

Pass Through of Carbon Costs to Electricity Standing Contract Prices

Clean Energy Act 2011

The Australian Government's Clean Energy Act will come into operation on 1 July 2012. The Act introduces a price on carbon emissions by certain liable entities.

In 2012/13, the carbon price will be \$23 per tonne of carbon emissions. This will increase to \$24.15 per tonne in 2013/14 and \$25.40 per tonne in 2014/15. Thereafter, the carbon price will be determined by market forces through an emissions trading scheme.

AGL SA's Application for a Review of Carbon Costs

On 13 February 2012, the Commission received an application from AGL South Australia (AGL SA) to re-open the 2011-2014 Electricity Standing Contract Price Determination, to reflect the introduction of the Clean Energy Act. AGL SA has applied for an increase in the cap that currently limits the extent to which the standing contract price can increase. The cap set by the Commission in 2010 excluded the potential impact of a carbon price. Now that the carbon price has been legislated, AGL SA argued that the cap should be increased to reflect the additional cost to energy retailers.

Should there be any Pass Through of Carbon Costs?

It is important for the Commission to ensure that the electricity standing contract price continues to reflect the efficient costs of electricity retailing. That objective is consistent with the Commission's role in protecting the long-term interests of South Australian consumers. The price of carbon, as set under the Act, is not incorporated within AGL SA's retail tariffs. If the Commission does not allow for any pass through of carbon costs, the electricity standing contract price may be lower than the cost of providing retail services, which would have the potential to inhibit future investment in the electricity industry and threaten the delivery of electricity services in the long-term.

The Commission's Decision on the Pass Through of Carbon Costs

Following a process of public and targeted consultation, the Commission has approved an additional carbon cost amount, to be incorporated into the cap that applies to standing contract prices from 1 July 2012.

The Commission has conducted a detailed review of AGL SA's proposal, and has not accepted all of AGL SA's proposed carbon costs. In particular, it has rejected the inclusion of any additional retail margin, on the basis that AGL SA has not presented any evidence to substantiate its claim that the carbon price will materially increase its costs, other than wholesale electricity costs. It has also not accepted AGL SA's proposal that South Australian consumers should pay carbon costs that include the cost of emissions arising from other states. The Commission's decision is that carbon costs should be based on South Australia's

carbon emissions, which are much lower than most other states due to the relatively clean generation technology here.

AGL SA's proposal, and the Commission's decision, are summarised in the following table.

Carbon Costs to be included in Cap: AGL SA's proposal versus the Commission's decision (\$/MWh)

	AGL SA's proposal (\$/MWh)		Commission (\$/MWh)	
	2012/13	2013/14	2012/13	2013/14
Wholesale Carbon Cost	21.16	21.69	12.91	13.24
Distribution Losses	1.72	1.77	1.05	1.08
Adjustment for 1 August Price Change	2.00	0.00	0.00	0.00
Retail Margin Adjustment	2.49	2.34	0.00	0.00
Total Carbon Cost	27.37	25.80	13.97	14.32

What is the Impact of the Carbon Price?

The total approved carbon pass through amount will be recovered uniformly across all variable charge retail components of the electricity standing contract tariffs. For the average household using 5 megawatt hours of electricity per year, and who is on the AGL SA Electricity Standing Contract, it will mean an overall annual bill increase of around \$70 in 2012/13 and \$72 in 2013/14. This increase is solely related to carbon costs; the change in electricity prices on 1 July 2012 is also subject to other factors, such as changing distribution tariffs.

Unregulated electricity market offers, which apply to around 75% of all customers in South Australia, may incorporate a different carbon amount.

The Australian Government will help households manage increases in the cost of living due to the carbon price, through its Household Assistance Package. The Australian Government states that "Over half the money raised from the carbon price will be used to assist households. Nine in ten households will receive a combination of tax cuts and payments to help with the costs of the carbon price."¹

Further Information on the Carbon Price

- ▲ www.escosa.sa.gov.au² - for further information about the Commission's assessment of AGL SA's Application for Special Circumstances.
- ▲ <http://www.climatechange.gov.au/> - to find out how the Australian Government is addressing climate change.
- ▲ <http://www.cleanenergyfuture.gov.au/> - for information on the Australian Government's Household Assistance Package and plan for a clean energy future.

¹ <http://www.cleanenergyfuture.gov.au/helping-households/>

² <http://www.escosa.sa.gov.au/projects/171/2012-agl-application-for-special-circumstances-review.aspx>