



Victoria – 18 December 2017

2017 Residential electricity price trends: report 2017

The 2017 residential electricity price trends report identifies cost drivers across the entire electricity supply chain from 2016-17 to 2019-20.

The AEMC provides detailed analysis of forces of changes in Australia's energy markets. We provide government and stakeholders with the data they need to make market transformation work in the long term interests of consumers. This report provides an overall picture of factors driving electricity prices for households in each state and territory.

Key findings

The report examines wholesale electricity purchase costs, regulated network costs and environmental policy costs.

Annual electricity prices for the representative consumer on a market offer in Victoria:

- are expected to increase by 15.9 per cent from 2016-17 to 2017-18 due to higher wholesale electricity costs, driven by the retirement of Northern and Hazelwood generators and increasing gas prices
- are expected to decrease by an annual average of 8.2 per cent in 2018-19 and 2019-20. The expected decreases are largely attributable to decreases in wholesale electricity costs driven by expected new generation (approximately 4,100 MW across the NEM) and the return to service of the Swanbank E generator (385 MW in Queensland), and reduced short-run costs for South Australian gas plants due to the Energy Security Target.

Background

The expected movements in electricity prices for a representative consumer in Victoria have been based on an annual consumption level calculated from benchmark value data published by the Australian Energy Regulator (AER). The AER published updated benchmark values in December 2017. These new figures have been used in the report.

The annual consumption of the representative consumer in Victoria is 3,865 kWh per year.

Average electricity prices in this report are specific to the representative consumer in Victoria and may not reflect pricing outcomes for all residential consumers.

Price trends identified in this report are not a forecast of actual prices. They are a guide to factors which may drive prices up or down. Actual prices will be influenced by how retailers compete in the market, the outcomes of network regulatory process and changes in government legislation. Actual consumer bills will be affected by all these drivers as well as customer's individual consumption choices, and local factors like the weather, and where they live.

Trends in residential electricity prices

Residential electricity market offers for the representative consumer in Victoria are estimated to increase by 15.9 per cent from 2016-17 to 2017-18. However, prices are expected to:

- decrease by 6.6 per cent in 2018-19
- decrease by 9.7 per cent in 2019-20.

The key driver of the trend in annual electricity bills is wholesale electricity purchase costs.

This is equivalent to an average annual decrease of 8.2 per cent from 2017-18 to 2019-20.

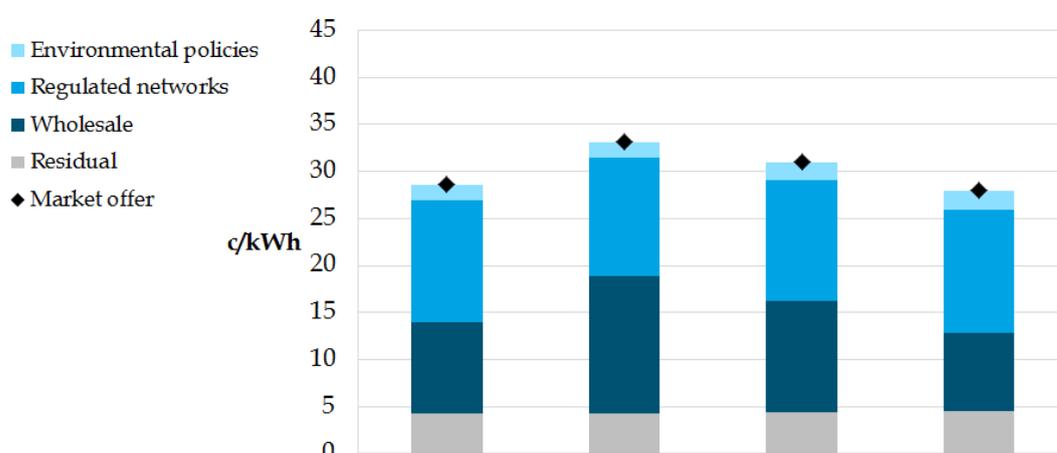
In Victoria consumers can choose between a market offer and a retail standing offer. Approximately 90 per cent of residential customers in Victoria are on a market offer.

The table below provides information on the total annual bill for a representative consumer in Victoria on a market offer and a standing offer.

Victoria	2016-17
Standing offer total annual bill	\$1,435
Market offer total annual bill	\$1,105

Trends in supply chain cost components

The below figure shows the expected movements in the supply chain cost components for the representative consumer on a market offer in Victoria.



	2016/17		2017/18		2018/19		2019/20	
	Base Year c/kWh	\$/yr	Current Year c/kWh	\$/yr	c/kWh	\$/yr	c/kWh	\$/yr
Environmental policies	1.69	\$65	1.67	\$64	1.87	\$72	2.01	\$78
LRET - LGC cost	0.64	\$25	0.75	\$29	0.88	\$34	1.02	\$39
SRES - STC cost	0.35	\$14	0.32	\$12	0.33	\$13	0.32	\$12
Feed in Tariff Schemes	0.50	\$19	0.38	\$15	0.38	\$15	0.38	\$15
Victorian Energy Upgrades	0.21	\$8	0.22	\$8	0.29	\$11	0.30	\$11
Regulated networks	12.89	\$498	12.63	\$488	12.82	\$495	13.04	\$504
Transmission	1.78	\$69	2.04	\$79	2.05	\$79	2.03	\$78
Distribution	11.11	\$429	10.58	\$409	10.77	\$416	11.02	\$426
Wholesale	9.79	\$379	14.51	\$561	11.82	\$457	8.34	\$322
Residual	4.22	\$163	4.33	\$167	4.44	\$171	4.55	\$176
Market offer	28.60	\$1,105	33.13	\$1,281	30.95	\$1,196	27.95	\$1,080

The expected movements in each of the electricity supply chain cost components for Victoria from 2017-18 to 2019-20 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 Victoria, wholesale market costs comprised approximately 34.2 per cent of the representative market offer in 2016-17. Wholesale market costs are expected to:

- increase by 48.2 per cent in 2017-18
- decrease by 18.5 per cent in 2018-19
- decrease by 29.4 per cent in 2019-20.

Regulated network costs comprised approximately 45.1 per cent of the representative market offer in 2016-17.

This is equivalent to an average annual decrease of 24.2 per cent from 2017-18 to 2019-20.

The drivers of wholesale market costs are set out in key findings above.

Regulated network costs: these costs include transmission and distribution network service providers' costs associated with providing the necessary infrastructure to enable the power system to operate as a connected system. The regulated network costs comprised approximately 45.1 per cent of the representative market offer in 2016-17.

Transmission network costs are expected to decrease at an average annual rate of 0.4 per cent from 2017-18 to 2019-20. Regulated transmission charges reflect transmission use of system charges in Victorian distribution business' 2017 annual pricing proposals and revenue growth rates in the AER's final determination for AusNet Services (transmission) for the 2017-22 regulatory period.

Distribution network costs are expected to increase at an average annual rate of 2.0 per cent from 2017-18 to 2019-20. Distribution charges in 2017-18 reflect approved pricing proposals and revenue growth rates in the AER's revenue determinations for Victorian distribution network providers. The 2018-19 and 2019-20 charges reflect revenue growth rates in the AER's revenue determinations for Victorian distribution network providers.

In October 2017, the Australian Competition Tribunal confirmed the AER's May 2016 revenue decisions for the Victorian distribution businesses.

Environmental policy costs: these costs are related to policies introduced by Commonwealth and Victorian governments including the Renewable Energy Target, feed-in tariffs and energy efficiency schemes. In 2016-17, environmental schemes comprised 5.9 per cent of the representative market offer and are expected to comprise an increasing proportion from 2017-18 to 2019-20.

The costs associated with the large-scale generation certificate scheme under the large-scale renewable energy target are expected to increase at an average annual rate of 16.3 per cent from 2017-18 to 2019-20.

The small-scale technology certificate costs under the small-scale renewable energy scheme are expected to decrease at an average annual rate of 0.1 per cent from 2017-18 to 2019-20.

Feed-in tariff costs are expected to remain at approximately the same level from 2017-18 to 2019-20. Victorian Energy Upgrades, the Victorian energy efficiency scheme, are expected to increase at an average annual rate of 17.2 per cent from 2017-18 to 2019-20.

The national picture

The underlying supply chain cost components and the impact of those trends vary across jurisdictions as a result of population, climate, consumption patterns, government policy and other factors. Against this background, residential prices nationally follow the same general trend as that seen for Victoria. This is as a result of the trend in wholesale electricity purchase costs which is the key driver of the price trends during the reporting period.

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