

WA electricity price trends

Western Australian trends drive electricity prices to rise then stabilise

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 average standing offer prices in Western Australia are expected to reach a turning point by 2015/16 falling by 2.4% after two years of average annual rises of 2.3%.

Western Australian price trends in 2015/16 reflect the move from a fixed to floating carbon price under existing Commonwealth legislation. The Australian Government has introduced legislation to remove the existing carbon price at 1 July 2014 which could lower price pressure further in 2014/15 and 2015/16.

These trends reflect price changes that would occur if the price set by the government moves in line with changes to the underlying costs of supply.

The Price Trends report examines trends in prices for consumers who are part of the South West Interconnected System of Western Australia. The State's uniform tariff policy means that these trends also apply to consumers elsewhere in Western Australia.

Environmental policies:

- Environmental policies considered for WA include the carbon pricing mechanism and the renewable energy target. Together these make up 10 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 expected to contribute to a 2.4% fall in Western Australian electricity prices in 2015/16.

Regulated networks:

- Regulated network costs make up 46 per cent of the standing offer in Western Australia in 2012/13. Changes to distribution costs are the main cost driver between 2012/13 and 2013/14.
- Distribution network costs increased by 10.4 per cent between 2012/13 and 2013/14 while transmission costs decreased by 1 per cent.
- We have assumed that both of these charges will increase at the rate of inflation for the remaining two years to 30 June 2016.

Wholesale and retail markets

- Wholesale energy purchase costs make up 44 per cent of total electricity prices faced by consumers in Western Australia.
- Wholesale energy costs are likely to remain stable but may be impacted by reforms and reviews underway to change the operation of the Wholesale Energy Market.

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.

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AEMC 2013 ELECTRICITY PRICE TRENDS REPORT*

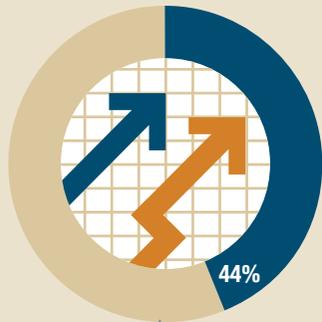
THIS REPORT LOOKS AT WHAT FACTORS WILL DRIVE RESIDENTIAL ELECTRICITY PRICES OVER THE NEXT THREE YEARS TO 30 JUNE 2016

Western Australian standing offer prices are expected to increase, on average, at a rate less than the expected level of inflation over the three years from 2012/13 to 2015/16

WHAT YOU PAY FOR

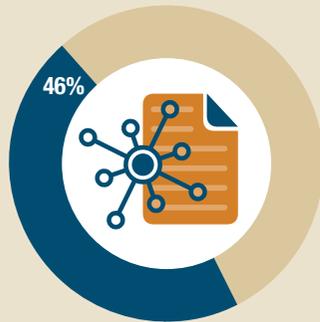
Wholesale and retail

Wholesale cost and retail



Regulated networks

Pressure on costs of poles and wires is moderating



Environmental policies

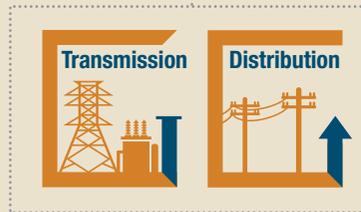
Continue to impact on prices



PRICE TRENDS



- Wholesale and retail costs remain relatively stable to 2015/16
- In 2012/13, standing offer prices did not reflect the costs of supplying and delivering electricity to consumers
- These costs may be impacted by a range of reforms and reviews underway to change the operation of the WEM.



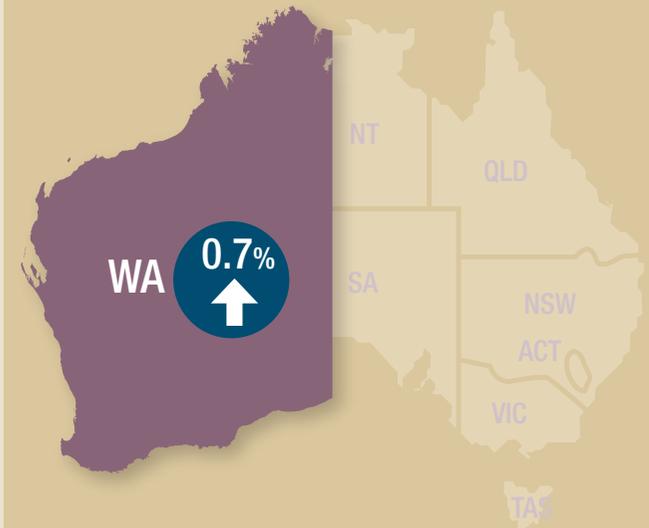
- The underlying factors which had previously driven historic network cost increases are moderating. These factors include the cost of capital, and peak and average demand growth.
- Distribution network costs increased by 10.4 per cent between 2012/13 and 2013/14 while transmission costs decreased by 1 per cent. Network costs are assumed to increase at the rate of inflation to 2015/16.
- Information on network costs was sourced from the Western Australian government



- The fall in prices in 2015/16 reflects the move to a floating carbon price under existing legislation. This assumes that changes to electricity prices reflect changes in the cost of supplying and delivering electricity to residential consumers
- Removing the carbon pricing mechanism will reduce prices compared to those in this report in 2014/15 and 2015/16
- Cost of renewable energy target not expected to change substantially

PRICE MOVEMENTS ANNUAL AVERAGE FY13 – FY16

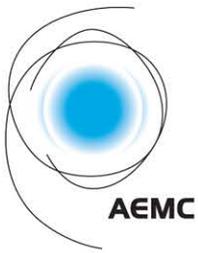
● Standing offer



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, the regulated networks sector and government environment policies, drawn from information from governments, regulators, market modelling, retailers, and our own analysis.



Western Australia: 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).

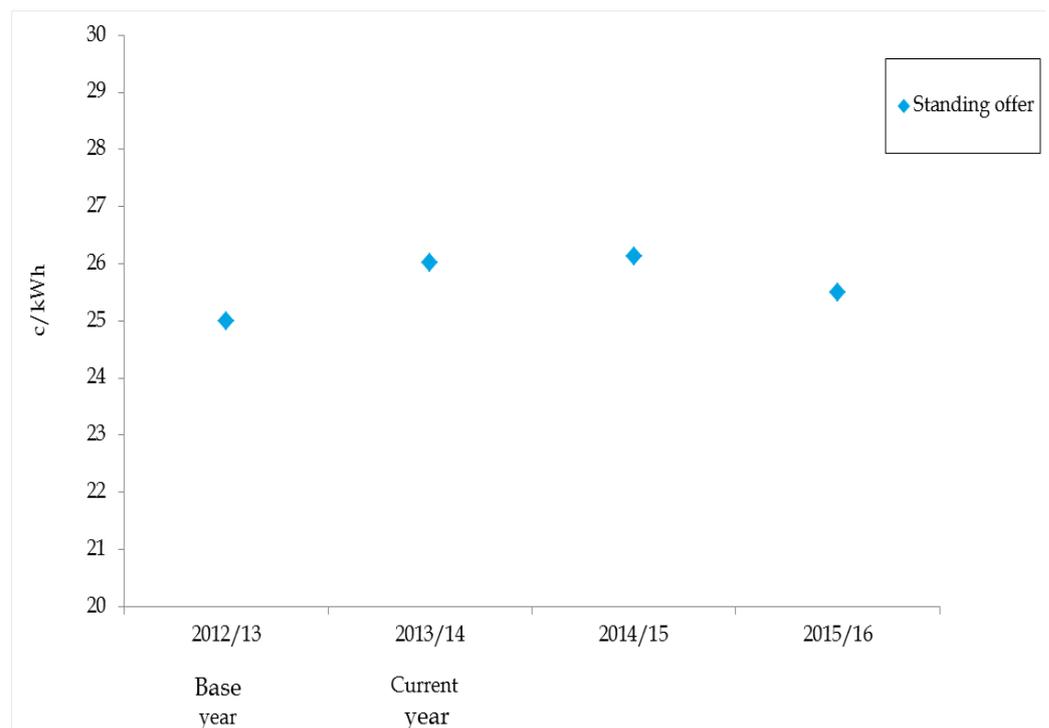
This report is not a forecast of prices. It analyses trends occurring in the competitive market sectors of the industry; the regulated networks sector; and resulting from government environmental policies. We report on how these trends affect overall prices paid by residential consumers.

This report varies from previous reports in that it includes:

- Both *standing* and *market offer* prices in jurisdictions where these offers are available. In Western Australia, trends are based only on the *standing offer* as there are no *market* offers available to residential consumers.
- The effect of different household consumption levels on average electricity prices.

Key findings for Western Australia

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

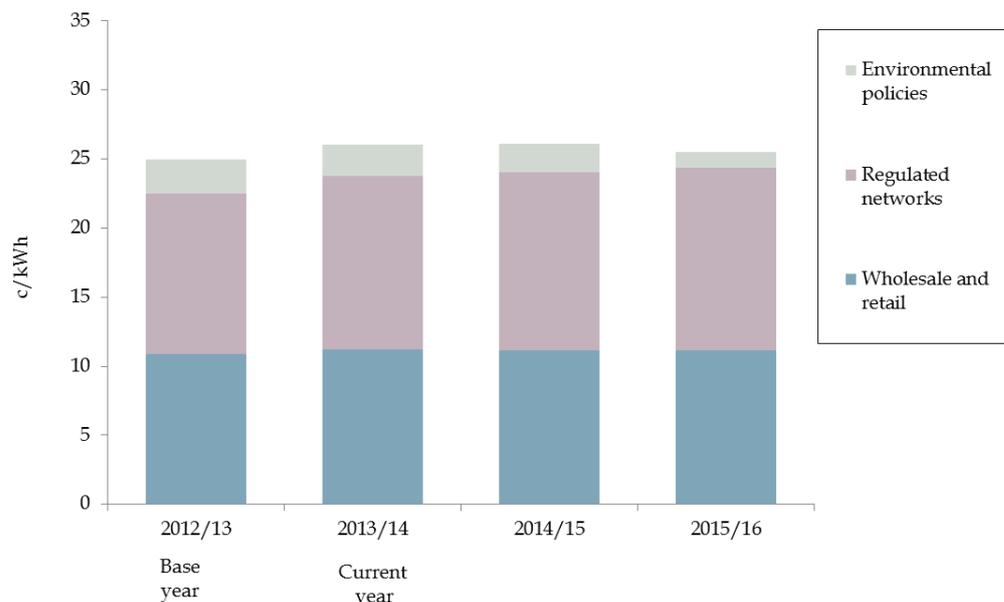


Standing offer prices in Western Australia are expected to increase by 2.3 per cent a year for the two years from 2012/13 to 2014/15.

Standing offer prices are then expected to drop by 2.4 per cent in 2015/16.

Drivers of price trends

The trends for Western Australia are largely driven by increases in regulated network costs and decreases in carbon pricing costs under existing legislation.



Environmental policy costs

The carbon pricing mechanism and the renewable energy target impact electricity prices and currently make up 10 per cent of average Western Australian *standing offer* residential electricity prices in 2012/13.

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.

Moving to a floating carbon price from 1 July 2015 under current legislation is expected to result in a 2.4 per cent fall in Western Australian electricity prices in 2015/16. This assumes that changes to electricity prices reflect changes in the costs of supplying and delivering electricity to residential consumers.

Regulated network costs

Regulated network costs currently make up 46 per cent of the average total *standing offer* in Western Australia.

Changes to distribution costs are the main cost driver between 2012/13 and 2013/14.

Distribution network costs increased by 10.4 per cent between 2012/13 and 2013/14 while transmission costs decreased by 1 per cent. We have assumed that both of these charges will increase at the rate of inflation for the remaining two years to 30 June 2016.

Wholesale and retail market costs

Wholesale energy purchase costs make up 43 per cent of total electricity prices faced by consumers in Western Australia.

Wholesale energy costs are likely to remain stable but may be impacted by reforms and reviews underway to change the operation of the Western Australian wholesale energy market.

Demand is forecast by the Independent Market Operator of Western Australia to grow by 1.9 per cent each year after 5 years of declining demand, consistent with trends in the occurring in South-Eastern Australia.

Different types of generation, geography, population density, consumption, specific policies and different tariff structures mean that trends are not comparable across different jurisdictions.

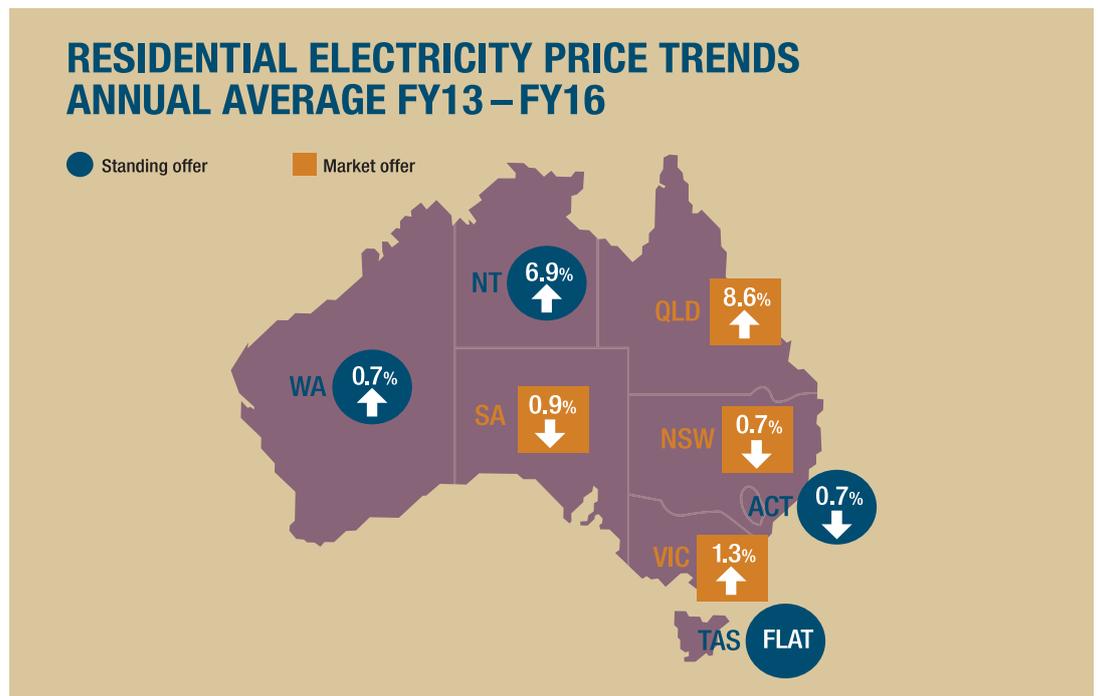
Jurisdictional price trends

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 Western Australia has been sourced from the relevant jurisdictional department and regulator. For the other states or territories, where relevant we also sourced information from relevant jurisdictional governments and regulators, 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, as appropriate, independent modelling of wholesale energy purchase costs, carbon pricing mechanism costs and Renewable Energy Target costs. This 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.

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