Queensland Competition Authority

FACT SHEET - 2017-18 energy costs — June final determination

Why is the QCA setting prices?

The Minister for Energy, Biofuels and Water Supply, the Hon Mark Bailey MP, has delegated the task of setting regulated prices to the QCA.

Why has the QCA released a second determination for regulated electricity prices for 2017–18?

Following the release of the previous final determination on 31 May 3017, the Queensland Government directed Energy Queensland to remove charges for the Solar Bonus Scheme from network prices. The Minister then issued the QCA with a new delegation, so that the QCA could incorporate the revised network tariffs into regulated prices for 2017–18. The regulated prices published on 16 June 2017 replace those published on 31 May 2017.

How do energy costs affect electricity prices?

The QCA uses a network plus retail cost methodology to determine regulated electricity prices in regional Queensland. Energy costs are one of the components that contribute towards the retail cost.

How have energy costs changed since 2016–17?

In 2017–18 total energy costs have increased between 35 per cent and 37 per cent for all retail tariffs. These increases have largely been driven by wholesale energy costs, which are responsible for 70 to 92 per cent of the increases in total energy costs.

What are wholesale energy costs and why have they changed?

Wholesale energy costs are the costs that electricity retailers incur when purchasing electricity for their customers from the National Electricity Market (NEM).

The QCA's consultant, ACIL Allen has advised that wholesale energy costs are expected to increase in 2017-18. The increase is due to the projected continuation of the increase in gas prices for gas-fired generation and the continued tightening of the supply–demand balance in the NEM due to:

- increased demand from in-field gas compression associated with the liquefied natural gas (LNG) export facilities in Queensland
- the closure of Hazelwood Power Station in 2017 and the continued operation of the Portland aluminium smelter in Victoria
- little new renewable energy capacity entering the market in 2017–18 — particularly in Queensland.

What is an electricity contract and why are they used ?

An electricity contract generally ensures its holder a price or maximum price at which wholesale electricity will be exchanged in the future.

As the electricity spot market can be very volatile, most retailers purchase various electricity contracts to limit the risk of having to purchase electricity at high wholesale spot prices. Therefore, they form an important input to the overall wholesale energy cost estimation.

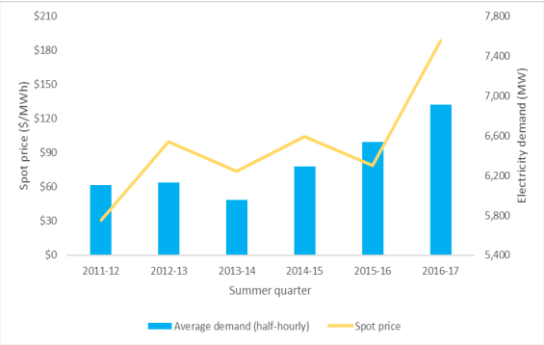
Electricity contracts are typically bought ahead of their commencement date, which means their prices are based on the expected future price of wholesale electricity.

What has caused electricity contract prices to increase in 2017–18?

Contract prices are likely to have increased due to a change in market participants' expectations about spot prices and electricity demand for 2017–18. In addition to the continued tightening of the supply–demand balance in the NEM, summer weather conditions during 2016–17 may have also caused market participants to revise their expectations.

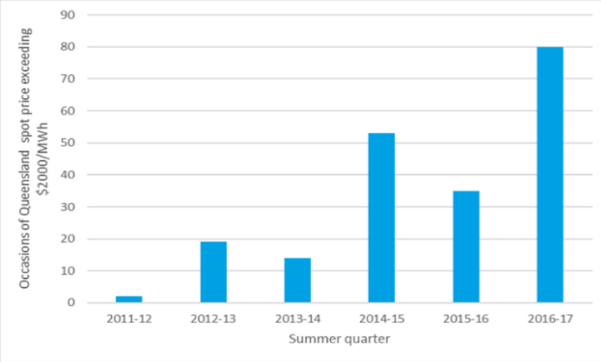
Hot weather in summer is generally related to higher electricity demand and higher prices. Summer in 2016–17 saw a record number of consecutive days over 30 degrees Celsius. This is likely to have contributed to a higher level of electricity demand and higher spot prices relative to those in past years, as observed in Figure 1.

Figure 1 Queensland average demand weighted electricity spot price and electricity demand during summer: 2011–12 to 2016–17



Spot price outcomes were also far more volatile, with a far greater number of significant high price events in the summer of 2016¬17 as can be seen in Figure 2.

Figure 2 Frequency of significant high Queensland spot price events during summer: 2011¬12 to 2016–17



Market participants take into account the current level of demand and prices when considering future prices. The recent higher and more volatile spot prices, coupled with robust demand for electricity during the 2016–17 summer period, are therefore likely to have contributed to higher contract prices, particularly in the first quarter of 2018.