



South East Queensland – 18 December 2017

2017 Residential Electricity Price Trends Final Report

The 2017 residential 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 for change in Australia's energy markets. We provide governments and stakeholders with the data they need to make market transformation work in the long term interest of consumers. This report provides an overall picture of factors driving electricity prices for households in each state and territory.

Key findings for south east Queensland

This 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 south east Queensland:

- increased by 3.4 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 7.1 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).

In south east Queensland, the environmental policy cost component decreased in 2017-18 following changes in funding arrangements for the State's solar bonus scheme. The Queensland Government moved charges associated with the solar bonus scheme from distribution network charges to the State budget.

Background

The expected movements in electricity prices for a representative consumer in south east Queensland 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 south east Queensland is 5,240 kWh per year. Average electricity prices in this report are specific to the representative consumer in south east Queensland 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 I market, the outcomes of network regulatory processes and changes in government legislation. Actual consumer bills will be affected by all these drivers as well as customers' individual consumption choices, and local factors like the weather, and where they live.

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

Trends in residential electricity prices

Residential electricity market offers for the representative consumer in south east Queensland increased by 3.4 per cent from 2016-17 to 2017-18. However, prices are expected to:

- decrease by 7.0 per cent in 2018-19
- decrease by 7.2 per cent in 2019-20.

This is equivalent to an average annual decrease of 7.1 per cent from 2017-18 to 2019-20.

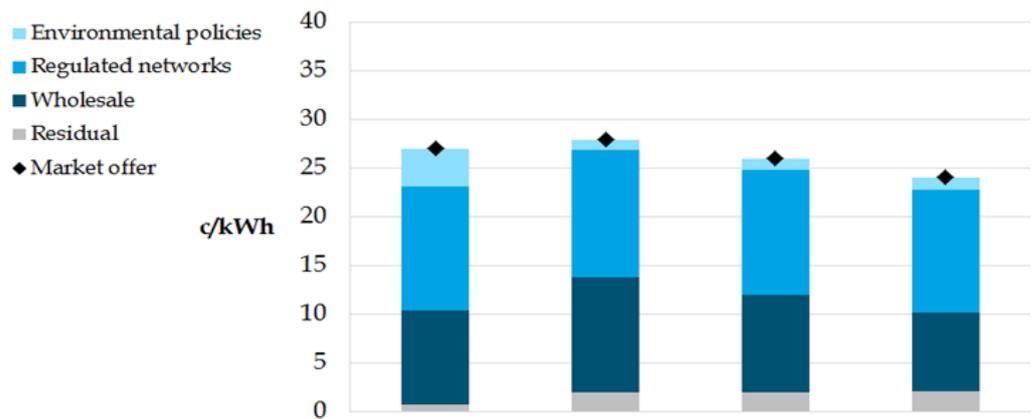
In south east Queensland consumers can choose between a market offer and a retail standing offer. Approximately 52 per cent of small customers in all of Queensland are on a market offer (small customers includes residential and small business customers).

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

South East Queensland	2016-17
Standing offer total annual bill	\$1,630
Market offer total annual bill	\$1,417

Trends in supply chain cost components

The figure shows the expected movements in the supply chain cost components for the representative consumer on a market offer in south east Queensland.



	2016/17 Base Year		2017/18 Current Year		2018/19		2019/20	
	c/kWh	\$/yr	c/kWh	\$/yr	c/kWh	\$/yr	c/kWh	\$/yr
Environmental policies	3.85	\$202	1.06	\$56	1.19	\$63	1.32	\$69
LRET - LGC cost	0.64	\$34	0.74	\$39	0.87	\$45	1.00	\$53
SRES - STC cost	0.36	\$19	0.32	\$17	0.33	\$17	0.32	\$17
Solar Bonus Scheme	2.85	\$150	0.00	\$0	0.00	\$0	0.00	\$0
Regulated networks	12.78	\$670	13.12	\$688	12.84	\$673	12.62	\$662
Transmission	2.70	\$142	1.85	\$97	1.87	\$98	1.90	\$99
Distribution	10.08	\$528	11.28	\$591	10.96	\$574	10.73	\$562
Wholesale	9.70	\$508	11.81	\$619	9.95	\$521	8.10	\$425
Residual	0.72	\$38	1.97	\$103	2.02	\$106	2.07	\$108
Market offer	27.05	\$1,417	27.96	\$1,465	26.00	\$1,362	24.12	\$1,264

The expected movements in each of the electricity supply chain cost components for south east Queensland 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.

Decreases in environmental policy costs are driven by the removal of Solar Bonus Scheme costs, starting in 2017-18. These costs have been moved to the Queensland Government budget for the rest of the reporting period.

In south east Queensland, wholesale market costs comprised approximately 35.8 per cent of the representative market offer in 2016-17. Wholesale market costs are expected to:

- increase by 21.8 per cent in 2017-18
- decrease by 15.7 per cent in 2018-19
- decrease by 18.6 per cent in 2019-20.

This is equivalent to an average annual decrease of 17.2 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 47.2 per cent of the representative market offer in 2016-17.

Transmission network costs are expected to increase at an average annual rate of 1.4 per cent from 2017-18 to 2019-20. The trend in regulated transmission charges is based on transmission use of system charges in Energex's approved annual pricing proposals in 2017-18, while 2018-19 and 2019-20 costs are based on the revenue growth rate as set out in the AER's 2017–22 revenue determination for Powerlink.

Distribution network costs are expected to decrease at an average annual rate of 2.5 per cent over from 2017-18 to 2019-20. Costs are based on Energex's approved annual pricing proposal in 2017-18, while 2018-19 and 2019-20 costs are based on revenue growth as set out in the 2015–20 revenue determination for Energex.

Environmental policy costs: these costs are related to policies introduced by Commonwealth and Queensland governments including the Renewable Energy Target and feed-in tariff schemes.

In 2016-17, environmental schemes comprised 14.2 per cent of the representative market offer and are expected to comprise a decreasing 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 over the period 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.

Solar bonus scheme costs are included in 2016-17 and not in the subsequent years of the reporting period. This is due to the change in funding arrangements for this scheme. From 2017-18, the Queensland Government moved charges associated with the Solar Bonus Scheme from distribution network charges to the Queensland Government budget.

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 south east Queensland. 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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