

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

Northern Territory electricity prices are expected to decrease by 0.6% in 2014/15, before increasing by 3.7% in 2015/16 and 2.5% in 2016/17

WHAT ARE THE COMPONENTS THAT MAKE UP A TYPICAL NORTHERN TERRITORY ELECTRICITY BILL?



Wholesale and Retail

Wholesale and retail costs are relatively stable



- Combined wholesale and retail costs are assumed to increase below the rate of inflation in the period to 2016/17
- Residential prices are set by the government, which subsidises electricity prices, meaning prices paid by consumers are less than the cost of supplying electricity
- The Northern Territory Government is undertaking measures to promote retail competition and establish a wholesale electricity market. This may affect prices in the future

Regulated networks

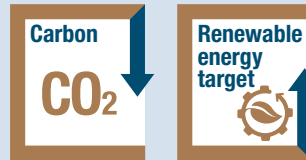
The cost of poles and wires is increasing



- Regulated network prices are expected to rise, on average, by 7.5% per year to 2016/17
- The increases are due to greater expenditure on asset condition monitoring and preventative maintenance

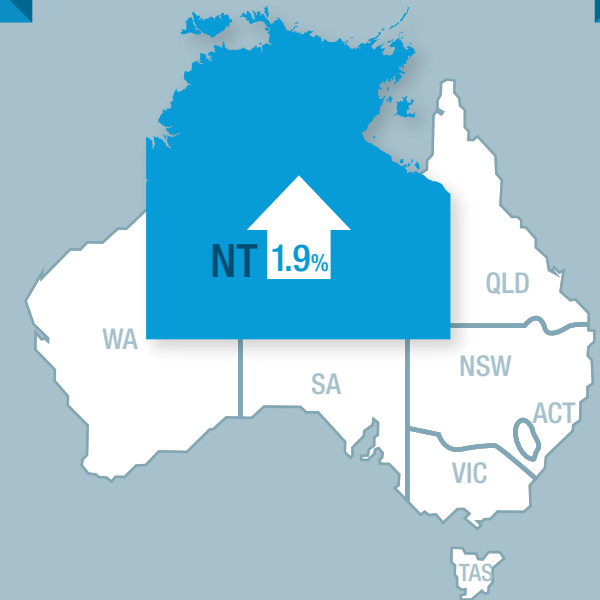
Environmental policies

After removal of the carbon price, environmental policy costs are subdued



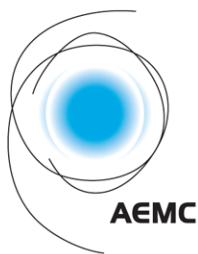
- Prices in the Northern Territory are lower in 2014/15 due to the removal of the carbon price, however the fall is mostly offset by increases in other costs
- Costs associated with the Renewable Energy Target are expected increase from 3% of an average consumer bill to 3.2% by 2016/17

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



EXPECTED PRICE TRENDS IN NT





NEWS

Northern Territory electricity prices moderating over the next two years

The Australian Energy Market Commission (AEMC) today released its 2014 Electricity Price Trends report, which shows residential prices are expected to increase slightly in the Northern Territory to 2016/17.

The report analyses trends in the wholesale and retail 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.

“The cost of supplying electricity in the Northern Territory is expected to fall by 0.6 per cent in 2014/15 following removal of the carbon price, although this is partly offset by increases in other supply chain components. Costs are then expected to increase by 3.7 per cent in 2015/16 and 2.5 per cent in 2016/17,” AEMC Chairman John Pierce said.

He said the main factor putting pressure on prices in the coming years is greater expenditure on poles and wires, however residential electricity prices in the Northern Territory are ultimately determined by the Northern Territory Government.

“The cost of poles and wires is set to increase by an average annual 7.5 per cent in the Northern Territory to 2016/17, due to greater expenditure on asset condition monitoring and preventative maintenance.”

Wholesale and retail costs are assumed to increase at below the level of inflation to 2016/17. The Northern Territory Government is undertaking measures to promote retail competition and establish a wholesale electricity market and this may affect wholesale prices in the future.

While the removal of the carbon price has reduced electricity prices in 2014/15, other environmental policies like the Renewable Energy Target continue impact prices.

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.

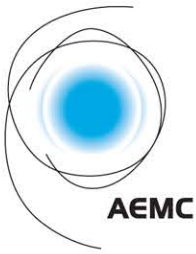
About the AEMC

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).

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EMBARGOED 1pm AEDT, 11 December 2014



Northern Territory: Household electricity price trends

Residential electricity prices in the Northern Territory expected to rise over the next two years

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 the Northern Territory, with an annual consumption level that was provided to us by the Northern Territory Government.

- The annual consumption of the representative consumer in the Northern Territory is assumed to be 9,135 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.

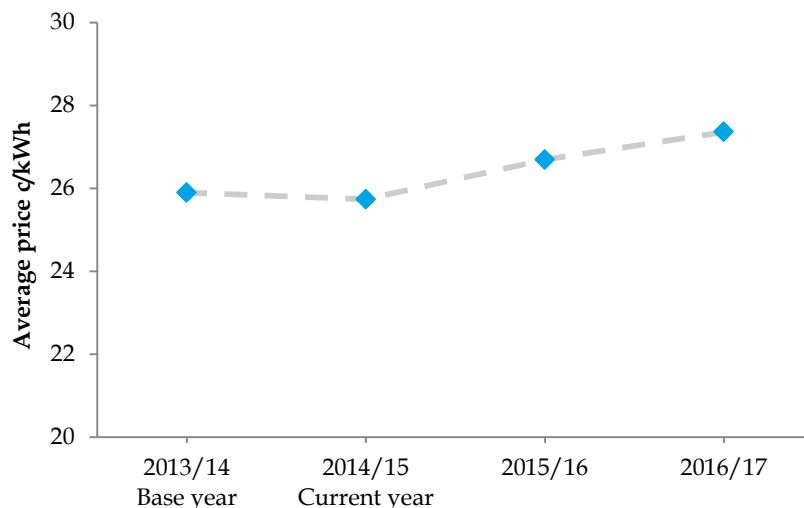
To undertake this work, we analysed trends in the competitive market sector of the industry, the regulated networks sector and the impact of government environmental policies. We report on how these trends affect overall prices paid by residential consumers, in order to identify the relative contribution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

Key findings for the Northern Territory

On average, residential electricity prices for the representative consumer in the Northern Territory have decreased by 0.6 per cent in 2014/15, and are expected to increase by 3.7 per cent in 2015/16 and 2.5 per cent in 2016/17. This is equivalent to an annual average increase of 1.9 per cent over the reporting period, as shown below.

Prices in 2013/14 and 2014/15 are based on Electricity Pricing Orders and other announcements by the Northern Territory Government. From 1 January 2016 onwards, it is assumed that prices will increase in line with inflation, which is assumed to be 2.5 per cent.

Trend in Northern Territory residential price



The largest driver of residential electricity prices is expected increases in regulated network prices

As prices are set by the government, the retail prices paid by consumers do not necessarily reflect underlying costs, nor follow expected cost trends.

The difference between the residential price and our estimate of the supply costs is indicative of the subsidy paid by the Northern Territory Government. However, as we do not know all of the supply costs we have not been able to estimate the full subsidy.

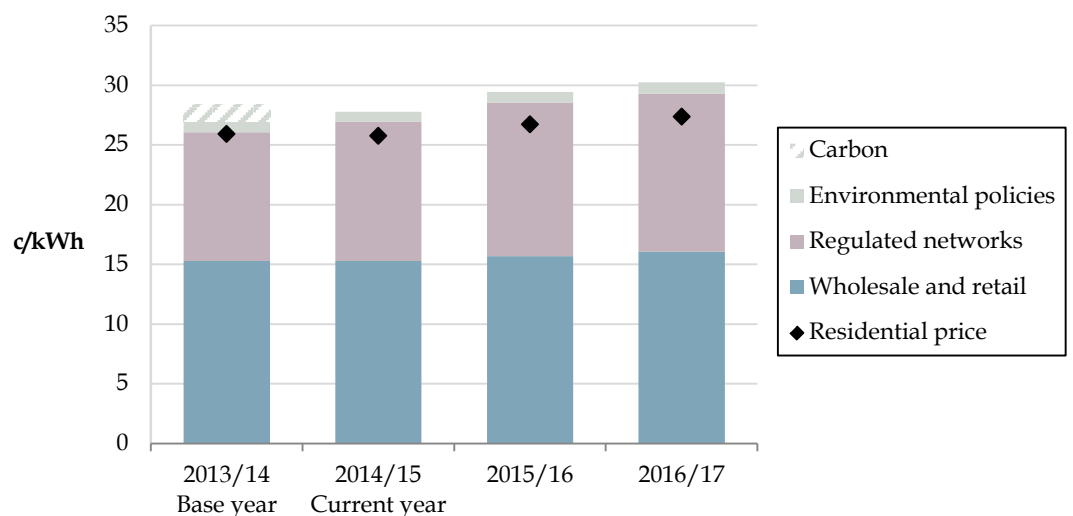
Drivers of cost trends

The main drivers for cost movements during this period are the repeal of the carbon pricing mechanism and expected increases in regulated network prices.

Although the carbon price repeal results in a decrease in the residential price, this is partially offset by higher regulated network prices in 2014/15.

In 2014/15, it is expected that the total cost of supply in the Darwin-Katherine system will consist of around 42 per cent regulated network costs, 55 per cent wholesale and retail costs and 3 per cent environmental policy costs, as shown below.

Trend in Northern Territory supply chain components



Regulated network prices

Regulated network prices consist of the costs of the transmission and distribution networks. In the Northern Territory, there is no distinction between transmission and distribution in the way that network costs are recovered from consumers.

- Regulated network prices are expected to increase at an average annual rate of 7.5 per cent between 2013/14 and 2016/17.

The increases in regulated network prices are due to higher operational expenditure and regulatory depreciation allowance.

- Operational expenditure for the 2014-19 regulatory period is 45 per cent higher than allowed in the previous five year period. This is due to a new asset management regime that has an increased focus on condition monitoring and preventative maintenance.
- The higher regulatory depreciation allowance is a result of a re-evaluation of the asset life of the network infrastructure during the process of aligning the Northern Territory regulatory framework with the approach of the Australian Energy Regulator.

Wholesale and retail costs

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

There is currently no wholesale market for electricity in the Northern Territory and prices are established through bilateral contracts between generators and energy users or retailers.

- Estimates of the wholesale energy costs in 2013/14 and 2014/15 were provided to us by the Northern Territory Government. For the subsequent years of the

reporting period we have escalated this cost component by an assumed inflation rate of 2.5 per cent.

- Future wholesale energy costs will be influenced by industry structure, fuel costs and demand growth.

A number of reforms are currently underway in the Northern Territory electricity industry, including measures to support retail competition for residential customers and the establishment of a wholesale electricity market that would initially cover the Darwin-Katherine system, with later application to the separate Alice Springs and Tennant Creek networks.

Environmental policy costs

Environmental policies that apply in the Northern Territory over the reporting period are the:

- carbon pricing mechanism; and
- Renewable Energy Target;

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

- In 2013/14, these costs made up around 5.4 per cent of the total bill of a representative consumer.

In 2014/15, Renewable Energy Target costs made up around 3 per cent of the total cost of supply, of which 1.6 per cent was associated with the Small-scale Renewable Energy Scheme and 1.4 per cent with the Large-scale Renewable Energy Target.

- Based on the current Renewable Energy Target legislation, there is expected to be an average annual decrease of 6.6 per cent in the Small-scale costs, and an average annual increase of 13 per cent in the Large-scale costs.
- In 2016/17, Small-scale costs are expected to make up 1.4 per cent of the total and Large-scale costs 1.8 per cent.

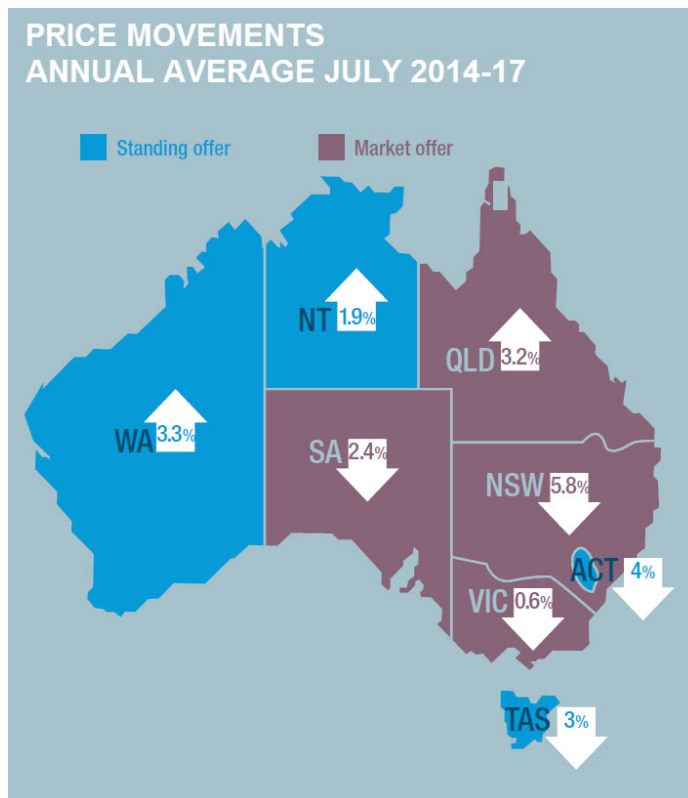
Jurisdictional price trends

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, as the savings are offset by other factors. 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.

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



Information sources

Information for this report has been sourced from jurisdictional governments and regulators. We also sourced information from regulators 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 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 Australian Energy Regulator.

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.

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