

ACT Government submission to the Senate Select Committee on Electricity Prices

The ACT Government is pleased to make the following submission to the Senate Select Committee on Electricity Prices. As the submission shows, the ACT is uniquely placed with respect to electricity prices and has taken measures to lessen their impact on Territory energy consumers.

Overview of ACT electricity sector

The ACT has a relatively small electricity demand which, in 2010-11, equalled 2,884 GWh, or about 1.2% of national demand. In 2010-11, residential demand accounted for 41% of total demand in the Territory while non-residential demand accounted for 59%. Since the 2003 introduction of retail competition for small electricity consumers in the ACT, Territory households have been offered a non-negotiated electricity tariff determined by the ACT Independent Competition and Regulatory Commission (ICRC). In the five years between 2007-08 and 2012-13, this ACT regulated household electricity price increased by 40%. This increase is low compared to many other jurisdictions, regulated electricity prices for the New South Wales non-metropolitan market serviced by Country Energy, for instance, increased by 103% over the same period¹

Between 2007-08 and 2012-13, the main contributors to the increase in the regulated ACT electricity price have been: network costs (accounting for 55% of the increase), Commonwealth renewable energy scheme costs (18%), retail margin cost increases (11%), and energy purchase costs, including carbon costs (10%)². Over the next three years the major drivers of electricity price increases in the ACT are expected to be: electricity energy purchase costs (excluding carbon costs), network costs, and carbon costs.

Unlike the retail electricity markets in other mainland eastern capital cities, there is a high degree of market dominance by one retailer in the ACT. ActewAGL has a market share in the Territory of greater than 90%³. Like parts of New South Wales, maximum electricity demand can occur in the ACT in either winter or summer. In 2011, maximum demand occurred on 8 June at 6pm, minimum demand that year was on Christmas day at 5am⁴. Although about 20% of electricity meters in the ACT are time-of-use interval meters, few, at present, have smart meter capability. Under the ACT *Sustainable Energy Policy*, the Territory Government has said it will base a decision on whether to mandate a rollout of smart-meters on their cost-effectiveness. To date, smart meters have not demonstrated such cost-effectiveness.

¹ *Regulated residential electricity prices in NSW – indices and typical bills*, Independent Pricing and Regulatory Tribunal of NSW, 2012.

² *Final Decision and Price Direction, Retail Prices for Non-contestable Electricity Customers June 2007 and Final Report Retail Prices for Franchise Electricity Customers 2012-14*, Independent Competition and Regulatory Commission, 2007 and 2012.

³ *Stage 1 Final Report: Review of the Effectiveness of Competition in the Electricity Retail Market of the ACT*, Australian Energy Market Commission, 2011, p. 5.

⁴ Based on advice supplied by TransGrid.

ACT electricity price and consumption levels compared to other jurisdictions

The ACT enjoys the lowest household electricity price in Australia. According to the report, *Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014*, published by the Australian Energy Market Commission (AEMC) in December 2011, the 2012-13 ACT household electricity price of 20.66c/kWh is 71% of the national average household price of 29.18c/kWh and is the lowest of any jurisdiction.

A key driver of the ACT's low cost of household electricity is its network distribution cost. Network distribution costs make up 30% of the current Territory household electricity cost⁵. According to the AEMC report, the ACT's 2012-13 household electricity distribution costs are 61% of the average national distribution cost and are the lowest of any jurisdiction. The low distribution cost is largely a product of the ACT having a relatively new distribution network built to a high standard which services a higher density of customers per kilometre of network compared to many other jurisdictions.

Although Canberra enjoys low household electricity costs, it also has relatively high levels of household electricity consumption compared to other mainland eastern capital cities. In 2011-12, Canberra's average household electricity demand was 8,000 kWh/yr compared to 6,800 kWh/yr in Sydney, 5,500 kWh/yr in Melbourne, and 5,400 kWh/yr in Brisbane. In 2011-12, Canberra households had a total average yearly electricity cost that was comparable to Melbourne's, higher than Brisbane's, but lower than Sydney's.

The ACT Government is approaching the issue of the management of Territory electricity bills in five key ways:

1. providing energy concession payments to low-income households;
2. improving energy use efficiency;
3. regulating household electricity prices;
4. implementing the National Energy Customer Framework; and
5. innovative policies to promote renewable energy generation.

1. Providing energy concession payments to low-income households

The ACT Government provides two energy concession programs for low income households. The *Energy Concession* program currently offers a maximum annual rebate on household electricity and gas bills of \$266.20/yr (which increases in line with the Consumer Price Index). In addition, the ACT Government offers a *Utility Concession* of \$80.00/yr designed to offset increases in utility costs, including water costs. The combined Energy/Utility Concession in 2011-12 therefore is \$346.20/yr. The holders of Centrelink Pensioner Concession Cards, Centrelink Low Income Health Care Cards, and

⁵ *Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014*, Australian Energy Market Commission, 2011, p. 36.

Veteran's Affairs Pensioner Concession Cards are all eligible for the Energy and Utility Concessions. The ACT Government will continue to monitor the efficacy of its energy concessions and will consider future adjustments as energy prices change in the future.

2. Improving energy use efficiency

There are two ways in which the ACT Government is assisting its households to improve the efficiency of their energy usage. The first is through a new Territory energy efficiency scheme. In May 2012, the ACT Legislative Assembly passed the *Energy Efficiency (Cost of Living) Improvement Act*. The Energy Efficiency Scheme that the Act enshrines will commence on 1 January 2013 and will require electricity retailers to undertake household energy savings activities. Business energy savings may also be included in the Scheme depending on the outcome of a Regulatory Impact Statement assessment. It will be a non-certificate based supplier obligation scheme based on South Australia's Residential Energy Efficiency Scheme and will run at least until 31 December 2015. Over the lifetime of the Scheme's measures, the net per household financial saving will be about \$2,140. The ACT will consider joining a national energy efficiency scheme if implemented. A national scheme was mooted in the 2011 Clean Energy Future package and is currently the subject of cost-benefit analysis by the Commonwealth which will feed into a Regulatory Impact Statement to be completed by the end of 2012. The ACT Government has also committed to phasing out inefficient and greenhouse gas intensive hot water systems through the National Partnership Agreement on Energy Efficiency.

A second way in which the ACT is helping households to improve their energy use efficiency is through its Outreach program. The program provides low income households with energy and water-efficient appliances, home energy use assessments, education and retrofits to improve the energy and water efficiency of their homes. The ACT Government also has a Home Energy Advice Team program under which homeowners (of any means), that spend at least \$2,000 on energy efficiency improvements, can receive a \$500 rebate.

3. Regulating household electricity prices

In 2010 and 2011 the Australian Energy Market Commission (AEMC) reviewed retail electricity price competition in the ACT. It found that robust competition did not exist in the Territory and recommended that it deregulate its household electricity prices. In September 2011, the ACT Minister for the Environment and Sustainable Development, Simon Corbell, wrote to the AEMC saying that the ACT did not accept its recommendation. The AEMC report said that a state of ineffective competition existed in the ACT retail electricity market but recommended that competition be increased by allowing retailers to offer higher tariffs thereby making the market more attractive to new entrants. Such an action could have resulted in a significant cost to ACT electricity household consumers without any guarantee of enhanced retail competition.

There are several major components that make up the cost of household electricity. The price at which electricity retailers purchase their energy from generators is a significant one accounting for 36% of the ACT household electricity price determined by the ICRC for 2012-13. The ICRC values this cost component through forward market price projections of the generation cost of New South Wales electricity but the regulators of electricity prices in some other jurisdictions use a different methodology. The New South Wales Independent Pricing and Regulatory Tribunal, for instance, uses the higher of the long-run marginal cost of electricity generation and the forecast market price to determine the cost. The difference in methodologies can expose regulated ACT prices to more volatility in the energy purchase cost component of the regulated household electricity price than is the case in New South Wales, this yields a benefit to Territory consumers when market prices are declining but also results in a negative impact when they are increasing.

4. Implementing the National Energy Customer Framework

The National Energy Customer Framework (NECF) is designed to facilitate increased competition in retail energy markets by no longer requiring energy retailers to comply with different jurisdictional energy licensing requirements. The NECF includes protections for electricity customers that have difficulty paying their electricity bills. These include requiring fair contracts, better billing information, and ensuring customers know what they are signing up to when they begin an electricity connection contract.

The NECF was planned to commence in jurisdictions that are part of the National Electricity Market on 1 July 2012. The ACT and Tasmania went ahead with it on its planned commencement date, and therefore enjoy the full benefit of its implementation, but New South Wales, Victoria, South Australia, and Queensland have delayed its introduction.

6. Innovative policies to promote renewable energy generation

Renewable energy support costs can add to the cost of household electricity. The ACT Government has initiated two major renewable energy support schemes. The first was a Feed-in Tariff offered to owners of micro and medium scaled renewable generating systems up to 200 kW in capacity. It was offered between March 2009 and July 2011. Its total capacity is capped at 35 MW which should result in an average maximum annual cost to Territory households of slightly less than \$50/yr.

The second major renewable energy support scheme initiated by the ACT Government is large-scale renewable energy Feed-in Tariff support extended through its *Electricity Feed-in (Large-scale Renewable Energy Generation) Act 2011*. Under the Act, the ACT Government is currently conducting a reverse auction for the Feed-in Tariff rights for up to 40 MW of large-scale solar generating capacity located in the Territory. The Act allows for Feed-in Tariff entitlements for up to 210 MW of renewable energy generating

capacity to be granted. The innovative reverse auction process ensures that competition between potential generators will result in the lowest practical Feed-in Tariff cost to ACT electricity consumers. Under the current auction, the rights to a Feed-in Tariff for 20 MW of large-scale solar generation has so far been granted, its cost equates to an estimated maximum per-household cost of \$13/yr which will decrease over time in line with forecast rises in electricity wholesale prices.