

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).

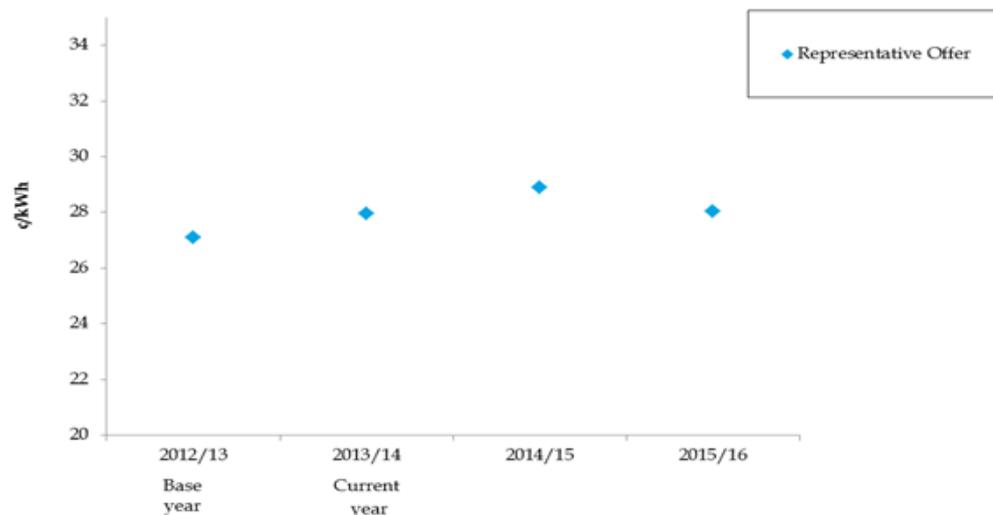
This report is not a forecast of prices. It analyses trends occurring in the competitive market sectors of the industry; the regulated networks sector; and resulting from government environmental policies. We report on how these trends affect overall prices paid by residential consumers.

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

At a national level, residential electricity price increases are expected to moderate, increasing less than the expected level of inflation at, on average, 1.2 per cent a year over the three years from 2012/13 to 2015/16.



Drivers of price trends

The national trend is largely driven by stabilising regulated network costs, and both upward and downward pressure from the costs of different government environmental policies. Competitive wholesale and retail market costs are expected to remain relatively stable.

The biggest price impacts during the period – both downward and upward – will result from environmental policies.



Environmental policy costs

The carbon pricing mechanism, renewable energy target and state and territory feed in tariff and energy efficiency schemes impact on electricity prices and currently make up around 17 per cent of the national average residential electricity price.

The biggest price driver of price trends over the reporting period - both downward and upward - is from the impact of removing the carbon price or moving to a floating carbon price and pressure from legacy solar bonus schemes.

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.

Costs associated with closed premium solar feed in tariff schemes are expected to place upward pressure on electricity prices. These costs are higher in some jurisdictions and are a key driver of price trends in Queensland. In contrast, the impact of moving from a fixed carbon price to a floating price under current legislation drives price reductions in most states and territories in 2015/16.

Regulated network costs

On a national level, regulated network costs are expected to increase, on average, by 4.6 per cent a year over the three years from 2012/13 to 2015/16. This increase partly reflects revenue allowances that were included in existing regulatory network determinations that were made prior to the recent network regulation rule changes.

The increase also reflects moderation in the underlying factors which had previously driven network cost increases, including the cost of capital, expectations of peak and average demand and changes to jurisdictional reliability standards.

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.

Competitive market costs

Competitive market costs include wholesale energy purchase costs and the costs of the retail sale of electricity. They account for around 33 per cent of the national average residential electricity price.

Market offers are providing consumers with substantial savings over regulated and standing offer prices.

Over the three years from 2012/13 to 2015/16, competitive market costs are expected to increase, on average, by 2.3 per cent per annum.

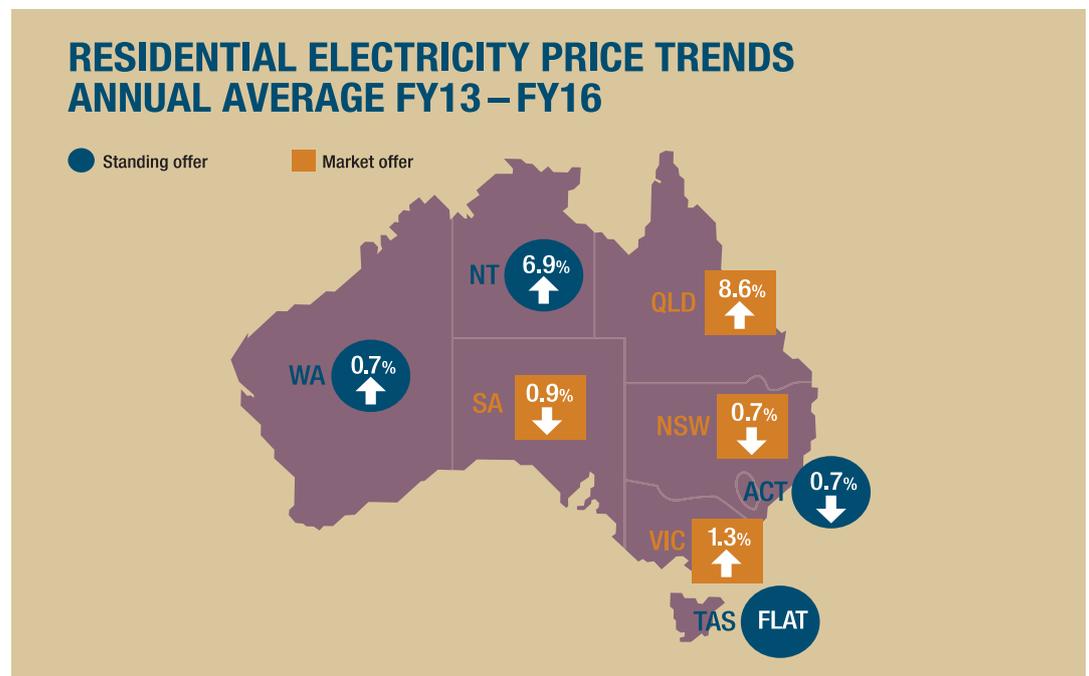
Jurisdictional price trends

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.



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.

The AEMC price trends report identifies factors driving residential electricity prices over the next three years to 2015-2016 in each state and territory.

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

Date: 13 December 2013