

# AEMC 2014 ELECTRICITY PRICE TRENDS REPORT

THIS REPORT LOOKS AT THE FACTORS DRIVING RESIDENTIAL ELECTRICITY PRICES OVER THE NEXT THREE YEARS TO 30 JUNE 2017

Queensland market offer prices are expected to decrease by around 1% in 2014/15, before increasing by 6.2% in 2015/16 and 4% in 2016/17

## WHAT ARE THE COMPONENTS THAT MAKE UP A TYPICAL QUEENSLAND ELECTRICITY BILL?



### Competitive markets

Wholesale prices are increasing moderately and retail competition is effective



- Competitive market cost are expected to increase, on average, by 3.7% per year to 2016/17
- Increases in wholesale prices are expected due to higher gas prices following the establishment of a liquefied natural gas industry on the east coast
- By shopping around for a better deal, Queensland consumers may have saved around 7% in 2013/14

### Regulated networks

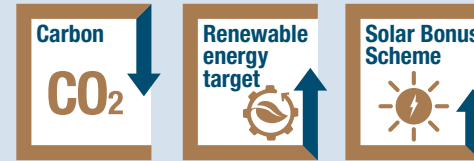
Pressure on the cost of poles and wires is moderating



- Regulated network prices are proposed to rise, on average, by 6.9% per year to 2016/17
- The increases reflect falling demand, which means total revenue must be recovered from lower energy sales, and expenditure proposed for replacing ageing infrastructure
- New rules made by the AEMC are being applied in Queensland from July 2015 which better equip the regulator to set efficient network revenue, so people don't pay more than necessary
- Distribution network prices will depend on the regulator's final determination in October 2015 on proposed network revenues

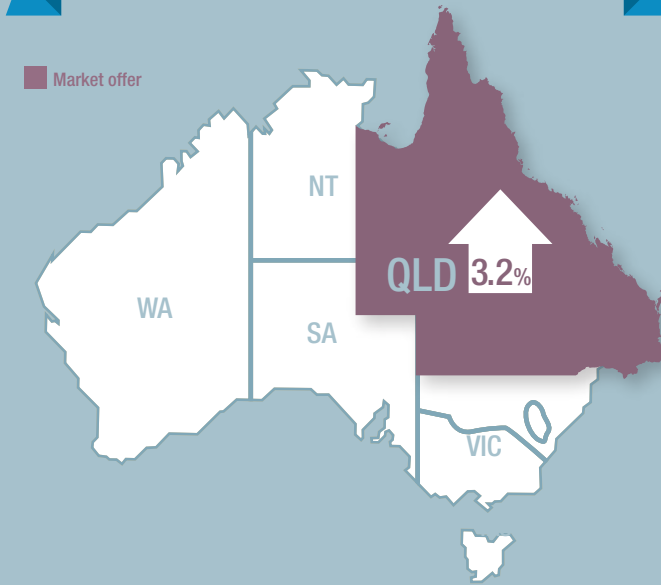
### Environmental policies

The cost of the Solar Bonus Scheme and Renewable Energy Target continue to increase

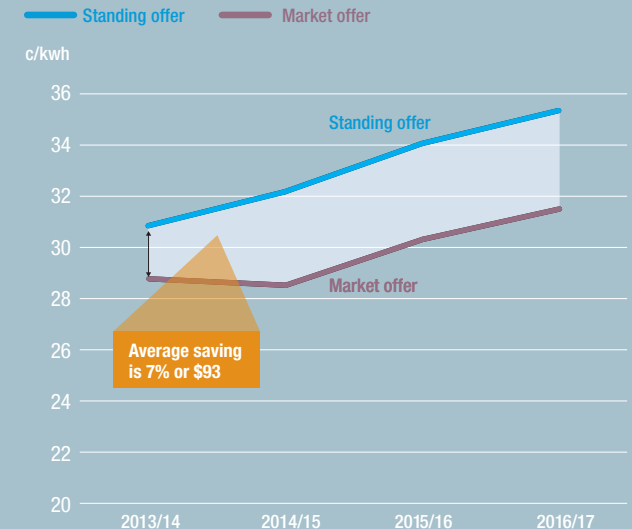


- Prices in Queensland are lower in 2014/15 due to removal of the carbon price, however the fall is mostly offset by increases in other costs
- Solar scheme costs have doubled in 2014/15 due to an under-recovery in previous years and now account for 8.7% of total bills
- In future years, prices may be lower if the costs of the Solar Bonus Scheme are offset through the Queensland Government's Strong Choices plan
- Costs associated with the Renewable Energy Target are expected to rise, on average, by 4.2% per year

## WHAT WILL EXPECTED AVERAGE ANNUAL PRICE TRENDS BE BETWEEN JULY 2014-17?



## SWITCH AND SAVE: STANDING VS MARKET OFFER IN QLD



# AUSTRALIAN ENERGY MARKET COMMISSION

## CHANGING THE ENERGY LANDSCAPE: NEW RULES FOR NETWORKS

AN INCENTIVE-BASED REGULATORY FRAMEWORK

### NOVEMBER 2012:

Economic Regulation of Network Service Providers rule change

### OUTCOMES OF THE 2012 RULE CHANGES

#### Setting revenue allowances for regulated networks

Regulation based on business efficiency means consumers don't pay any more than necessary for the reliable supply of electricity and gas.



### NOVEMBER 2014:

Distribution Network Pricing Arrangements rule change

### OUTCOMES OF THE 2014 RULE CHANGES

#### Structuring prices to empower consumers

Making network prices reflect the cost of providing network services to individual consumers means everyone can make informed decisions about how they use electricity. These rules cover how much individual households will pay for their network services.



### Allowed revenues for network businesses are now set using the expenditure required by prudent, efficient operators as a benchmark

Companies have incentives to beat the benchmarks so they can keep some of their savings and pass the rest on to customers

By July 2017 the prices we pay will reflect the different ways we use electricity and the costs of providing it

### The rules put consumers in the driving seat

The way we pay for power has to keep pace with our modern lifestyle. When prices reflect how much it costs to use different appliances at different times, consumers are able to make more informed decisions



AEMC rules are used by the Australian Energy Regulator (AER) to set the revenues that network businesses can recover as well as the maximum prices they can charge



The AER is able to review the efficiency of past capital expenditure overspends when assessing future revenue proposals



The AER works out revenues based on analysis of efficient costs including operating and capital expenditure, return on capital, depreciation, and tax liabilities



The AER has to release reports on network business performance to compare business performance across jurisdictions and over time



The rules include clear instructions for networks on the requirements to apply when determining how to structure network prices



There is more consumer consultation on how network prices are structured



Earlier notification of network prices allow retailers and consumers to better prepare for price changes



The right information on costs will help people choose energy services that are right for them – whatever technology changes lie ahead

NOVEMBER 2012

2013

27 NOVEMBER 2014

27 NOVEMBER 2014

2015

2017

AEMC makes new rules on setting network revenue allowances

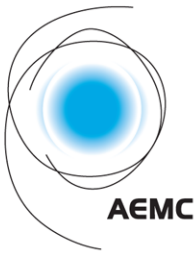
AER develops guidelines in response to the new rules and conducts public consultation under its Better Regulation Program

AER releases first draft revenue determinations under the new rules and guidelines

AEMC makes rules requiring cost reflective pricing for individual consumers

Network companies consult consumers and retailers on new tariffs and submit draft proposals to AER mid-year

Cost-reflective prices phased in no later than mid-year



## AEMC report shows electricity price trends in Queensland

**The Australian Energy Market Commission (AEMC) today released its 2014 Residential Electricity Price Trends report, which shows electricity prices in Queensland could increase by an annual average 3.2 per cent to 2016/17.**

The report analyses trends in the competitive market sectors of the electricity industry; the regulated networks sector; and resulting from government environmental policies. The factors driving each of the three are different, so understanding price trends involves looking into each individually.

AEMC Chairman John Pierce said overall, the cost of supplying electricity in Queensland has fallen by around 1 per cent in 2014/15.

“This fall is mainly due to the removal of the carbon price, which was largely offset by increases in network prices and the cost of the Solar Bonus Scheme,” Mr Pierce said.

The AEMC price trends report is a snapshot in time. It is based on publicly available information at the time of developing the report. We expect actual price movements to vary in response to decisions due to be made by both by the Queensland Government and the Australian Energy Regulator.

Future drivers of Queensland electricity prices will be affected by the:

- Australian Energy Regulator decisions on proposed future network revenue allowances (October 2015)
- Queensland Government’s foreshadowed decision on how the cost of the state’s Solar Bonus Scheme will be recovered.

Based on public information currently available, price rises in future years are mainly driven by the Solar Bonus Scheme which now accounts for 8.7 per cent of total bills, in addition to proposed network investments for replacement of ageing infrastructure.

New rules made by the AEMC are being applied progressively across the nation by the Australian Energy Regulator to set efficient revenue allowances for regulated network companies so people don’t pay more than necessary for poles and wires. Allowed revenues for network businesses are now set using the expenditure required by prudent, efficient operators as a benchmark.

In October 2015, the AER is due to release its final determination on Queensland network revenue allowances under the new rules and the expected prices for 2015/16 and 2016/17 will be clearer once this is available.

Wholesale costs in Queensland are expected to increase moderately in the three years to 2016/17, partly driven by higher gas prices following the establishment of a liquefied natural gas industry on the east coast.

**Future drivers of Queensland electricity prices will be affected by the Australian Energy Regulator's decisions on proposed future network revenue allowances (due October 2015) as well as the State Government's foreshadowed decision on how the cost of the Solar Bonus Scheme is to be recovered.**

Mr Pierce said increasing competition in electricity markets is providing opportunities for Queenslanders to shop around between electricity providers and save around 7 per cent on a better deal – or \$93 of their annual bill.

“With greater competition, more choice is expected to be available to consumers looking to shop around after the Queensland Government decided to remove retail price regulation from 1 July 2015.

“We encourage consumers to take advantage of competition between service providers by shopping around and choosing a better deal to save on their bills.”

The annual Residential Electricity Price Trends report is part of the AEMC's work to strengthen consumer engagement in energy markets.

The full report and further information is available at [www.aemc.gov.au](http://www.aemc.gov.au).

#### **About the AEMC**

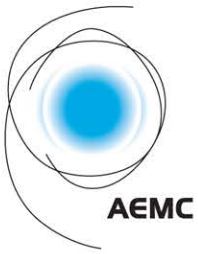
We are the independent body responsible since 2005 for providing advice to Australian governments on development of the electricity and gas sector. We make statutory energy market rules which are applied and enforced by the Australian Energy Regulator (AER).

Media contacts:

Communication Manager, **Prudence Anderson** 02 8296 7817 or 0404 821 935

Communication Specialist, **Tim O'Halloran** 0409 059 617 or 02 8296 7871

EMBARGOED 1pm AEDT, 11 December 2014



## Queensland: Household electricity price trends

Trends in Queensland residential electricity prices will depend on decisions yet to be made by both by the Queensland Government and the Australian Energy Regulator

**The 2014 Residential Electricity Price Trends report identifies factors driving electricity prices over the three years to 2016/17 in all states and territories. By providing this information at the request of the COAG Energy Council, the AEMC is seeking to strengthen consumer engagement in the market.**

The Residential Electricity Price Trends report presents expected movements in prices for a representative consumer in Queensland, using an annual consumption level that was provided to us by the Queensland Government.

- The annual consumption of the representative consumer in Queensland is assumed to be 4,533 kilowatt-hours (kWh).
- Average electricity prices in this report are specific to the representative consumer and may not reflect the pricing outcomes for all residential consumers.

To undertake this work, we analysed trends in the competitive market sector of the industry, the regulated networks sector and the impact of government environmental policies. We report on how these trends affect overall prices paid by residential consumers, in order to identify the relative contribution to the price movements of these drivers.

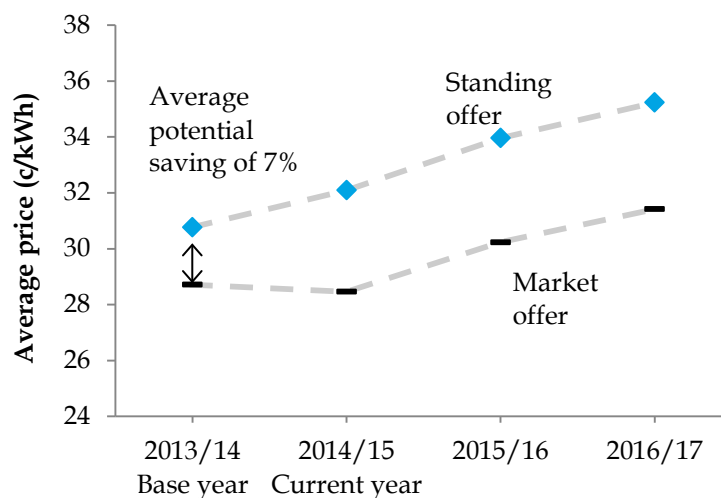
### Key findings for Queensland

Electricity prices in Queensland are expected to increase by an annual average 3.2 per cent to 2016/17.

On average, *market offer* prices in South East Queensland have decreased by 0.9 per cent in 2014/15. Expected price changes in the following two years will be affected by the:

- Australian Energy Regulator (AER) decisions on proposed future network revenue allowances (October 2015); and
- Queensland Government's foreshadowed decision on how the cost of the state's Solar Bonus Scheme will be recovered.

### Trends in Queensland *market offer* and *standing offer* prices



**Regulated network prices and the Queensland Solar Bonus Scheme are the key drivers of expected price movements**

Consumers in South East Queensland may have saved around 7 per cent, or \$93, if they switched from the regulated *standing offer* to the representative *market offer* in 2013/14. Actual savings will depend on individual circumstances and more savings can be achieved if consumers shop around and choose the best *market offer* to meet their needs.

In July 2014, there were a total of 18 *market offers* available to residential consumers in South East Queensland and the difference in price between the highest and lowest offers was around 6 c/kWh for the representative consumer.

**Drivers of price trends**

The key drivers of expected price movements in Queensland to 2016/17 will be the outcome of the AER’s distribution network determination and the recovery of Queensland Solar Bonus Scheme costs.

In 2014/15, *market offer* prices have fallen by around 0.9 per cent as the savings from the removal of the carbon price are mostly offset by increases in the Queensland Solar Bonus Scheme costs and regulated network prices

Based on Energex’s 2015-20 regulatory proposal to the AER, the proposed trends in these cost components over the next two years are:

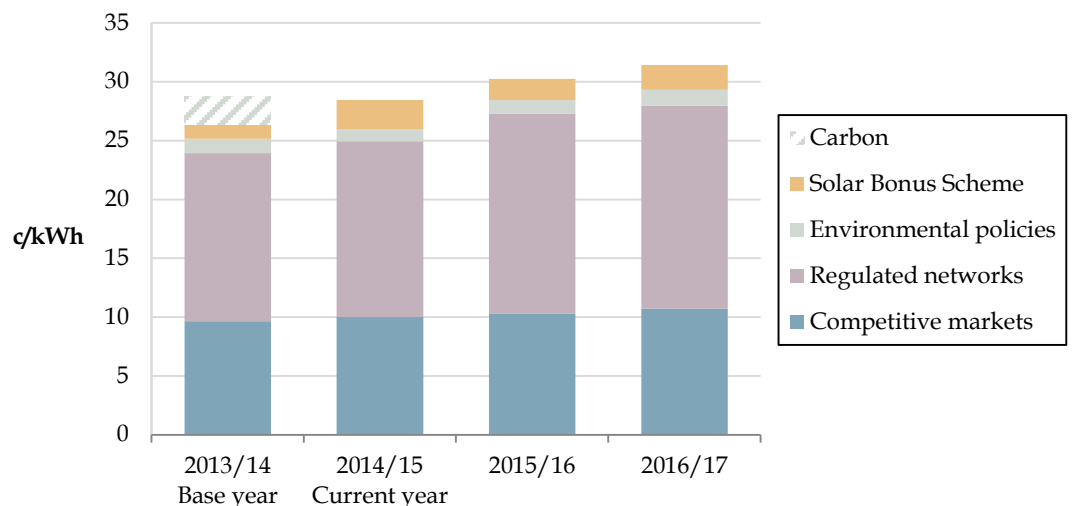
- increases in regulated network prices of 14 per cent in 2015/16 and 1.5 per cent in 2016/17; and
- an initial decrease in Queensland Solar Bonus Scheme costs of 28 per cent in 2015/16, then a 17 per cent increase in 2016/17. This reflects Energex’s proposal to smooth the scheme costs across the upcoming regulatory period.

The Queensland Government proposes to offset the costs of the Queensland Solar Bonus Scheme as part of its Strong Choices plan.

In October 2015, the AER is due to release its final determination on Queensland network revenue allowances under new rules and the expected prices for 2015/16 and 2016/17 will be clearer once this is available.

In 2014/15, it is expected that the total electricity bill for a representative consumer in South East Queensland will consist of around 53 per cent regulated network costs, 35 per cent competitive market costs and 12 per cent environmental policy costs, as shown in the graph below.

**Trend in Queensland supply chain components**



**Regulated network prices**

Regulated network prices consist of the costs of the transmission and distribution networks.

- In 2014/15, it is expected that transmission network prices will make up around 9 per cent of the total bill for a representative consumer and distribution network prices will make up 44 per cent.



- Regulated network prices are proposed to increase at an average annual rate of 6.9 per cent between 2013/14 and 2016/17.

In November 2012, the AEMC made new rules relating to how networks are regulated by the AER, which improve the capacity of the regulator to determine network prices. Under the new rules, the regulator is better equipped to develop methods and processes to achieve efficient outcomes for consumers, including how the rate of return on capital is set.

The new network rules will apply to the upcoming regulatory periods, meaning that during the three years from 2013/14 to 2016/17 the Queensland distribution network business will be subject to two different regulatory arrangements.

- The current distribution network determination applies until the end of 2014/15, after which time the 2015-20 regulatory period will commence and the new rules will apply to the remaining years of the report period.
- The current transmission network determination, made under the previous rules, came into effect on 1 July 2012 and applies until the end of this year's reporting period.

#### *Transmission network*

Transmission network prices have increased on average by 3.4 per cent in 2014/15 and are expected to increase by 7.2 per cent per year in 2015/16 and 2016/17.

- Additional network investment is occurring in response to peak demand growth anticipated at the time when the determination was made and the replacement of ageing infrastructure.

#### *Distribution network*

Distribution network prices have increased by 4.7 per cent between 2013/14 and 2014/15, and further increases of around 15 per cent in 2015/16 and 0.5 per cent in 2016/17 are proposed.

- The increase in 2014/15 has been caused by investment approved under the current regulatory determination and lower than forecast electricity consumption, meaning that revenue is being recovered from a lower volume of electricity sales.
- Energex's 2015-20 regulatory proposal features a lower rate of return than the previous regulatory period, growth in the asset base due to new capital expenditure and low regulatory depreciation, and forecast decreases in electricity consumption.
- The expected trend in 2015/16 and 2016/17 may change pending the AER's final distribution network determination in October 2015.

### **Competitive market costs**

Competitive market costs consist of the wholesale energy component and the costs associated with retailing electricity to residential consumers.

- Over the period to 2016/17, it is expected that competitive market costs will increase, on average, by 3.7 per cent per year.
- Moderate increases in wholesale electricity prices are expected following the establishment of a liquefied natural gas export industry on the east coast, as higher gas prices increase costs for gas-fired generators.

This effect is partially offset during the reporting period by the current over-supply of capacity in the wholesale market, which is caused by falling electricity consumption in Queensland.

In September 2014, the Queensland Parliament passed legislation to remove retail price regulation for small consumers in South East Queensland and this is expected to commence on 1 July 2015.

The AEMC's 2014 Retail Competition Review found that there are 10 competing retailers in South East Queensland and 70 per cent of consumers are on a *market offer* contract. In 2013, 17 per cent of consumers in South East Queensland changed their retailer.

Price drivers vary between states and territories, although there are some common underlying trends

## Environmental policy costs

The environmental policies that apply in Queensland during our reporting period are the:

- carbon pricing mechanism;
- Renewable Energy Target;
- Queensland Solar Bonus Scheme; and
- Queensland Gas Scheme.

Costs associated with the carbon pricing mechanism apply only in 2013/14 of our reporting period, as the policy has been repealed with effect from 1 July 2014.

- In 2013/14, these costs made up around 8 per cent of the total bill for the representative consumer in Queensland.

In 2013/14, Renewable Energy Target costs made up around 4.2 per cent of the total bill for the representative consumer, Queensland Solar Bonus Scheme cost 4.2 per cent and Queensland Gas Scheme costs less than 0.1 per cent.

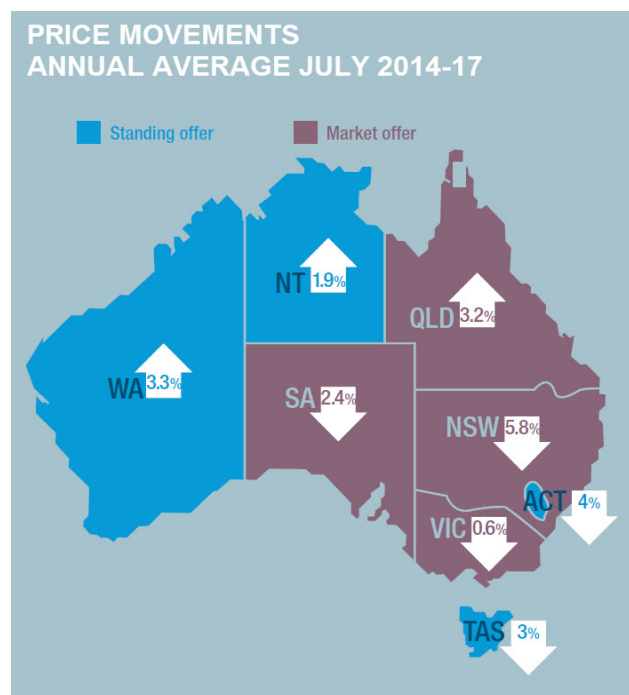
- Based on the current Renewable Energy Target legislation, scheme costs are expected to increase, on average, by 4.2 per cent per year to 2016/17.
- Queensland Solar Bonus Scheme made up 4.2 per cent of the representative market offer in 2013/14. This is expected to increase to 8.7 per cent in 2014/15, before decreasing to be 5.9 per cent in 2015/16 and then 6.6 per cent in 2016/17.
- The Queensland Gas Scheme makes no contribution after 2013/14 as the scheme was discontinued at the end of 2013.

## Jurisdictional price trends

Trends in residential electricity prices differ between Australian states and territories. In most jurisdictions, prices are expected to have fallen in 2014/15 following the removal of the carbon pricing mechanism. The extent of this decrease varies between jurisdictions due to factors specific to each state and territory. In 2015/16 to 2016/17, price movements are mixed, reflecting different jurisdictional drivers.

On average across the three year period from 2013/14 to 2016/17, prices are relatively stable or decreasing in most jurisdictions. The exceptions to this trend are Western Australia, Queensland and the Northern Territory, where prices are expected to increase, on average, during the period.

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





## Information sources

Information for this report has been sourced from jurisdictional governments and regulators.

We also sourced information from the AER in relation to transmission and distribution network prices 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 and is available on our website.

## About the AEMC

The Australian Energy Market Commission is the independent body responsible for providing policy advice to Australian governments on the electricity and gas sector. It makes energy market rules that are applied and enforced by the AER.

The Residential Electricity Price Trends report is part of the AEMC's work to empower families, businesses and industry to participate confidently in all parts of the energy supply chain, where they desire to do so. It provides annual information to help consumers better understand the factors which drive residential electricity prices.

For information contact:

AEMC Chairman, **John Pierce** (02) 8296 7800  
AEMC Chief Executive, **Paul Smith** (02) 8296 7800

Media:

Communication Manager, **Prudence Anderson** 02 8296 7817 or 0404 821 935  
Communication Specialist, **Tim O'Halloran** 0409 059 617 or 02 8296 7871

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