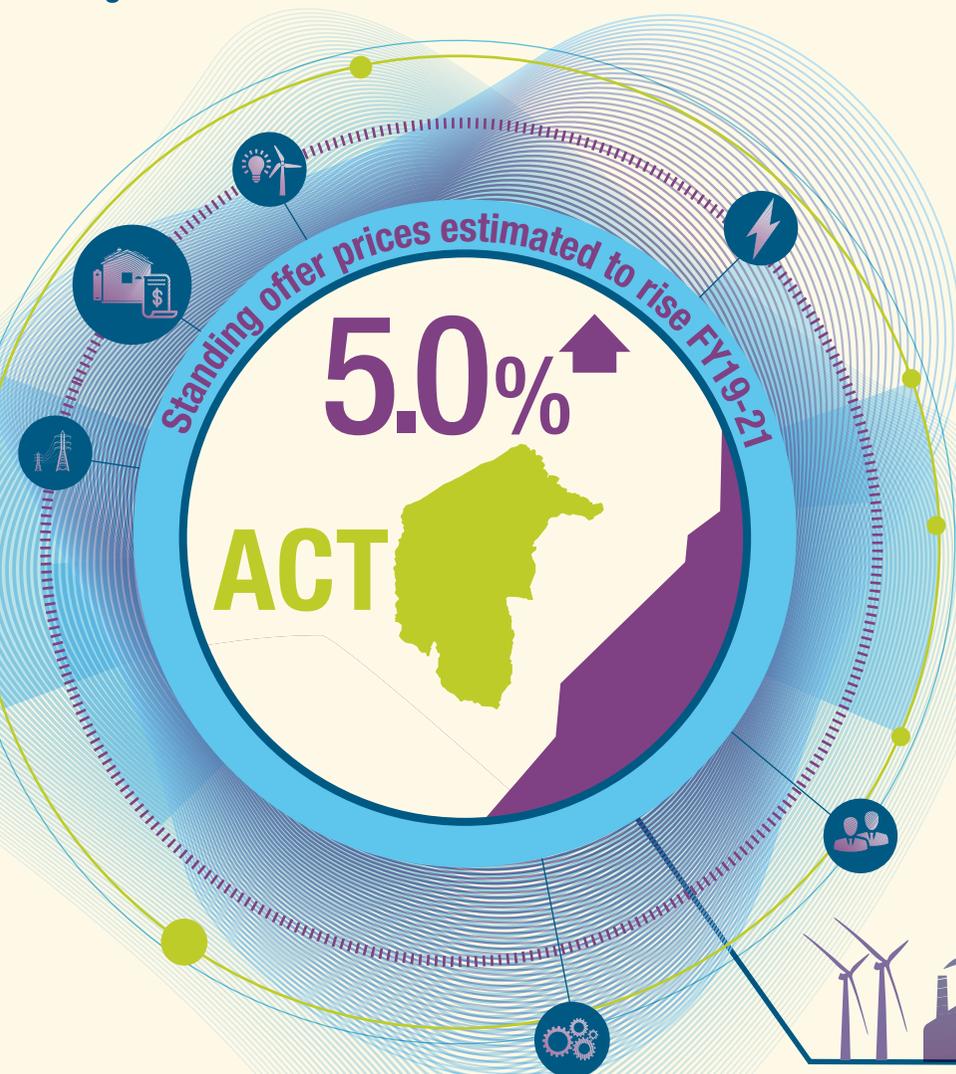


# AUSTRALIAN ENERGY MARKET COMMISSION ELECTRICITY PRICE TRENDS REPORT 21 DECEMBER 2018

AUSTRALIAN CAPITAL TERRITORY STANDING OFFER PRICES ARE RISING

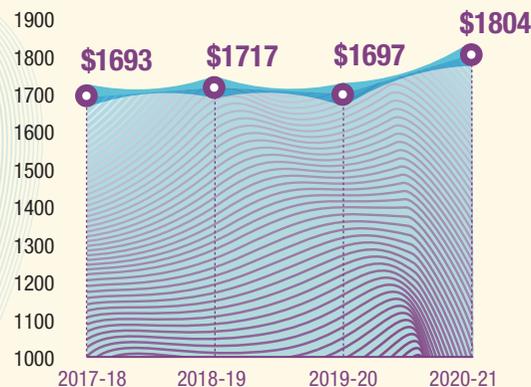
After a relatively small rise of 1.4% this year, standing offer prices are estimated to increase by 5.0% in total over the next two years because of rising environmental policy and regulated network costs.



## CONSUMER

The most common electricity consumer is a two-person household consuming 7,151 kWh annually. In the ACT 68% of residential electricity consumers are still on standing offers.

Annual electricity bill for a typical residential customer



## AT A GLANCE



### WHOLESALE

The cost of generating electricity

Wholesale costs account for 48.4% of the typical bill this year and are expected to put downward pressure on bills in the next two years as more renewable supply comes in to the market and demand stays flat. But these falls in wholesale costs will be counter-balanced by increases in both regulated network costs and environmental costs.



### NETWORKS

Poles and wires costs depend on regulator revenue determinations

Regulated network costs account for 33.6% of the typical bill and are expected to increase slightly over the next two years due to rising transmission and distribution costs.



### ENVIRONMENTAL

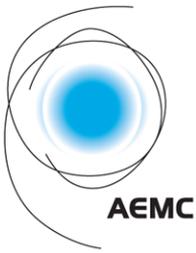
Direct costs of government schemes like the renewable energy target

Environmental policy costs included in customers' bills are the Commonwealth Government's renewable energy target (RET) and the ACT Government's feed-in-tariffs and its energy efficiency improvement scheme. These schemes account for 12.7% of the representative electricity standing offer and are expected to put some upward pressure on costs in the next two years. The increase in costs is primarily driven by increasing ACT feed-in tariff costs as the ACT approaches its 100% renewable energy target.

## ABOUT THIS REPORT

The price trends report is a core document used to inform a range of stakeholders including the Australian Energy Market Operator, the International Energy Agency and the Reserve Bank of Australia. It helps consumers understand costs included in their electricity bill. It also provides governments with information they need to understand changes in electricity prices and provides context for long-term decision making on energy policy. Price trends identified in this report are not a forecast of actual prices, but rather are a guide to pricing and bill directions based on current expectations, policy and legislation. Actual price movements will be influenced by how retailers compete, the dynamics of wholesale spot and contract markets, the outcomes of network regulatory decisions, and changes in policy and regulation.





## Power prices to rise slightly in the Australian Capital Territory

Australian Energy Market Commission 2018 residential electricity price trends report

**Power prices are estimated to rise slightly over the next two years in the ACT because of rising environmental scheme costs and network costs. This year consumers who are still on standing offers could save \$286 by switching to the lowest competitive market offer.**

Power prices are estimated to rise slightly over the next two years in the ACT according to the Australian Energy Market Commission's annual report on price trends released today.

Over the next two years the price paid for electricity by territory households is estimated to increase by a total of \$87 (5%) from FY19 to FY21, because of rising environmental costs and regulated network costs.

After a relatively small rise of 1.4% from FY18, standing offer prices are estimated to increase by an average 2.5% annually over the next two years from FY19 to FY21.

Wholesale costs are likely to fall by around \$88 by FY21 for the typical consumer as more supply comes into the market and demand stays flat. But these falls will be counter-balanced by increases in both regulated network costs (up on average \$58) and environmental costs (up by an estimated \$112).

The ACT representative consumer (the most common type of household based on electricity consumption) will be paying around \$87 more than today by July 2020.

In the ACT 68% of residential electricity customers are still on standing offers. Those who have not yet shopped around are missing out on current savings of \$286 between the lowest competitive market offer and lowest standing offer.

The most common electricity customer is a two-person household, consuming 7,151 kWh of electricity each year in addition to having a gas mains connection. Of course actual electricity bills depend on how and when electricity is used in each home.

AEMC Chief Executive, Mrs Anne Pearson, said the energy sector's challenge in years ahead will be to continue balancing electricity supply and demand as the energy market restructures.

"Cost control helps contain prices," she said.

"The changing generation mix is affecting supply and demand at the wholesale end of the supply chain.

"Our report also shows networks account for around half of consumer bills. Managing the costs of connecting new generation will be a major challenge. We must avoid over-engineered solutions to stop gold plating and price spikes," she said.

Mrs Pearson said it was in the strong interest of consumers that government and regulatory policy focused on long-term planning, focusing on low cost solutions to the issue of energy transition.

She said there was a need to:

- establish more certainty in wholesale markets through more effective management of environmental and security costs
- facilitate greater price competition in the retail market through open and transparent price setting that consumers can trust; and
- develop an integrated, modernised power grid that reduces costs to consumers.

Over the next two years the price paid for electricity by territory households is estimated to increase by a total of \$87 (5%) from FY19 to FY21, because of rising environmental costs and regulated network costs.

## Continued

Mrs Pearson said the report recognised there were a range of issues unique to each jurisdiction that were also influencing price outcomes.

“Understanding what’s driving prices can help give state and territory governments the information they need to help determine if price changes announced each year by retailers are consistent with changes in the power system’s underlying costs,” she said.

Price trends will affect individual households differently depending on how much each consumer uses electricity, and how willing they are to switch to a better energy deal where market offers are available. No two households use energy in the same way. Knowing how much power you use and when is important in controlling electricity bills in the future as new technologies become more affordable and energy entrepreneurs expand demand response options for consumers.

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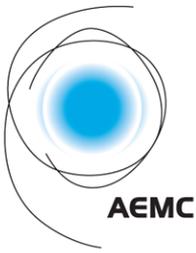
*The AEMC residential price trends focuses on the drivers of household bills across the three key parts of the electricity supply chain – wholesale (generation); regulated networks (transmission and distribution); and environmental (government policy schemes). A residual applies in most jurisdictions. It is the difference between bill outcomes and these three key cost components.*

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21 December 2018



## Australian Capital Territory household electricity prices

### Residential electricity price trends report 21 December 2018

**Our 2018 residential electricity price trends report identifies what's driving household prices and consumer bills over the next few years from 2017-2018 to 2020-2021 in all states and territories, and nationally.**

#### Key findings for ACT

In 2017-2018, the electricity bill for the representative residential consumer on a standing offer in ACT was approximately \$1,693 exclusive of GST.

The electricity bill for the representative residential consumer in ACT:

- increased by 1.4 per cent from 2017-2018 to 2018-2019
- is expected to increase by an annual average of 2.5 per cent from 2018-2019 to 2020-2021, based on a decrease of 1.2 per cent in 2019-2020; and an increase the following year of 6.3 per cent in 2020-2021.

The expected increase in the representative residential electricity bill from 2018-2019 to 2020-2021 is due to increasing network and environmental policy costs.

In ACT consumers can choose between a market offer and a retail standing offer. Approximately 68 per cent of small customers are on a standing offer (small customers includes residential and small business customers). The table below shows the total annual bill for a representative consumer in ACT on a market offer and a standing offer.

ACT	2017-2018
Standing offer total annual bill	\$1,693 excluding GST
Market offer total annual bill	\$1,548 excluding GST

#### About this report

Trends in the underlying supply chain cost components and drivers of trends will vary across jurisdictions and over time. This reflects differences in population, climate, consumption patterns, government policy and other factors across the states and territories. The way these trends affect an individual consumer will depend on how that consumer uses electricity. This is particularly relevant as the consumption profiles of consumers become increasingly diverse.

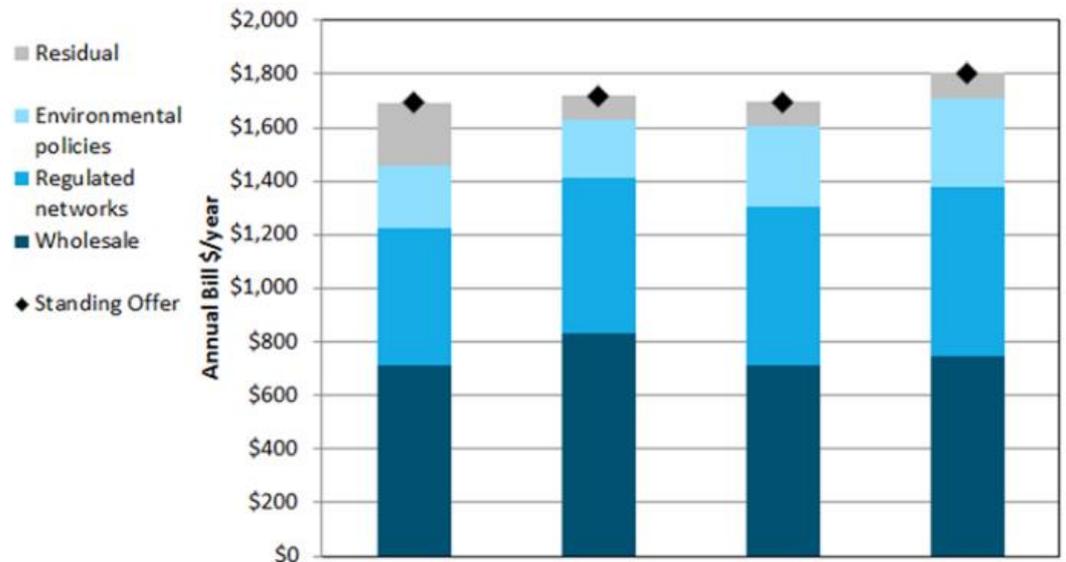
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The price trends report is a core document used to inform a range of stakeholders including the Australian Energy Market Operator, the International Energy Agency and the Reserve Bank of Australia. It helps consumers understand costs included in their electricity bill. It also provides governments with information they need to understand changes in electricity prices and provides context for long-term decision making on energy policy.

In 2017-2018, the representative consumer on an electricity standing offer in ACT was \$1,693

## Trends in ACT electricity supply chain components

Figure: Expected trends in ACT supply chain components from 2017-18 to 2020-21 for the representative consumer on a standing offer.



	2017/18 Base Year		2018/19 Current Year		2019/20		2020/21	
	c/kwh	\$/year	c/kwh	\$/year	c/kwh	\$/year	c/kwh	\$/year
<b>Environmental policies</b>	<b>3.29</b>	<b>\$236</b>	<b>3.05</b>	<b>\$218</b>	<b>4.19</b>	<b>\$300</b>	<b>4.61</b>	<b>\$330</b>
LRET - LGC cost	0.65	\$46	0.75	\$53	0.85	\$61	0.90	\$65
SRES - STC cost	0.33	\$24	0.64	\$45	0.71	\$51	0.72	\$52
<b>Feed-in Tariff Schemes</b>	<b>1.90</b>	<b>\$136</b>	<b>1.25</b>	<b>\$89</b>	<b>2.22</b>	<b>\$159</b>	<b>2.57</b>	<b>\$184</b>
EEIS	0.42	\$30	0.41	\$29	0.41	\$29	0.41	\$29
<b>Regulated networks</b>	<b>7.18</b>	<b>\$514</b>	<b>8.08</b>	<b>\$578</b>	<b>8.32</b>	<b>\$595</b>	<b>8.89</b>	<b>\$636</b>
Transmission	1.06	\$76	1.59	\$114	1.69	\$121	1.82	\$130
Distribution	5.53	\$395	5.88	\$421	5.99	\$428	6.37	\$456
ACS Metering	0.59	\$42	0.60	\$43	0.64	\$46	0.69	\$49
<b>Wholesale</b>	<b>9.94</b>	<b>\$711</b>	<b>11.63</b>	<b>\$832</b>	<b>9.92</b>	<b>\$709</b>	<b>10.40</b>	<b>\$744</b>
<b>Residual</b>	<b>3.26</b>	<b>\$233</b>	<b>1.26</b>	<b>\$90</b>	<b>1.29</b>	<b>\$92</b>	<b>1.32</b>	<b>\$95</b>
<b>Standing Offer</b>	<b>23.68</b>	<b>\$1,693</b>	<b>24.01</b>	<b>\$1,717</b>	<b>23.72</b>	<b>\$1,697</b>	<b>25.22</b>	<b>\$1,804</b>

Note: The residual component is derived for 2017-18 and 2018-19 by subtracting wholesale, environmental and network costs from the standing offer price. The residual cost is assumed to increase at an inflation rate of 2.5 per cent for future years from 2018-19 to 2020-21. The residual component is derived specifically for the representative consumer using the methodology in this report and may differ from the regulated retail cost in the ACT. Also, the electricity prices and bills are based on a weighted average of retailer's lowest standing offers for the representative consumer in the ACT.

The expected trends in ACT electricity supply chain cost components (wholesale, regulated networks and environmental policies) are summarised below.

**Wholesale electricity purchase costs:** these costs include purchases from the spot market and financial contracts, ancillary services, market fees and energy losses from transmission and distribution networks.

In ACT, wholesale market costs comprised approximately 42 per cent of the representative standing offer in 2017-2018 and are expected to account for a decreasing proportion of the representative consumer's bill from 2017-2018 to 2020-2021.

Wholesale electricity costs:

- increased by 17 per cent from 2017-2018 to 2018-2019
- are expected to decrease by an annual average of 5.4 per cent from 2018-2019 to 2020-2021, based on a decrease of 14.7 per cent in 2019-2020 and an increase of 4.9 per cent the following year in 2020-2021

As noted, the main driver of this trend is increased generation supply entering the market.

**The expected increase in representative residential electricity standing offer prices from 2018-19 to 2020-21 is due to increasing network and environmental policy costs.**

**Regulated network costs:** these costs relate to transmission network services provided by Transgrid and distribution network services provided by EvoEnergy.

Regulated network costs comprised approximately 30.3 per cent of the representative residential standing offer bill in 2017-2018, and are expected to account for an increasing proportion of a residential electricity consumer's bill from 2017-2018 to 2020-2021, based on the latest available network pricing decisions by the Australian Energy Regulator (AER).

Regulated network costs:

- increased by 12.5 per cent from 2017-2018 to 2018-2019
- are expected to increase by an annual average 4.9 per cent from 2018-2019 to 2020-2021, based on an increase of 3.0 per cent in 2019-2020 and a following increase of 3.8 per cent in 2020-2021.

The increase in network costs is primarily driven by increasing distribution and transmission costs.

**Environmental policy costs:** these costs are related to the Commonwealth Government's renewable energy target (RET) and the ACT Government's feed-in-tariff (FiT) schemes and the Energy Efficiency Improvement Scheme (EEIS). The RET applies on a national basis and consists of the large-scale renewable energy target (LRET) and the small-scale renewable energy scheme (SRES).

In 2017-2018, the environmental policies comprised 13.9 per cent of the representative residential standing offer bill in ACT and are expected to comprise an increasing proportion of the representative consumer's electricity bill from 2017-2018 to 2020-2021.

Environmental policy costs:

- decreased by 7.6 per cent from 2017-2018 to 2018-2019
- are expected to increase by an annual average of 23.1 per cent from 2018-19 to 2020-21, based on an increase of 37.7 per cent in 2019-2020 and an increase of 10.0 per cent in 2020-2021.

This trend is primarily driven by increasing ACT FiT scheme costs. To a lesser extent it is driven by the Commonwealth Government's SRES, due to increased uptake of small-scale renewable energy technologies, such as rooftop solar.

### **New approach to modelling wholesale costs**

This year's report has changed the method used to calculate wholesale costs. Previous price trends reports modelled future spot prices and added a contract premium to estimate retailers' wholesale electricity purchase costs. This approach effectively assumes that a retailer buys all of its electricity and hedging contracts at a single point in time.

However, it became apparent in the past two years that with high volatility in forward prices after generator retirements, short-term estimates made through this method were largely inconsistent with market outcomes. For this reason, the report estimates wholesale costs using a blended method. Where possible, the analysis uses observable market contract prices that retailers use to build up their hedge contract book over time. Where there is limited forward contract data available, a spot price estimate and contract premium is used. This method more closely resembles how retailers actually hedge their loads, and is therefore considered a more realistic basis for estimating forward prices.

### **Background**

The COAG Energy Council's terms of reference for this report require the AEMC to estimate future retail electricity price outcomes for representative residential consumers in each Australian state and territory along with national electricity prices based on a weighted average of jurisdictional results.

In addition, the AEMC also reports on the trend in customers' annual electricity bills.

**We are focussed on cutting costs in the power system by addressing the drivers of those costs through our work program**

Representative consumers are those households with the most common electricity consumption profiles in each jurisdiction. In most jurisdictions, the annual and quarterly consumption profiles of these consumers are based on data from the AER.

In ACT, the representative consumer:

- is a two-person household that consumes 7,151 kWh of electricity per year
- is on a regulated standing offer
- has no gas connection and is not on a “controlled load” tariff.

As electricity prices and bills in this report are specific to the representative consumer, they do not reflect pricing outcomes for each individual residential consumer.

### **AEMC’s work program**

The AEMC is cutting costs in the power system by addressing the drivers of those costs through its work program. Our focus on price impacts drives everything we do through the reliability and security frameworks; consumer choice, control and protection; the networks of the future and the continuing importance of integrating energy and environmental policies. We completed or are undertaking a number of rule changes and reviews with the potential to directly or indirectly impact consumer prices and bills, including:

- new obligations on retailers to give advance notice of price changes and providing advance warnings to shop around before discounts end
- stopping energy discounts that can leave people worse off, allowing electricity and gas customers to have energy bills based on their own meter reading
- raising the standard for better hardship programs and keeping new retail businesses out of the market until they have approved hardship policies in place.

At the same time we are reviewing what’s needed to support adequate investment in generation as the power system evolves to include more variable, intermittent generation and demand-side innovation. Our package of reforms in this area includes:

- new technical performance standards for generators
- setting up a national register of distributed energy like small-scale battery systems and rooftop solar to help AEMO better manage the power system
- requiring generators to give at least three years’ notice of closure
- reviews to improve the coordination of generation and transmission investment and to look at ways to integrate new technologies and demand response to help keep the power system secure
- requiring the AER to calculate and update values of customer reliability, used to develop reliability standards
- enabling AEMO to contract for electricity reserves up to nine months ahead of a projected shortfall under the RERT, the strategic reserve mechanism
- making networks provide minimum levels of inertia along with the services necessary to meet minimum levels of system strength.

We continue our analysis of market design changes which currently includes the market making obligations rule request, and advice on the impact of a default offer which has been requested by the COAG Energy Council.

We are fostering the efficiency of network investment and operations through major projects like the coordination of generation and transmission investment review; introducing new transmission connection and planning arrangements; introducing competition in metering; and establishing the value of customer reliability.

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