

# Australian Energy Regulator determination into 2010–15 electricity distribution prices

## Australian Energy Regulator (AER) determinations into Ergon Energy and ENERGEX network price setting

The Australian Energy Regulator (AER) on Monday 30 November, 2009 handed down its Draft regulatory determinations for Ergon Energy Corporation Limited (Ergon Energy) and ENERGEX Limited (ENERGEX) for the five-year regulatory control period commencing 1 July 2010. A copy of the draft determination is available at <http://www.aer.gov.au/content/index.phtml/itemId/651437>

## Why has the AER reviewed network pricing?

The AER, as part of part of the Australian Competition and Consumer Commission, is an independent agency responsible for regulating the prices Ergon Energy and ENERGEX charge retailers for using their distribution networks to transport electricity to customers.

On 1 July 2009, Ergon Energy and ENERGEX submitted proposals to the AER outlining the capital investment and operational expenditure they proposed to undertake over the next five years to meet increased demand and ensure the continued security and reliability of the electricity supply network in Queensland.

The AER considered these proposals and released its draft determination of the maximum allowable revenue the entities can earn based on prudent and efficient capital and operational expenditure.

## How is the price consumers pay for electricity determined?

The Benchmark Retail Cost Index (BRCI) is the mechanism used by the Queensland Competition Authority (QCA) to calculate the regulated retail or notified electricity prices. In general terms, the BRCI for a particular year is calculated by dividing the cost of supplying electricity for the State by the State load.

The notified prices for a year are determined by escalating the prices applying in the previous year by the change in the BRCI from year to year.



## What are the costs of electricity supply?

The costs of electricity supply to consumers is made up of four components:

- Costs to create electricity (energy costs);
- Costs to build and maintain the high voltage powerline infrastructure (transmission costs);
- Costs to build and maintain the network of poles and wires that delivers electricity to consumers (distribution costs); and
- Costs to connect, bill and manage consumer accounts (retail costs).

For 2009-10, almost half of the cost for electricity (47 per cent) was made up of network costs (transmission and distribution). Network costs continue to be the biggest component of electricity tariffs.

## Is further electricity investment in Queensland needed?

With Queensland's electricity peak demand expected to continue to grow and customer numbers also increasing, continued investment in Queensland's electricity network is needed over the next five year period.

ENERGEX and Ergon have indicated that previous investment of \$6.65 billion between 2005 and 2010 has not been enough to meet the continuing growth in consumer and industrial demand for electricity across the State.

The AER has accepted that between 2010-15, ENERGEX and Ergon need to invest almost \$10.7 billion in new and replacement electricity network infrastructure. Additionally, almost \$3.1 billion will be spent on operational expenditure to maintain existing networks and manage vegetation around powerlines. This investment is essential to maintain the safe and reliable supply of electricity to Queensland consumers.

### **How will the AER's findings affect electricity prices in Queensland?**

While the QCA is responsible for setting the regulated retail electricity prices, the AER will determine the level of revenue which ENERGEX and Ergon can collect through their network charges.

Network charges are one component of the costs of electricity supply. Energy and retail costs will also need to be considered before a final cost increase for electricity prices for 2010-2011 can be determined.

Queensland's regulated retail electricity prices are expected to continue to rise due to the increases in network expenditure forecast by ENERGEX and Ergon. However, Queensland electricity prices remain among some of the lowest in the country.

### **Why are electricity prices being affected?**

ENERGEX and Ergon have proposed extensive network expenditure over the next five years, in order to address increasing peak demand.

Significant expenditure is required to maintain existing networks and replace aging assets, manage vegetation around powerlines, and meet the challenges and impacts of the annual summer storm season.

Both businesses have indicated this expenditure is necessary to maintain network security and reliability of supply for their customers. The level of network investment will continue to grow as peak demand continues to grow.

### **How much and when are electricity prices expected to increase?**

It is too early to say exactly how much network pricing changes determined by the AER will affect electricity prices however it is estimated the increase due to increased network costs will be approximately 6.7 per cent.

A Final Decision on the level of network charges that will be passed on to consumers will not be known until 30 April 2010 when the AER makes its Final Decision on ENERGEX and Ergon's allowable revenues.

The AER decision will be considered by the QCA when calculating the regulated retail electricity prices for 2010-2011. It will also consider any increases to transmission, energy and retailing costs when determining the retail prices for 2010-2011.

The QCA is expected to release a Final Decision on electricity prices by 31 May 2010, with these prices coming into effect from 1 July 2010.

### **Can Queenslanders comment on the AER's findings?**

Yes, Queenslanders can provide feedback to the AER about its decision.

The AER will hold a public forum in Brisbane regarding its draft determinations on 8 December 2009. For details, visit the AER website, <http://www.aer.gov.au/content/index.phtml?itemId=732092>

Submissions on the revised proposals can also be made to the AER up until 16 February 2010.

### **How can I save energy and money?**

Sometimes just small changes can make all the difference.

The Queensland Government's ClimateSmart Home Service helps everyone do their bit to save energy, money and the environment. The service costs just \$50 and will help you reduce your home's energy use and carbon footprint. It can also help you save up to \$325 on your water and energy bills a year. For more information visit [www.climatesmarthome.com](http://www.climatesmarthome.com)

Some simple no cost and low cost EnergyWise tips are available on the Queensland Mines and Energy website. These outline some steps you can take right now to cut your energy use and your energy bill. Visit [www.dme.qld.gov.au](http://www.dme.qld.gov.au)