

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

Resources, Energy and Tourism Portfolio

Budget Senate Estimates

1 June 2010

**Question:** BR2

**Topic:** Drivers of Energy Price increases

**Proof Hansard Page:** E28-E29

**Senator Pratt asked:**

Mr Morling—As a rule of thumb, wholesale energy costs are about 40 per cent of a final retail bill, network costs are about 50 per cent of a retail bill and retail operating costs and margins are around 10 per cent of a retail bill. Yes, prices have been rising and to a large degree these prices have been driven by investment in network infrastructure to meet both reliability issues and increasing demand. If you like I can give you a brief overview of recent price increases in the jurisdictions, noting that the jurisdictions have their own processes for setting these prices and these are retail capped prices. It is always up to consumers to undertake a market contract if they so wish—except in Victoria, which has deregulated prices.

Senator PRATT—I think that would be useful, but what I am interested in is how most states have had considerable increases in energy prices. I think that is widely on the record. Is the real driver behind that because the networks are regulated? Does that mean that, historically, the regulation has meant that there has been an underinvestment that now needs to be passed on to consumers?

Mr Morling—It could be that. There are a number of reasons behind setting reliability standards, and that is an issue for each jurisdiction. It also can be because of increased demand, population growth and other issues, but it is certainly true to say that network charges have basically been the driver behind the majority of price increases.

Senator PRATT—So it is a question of both demand and ageing infrastructure as key drivers on current electricity prices.

Mr Morling—Yes. It is not always ageing infrastructure. It can be, but in particular areas or regions particular jurisdictions might decide to have higher reliability standards than they had previously, and that requires an increase in network expenditure.

Senator PRATT—Thank you. If you would like to comment on recent price increases in various states, I would be pleased for you to do so, but as I understand it this is a question for the Commonwealth by virtue of trying to hold the states to account through assisting in the development of a National Energy Customer Framework. How will such a framework go about improving protections for vulnerable customers?

Mr Morling—Sure. There are a couple of concepts mixed in. Perhaps I will put some of the price increases that we are aware of on notice and turn to the vulnerable customer issue.

Senator PRATT—Thank you.

**Answer:**

The setting of retail electricity tariffs is the responsibility of state and territory governments. All jurisdictions (except Victoria) set retail electricity price caps (through independent regulation) for residential and small business customers on standing offer contracts. Recently announced price rises in jurisdictions include:

- On 8 March 2010, the Western Australian Government announced increases in the State's retail electricity tariffs for householders of 7.5 per cent from 1 April 2010 and a further 10 per cent from 1 July 2010.
- The New South Wales Independent Pricing and Regulatory Tribunal issued its final retail electricity price determination on 18 March 2010, stipulating price rises of: between 7 and 13 per cent in the year commencing 1 July 2010; and, cumulative price rises of between 20 and 42 per cent over the three years to June 2013.
- On 28 May 2010, the Queensland Competition Authority released its final Benchmark Retail Cost Index (BRCI) for the period 1 July 2010 to 30 June 2011. The BRCI calculates the cost of supplying electricity to retail customers and will increase by 13.29 per cent from 1 July 2010.
- The Australian Capital Territory's Independent Competition and Regulatory Commission released its final retail electricity price determination on 11 June 2010 - highlighting increases in regulated tariffs of 2.35 per cent to apply from 1 July 2010.

The main driver of these electricity price rises is the significant investment required for new and to replace ageing distribution network infrastructure. This investment is necessary to ensure that electricity can be supplied in a manner which meets community expectations as to reliability and security. Wholesale electricity costs have also been increasing, largely due to tighter supply-demand conditions.

Historical trends in electricity prices over the past two decades are highlighted in the Australian Energy Regulator's *State of the Energy Market 2009* report. It shows that since 1991 real household prices have risen by 14.3 per cent, while business prices have fallen by 16.5 per cent. In part, these changes reflect the unwinding of cross subsidies from business to household customers that began in the 1990s. While business prices have fallen substantially since 1991, they have risen since 2007, mainly as a result of rising wholesale electricity costs. Household electricity prices have also risen sharply since 2007 (by around 35 percent) due to the rising wholesale and network costs described above.