

## Household Electricity Price Trends

AEMC Electricity Price Trends Report:  
Possible Future Retail Electricity Price movements 1 July 2012 to 30 June 2015

### **The Australian Energy Market Commission's annual report on retail electricity price trends identifies factors which are driving household electricity prices in each state and territory.**

The report is based on Australian Energy Market Commission (AEMC) analysis of market trends across the electricity supply chain, including generation, transmission and distribution networks and retail. This is the third report prepared for Australia's energy ministers on the Standing Committee on Energy and Resources (SCER). The report is required by its terms of reference to describe trends over a four year period. This report covers 2011-2012 to 2014-2015.

#### **Scope of the report**

This report outlines reasons why household electricity prices might rise or fall for each state and territory, and consolidates these to provide a national picture.

It is not a forecast of actual prices but a guide to pricing trends.

Electricity prices are complex. The factors driving them can change. Actual price outcomes in the years ahead may differ from this report because of a range of uncertainties including:

- entry and exit of generators from the wholesale market;
- changes in demand and peak demand;
- changes to retail price regulation, with several jurisdictions (New South Wales, Tasmania and Queensland) reviewing or changing their approach, particularly in estimating wholesale energy costs;
- changes in network prices following the finalisation of new regulatory determinations for individual network businesses; and
- price outcomes from jurisdictional decisions such as South Australia's removal of price regulation from 1 February 2013, and recent changes to the announced price increases in the Northern Territory.

This report uses prices from the regulated or standing offers by retailers in each jurisdiction in the base year of 2011-2012 and current year of 2012-2013. It applies identified trends to prices over the following two years for a representative set of household customers.

Wherever possible, publicly available data and information has been used to calculate the impact of different components on household electricity prices.

Modelling is based as far as possible on approaches used by regulators in each jurisdiction to set retail prices. It should also be noted that estimates of retail electricity price movements in this report are based on regulated or published standing offers and may therefore overstate the actual prices paid by the majority of customers who are receiving supply on market offers.

The main driver of upward pressure on retail prices in the short-term continues to be network prices, but this is estimated to stabilise.

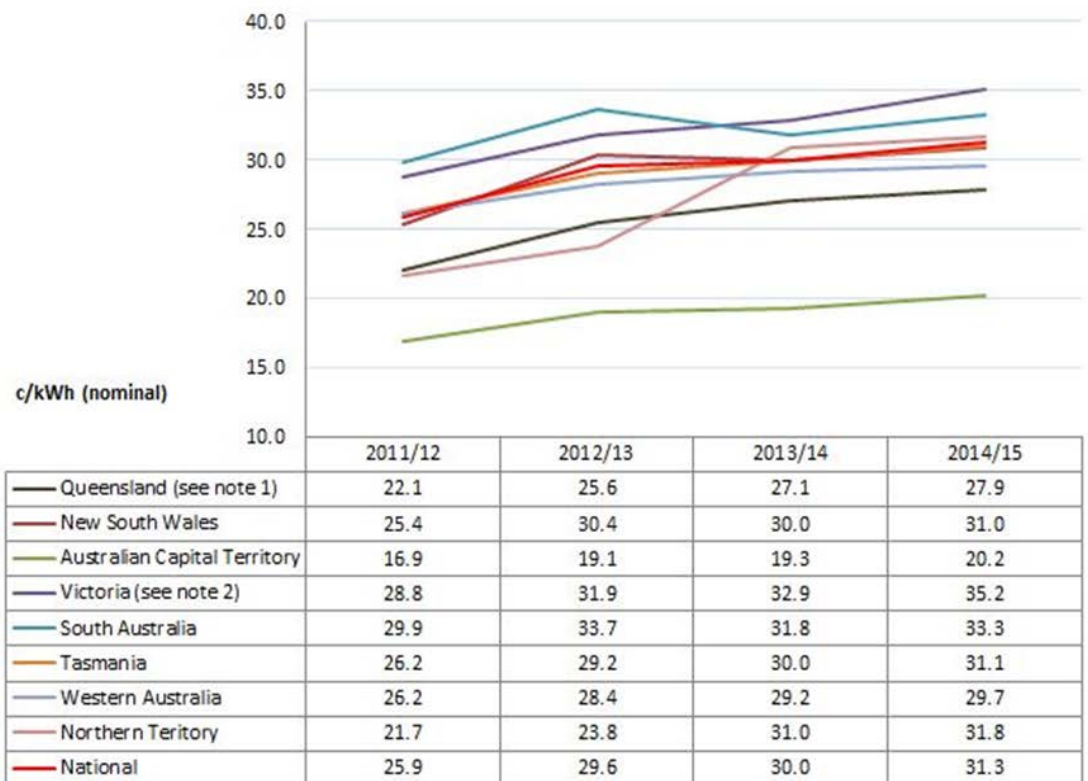
The AEMC's modelling for Victoria is based on standing offer prices. Standing offers differ in nature from the regulated retail prices in other jurisdictions as they are not set by a regulator. According to analysis by the Essential Services Commission Victoria, the standing offer is on average 12% higher than market offers. Based on the AEMC's estimate of the 2012-2013 standing offer price (31.9 c/kWh) removing the 12% in 2012-2013 would equate to a discount of 3.4 c/kWh, making an average market offer price of 28.5 c/kWh.

### Price trends

Nationally, from 2011-2012 to 2014-2015, household electricity prices are estimated to increase nominally from 25.9 c/kWh to 31.3 c/kWh. This is a total nominal increase of 5.4 c/kWh. This equates to an annual rate of change of 7%.

Much of this increase is now historical, having occurred between 2011-2012 and 2012-2013. During this period, national retail prices increased nominally by 14% (3.7 c/kWh). This increase included the impact attributable to the introduction of the carbon price.

This growth is estimated to slow considerably to a national average increase of 3% annually (a total of 1.7 c/kWh) for the final two years to 30 June 2015.



#### Notes:

1. Queensland prices do not incorporate recent pass through approvals by the AER in respect of feed-in tariff costs for 2011/12, or retail price proposals under the QCA's draft retail price determination for 2013/14. A preliminary assessment of the impact of these changes indicates that the total retail price in 2013/14 would increase by 0.5 c/kWh to 27.7 c/kWh (from 27.1 c/kWh), and in 2014/15 it would increase by 0.5 c/kWh to 28.5 c/kWh (from 27.9 c/kWh).
2. Victorian prices are based on published standing offers and are likely to overstate the actual prices paid by representative residential customers receiving supply on market offers. According to the Essential Services Commission in Victoria, based on 2011/12 prices, the published standing offers are, on average, 12 per cent higher than current market offers. This would reduce the estimated 2011/12 Victorian standing offer price of 28.8 c/kWh by 3.1 c/kWh, resulting in an average market offer price of 25.7 c/kWh.
3. Values are nominal (not adjusted for inflation) and exclusive of GST.
4. Numbers may not add due to rounding.

Price trends in each state and territory are different as costs vary due to population spread and density, weather, technology and resources, economic strengths and consumer choices.

Price trends in each state and territory are different as costs vary due to population spread and density, weather, technology and resources, economic strengths and consumer choices. Each jurisdictional regulator applies different approaches to setting regulated prices, reflecting jurisdictional policies on price regulation. See fact sheets for detail on price trends in each state and territory.

#### Transmission and distribution networks

The main driver of upward pressure on retail prices in the short-term continues to be network prices, but this is estimated to stabilise.

#### **From base year to 2015 (2011-2012 to 2014-2015):**

- Transmission network prices are estimated to increase nominally by 43%, or 0.8 c/kWh. This accounts for 15% of the total retail price increase over this entire period. Of this increase 27%, or 0.5 c/kWh, occurred in 2011-2012 to 2012-2013.
- Distribution network prices are estimated to increase nominally by 25%, or 2.5 c/kWh. This accounts for 46% of the total retail price increase over this entire period. Of this increase 11%, or 1.1 c/kWh, occurred in 2011-2012 to 2012-2013.

#### **From current year to 2015 (2012-2013 to 2014-2015):**

- Transmission network prices are estimated to increase nominally by 13%, or 0.3 c/kWh. This will account for 19% of the total price increase for this portion of the review period.
- Distribution network prices are estimated to increase nominally by 12%, or 1.4 c/kWh. This will account for 81% of the total price increase for these three years.

Network businesses operate in accordance with multiyear regulatory control periods whereby the energy regulator determines the allowed prices or revenues for the businesses.

During the period covered by this report, a significant number of transmission and distribution businesses across Australia will enter into new regulatory control periods under determinations which will be governed by new rules set by the AEMC in November 2012.

#### Wholesale energy

Wholesale prices are estimated to moderate nationally because of reduced demand and increased generation of renewable energy.

Nominal wholesale prices rose nationally by 14% (1.4 c/kWh) from 2011-2012 to 2012-2013, in part reflecting the impact of the carbon price. Negligible change is estimated through until 2014-2015.

#### Retail costs

The retail component is estimated to rise by 16% (0.7 c/kWh) over the period 2011-2012 to 2012-2013. Again, negligible change is estimated to occur through to 2014-2015.

The cost to consumers of other environmental initiatives is expected to moderate, with price impacts of various state and commonwealth environmental schemes likely to slow from this year from changes including decisions on the early phase-out of the solar credits multiplier under the Small-scale Renewable Energy Scheme and closure of higher feed-in tariffs to new participants in many states.

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