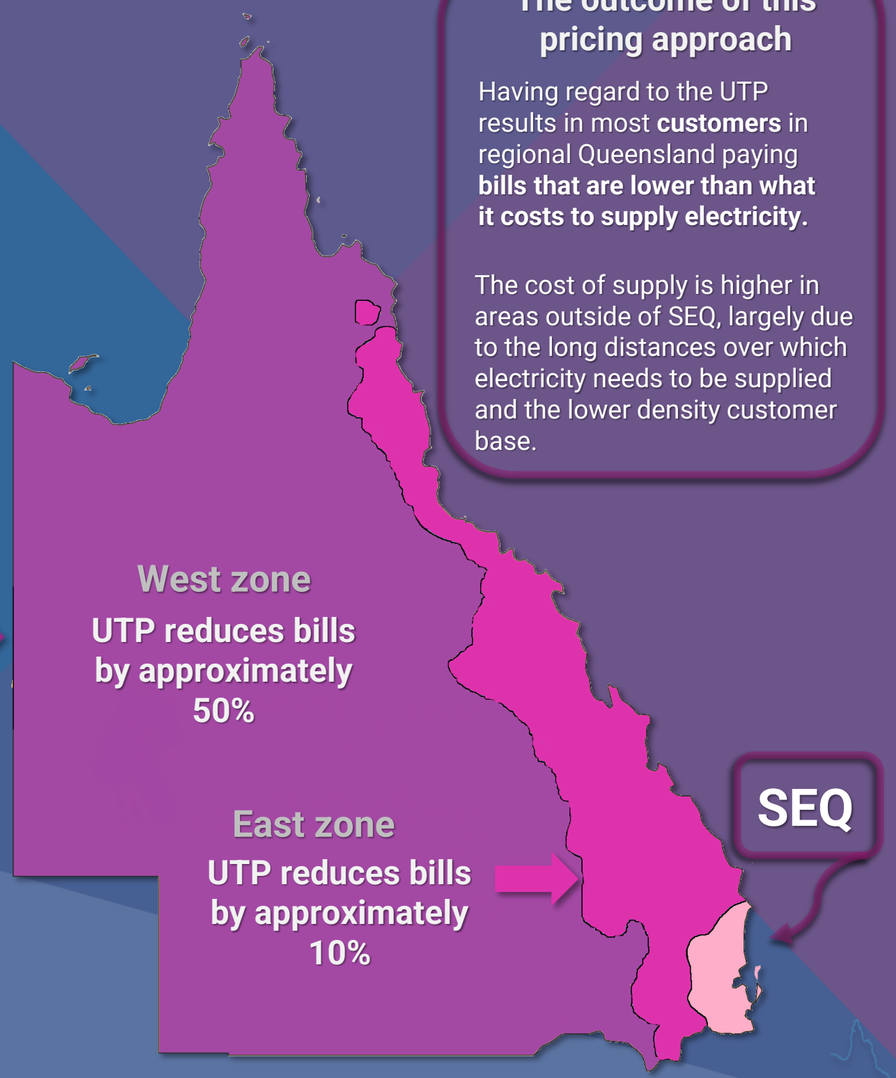
'N+R' framework

… which **individually calculates** network, energy, retail and 'other' costs to set prices for each tariff



Passing through AER-approved network prices

Energy and retail costs estimated by us



The outcome of this pricing approach

Having regard to the UTP results in most **customers** in regional Queensland paying **bills that are lower than what it costs to supply electricity.**

The cost of supply is higher in areas outside of SEQ, largely due to the long distances over which electricity needs to be supplied and the lower density customer base.

What makes up the electricity bill?

Electricity bills are made up of 4 primary cost components.

Network costs

38%

These include costs to transport electricity via the electricity network. They also include other costs such as the solar bonus scheme.

Energy costs

41%

These include costs to buy electricity from the wholesale market. They also include the costs to comply with ‘green schemes’.

Retail costs

18%

These include costs for customer services like call centres and administrative tasks (e.g. sending bills).

Other adjustments

3%

These adjustments include matters that we are required to consider under our legal framework (e.g. the standing offer adjustment).

Total customer bill

Percentage share has been rounded to the closest whole per cent. Percentages reflect the breakdown for small customer bills.

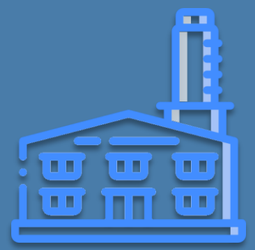
How did we determine notified prices this year?

Using the N+R methodology, we have set each cost component of prices based on the following inputs.

Small customers

Retail costs	Energy costs	Other adjustments	Network costs
We maintained 2021–22 variable retail cost allowances and adjusted 2021–22 fixed allowances for inflation.	We engaged ACIL Allen to assist us in estimating energy costs in the Energex distribution network, using a market-based approach.	• We applied a 3.7% standing offer adjustment. • We passed through savings associated with the over-recovery of SRES costs last year.*	We used the underlying Energex small customer network tariffs approved by the Australian Energy Regulator as the basis for building-up notified prices.

Large customers



Retail costs	Energy costs	Other adjustments	Network costs
We maintained 2016-17 variable retail cost allowances and adjusted 2021–22 fixed allowances for inflation.	We engaged ACIL Allen to assist us in estimating energy costs in the lowest cost Ergon distribution zone, using a market-based approach.	We passed through savings associated with the over-recovery of SRES costs last year.*	We used the underlying Ergon large customer network tariffs approved by the Australian Energy Regulator as the basis for building-up notified prices.

*SRES is the small-scale renewable energy scheme

A new issue for 2022–23

Tariff rationalisation

For this review, the Minister asked us to rationalise the tariff schedule. This involves reviewing the current suite of regulated retail tariffs and identifying any that could be removed.

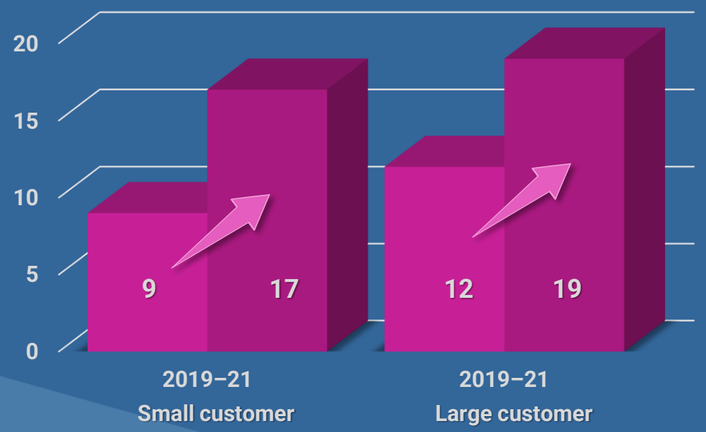
How do network tariffs impact retail tariffs?

Australian Energy Regulator-approved network tariffs are generally used as the basis for the regulated retail tariffs we determine.

Between 2019 and 2021, a number of new network tariffs were introduced. We used these as the basis for new retail tariffs, while also maintaining the existing retail tariffs.

This has resulted in a substantial increase in the number of retail tariffs available to customers.

Change in the number of regulated retail tariffs (2019–2021)



What is the problem with the current number of tariffs?

Confusing

Choosing from a large number of tariffs can be confusing, particularly where there are multiple tariffs of the same type.

Legacy tariffs

A number of existing retail tariffs no longer have an underlying network tariff. They also have peak pricing periods that are not consistent with newer tariffs.

Low uptake

Some of the retail tariffs have few customers on them.

What are we doing about it?

We are removing 7 tariffs from the tariff schedule.

Residential	Tariff 12A (seasonal TOU) Make obsolete	Tariff 14 (seasonal TOU monthly demand) Make obsolete		
Small Business	Tariff 20A (Inclining band) Extinguish 1 July 2022	Tariff 22A (Seasonal TOU) Make obsolete	Tariff 24 (Seasonal TOU monthly demand) Make obsolete	Tariff 41 (Monthly demand) Make obsolete
Large customer	Tariff 50 (Seasonal TOU monthly demand) Make obsolete			

TOU refers to a time of use tariff.

- We have set a 12-month phase-out period for small customer tariffs and removed tariff 20A from 1 July 2022.
- The tariff 50 phase-out date will be aligned with the network tariff phase-out date.
- Customers on obsolete tariffs can continue to access their tariff until it is phased out.

This decision is based on considering issues such as:

- Compliance with the UTP
- The existence of an underlying network tariff
- Maintaining access to varied tariff options

We encourage customers on obsolete tariffs to contact their retailer to discuss which standard tariff option would best suit their needs.

The final determination and other relevant material can be accessed via the QCA website.