

ACT electricity price trends

Australian Capital Territory trend is for moderating 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 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 standing offer prices in the Australian Capital Territory are expected to decrease moderately by 0.7% a year. This reflects increases in regulated network costs which were offset by reductions in environmental policy costs.

“Standing offer prices are expected to increase less than the expected level of inflation in the ACT,” Mr Pierce said.

“Under the existing carbon pricing legislation, standing offer prices are likely to rise over the two years from 2012/13 to 2014/15 by, on average, 3.1 per cent a year. Standing offer prices then fall by 8.3 per cent in 2015/16.

“While market offers exist in the ACT, price trends are based on the territory’s standing offer as it represents the prices paid by 80 per cent of ACT households which have chosen to remain with standard retailer ActewAGL,” he said.

Environmental policies:

- Environmental policies considered for ACT include the carbon pricing mechanism; the renewable energy target; the ACT Energy Efficiency Improvement Scheme and solar feed-in-tariffs. Together these make up 22 per cent of average standing electricity prices in 2012/13.
- 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 presented in this report for 2014/15 and 2015/16.
- Moving to a floating carbon price from 1 July 2015 under current legislation is a key driver in the expected 8.3 per cent fall in ACT electricity prices in 2015/16.

Regulated networks:

- The regulated network component makes up 40 per cent of the 2012/13 standing offer price in the ACT.
- Distribution network costs are likely to stabilise as pressure from the underlying factors that had previously driven network costs eases.
- A new regulatory period for ACT transmission and distribution network businesses will begin on 1 July 2014 and is expected to allow network costs to rise largely in line with inflation as the underlying factors which had previously driven network cost increases, including the cost of capital and average and peak demand growth, are all moderating.
- 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.

Wholesale and retail markets

- Wholesale and retail market costs include wholesale energy purchase costs and the costs of the retail sale of electricity. They currently make up around 38 per cent of the average standing offer price.
- Wholesale energy purchase costs are estimated to increase, on average, by 4 per cent a year from 2013/14 to 2015/16.
- Consumers in the Australian Capital Territory may realise savings in their annual cost of electricity by taking up a market offer. For example, retailers active in the Australian Capital Territory provide a range of market offers which include discounts from the regulated rate as well as rebates and welcome credits.
- While market offers exist in the ACT, price trends are based on the territory's standing offer as it represents the prices paid by 80 per cent of ACT households

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.

For information contact:

AEMC Chairman, John Pierce, (02) 8296 7800

Media Contact: Prudence Anderson, Communications Manager (0404) 821 935
or DL (02) 8296 7817

13 December

AEMC 2013 ELECTRICITY PRICE TRENDS REPORT*

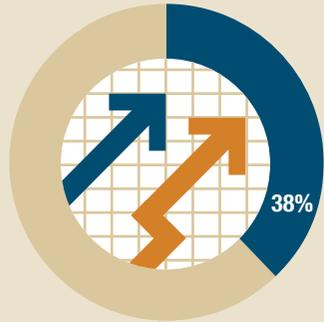
THIS REPORT LOOKS AT WHAT FACTORS WILL DRIVE RESIDENTIAL ELECTRICITY PRICES OVER THE NEXT THREE YEARS TO 30 JUNE 2016

Australian Capital Territory standing offer prices are expected to decrease, on average, over the three years from 2012/13 to 2015/16

WHAT YOU PAY FOR

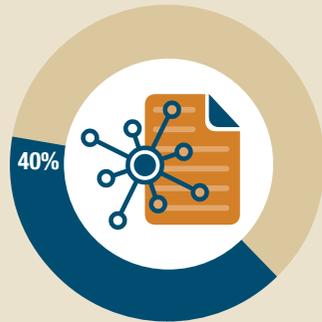
Wholesale and retail

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



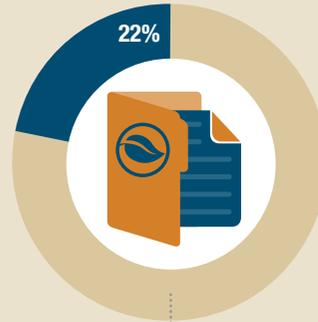
Regulated networks

Pressure on costs of poles and wires is moderating



Environmental policies

Continue to place pressure on prices



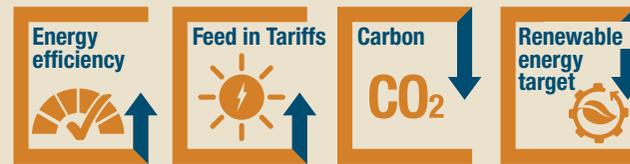
PRICE TRENDS



- From 2013/14 to 2015/16, wholesale energy purchase costs are estimated to increase, on average, by 4% a year
- While market offers exist in the ACT, price trends are based on the territory's standing offer as it represents the prices paid by 80% of ACT households



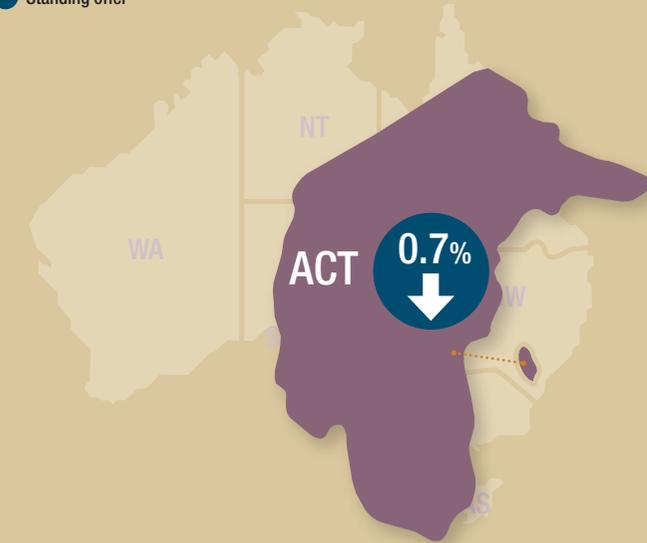
- The underlying factors which had previously driven historic network cost increases are moderating. These factors include the cost of capital, peak and average demand growth, and changes to jurisdictional reliability standards
- Distribution network costs increased by 10% between 2012/13 and 2013/14. This increase reflected revenue allowances included in regulatory determinations made prior to the recent network regulation rule changes
- A new regulatory period for transmission and distribution network businesses will begin on 1 July 2014 and is expected to allow network costs to rise largely in line with inflation
- The AEMC made new rules in November 2012 to give the regulator more discretion in setting network revenues



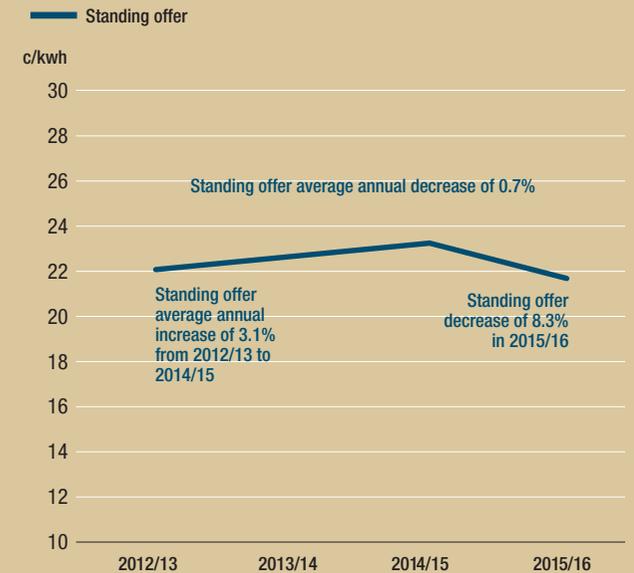
- Fall in electricity prices in 2015/16 reflects the move to a floating carbon price under existing legislation
- Removing the carbon pricing mechanism will reduce prices compared to those in this report for 2014/15 and 2015/16
- Cost of the energy efficiency and feed in tariff schemes and the renewable energy target are not expected to change substantially

PRICE MOVEMENTS ANNUAL AVERAGE FY13 – FY16

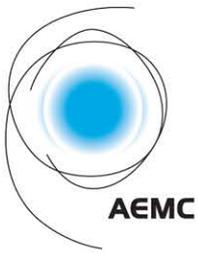
● Standing offer



TRENDS IN STANDING OFFER PRICES



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



Australian Capital Territory: 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).

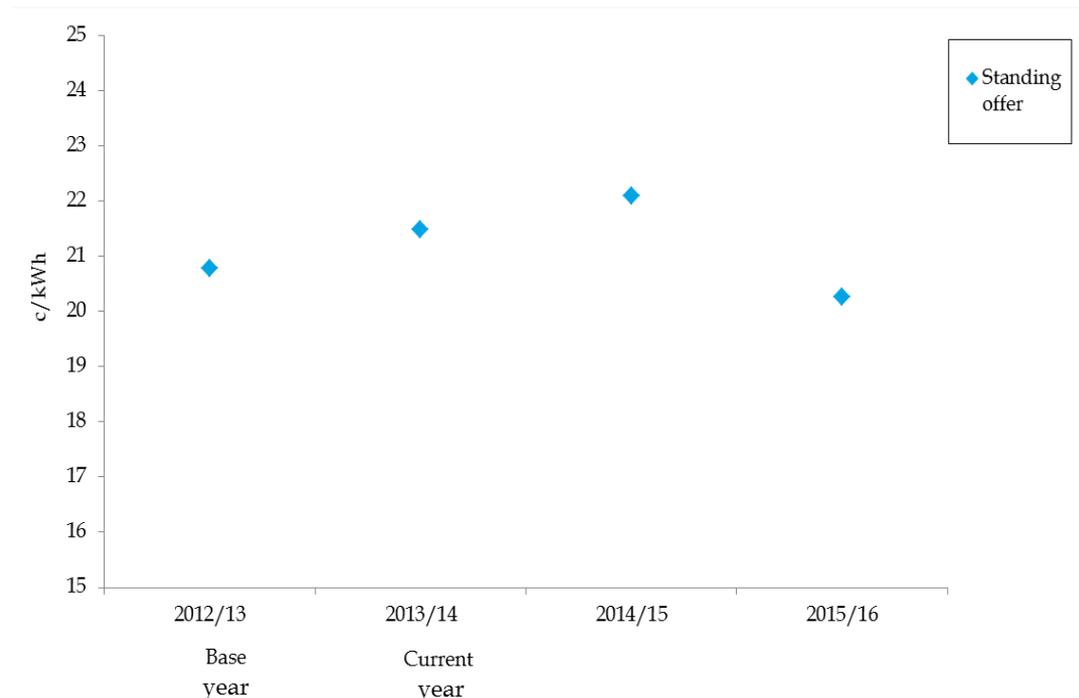
This report is not a forecast of prices. It analyses trends occurring in the competitive market sectors of the industry; the regulated networks sector; and resulting from government environmental policies. We report on how these trends affect overall prices paid by residential consumers.

This report varies from previous reports in that it includes:

- Both *standing* and *market* offer prices in jurisdictions where these offers are available. In the ACT, trends are based only on the *standing offer* as 80 per cent of households pay this price.
- The effect of different household consumption levels on average electricity prices.

Key findings for the ACT

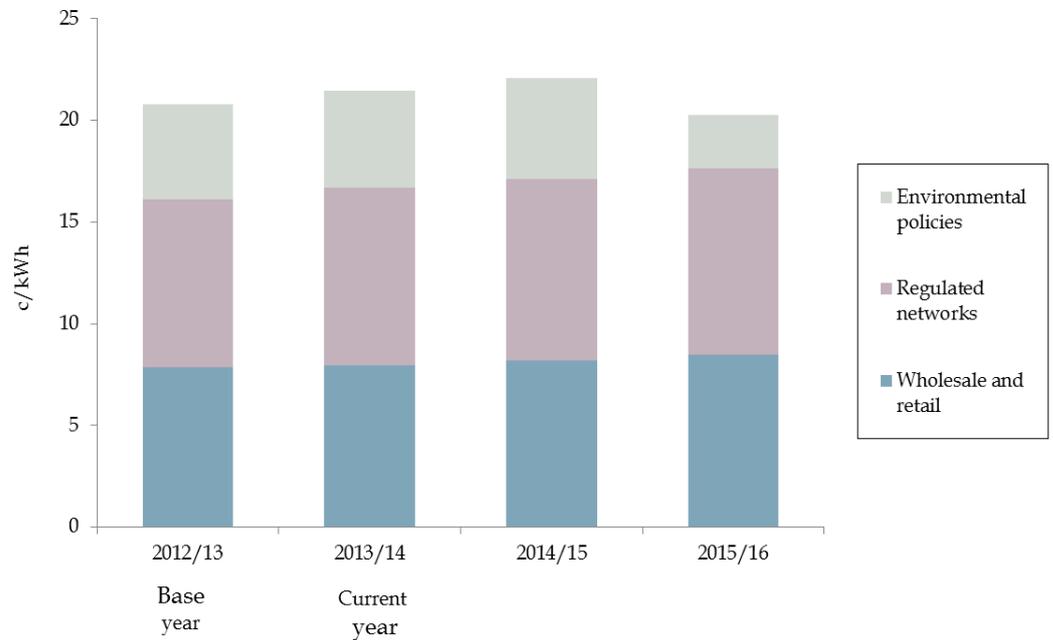
Standing offer prices in the Australian Capital Territory are expected to decrease, on average, by 0.7 per cent a year for the three years from 2012/13 to 2015/16.



Decreases in residential electricity prices are driven by moderate increases in network costs, offset by decreases in carbon pricing costs in 2015/16.

Drivers of price trends

The trends for the Australian Capital Territory are largely driven by increases in regulated network costs, offset by decreases in carbon pricing costs in 2015/16.



Environmental policy costs

The carbon pricing mechanism; the renewable energy target; the ACT Energy Efficiency Improvement Scheme and solar feed-in-tariffs impact on electricity prices and currently make up 22 per cent of average *standing offer* electricity prices in 2012/13.

Our assessment of carbon 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.

Moving to a floating carbon price from 1 July 2015 under current legislation is a key driver in the expected 8.3 per cent fall in ACT electricity prices in 2015/16.

The costs associated with the renewable energy target; the ACT Energy Efficiency Improvement Scheme and solar feed-in-tariffs 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 40 per cent of the average *standing offer* price in the Australian Capital Territory.

Distribution network costs increase by 10.4 per cent in the year between 2012/13 and 2013/14. This increase reflects the revenue allowances that were included in regulatory determinations made prior to the recent network regulation rule changes.

A new regulatory period for ACT transmission and distribution network businesses will begin on 1 July 2014 and is expected to allow network costs to rise largely in line with inflation as the underlying factors which had driven previously driven network cost increases, including the cost of capital and average and peak demand growth, are all moderating.

Regulated network costs are stabilising and expected to rise largely in line with inflation between 2012/13 and 2015/16.

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 setting network revenues.

Wholesale and retail market costs

Wholesale and retail market costs include wholesale energy purchase costs and the costs of the retail sale of electricity. They currently make up around 38 per cent of the average *standing offer* price.

In accordance with the ACT Independent Competition and Regulatory Commission published regulated standing offer price determinations, wholesale energy purchase costs decreased by around 5 per cent from 2012/13 to 2013/14. From 2013/14 to 2015/16, wholesale energy purchase costs are estimated to increase, on average, by 4 per cent a year.

Retailers active in the ACT provide a range of *market offers*, including discounts from the regulated rate, rebates and credits.

While *market offers* exist in the ACT, price trends are based on the territory's *standing offer* as it represents the prices paid by 80 per cent of ACT households

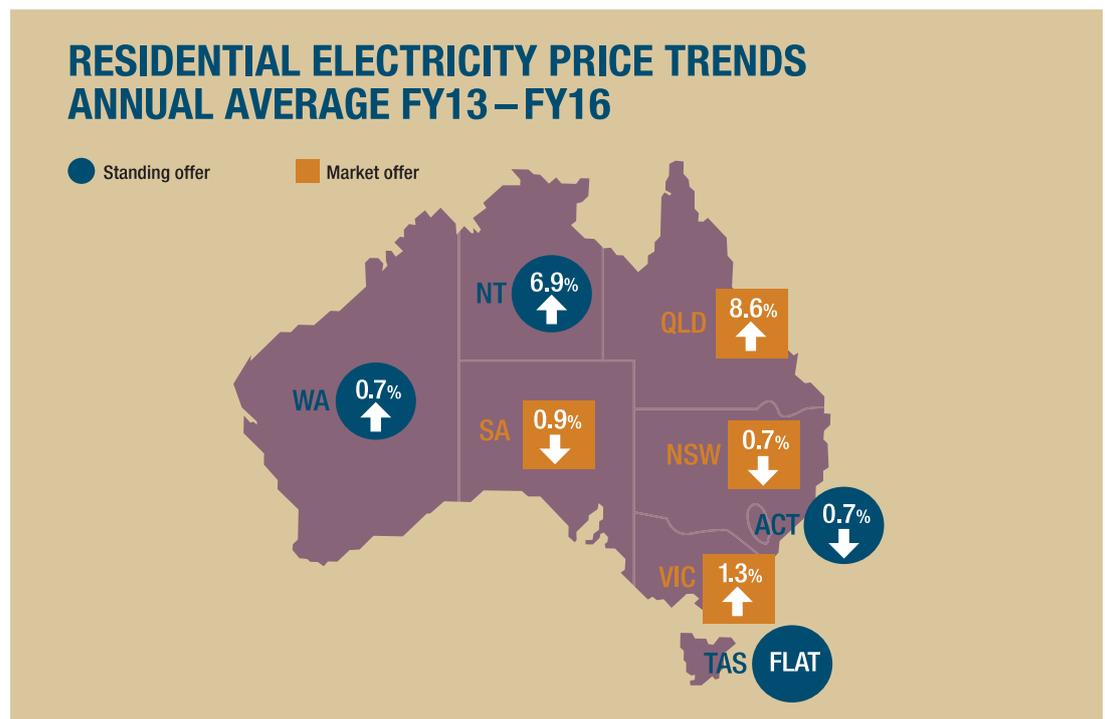
Jurisdictional price trends

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.

For information contact:

AEMC Chairman, **John Pierce** (02) 8296 7800

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

Media: Communication Manager, Prudence Anderson 0404 821 935 or (02) 8296 7817

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