ACT Government

UNCLASSIFIED

MINISTERIAL BRIEF

**Environment, Planning and Sustainable Development Directorate**

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| **To:** | Minister for Water, Energy and Emissions Reduction | **Tracking No.:** 21/48518 |
| **Date:** | 2 June 2021 | |
| **From:** | Executive Group Manager, Climate Change and Energy | |
| **Subject:** | Announcement of regulated electricity price increase for 2021-22 | |
| **Critical Date:** | 4 June 2021 | |
| **Critical Reason:** | The Independent Competition and Regulatory Commission will release its retail electricity price decision on Monday 7 June at 2.00pm. | |

- DDG, Environment, Water and Emissions Reduction 04/06/21

**Recommendations**

That you:

1. **Note** the information contained in this brief; and

   **Noted / Please Discuss**

2. **Note** the suggested talking points at Attachment A.

   **Noted / ~~Please Discuss~~**

Shane Rattenbury MLA .................................................... 6/6/21

Minister's Office Feedback

**Background**

1. At 2.00pm on Monday 7 June 2021, the ACT Independent Competition and Regulatory Commission (ICRC) will announce the maximum average percentage increase that ActewAGL Retail can apply to its regulated electricity retail tariffs for 2021-22 in the ACT.

**Issues**

2. You received a briefing from ICRC Senior Commissioner, Personal information, on Thursday 3 June 2021 to discuss the announcement and the price increase. The ICRC's briefing note to the Treasurer is provided at Attachment B.
3. The maximum average price increase allowed by the ICRC for 2021-22 will be 12.0%. Should ActewAGL Retail decide to increase its regulated standard offer prices by the full 12%, the electricity cost for an average ACT residential customer consuming 6,500 kilowatt hours per year will increase by $3.74 per week. For an average non-residential (business) customer consuming 25,000 kilowatt hours, the increase will be $13.33 per week.
4. The main contributor to the increase is network costs, which includes transmission and distribution costs, as well as ACT Government scheme costs. ACT Government scheme costs have contributed 13.26 percentage points to the price increase, while transmission and distribution costs have contributed 2.65 percentage points.
5. ACT Government scheme costs have increased primarily because of higher costs associated with the Large-scale Feed-in Tariff (FiT) Scheme. The Large-scale FiT cost is the difference between the fixed contract price paid to renewable generators, and wholesale electricity prices. Due to a decrease in wholesale electricity prices, the contract-for-difference payments to contracted generators have increased.
6. As a result of the wholesale price decrease, however, energy purchase costs fell by 14% and put downward pressure on retail prices, which has partly offset the total cost increases (by minus 4.67%). Energy purchase costs have also fallen due to an increase in renewable energy capacity, and the continuation of lower gas prices.
7. The 2021-22 price increase is due to historically low wholesale electricity prices, arising from a range of factors. Wholesale prices have recovered somewhat since the Reasonable Cost Determination was made in February, however it is too early to make any predictions regarding the impact to future Reasonable Costs Determinations.
8. Transmission and distribution costs have increased due to under-recovery in 2020-21, largely due to the impact of the Covid-19 pandemic, as well as higher charges by the NSW transmission services provider, TransGrid.
9. Other cost components had a minimal effect on the maximum average price change.
10. Analysis conducted by the ICRC indicates that consumers may be able to save on their electricity bill by switching from a regulated standing offer to a market offer. Australian Energy Regulator (AER) data reported in April 2021 found that 30% of ACT customers are still on standing offers. The Environment, Planning and Sustainable Development Directorate (EPSDD) estimates that many ACT households could save hundreds of dollars per year by switching to a lower priced energy plan.
11. The ICRC has purposefully avoided citing specific dollar amounts that consumers could save via tariff switching, in recognition of retail market complexity and individual

consumer circumstances.

12. Figure 1 in Attachment B demonstrates that while there is a large range between the cheapest and most expensive tariff offers in the ACT, retail prices in the ACT remain comparable with other states.

13. The *Retail Electricity (transparency and comparability) Code* (the Code), will require retailers to compare the annual price of their electricity plans to a common benchmark, called a 'reference price'. The Code will support consumers to find a better offer and help them save money on their electricity costs.

14. However, due to concerns from retailers and the forthcoming AER decision on pricing information, this measure will be implemented initially with a more general approach advising consumers they can seek a better price from their retailer. The final approach will be decided in the first half of 2021-22.

**Financial Implications**

15. In 2020-21, electricity costs were $249.25 per megawatt hour (24.9c/kWh). In 2021-22, they will increase to $279.16 per megawatt hour (27.9c/kWh).

16. For an average ACT residential customer on a standing offer consuming 6,500 kilowatt hours (6.5 megawatt hours) per year, this means their annual bill will increase from around $1,620.13 to $ 1,814.54, an increase of $194.41, or $3.74 per week.

17. The increased cost to businesses on a standing offer contract is $13.33 per week, or $693.16 per year.

18. Treasury has recently put forward budget measures that will assist vulnerable households with the cost of rising electricity bills. This includes increases to the energy concession and additional funding for the utilities hardship fund.

**Consultation**

Internal

19. No internal consultation was required in preparing this brief.

Cross Directorate

20. Advice was provided by the ICRC for preparation of this brief. EPSDD understands that the Chief Minister, Treasury and Economic Development Directorate (CMTEDD) will take the lead development of media releases in response to the decision.

External

21. No external consultation was required in preparing this brief.

**Work Health and Safety**

22. There are no work health and safety implications associated with this brief.

**Benefits/Sensitivities**

23. The ICRC price decision will result in an increase in ACT consumer electricity costs; however, the government continues to provide a range of support measures to assist customers:

- Utilities concession (pending Cabinet agreement to increase to $750/year)

- Utilities Hardship Fund (pending Cabinet agreement to recapitalize for future years)
- ActSmart support programs, including free Sustainable Home Advice
- New requirements on energy retailers to assist energy customers (reference bill benchmark and better offer notification) via a new Code
- New programs to support cost of living and energy cost reductions, including $150m Sustainable Household Loans Scheme and $50m Vulnerable Households support
- Commitment to introduce minimum energy performance standards for rental properties
- Encouraging energy customers to switch to a cheaper plan and save.

**Communications, media and engagement implications**

24. The release of the report will result in media requests and interest. EPSDD has prepared suggested talking points at Attachment A.

25. Note that these talking points include our understanding of measures agreed in ERC but not yet formally endorsed by Cabinet. Details may therefore change. The affected points are marked in yellow.

26. We understand that the Chief Minister's Office is preparing media releases for the Chief Minister and the Minister for Water, Energy and Emissions Reduction.

| | | | |
|---|---|---|---|
| Signatory Name: | Cath Collins | Phone: | 59568 |
| Action Officer: | Emma Ereaut | Phone: | 77901 |

**Attachments**

| **Attachment** | **Title** |
|---|---|
| Attachment A | Suggested Talking points |
| Attachment B | ICRC briefing notes for the Treasurer |

ACT Government

Environment, Planning and Sustainable Development

TALKING POINTS

ANNOUNCEMENT OF 2021-22 REGULATED RETAIL PRICE INCREASE

**TALKING POINTS FOR ANNOUNCEMENT OF 2021-22 REGULATED RETAIL PRICE INCREASE**

**KEY MESSAGES**

- The ACT Independent Competition and Regulatory Commission (ICRC) has announced that from 1 July 2021, ActewAGL Retail may increase its regulated electricity retail tariffs by up to 12 per cent.

- Should ActewAGL Retail decide to pass through the full 12 per cent, the electricity cost for an average ACT residential customer consuming 6,500 kilowatt hours per year will increase by $3.74 per week.

    - The main contributor to the increase is from within the network component of the bill, which includes transmission and distribution costs, as well as ACT Government scheme costs.

- While the ACT Government understands that price increases are difficult, especially for those doing it tough, the ACT's regulated electricity tariffs remain comparable to other jurisdictions.

    - Since 2019, the ACT's electricity supply has been 100 per cent renewable.

    - The ACT is the first and only state or territory in Australia to achieve this, and just the eighth large city or state to achieve this globally.

    - Despite the increase in regulated electricity prices, the average bill for Canberrans on standing offers will be in line with average standing offer bills in Victoria, New South Wales and Queensland.

- Many customers can pay less if they shop around for a better deal.

    - Previous analysis by the ICRC and the Saint Vincent de Paul Society has found that households can save hundreds of dollars per year by switching to a better price plan.

- Investing in energy efficiency can also save energy and money.

    - This can include simple things like switching off lights or using curtains, or more significant investments like more efficient electric appliances.

- The government has in place a range of measures to help consumers deal with this electricity price increase.

- This price increase results from an extremely unusual market environment. While future price forecasts are prone to error, we have had already seen some recovery toward historical conditions.

**RETAIL ELECTRICITY (TRANSPARENCY AND COMPARABILITY) CODE**

- Analysis conducted by the ICRC indicates that many consumers will be able to save on their electricity bill by switching from a regulated standing offer to a cheaper priced market offer.

- The ACT Government passed legislation in May to require retailers to provide more transparency on bills. This will help people find the best price plan and save money.

- The *Retail electricity (transparency and comparability) code*, will require retailers to compare the annual price of their electricity plans to a common benchmark, called a 'reference price'.

    - The code is expected to be finalised in June and take effect by October 2021.

- The code will support consumers and help them to find a better offer and save money on their electricity costs.

- Consumers can shop around and ask different retailers if they can offer a better deal.

**HELPING CONSUMERS SAVE ON THEIR ENERGY BILLS**

- ACT energy consumers can receive free energy savings advice through the Actsmart Sustainable Home Advice line. Call 1300 141 777 or email ActsmartAdvice@act.gov.au.

- A range of rebates are also available for households and businesses to save on energy bills. Information is available at actsmart.act.gov.au.

- A Utilities Concession of $750 is available to eligible households, to assist with their utilities costs. This is an increase of $50 from 2021-22.

- In 2020-21, the ACT Government provided Utilities Hardship funding for $100 vouchers to eligible customers with participating retailers (ActewAGL Retail, Origin Energy, EnergyAustralia and Red Energy).

    - This program will be extended to 2021-22.

- The Government will also be providing support for certain community organisations to assist vulnerable consumers to better understand and manage their energy consumption and bills.

- The Energy Efficiency Improvement Scheme, (EEIS) under which ActewAGL provides support for households to improve energy performance, can provide real weekly bill savings for customers. There is a particular focus on energy savings in low-income priority households.

- The Government will be introducing no-interest loans for households to invest in efficient electrical equipment that can make significant savings.

- The Government will also be introducing direct support for vulnerable households to upgrade the energy performance of their homes, including upgrades of public housing properties.

**EFFECT OF ACT GOVERNMENT SCHEMES**

- The ICRC expects that the cost of ACT Government schemes will rise from 2.4 to 5.7 cents per kilowatt hour next year.

- A number of elements comprise ACT Government schemes, including the Utilities Network Facilities Tax, Energy Industry Levy, and Feed-in Tariff schemes.

- ACT Government scheme costs will increase primarily because of higher costs associated with the Large-scale Feed-in Tariff (FiT) Scheme.

    - This is the primary mechanism used to deliver 100 per cent renewable electricity.

- The Large-scale FiT cost is calculated by the difference between the fixed contract price paid to the renewable electricity generators, and wholesale electricity prices.

- Due to a decrease in wholesale electricity prices, payments to contracted generators have increased. This is due to the contract-for-difference arrangement. When wholesale electricity prices are high, which they have been in recent years, this arrangement puts downward pressure on our FiT prices.

**BACKGROUND/SENSITIVITIES**

- In 2020-21, electricity costs were $249.25 per megawatt hour. In 2021-22, they will increase to $279.16 per megawatt hour. For an average ACT residential customer on a standing offer consuming 6,500 kilowatt hours (6.5 megawatt hours) per year, this means their annual bill will increase from around $1,620.13 to $ 1,814.54, an increase of $194.41.

- For an average business customer consuming 25,000kWh, the increase in the weekly bill will be $13.33 per week, or $693.16 per annum.

**Approved by: Cath Collins, A/g Director, Energy Policy**

**2 June 2021**

STRICTLY UNDER EMBARGO UNTIL 2PM ON FRIDAY 4 JUNE 2021

# Briefing for the Treasurer

**Regulated electricity prices for 2021-22**

## Electricity prices

On Friday 4 June 2021, we will announce the maximum average percentage increase that ActewAGL can apply to its basket of regulated retail tariffs for 2021-22. The maximum average price increase for 2021–22 will be 12.0%.

### Impact on customers

If ActewAGL increases regulated standard offer prices by the full 12.0%, the weekly bill for an average residential customer consuming 6,500kWh will increase by $3.47 per week. For an average non-residential customer consuming 25,000kWh, the increase in the weekly bill will be $13.33 per week.

Despite the increase in regulated electricity prices, the average bill for Canberrans on standing offers will be in line with average standing offer bills in Victoria, New South Wales and Queensland. This is shown in figure 1.

However, care needs to be taken in making interstate comparisons as the regulated price increases mentioned only apply to standing offer tariffs. Many customers can pay less if they shop around for better deals on market offers.

### Main contributors to the price increase

The biggest contributor to the maximum average price increase is network costs, as has already been announced by the AER on 7 May 2021. These costs make up around 52% of total costs and include transmission and distribution costs and ACT Government scheme costs. Transmission and distribution costs are regulated by the Australian Energy Regulator and ACT Government scheme costs are passed through in the network costs approved by the AER.

ACT Government scheme costs have increased by $33.04 from $23.66 to $56.70 and contributed 13.26 percentage points to the price increase. Transmission and distribution costs have increased by 8% and contributed 2.65 percentage points to the price increase.

Partly offsetting these cost increases, energy purchase costs fell by 14% and put downward pressure on retail prices (taking 4.76 percentage points off the price increase). Other cost components had a minimal effect on the maximum average price change.

The main reasons for the cost changes are:

- ACT Government scheme costs increased because of higher large-scale feed-in-tariff costs. Large-scale feed-in-tariff cost is the difference between the fixed contract price paid to renewable generators and the prevailing wholesale electricity prices. Because of a decrease in wholesale electricity prices, the contract-for-difference payments to contracted generators increased.

- Transmission and distribution costs increased because of under-recovery in 2020-21, largely due to the impact of the pandemic, as well as higher charges by the NSW transmission services provider, TransGrid. TransGrid recovers its cost of transmitting electricity to the ACT border where it is fed into Evoenergy's distribution network.
- Energy purchase costs fell mainly because of an increase in renewable energy capacity and the continuation of lower gas prices.

These impacts are illustrated in table 1 and figure 2 in the Attachment.

## Retail electricity (transparency and comparability) code

The code requires retailers to compare the annual price of their electricity plans to a common benchmark, called a reference price. This will make it easier for consumers to compare electricity offers and to shop around to find a better electricity deal that will save them money. The code also requires retailers to tell their customers if they might have a better offer for them and to give clear advice to help them find a better offer.

We undertook public consultation on the draft code. There was general support for measures to help consumers navigate the market and choose an electricity offer that could save them money on their bills. Retailer submissions supported the measures to help consumers but raised concerns about implementation costs. We took these concerns into account in designing the code and have sought to minimise the implementation costs to retailers by:

- not requiring a dollar value to be included in better offer notifications
- removing the requirement that retailers must compare all offers to the reference price when giving personalised advice to a customer under the clear advice entitlements
- giving more time for retailers to set up systems to allow them to use smart meter data in doing better offer checks for customers with smart meters
- committing to develop guidelines to help retailers understand and comply with the code.

Our analysis of previous years' data shows that consumers could potentially save on their electricity bill by switching from a standing offer to a market offer. The code will give consumers a tool to realise such savings.

The code will take effect when the Government's determination of the reference bill comes into effect (expected to be around September), consistent with the Government's commitment to introduce the code in 2021. The requirement to use smart meter data in better offer checks will come into effect 9 months later.

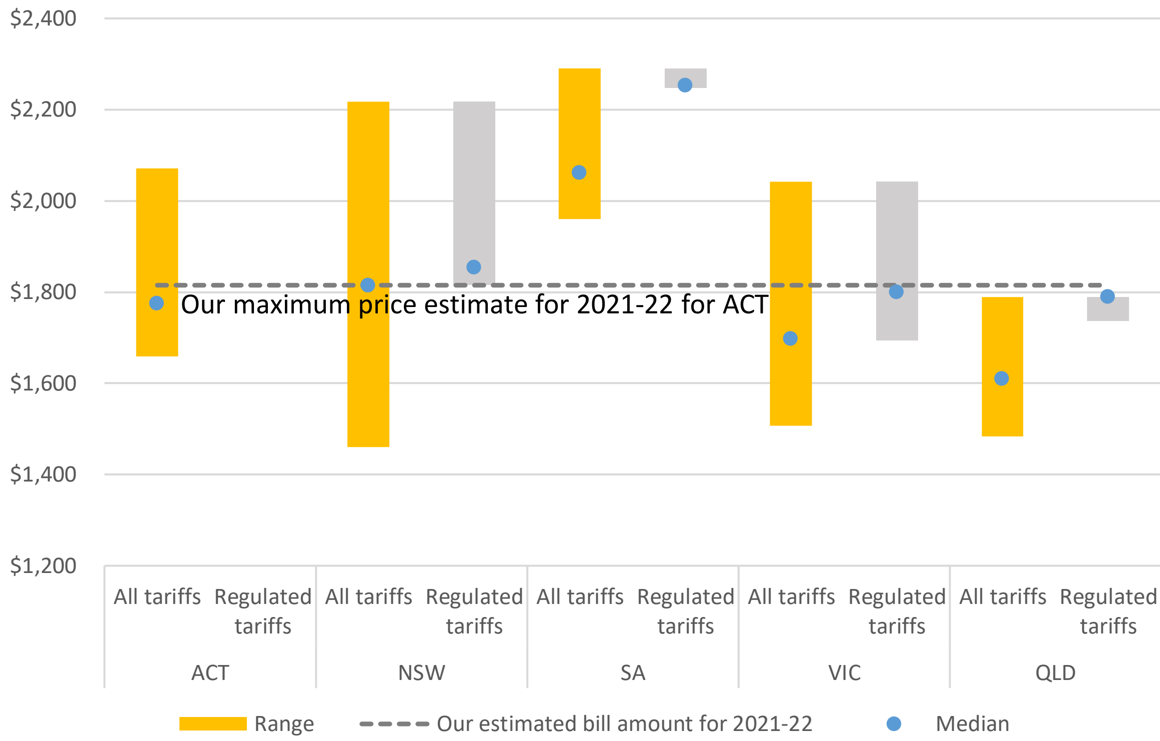
Retailers also submitted that we should wait until after the AER has made a binding billing guideline (expected in March 2022) before making the code. We considered such a delay would not be consistent with the Government's policy intent. We will consider whether we need to make any changes to the code or to our guidelines after the AER has made its guideline to ensure consistency and reduce regulatory burden on retailers as much as possible.

We intend to finalise the code in June and publish guidelines soon after that.

# Attachment

## Retail electricity prices

**Figure 1. Estimated annual bills based on estimated prices as at 1 July 2021 for interjurisdictional customers (using 6,500 kWh)**




*Source:* *Our calculations using OTTER 2021 and AER 2021.*

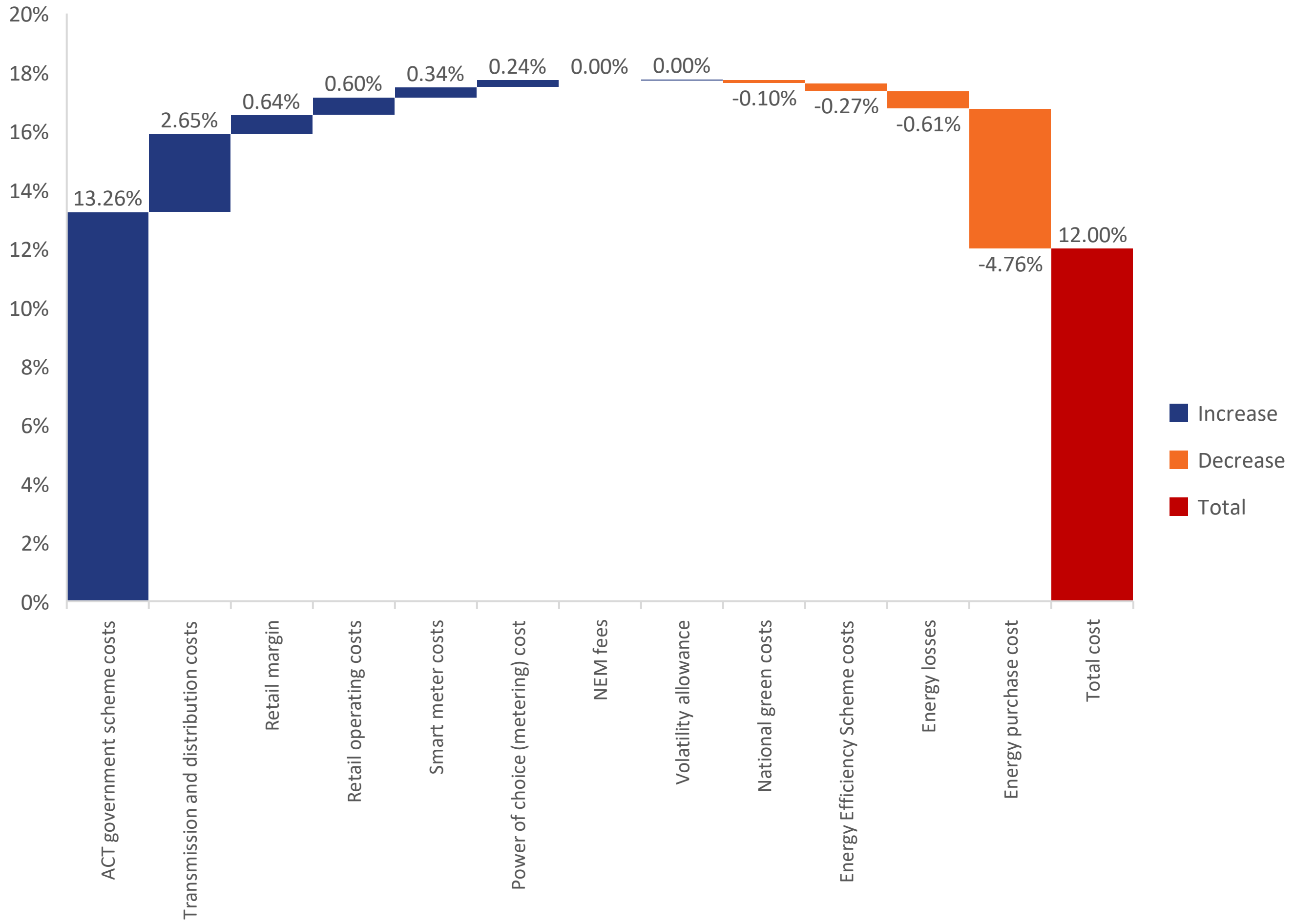
*Note:* *Data from OTTER 2021 was adjusted to reflect price growth effective from July 2021. NSW, SA and QLD growth rates are based on DMO price growth rates in each region. ACT price growth is our approved rate. Growth rates for control load customers and non-control load customers were calculated based on the usage weights given by OTTER. NSW growth rate is the weighted average growth rate across the three distribution zones, weighted by customer numbers in each jurisdiction.*

**Table 1. Update of electricity cost elements 2021–22 (with 2020–21 costs for comparison)**

| Cost component | 2020–21 ($/MWh) | 2021–22 ($/MWh) | Contribution to the price increase (%) | Dollar change ($) |
|---|---|---|---|---|
| Wholesale energy purchase cost | 85.67 | 73.80 | -4.76 | -11.87 |
| National green scheme costs | 19.22 | 18.98 | -0.10 | -0.24 |
| Energy losses | 3.13 | 1.60 | -0.61 | -1.53 |
| Volatility allowance | 0.30 | 0.30 | 0.00 | 0.00 |
| NEM fees | 1.26 | 1.27 | 0.00 | 0.01 |
| **Total energy purchase cost** | **109.58** | **95.95** | **-5.47** | **-13.63** |
| Transmission and distribution costs | 82.07 | 88.68 | 2.65 | 6.61 |
| ACT Govt scheme costs | 23.66 | 56.70 | 13.26 | 33.04 |
| **Total network costs** | **105.72** | **145.38** | **15.91** | **39.66** |
| Retail operating cost | 14.30 | 15.81 | 0.60 | 1.51 |
| Energy efficiency scheme costs | 3.86 | 3.19 | -0.27 | -0.67 |
| AEMC power of choice costs | 1.32 | 1.93 | 0.24 | 0.61 |
| Smart meter costs | 1.24 | 2.09 | 0.34 | 0.85 |
| **Total retail costs** | **20.73** | **23.03** | **0.92** | **2.30** |
| **Total energy + retail + network costs** | **236.03** | **264.36** | **11.37** | **28.33** |
| Retail margin | 13.22 | 14.80 | 0.64 | 1.58 |
| **Total costs** | **249.25** | **279.16** | **12.00%** | **29.91** |

*Source: Our calculations.*

**Figure 2. Changes in regulated retail electricity costs by component, 2021–22**




*Source: Our calculations.*