

Power prices falling in Victoria

Australian Energy Market Commission Residential electricity price trends report 2019

Power prices are estimated to fall in Victoria in response to rising generation capacity and falling environmental scheme costs. Over the three-year period modelled by this report consumers would save \$53 (or 5%)¹ on their electricity bills out to 2022.

AEMC Chairman, John Pierce, said the 10th price trends report released today shows costs falling across two of the key drivers of Victorian consumers' bills.

- Wholesale costs are the main driver and estimated to fall by an annual average of 5.9% because of significant increases in generation capacity, particularly wind farms.
- Environmental scheme costs are also estimated to fall by an annual average of 8.5%, but some of these decreases are being offset by network costs.
- Network costs are estimated to rise by an annual average of 2.7%²

The representative consumer in Victoria (the most common type of household based on electricity consumption) is a two-person household with mains gas and on a market offer, consuming 3,865 kWh of electricity each year.

Actual electricity bills of course depend on when and how much electricity is used in each home.

Around 95% of households in Victoria are on market offers. Victoria has a strongly competitive market delivering the lowest bills in Australia, although usage is lower due to more extensive gas consumption.

People on Victoria's standing offer could save \$102 a year by switching to a competitive market offer in 2020.

"These results for FY19 to FY22 point to the state of the whole national electricity market over this specific period which will see significant injection of around 5,000 MW of new supply.

"More supply puts downward pressure on prices. But it's important to note that over a decade of analysis we have seen trends change sharply in response to unanticipated factors such as sudden generator closures and implementation of new policies. As such, all price projections should be seen as just that, projections." Mr Pierce said.

¹ It is important to note that the Commission's analysis is of market offers. As such the price projections cannot directly be compared with recent decisions about the level of the Victorian Default Offer.

² Network cost information that was publicly available up to 11 November 2019. Regulated network costs may vary because of Australian Energy Regulator decisions on contingent project applications.

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Continued

“The market bodies working together through the Energy Security Board are focussed on how best to take advantage of the structural change working its way through the electricity market. Our main focus is to deliver what the system needs to provide security and reliability at the lowest cost to meet the long-term interests of consumers,” Mr Pierce said.

Understanding what’s driving prices can help give the Victorian government 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.

Price trends will affect individual households differently depending on how much electricity each consumer uses, and how willing they are to switch to a better energy deal where market offers are available.

It will continue to be important for customers to shop around to get the best deal for their circumstances through government comparison sites such as Victoria’s Energy Compare.

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.

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 about which parts of the sector are driving 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.

The AEMC residential price trends focusses 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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9 December 2019

AUSTRALIAN ENERGY MARKET COMMISSION

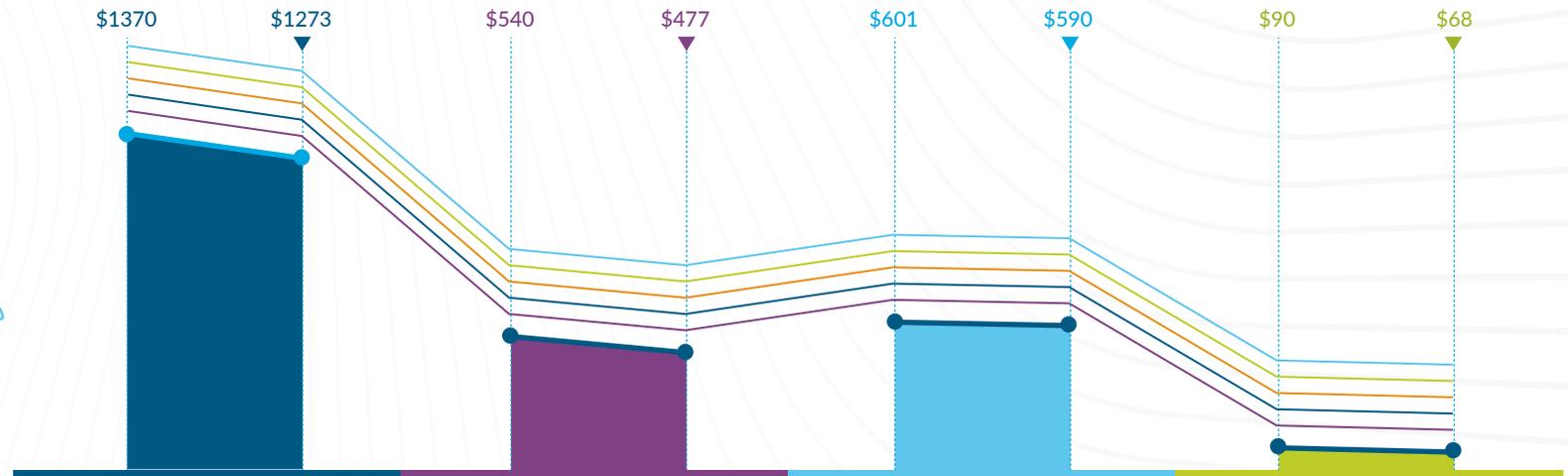
POWER PRICES SET TO FALL OUT TO 2022

RESIDENTIAL ELECTRICITY PRICE TRENDS REPORT 9 DECEMBER 2019

Overall household power prices are estimated to fall from FY19 to FY22 on the back of increasing renewable generation and cuts to regulated network costs. More supply is putting downward pressure on prices. It's important to note that over a decade of analysis we have seen trends change sharply in response to events like generator closures and new policy.



Cost pressures are coming off consumer bills



Bill = USAGE x PRICE

Every household is different. Bills change depending on how much power you use and when. Costs are also affected by where you live.



OVERALL SUPPLY COSTS

Bills are estimated to fall as the 3 key drivers indicate price cuts ahead



WHOLESALE

Lots of new renewable projects coming online adding much-needed supply and driving prices down



NETWORKS

Falling distribution and metering costs are driving regulated network charges down



ENVIRONMENTAL POLICY

These costs are falling as subsidies like the 20% renewable energy target are winding down

AUSTRALIAN ENERGY MARKET COMMISSION

RESIDENTIAL ELECTRICITY PRICE TRENDS

AROUND THE NATION 2019

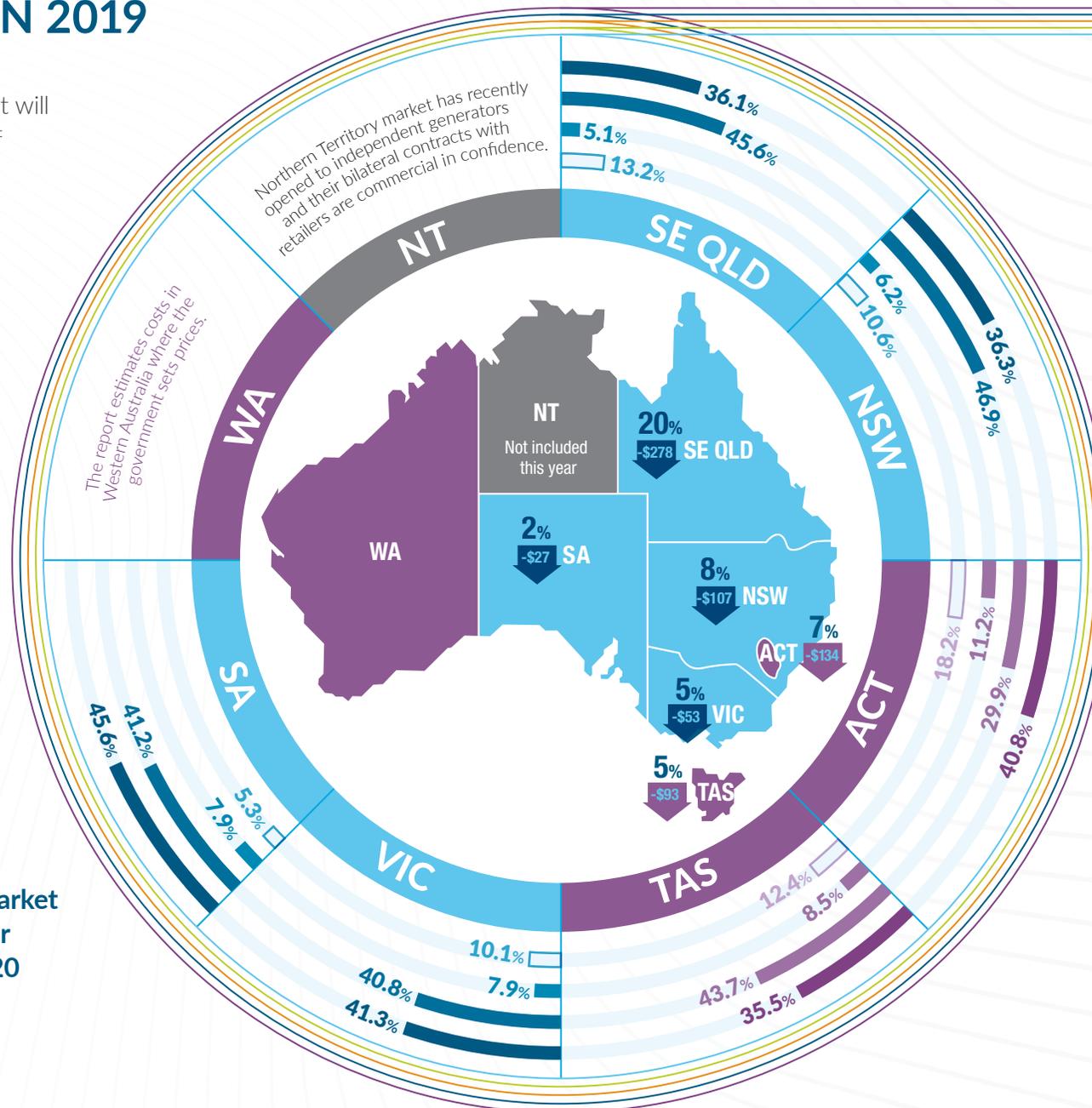
Australians in the national electricity market will see falling prices out to 2022 as supplies of generation continue to rise and regulated network prices are lowered.

Price trends identified in this report are not a forecast of actual prices. They are a guide to pricing and bill directions based on current expectations, policy and legislation. It provides information about which parts of the sector are driving changes up and down in the components of residential bills. Percentage changes are off different levels in each jurisdiction.



Saving from switching to the lowest market offer from the lowest standing offer for representative consumer for 2019-2020

SEQ **\$211** VIC **\$102**
 NSW **\$188** SA **\$250**
 ACT **\$367**



Legend
Supply chain cost components of a typical bill

Market offer

- Wholesale
- Networks
- Environmental
- Residual

Standing/regulated offer

- Wholesale
- Networks
- Environmental
- Residual