

NSW electricity price trends

New South Wales trends put downward pressure on prices

AEMC 2013 Residential electricity price trends report

Today the Australian Energy Market Commission released its report on factors driving residential electricity prices over the next three years to 2015/16.

The report analyses trends in the competitive market sectors of the industry; the regulated networks sector; and resulting from government environmental policies in each state and territory.

AEMC Chairman, John Pierce, said the 2013 price trends review has found that market offer prices in NSW are expected to decrease, on average, by 0.7% a year from 2012/13 to 2015/16.

NSW price trends are broadly in line with the national picture, with stabilising regulated network costs; falling carbon pricing costs under existing legislation and stable competitive market sector costs.

The most significant driver of the falling residential electricity prices is the move from a fixed carbon price to a floating carbon price under existing legislation.

The Australian Government has introduced legislation to remove the existing carbon pricing mechanism at 1 July 2014 which would lower cost pressure further in 2014/15 and 2015/16.

“Significantly in NSW consumers have had the choice to move off the regulated price set by the state pricing regulator, IPART, and choose from a number of alternative retailers or differently priced energy plans,” Mr Pierce said

“Already 60% of electricity consumers and 70% of gas consumers have made this choice.

“This report shows that NSW consumers may have saved around 9% if they switched from a standing offer to a market offer in 2012-13,” he said.

Environmental policies:

- Environmental policies considered for NSW include the carbon pricing mechanism, the renewable energy target, the NSW Climate Change Fund and the New South Wales Energy Savings scheme. Together they currently make up 17% of average market offer prices in the state.
- Carbon pricing costs were based on existing legislation. The Australian Government has introduced legislation to remove the existing carbon price as at 1 July 2014. The removal of the carbon price will reduce the prices compared to those presented in the report for 2014/15 and 2015/16.
- Moving to a floating carbon price from 1 July 2015 under current legislation is a key driver of the expected 5 per cent fall in NSW market offer prices in 2015/16.
- The costs associated with the renewable energy target, the NSW Climate Change Fund and energy efficiency scheme are not expected to change significantly over the three years from 2012/13 to 2015/16.

Regulated networks:

- Regulated network costs currently make up 59 per cent of the average market offer price in NSW and are expected to rise moderately in line with inflation.
- Distribution network costs decreased by, on average, 3 per cent between 2012/13 and 2013/14 in NSW. This reflected a decrease in the allowed revenue for Essential Energy during that period under its existing regulatory determination.
- The regulatory determinations for the NSW transmission and distribution network businesses end on 30 June 2014.
- Networks NSW and TransGrid have committed to keeping network revenue increases to no more than CPI for the next five years.
- New rules made by the AEMC in November 2012 have given the Australian Energy Regulator more discretion when setting allowable revenues for regulated network businesses.

Competitive markets:

- Competitive market costs include wholesale energy purchase costs and the costs of the retail sale of electricity. They currently make up around 24 per cent of the average market offer price.
- Over the three years from 2012/13 to 2015/16, competitive market costs are expected to increase, on average, by 4 per cent a year.
- The competitive market in NSW allows consumers to shop around for the best offer from retailers. Consumers may have saved around 9 per cent if they switched from a standing offer to a market offer in 2012/13.
- Potential savings are based on each retailer's lowest generally available market offer as at February 2013 and vary according to electricity consumption, geographic location and individual circumstances.

About the Price Trends Report

The AEMC Pricing Trends Report identifies drivers of residential electricity price increases. It is not a forecast of actual prices but a guide to price trends. It identifies components that are driving trends based on current knowledge and assumptions. The report does not take account of some decisions by governments and regulators announced recently. Trends vary in each state and territory according to approaches taken by jurisdictional regulators to setting prices, and the different costs associated with population spread and density, weather, customer consumption levels, technology, economic strengths, consumer choices and environmental schemes.

About the AEMC

We are the independent body responsible since 2005 for providing policy advice to Australian governments on the electricity and gas sector. We are separate from the Australian Energy Regulator, which regulates the energy market.

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AEMC 2013 ELECTRICITY PRICE TRENDS REPORT*

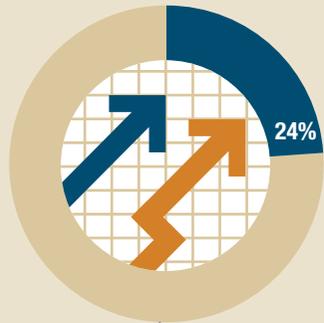
THIS REPORT LOOKS AT WHAT FACTORS WILL DRIVE RESIDENTIAL ELECTRICITY PRICES OVER THE NEXT THREE YEARS TO 30 JUNE 2016

New South Wales market offer prices are expected to decrease, on average, over the three years from 2012/13 to 2015/16

WHAT YOU PAY FOR

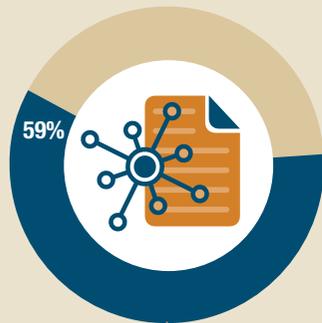
Competitive markets

Wholesale costs and retail. In the states where there are market offers, consumers can save money if they shop around



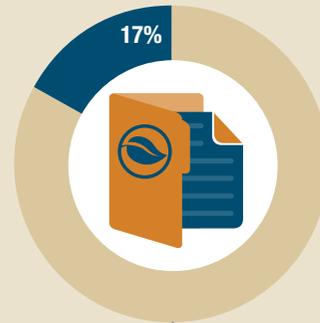
Regulated networks

Pressure on costs of poles and wires is moderating



Environmental policies

Place downward pressure on prices



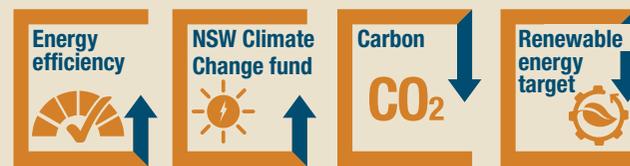
PRICE TRENDS



- Competitive market costs increase, on average, by 4% a year to 2015/16
- By switching from a standing to a market offer, consumers may have saved around 9% in 2012/13



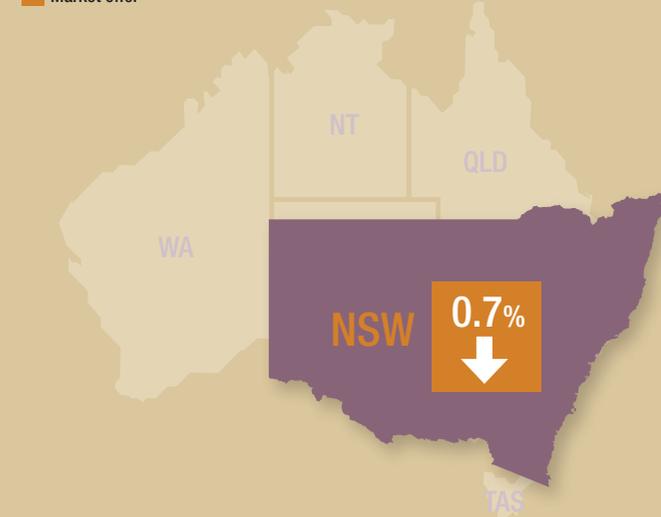
- The underlying factors which had previously driven historic network cost increases are moderating. These factors include the cost of capital, peak and average demand growth, and changes to jurisdictional reliability standards.
- Transmission network costs increase, on average, by 5% a year to 2015/16
- Distribution network costs increase, on average, by 1% a year to 2015/16
- The AEMC made new rules in November 2012 to give the regulator more discretion in setting network revenues



- Fall in electricity prices in 2015/16 reflects the move to a floating carbon price under existing legislation.
- Removing the carbon pricing mechanism will reduce prices compared to those in this report for 2014/15 and 2015/16
- Cost of the renewable the energy target, NSW Climate Change fund and energy efficiency scheme not expected to change substantially

PRICE MOVEMENTS ANNUAL AVERAGE FY13 – FY16

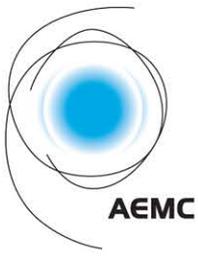
Market offer



STANDING AND MARKET OFFER PRICE DIFFERENCES FOR NEW SOUTH WALES



* This fourth annual pricing trends report is based on policies and regulations in each jurisdiction in 2013. It's based on AEMC analysis of power usage by a representative residential consumer in each jurisdiction and consideration of trends across the competitive market sector, regulated networks sector and government environmental policies, drawn from information from governments, regulators, market modelling, retailers, and our own analysis.



New South Wales: Household electricity price trends

Possible future residential electricity price movements to 30 June 2016

The AEMC pricing trends report identifies factors driving electricity prices over the next three years to 2015-2016 in the states and territories, and consolidates these to provide a national average picture. It is the fourth report prepared for the Standing Council on Energy and Resources (SCER) at the request of the Council of Australian Governments (COAG).

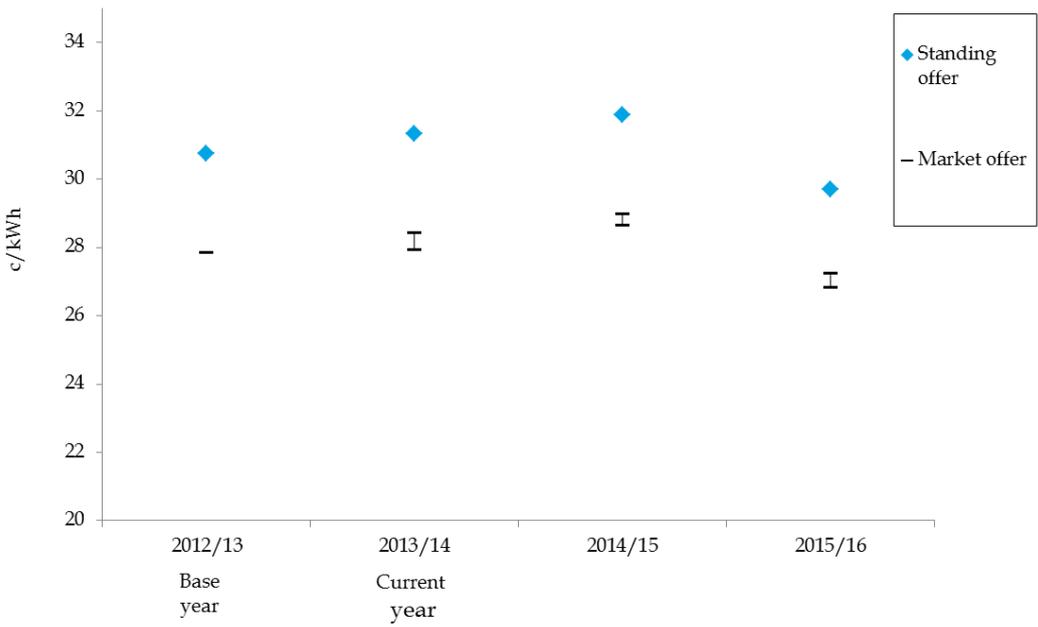
This report is not a forecast of prices. It analyses trends occurring in the competitive market sectors of the industry; the regulated networks sector; and resulting from government environmental policies. We report on how these trends affect overall prices paid by residential consumers.

This report varies from previous reports in that it includes:

- Both *standing* and *market offer* prices in jurisdictions where these offers are available.
- The effect of different household consumption levels on average electricity prices.

Key findings for NSW

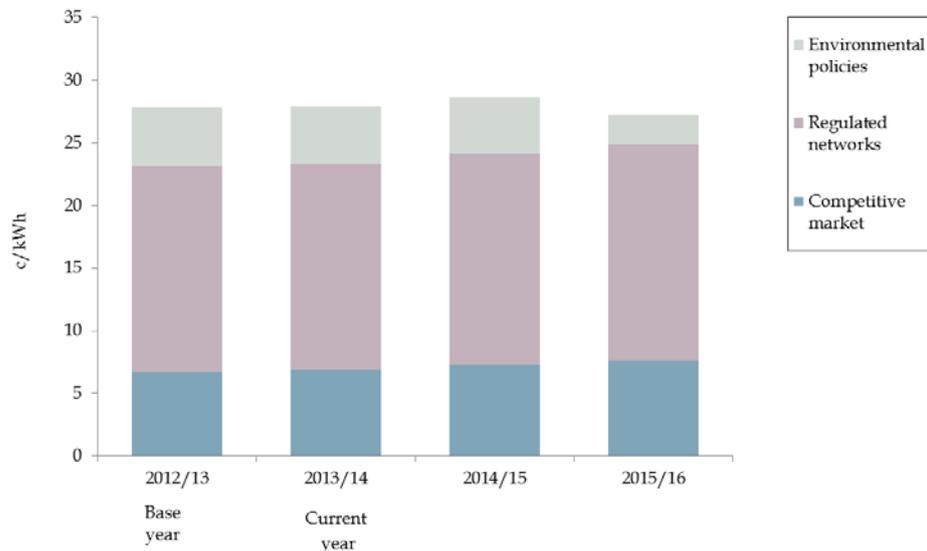
Market offer prices in New South Wales are expected to decrease, on average, by 0.7 per cent a year for the three years from 2012/13 to 2015/16.



Changes to the carbon pricing mechanism under existing legislation are expected to have the greatest impact on prices between 2014/15 to 2015/16.

Drivers of price trends

The trends for New South Wales are largely driven by small increases in competitive market costs, offset by decreases in carbon pricing costs in 2015/16.



Environmental policy costs

The carbon pricing mechanism, the renewable energy target, the NSW Climate Change Fund and the New South Wales Energy Savings Scheme impact on electricity prices and currently make up 17 per cent of the New South Wales average *market* offer price.

Changes to the carbon pricing mechanism under existing legislation are expected to have the greatest impact on electricity prices between 2014/15 and 2015/16.

Our assessment of carbon pricing costs has been based on existing legislation. We note that the Australian Government has introduced legislation to remove the existing carbon price as at 1 July 2014. Removing the carbon pricing mechanism will reduce prices compared to those presented in the report for 2014/15 and 2015/16.

The costs associated with the renewable energy target, the NSW Climate Change Fund and energy efficiency scheme are not expected to change substantially over the three years from 2012/13 to 2015/16.

Regulated network costs

Regulated network costs currently make up 59 per cent of the average market offer price in NSW.

Between 2012/13 and 2013/14, distribution network costs decreased by, on average, 3 per cent. This reflected a decrease in the allowed revenue for Essential Energy during that period under its existing regulatory determination. Over the next two years, from 2014/15 to 2015/16, regulated network costs are expected to rise in line with inflation.

The increases in regulated network costs reflect moderation in the underlying factors which had previously driven network cost increases, including the cost of capital, expectations of peak and average demand and changes to jurisdictional reliability standards.

Regulatory reform is another key driver of change in regulated network costs, including new rules made by the AEMC in November 2012 that have given the AER more discretion when undertaking network regulatory determinations.

Market offers are providing consumers with substantial savings over regulated and standing offer prices.

Competitive market costs

Competitive market costs include wholesale energy purchase costs and the costs of the retail sale of electricity. They currently make up around 24 per cent of the average *market offer* price.

Over the three years from 2012/13 to 2015/16, competitive market costs are expected to increase, on average, by 4 per cent a year.

The competitive market in New South Wales allows consumers to shop around for the best offer from retailers. Consumers may have saved around 9 per cent if they switched from a *standing offer* to a *market offer* in 2012/13.

Potential savings are based on each retailer's lowest generally available *market offer* as at February 2013 and vary according to electricity consumption, geographic location and individual circumstances.

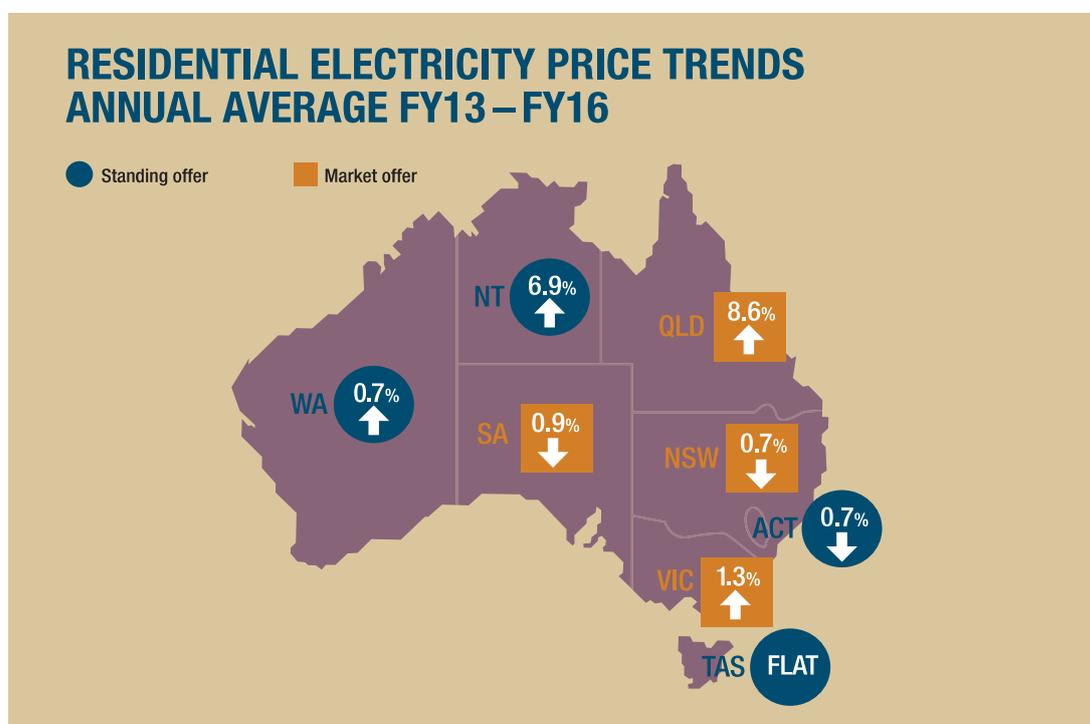
Jurisdictional price trends

There is a reasonable degree of variability between the states and territories that underlies the national summary.

Price trends in most states and territories are expected to show little overall change over the next three years, except Queensland and the Northern Territory. This reflects variations in population spread and density, climate, consumption patterns, tariff structure, regulation and policies for each state or territory.

Our analysis of trends in *market offers* covers Queensland, New South Wales, Victoria and South Australia. In jurisdictions where both *standing* and *market offers* are available, residential consumers are able to shop around for the best offer from retailers.

Depending on where consumers live and their electricity consumption, they may have saved between 5 and 16 per cent by switching from a *standing offer* to a *market offer* in 2012/13. Consumers can also benefit by considering their consumption profile and seeking out an offer that best reflects the way they use electricity.



The AEMC price trends report identifies factors driving residential electricity prices over the next three years to 2015-2016 in each state and territory.

Information sources

Information for this report has been sourced from jurisdictional governments and regulators. We also sourced information from the Australian Energy Regulator in relation to transmission and distribution network costs and from retailers operating in the relevant states for our analysis of *market offer* prices. The AEMC also commissioned independent modelling of wholesale energy purchase costs, carbon pricing mechanism costs and Renewable Energy Target costs. Our modelling was undertaken based on current knowledge and assumptions as well as existing legislation.

Our findings may be impacted by a number of factors including

- changes in demand and generation;
- input cost changes;
- entry and exit of generation;
- changes in cost allowances in network regulatory determinations;
- approaches to retail price regulation; and
- changes in legislation.

Continuing electricity reform

The AEMC's work program is enhancing NEM frameworks to allow businesses and the regulator to deliver reliable electricity supply for consumers in the most cost efficient way. This requires an electricity market that can adapt to changing circumstances and deliver efficient investment and innovation. Our role as rule maker is to be impartial and objective. We make rules to help give energy consumers reliable services at efficient prices, so they don't pay more than necessary; and to promote a strong and healthy industry that can supply Australia's energy needs in the long term.

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