Queensland Government

Office of the
Minister for Energy and Water Supply

Ref: EWS/003354
CTS 13363/13

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27 June 2013

Mr Neil Laurie
The Clerk of the Parliament
Parliament House
George Street
BRISBANE QLD 4000

Dear Mr Laurie

I refer to your letter of 5 June 2013 enclosing a copy of Petition No. 2083-13 lodged in the Queensland Legislative Assembly.

The Petition draws to the attention of the House the forecast electricity price rise for residential customers from 1 July 2013.

Prior to the 2012 State Election, the Liberal National Party's (LNP) Resources and Energy Strategy stated that an LNP state government would act "to address Queensland's rising household energy bills and immediately freeze the standard domestic tariff (Tariff 11) providing savings of around $120 a year on power bills compared with Labor, until replaced with an acceptable cost-reflective system".

I am pleased to say that this election commitment was maintained, and government immediately acted to freeze Tariff 11 for the 2012–13 tariff year. The government's freeze on Tariff 11 has meant that the average Queensland electricity consumer was around $120 better off in 2012–13 than they would have been under the previous electricity pricing framework, known as the Benchmark Retail Cost Index (BRCI). The only increase to Tariff 11 that residential customers received in 2012–13 was as a result of the Australian Government's carbon tax.

The government then began the task of addressing the systemic problems with the electricity sector which has seen electricity prices rise unsustainably since 2007. On 30 May 2012 the Government announced the formation of an Inter-Departmental Committee (IDC) on Electricity Sector Reform, which included an Independent Review Panel to assess the electricity networks. The IDC was asked to make recommendations to ensure:

- Electricity in Queensland is delivered in a cost-effective manner for consumers;
- Queensland has a viable, sustainable and competitive electricity industry; and
- Electricity is delivered in a financially sustainable manner from the Queensland Government's perspective

On 16 June 2013 the IDC report was publically released, including the government's response to the IDC's recommendations. Both the report and the government's response can be found on the website of the Department of Energy and Water Supply. This wide-ranging reform agenda demonstrates the government's determination to put downward pressure on electricity prices over the long term.

However there is no overnight solution to reducing the burden placed on Queensland families and businesses as a result of rising electricity prices, and most of the cost pressures pushing prices up have been built into the system over many years. This was demonstrated on 31 May 2013 when the independent economic regulator, the Queensland Competition Authority (QCA) announced large increases to regulated retail electricity prices, including an increase for the typical Tariff 11 customer of 22.6 per cent.

The QCA advised that the majority of the increase is attributable to rising network costs approved by the Australian Energy Regulator (AER). These network costs – the cost of building and maintaining the 'poles and wires' that deliver electricity from power stations to our homes and businesses – have been left to grow unsustainably for too long.

As part of the reform agenda outlined above, including arising from the recommendations of the IDC, the government has asked both Energex and Ergon Energy to find savings from their budgets to deliver better outcomes to electricity consumers. These efficiency measures will start delivering more than $3 billion in savings from 2013–14.

Environmental costs imposed by the Australian Government are another major reason why electricity bills have increased in recent years. Based on information received from the QCA, $258 could be cut from the average annual power bill if the carbon tax and Renewable Energy Target (RET) are scrapped.

In addition to this, the previous Queensland Government's Solar Bonus Scheme is driving up electricity prices, adding roughly $70 to an annual Tariff 11 bill in 2013-14. By 2015-16, the QCA estimates that this figure will increase to $276. The government is investigating options to make the Solar Bonus Scheme more equitable and will consider these options seriously. However, the government is sensitive to the fact that people signed up to this scheme in good faith, and this needs to be honoured.

Despite the fact that there is no overnight solution for rising electricity prices, for 2013-14 the government has acted to assist those who are the most vulnerable in our society. We have increased the annual rebate for pensioners, seniors and other eligible concession card holders to $282 from 1 July 2013, an increase of around 22 per cent. Overall, the government has budgeted over $150 million in the coming year to help vulnerable customers with their energy bills, such as pensioners and seniors, and also those with special heating and cooling needs because of medical conditions. This includes additional funding allocated to the Home Energy Emergency Assistance scheme, which provides an emergency payment of up to $720 for eligible low income households.

Faced with the latest increase in electricity prices, the government could have decided to pay subsidies to all residential electricity customers. However, we are also faced with a $7.7 billion budget deficit, so the government would have to borrow money to pay for a subsidy for electricity prices. That would leave Queensland taxpayers paying off the debt for the electricity we use today for a number of years, and that is not fair to today's Queenslanders or future generations.

The Queensland Government will continue to implement its reform strategy for the electricity sector aimed at achieving greater efficiencies leading to downward pressure on electricity prices in the long term interests of Queenslanders.

I trust this information is helpful and thank you for bringing the petitioners' concerns to my attention.

Yours sincerely

Mark McArdle MP
Minister for Energy and Water Supply