

VIC electricity price trends

Victorian trends keep electricity price increases less than inflation

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 that market offer prices in Victoria are expected to rise by less than the expected level of inflation at a rate of 1.3% a year from 2012/13 to 2015/16.

This reflects moderate increases in regulated network costs, offset by reductions in environmental policy costs.

“Victoria along with the rest of the nation is likely to see the progressive impact of a falling carbon pricing component.

“Victoria’s market offer prices are expected to increase on average, by 4.3 per cent a year over the two years from 2012/13 to 2014/15 and then fall by around 4.9 per cent in 2015/16, under the existing carbon pricing legislation.

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

“Significantly in Victoria consumers have a large number of retailer options to choose from and around 80% of households are on a market offer,” Mr Pierce said.

“Consumers may have saved around 16 per cent if they switched from a standing offer to a market offer in 2012/13,” he said.

Environmental policies:

- Environmental policies considered for Victoria include the carbon pricing mechanism, the renewable energy target, Victorian feed in tariff schemes and the Victorian Energy Efficiency Scheme. Together they currently make up 19 per cent of the average market offer price 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 4.9 per cent fall in Victorian market offer prices in 2015/16.
- The costs associated with the renewable energy target, feed in tariff schemes, and the Victorian energy efficiency scheme are not expected to change significantly to 2015/16.

Regulated networks:

- Regulated network costs currently make up 39 per cent of average market offer prices in Victoria.
- Distribution network costs increase, on average, by 10.8 per cent a year for the two years from 2012/13 to 2014/15. These increases partly reflect the revenue allowances that were included in existing regulatory determinations which were made prior to the recent network regulation rule changes. Existing regulatory determinations for Victorian distribution networks end on 31 December 2015.
- The changes also reflect moderation in the underlying factors which had previously driven network cost increases, including the cost of capital and average and peak demand growth.
- 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:

- The Victorian retail market demonstrates a substantial degree of product differentiation. Retailers are offering a wide range of tariff products, with marked differences in terms of the effect on the price consumers pay for electricity depending on their consumption level and profile. This allows consumers to choose a product that is most likely to suit their circumstances.
- Consumers may have saved around 16 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 August 2012 and 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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13 December

AEMC 2013 ELECTRICITY PRICE TRENDS REPORT*

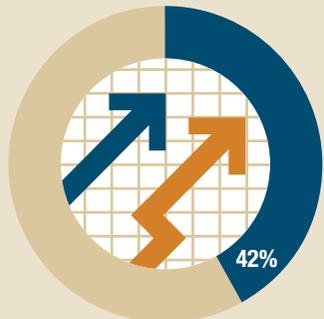
THIS REPORT LOOKS AT WHAT FACTORS WILL DRIVE RESIDENTIAL ELECTRICITY PRICES OVER THE NEXT THREE YEARS TO 30 JUNE 2016

Victorian market offer prices are expected to increase, on average, at a rate less than the expected level of inflation over the three years from 2012/13 to 2015/16

WHAT YOU PAY FOR

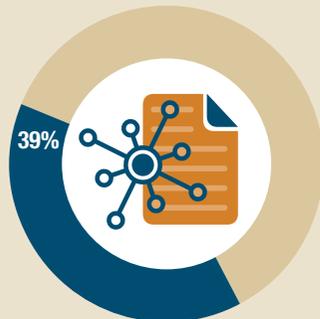
Competitive markets

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



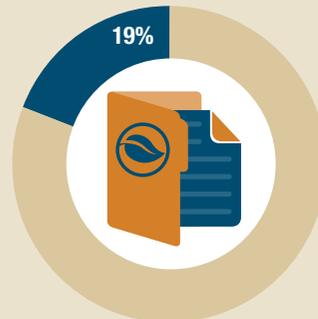
Regulated networks

Pressure on costs of poles and wires is moderating



Environmental policies

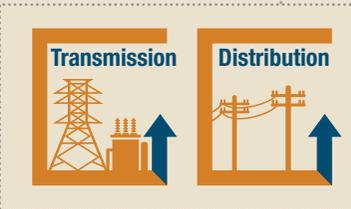
Continue to place downward pressure on prices



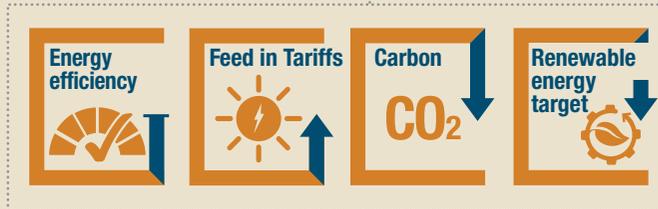
PRICE TRENDS



- Competitive market costs increase, on average, by 3% a year to 2015/16
- By switching from a standing to a market offer, consumers may have saved around 16% in 2012/13
- The Victorian retail market demonstrates a substantial degree of product differentiation. Retailers are offering a wide range of tariff products, with marked differences in terms of the effect on the price consumers pay for electricity, depending on their consumption level and profile



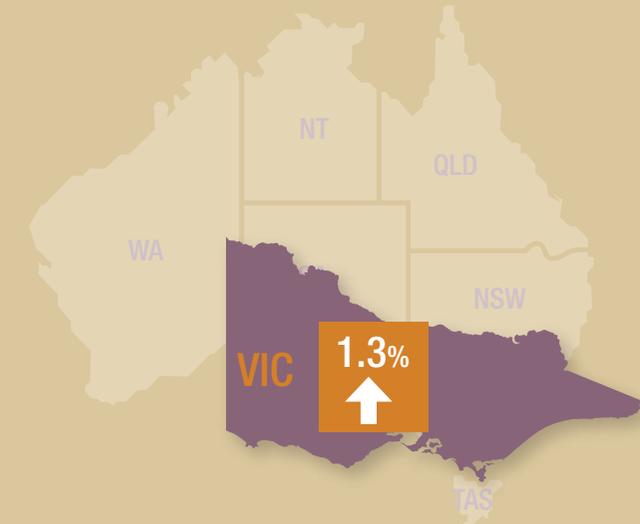
- The underlying factors which had previously driven historic network cost increases are moderating. These factors include the cost of capital, and peak and average demand growth.
- Transmission network costs increase, on average, by 3% a year to 2015/16
- Distribution network costs increase, on average, by 8% a year to 2015/16. These increases partly reflect the revenue allowances that were included in existing regulatory determinations made prior to the recent network regulation price changes. These determinations end on 31 December 2015
- The AEMC made new rules in November 2012 to give the regulator more discretion in setting network revenue



- The fall in 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 in 2014/15 and 2015/16
- Costs of the energy efficiency and feed in tariff schemes and the renewable energy target are not expected to change substantially

PRICE MOVEMENTS ANNUAL AVERAGE FY13 – FY16

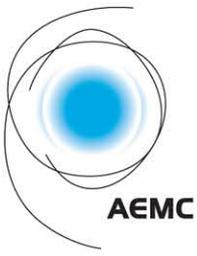
Market offer



STANDING AND MARKET OFFER PRICE DIFFERENCES FOR VICTORIA



* 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, the regulated networks sector and government environment policies, drawn from information from governments, regulators, market modelling, retailers, and our own analysis.



Victoria: 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).

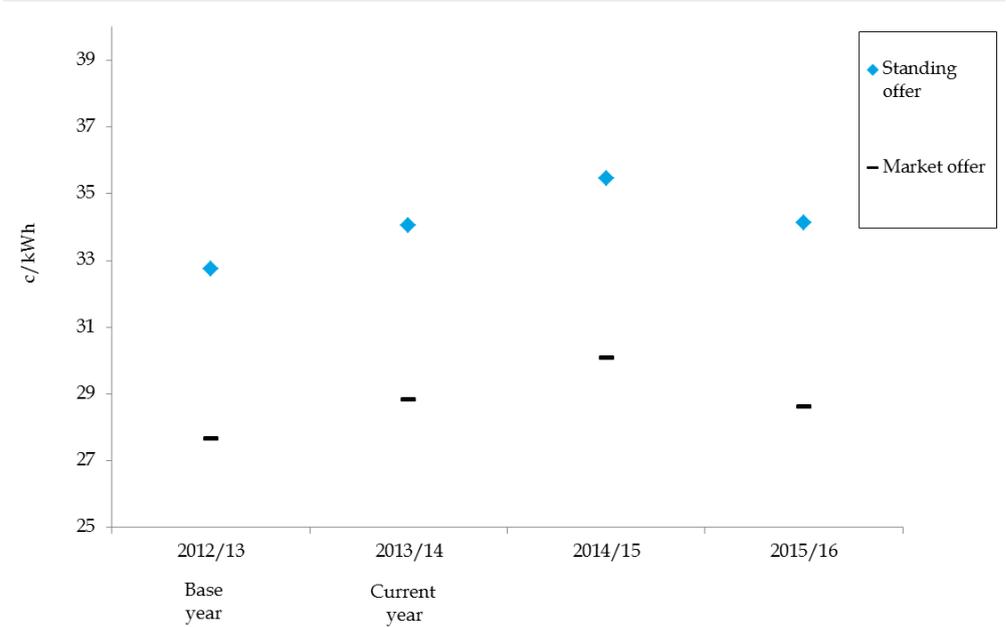
This report is not a forecast of prices. It analyses trends occurring in the competitive market sectors of the industry; the regulated networks sector; and resulting from government environmental policies. We report on how these trends affect overall prices paid by residential consumers.

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 Victoria

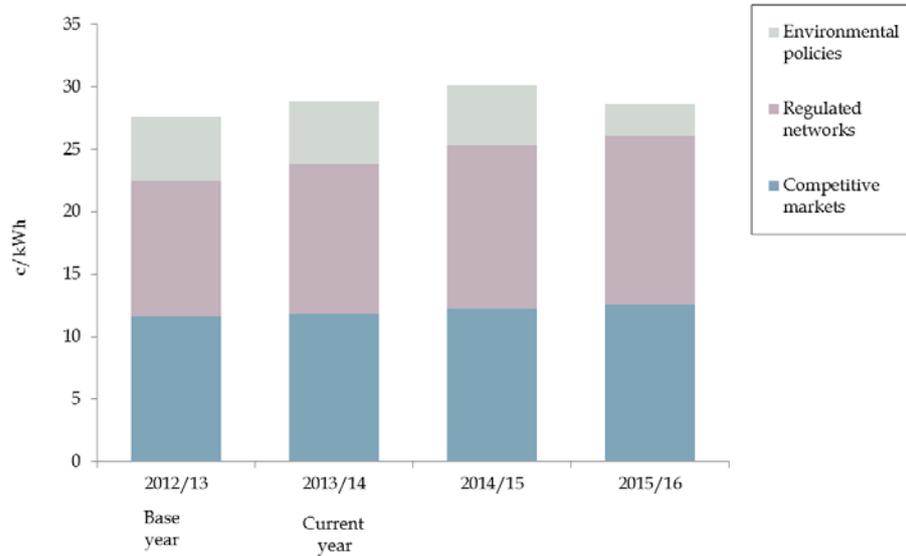
Market offer prices in Victoria are expected to moderate, increasing, on average, by 1.3 per cent a year for the three years from 2012/13 to 2015/16. This is less than the expected level of inflation.



The moderation of price increases in Victoria is largely driven by small increases in regulated network costs, offset by falling carbon pricing costs.

Drivers of price trends

The trends for Victoria are largely driven by increases in regulated network costs, offset by reductions in environmental policy costs in 2015/16.



Environmental policy costs

The carbon pricing mechanism, the renewable energy target, Victorian feed in tariff schemes and the Victorian Energy Efficiency Scheme impact on electricity prices and currently make up 19 per cent of the 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 increase, feed in tariff schemes and the Victorian 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 39 per cent of the average *market offer* price in Victoria.

Distribution network costs increase, on average, by 10.8 per cent a year for the two years from 2012/13 to 2014/15. These increases reflect the revenue allowances that were included in existing regulatory determinations which were made prior to the recent network regulation rule changes. The existing regulatory determinations for Victorian distribution networks end on 31 December 2015.

From 2014/15 to 2015/16, we have escalated the Victorian transmission costs by the assumed rate of inflation.

The underlying factors which had previously driven network cost increases, including the cost of capital and average and peak demand growth are all moderating. The moderation of these factors will impact the new regulatory determination for SP AusNet Transmission in 2014.

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 42 per cent of the average *market offer* price.

Over the three years from 2012/13 to 2015/16, competitive market costs are expected to, on average, increase by 3 per cent a year.

The Victorian retail market demonstrates a substantial degree of product differentiation. Retailers are offering a wide range of tariff products, with marked differences in terms of the effect on the price consumers pay for electricity. This allows consumers to choose a product that is most likely to suit their circumstances. Around 80 per cent of Victorian households are on a *market offer*.

Consumers may have saved around 16 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 August 2012 and February 2013 and vary according to electricity consumption, geographic location and individual circumstances.

Competitive market costs appear to be higher in Victoria than in the three other states where market offers are available. There a number of potential reasons for those differences, which we intend to investigate further in 2014.

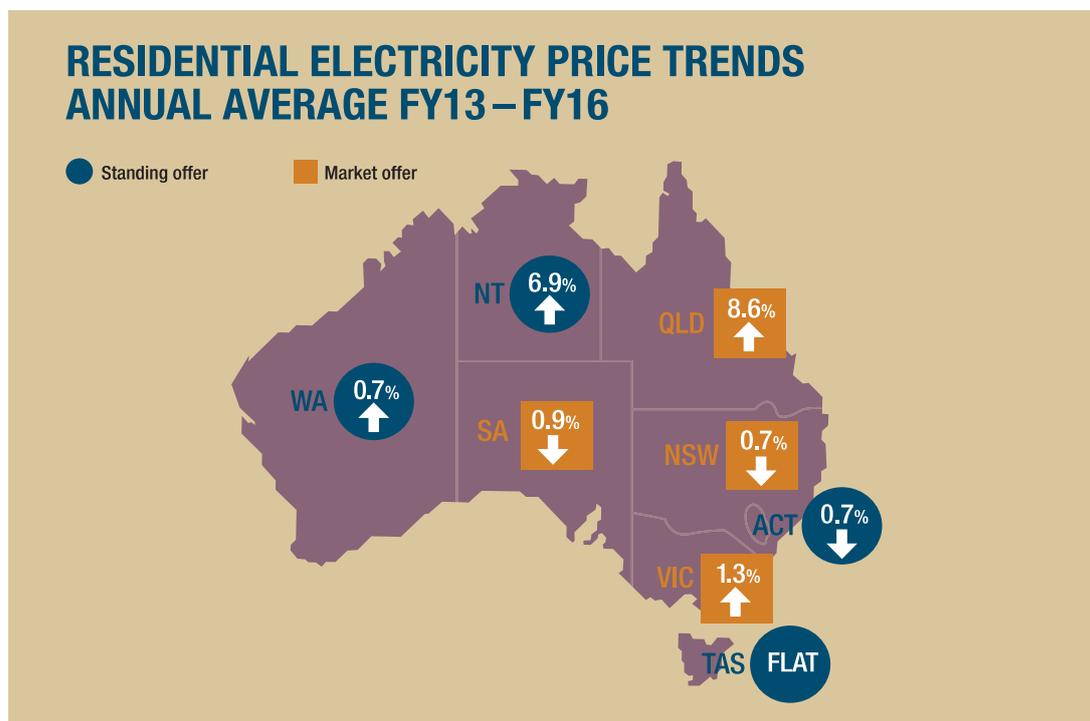
Jurisdictional price trends

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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