Australian Financial Review, Australia
16 May 2013, by Mark Ludlow

General News, page 4 - 212.15 cm²
National - circulation 66,709 (MTWTFS)

ID 194276411

Power rebates possible in Qld

The Queensland government's move to compensate households for a 21.4 per cent electricity price hike from July is expected to deliver a significant hit to the state's bottom line in next month's budget.

State cabinet is likely to consider two main options on Monday to reduce the impact of the power prices, with the final decision expected to be included in the June 4 budget.

But any move to intervene in the Queensland Competition Authority's price determination could cost "hundreds of millions of dollars", according to senior government sources. The options being considered are a reduction in the capital expenditure (or weighted average cost of capital) of the state-owned energy companies or a direct subsidy or rebate to households. Both will have budgetary implications. It is understood Treasury is concerned about the direct intervention on network expenditure – which delivers a regulated rate of return – because of its impact on the government's overall debt levels. The state lost its AAA credit rating in 2009.

In February, Premier **Campbell Newman** made the promise to counter "unacceptably large" price increases after the QCA ruled there would be a 21.4 per cent increase in electricity for the average household in 2013-14.

This follows the LNP government's 12-month "price freeze" on Tariff 11 – an election commitment that the QCA partly blamed for the double-digit price rise for next financial year.

Former QCA chairman Brian Paramenter has already warned any move not to pass on the costs of higher net-

Mark Ludlow

work charges – set by the Australian Energy Regulator – to consumers would have an impact on the amount of money the state-owned companies paid into state coffers.

Network charges account for about half of the proposed price increases.

The Newman government has already moved to reform the state's electricity sector including deferring $2 billion in network capital expenditure, which is expected to come into effect in about two years.

The approved weighted average capital for the state power companies for next financial year is 9.72 per cent. A 1 per cent reduction in capital expenditure would reduce price increases by about 10 per cent. It is hoping the direct intervention – expected to be repeated in 2014-15 before new regulatory determinations for state energy companies begin – will reduce power prices rises to "single digits".

The government is also looking at allowing the state-owned distribution companies, Energex and Ergon Energy, more flexibility in their reliability standards on blackouts to help cut costs.

However, the impact of the state's generous solar feed-in tariffs are expected to continue to push up prices over the next few years. The state government reduced the feed-in tariff for people using solar panels from 44¢ to 8¢ for new customers.

The solar tariff was responsible for about 3.8 per cent of the 21 per cent increase for next financial year. Its impact the year after is expected to double to 7 per cent to 8 per cent.

Despite the costs to the budget, Queensland Treasurer **Tim Nicholls** said the LNP government is focused on reducing the impact of rapidly rising power prices on Queensland households. "The government remains committed to ensuring Queensland families are not kicked in the guts by this huge increase," he said recently.

Residential electricity prices have risen by 91 per cent over the past five years, and gas prices by the same amount over the same period, according to the Australian Energy Regulator.

State cabinet is likely to consider two main options to reduce the impact of power prices.