

QLD electricity price trends

Queensland trends drive electricity prices to reflect costs

AEMC 2013 Residential electricity price trends report

Today the Australian Energy Market Commission released its report on factors driving residential electricity prices over the next 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 market offer prices in Queensland are expected to rise, on average, by 8.6% a year over the three years from 2012/13 to 2015/16.

“This increase is mainly driven by an increase in network costs resulting from the end of the price freeze of the regulated standing offer and the catch up in under-recovered costs associated with the closed premium Queensland Solar Bonus scheme.

“A significant part of this increase has already happened.

“The report suggests that the next two years from 2013/14 to 2015/16, market offer prices are expected to increase, on average, by 6.9 per cent a year, reflecting the expected ongoing impact of costs associated with the State’s closed premium Solar Bonus Scheme.

Mr Pierce said Queensland consumers had the option of obtaining savings by switching from regulated standing offer prices to market offers with households potentially able to save around 5% by switching to a market offer in 2012/13.

The report notes the Queensland Competition Authority published their draft determination for Queensland regulated retail electricity prices for 2014/15 on 11 December 2013. The final determination is expected on 31 May 2014 and may affect the trends provided for the Queensland standing offer in this report.

Environmental policies:

- Environmental policies considered for Queensland include the carbon pricing mechanism, the renewable energy target, the Queensland Solar Bonus Scheme and the Queensland Gas scheme. Together they make up 20% of average Queensland market offer prices in this state.
- The largest driver of electricity prices in Queensland from 2013/14 to 2015/16 is the recovery of costs from the closed premium Queensland Solar Bonus scheme.
- From 2012/13 to 2015/16, the costs of the closed premium Solar Bonus scheme are estimated to increase by about 104% a year. This is because take-up of this scheme exceeded forecasts, which resulted in an initial under-recovery of costs. The Queensland Competition Authority (QCA) has assumed that costs that were under-recovered in earlier years will be caught-up in 2015/16 and 2016/17.
- The scheme now makes up about 3% of the average annual electricity cost. By 2015/16 it will account for 17% of total average prices. After the catch up of the under recovered costs, the closed Solar Bonus scheme will continue to have an impact as payments continue to eligible consumers until the scheme concludes in 2028. The increases will be, however, at a lower rate.

- 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.
- Anticipated falls in the carbon component are offset by increases projected for the closed premium Solar Bonus scheme.

Regulated networks:

- Currently, regulated network costs make up around 52% of the average market offer price in Queensland.
- From 2012/13 to 2013/14, transmission network costs increased, on average, by 15.5%, while distribution costs increased 19.4% over the same period. These increases were partly due to the end of the price freeze that was applied to the regulated standing offer in 2012/13, which involved a freeze in network charges.
- Over the two years from 2013/14 to 2015/16, distribution network costs are expected to increase, on average, by 3.9% a year, while transmission costs increase by 6.1% a year. These increases reflect the revenue allowances that were included in existing regulatory determinations which were made prior to the recent network regulation rule changes made at the end of 2012.
- The underlying factors which had previously driven network cost increases, including the cost of capital, average and peak demand growth and increased reliability standards are all moderating. The moderation of these factors will impact the new regulatory determinations for the Queensland distribution networks which are to commence on 1 July 2015.
- New rules made by the AEMC in November 2012 give the Australian Energy Regulator more discretion when setting allowable revenues for regulated network businesses.

Competitive markets:

- Competitive market costs include wholesale energy purchase costs and the costs of the retail sale of electricity. They currently make up around 28% of the average market offer price.
- Over the three years from 2012/13 to 2015/16, competitive market costs are expected to increase, on average, by 5% a year.
- The competitive market allows consumers to shop around for the best offer from retailers. Consumers may have saved around 5% if they switched from a standing offer to a market offer in 2012/13.
- Potential savings are based on each retailer's lowest generally available market offer as at February 2013 and vary according to electricity consumption, geographic location and individual circumstances.

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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13 December

AEMC 2013 ELECTRICITY PRICE TRENDS REPORT*

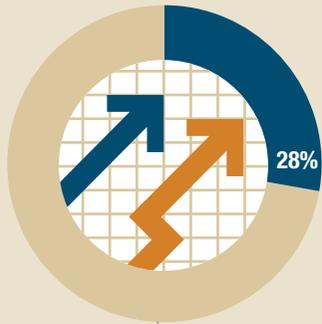
THIS REPORT LOOKS AT WHAT FACTORS WILL DRIVE RESIDENTIAL ELECTRICITY PRICES OVER THE NEXT THREE YEARS TO 30 JUNE 2016

Queensland market offer prices are expected to increase, on average, over the three years from 2012/13 to 2015/16

WHAT YOU PAY FOR

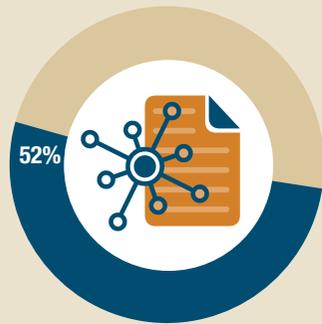
Competitive markets

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



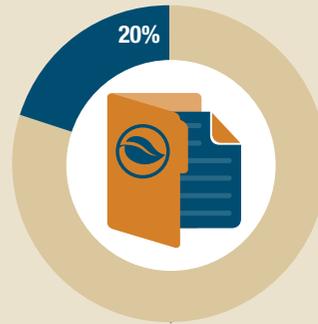
Regulated networks

Pressure on costs of poles and wires is moderating

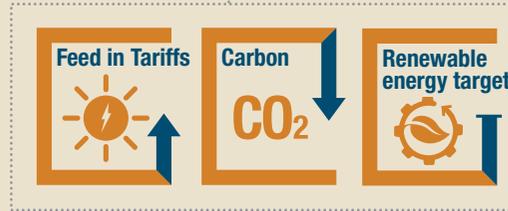
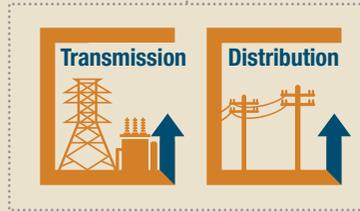


Environmental policies

Continue to place downward and upward pressure on prices



PRICE TRENDS



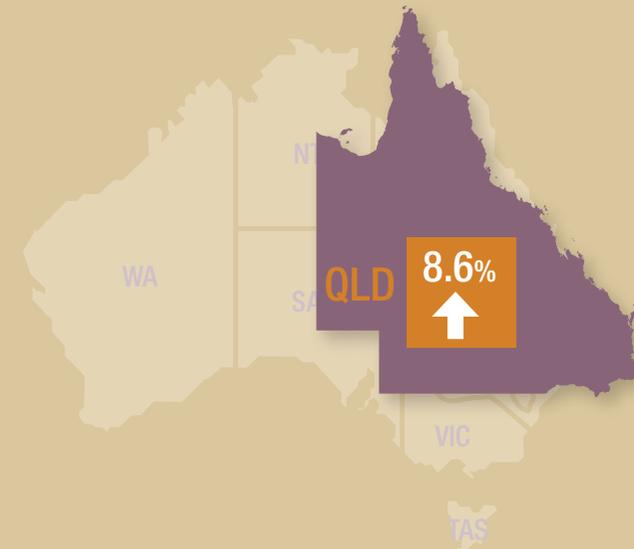
- Competitive market costs increase, on average, by 5% a year
- By switching from a standing to a market offer, consumers may have saved around 5% in 2012/13
- The Queensland Competition Authority published their determination for Queensland regulated retail electricity prices for 2014/15 on 11 December 2013. The final determination is expected to be published on 31 May 2014. The outcomes of the final determination may impact the trends provided for Queensland standing offer prices

- 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
- From 2012/13 to 2013/14, transmission and distribution network costs increased, partly due to the end of the price freeze that was applied to the regulated standing offer in 2012/13. This involved a freeze in network charges.
- For the two years from 2013/14 to 2015/16, transmission and distribution network costs are expected to increase, on average, by 6.1% and 3.9% a year, respectively. These increases reflect revenue allowances included in existing regulatory determinations made prior to the recent network regulation rule changes.
- The AEMC made new rules in November 2012 to give the regulator more discretion in setting network revenue

- The costs of the closed premium Queensland Solar Bonus scheme are estimated to increase by about 104% a year over the three years from 2012/13 to 2015/16. This is because take-up of this scheme exceeded forecasts, which resulted in an initial under-recovery of costs.
- Removing the carbon pricing mechanism will reduce prices compared to those in this report in 2014/15 and 2015/16
- The cost of the renewable energy target is not expected to change substantially

PRICE MOVEMENTS ANNUAL AVERAGE FY13 – FY16

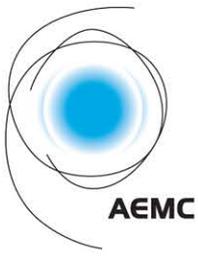
Market offer



STANDING AND MARKET OFFER PRICE DIFFERENCES FOR QUEENSLAND



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



Queensland: 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).

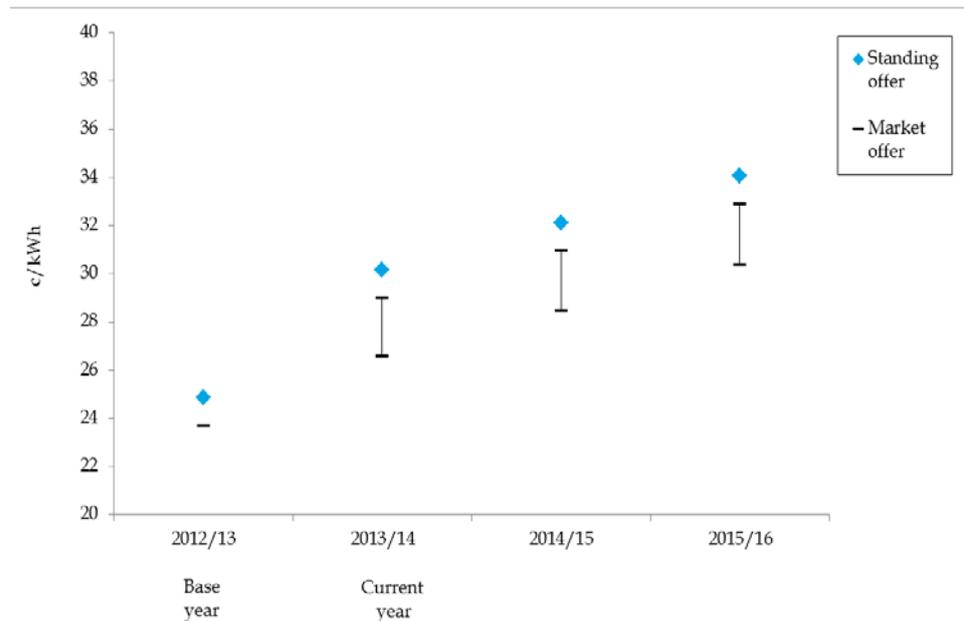
This report is not a forecast of prices. It analyses trends occurring in the competitive market sectors of the industry; the regulated networks sector; and resulting from government environmental policies. We report on how these trends affect overall prices paid by residential consumers.

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 for Queensland

Market offer prices in Queensland are expected to increase, on average, by 8.6 per cent a year for the three years from 2012/13 to 2015/16.



The largest driver of residential electricity price increases in Queensland over the next two years from 2013/14 to 2015/16 is Queensland's closed premium Solar Bonus scheme.

The Queensland Competition Authority published their draft determination for Queensland regulated retail electricity prices for 2014-15 on 11 December 2013. The final determination is expected to be published on 31 May 2014. The outcomes of the final determination may impact the trends provided for Queensland *standing offer* prices in our report.

Drivers of price trends

The trends for Queensland are largely driven by increases in network costs resulting from the end of the price freeze of the regulated *standing offer* and the catch up in under-recovered costs associated with the closed premium Queensland Solar Bonus scheme.



Environmental policy costs

The carbon pricing mechanism, the renewable energy target, the Queensland Solar Bonus scheme and the Queensland gas scheme impact on electricity prices and currently make up 20 per cent of the average Queensland *market offer* price.

The largest driver of electricity prices in Queensland from 2013/14 to 2015/16 is the recovery of costs from the closed premium Queensland Solar Bonus scheme. This offsets any change in carbon pricing costs in 2014/15 to 2015/16.

From 2012/13 to 2015/16, the costs of the closed premium Solar Bonus scheme are estimated to increase by about 104 per cent a year. This is because take-up of this scheme exceeded forecasts, which resulted in an initial under-recovery of costs. The Queensland Competition Authority (QCA)¹ has assumed that costs that were under-recovered in earlier years will be caught-up in 2015-16 and 2016-17.

The scheme now makes up about 3 per cent of the average annual electricity cost. By 2015/16 it will account for 17 per cent of total average prices. After the catch up of the under recovered costs, the closed Solar Bonus scheme will continue to have an impact as payments continue to eligible consumers until the scheme concludes in 2028. The increases will be, however, at a lower rate.

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.

¹ Queensland Competition Authority, *Estimating a Fair and Reasonable Solar Feed-in Tariff for Queensland*, QCA, March 2013.

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

Regulated network costs

Regulated network costs currently make up 52 per cent of the average market offer price in Queensland.

From 2012/13 to 2013/14, transmission network costs increased, on average, by 15.5 per cent, while distribution costs increased 19.4 per cent over the same period. These increases were partly due to the end of the price freeze that was applied to the regulated standing offer in 2012/13, which involved a freeze in network charges.

Over the two years from 2013/14 to 2015/16, distribution network costs are expected to increase, on average, by 3.9 per cent a year, while transmission costs increase by 6.1 per cent a year. These increases reflect the revenue allowances that were included in existing regulatory determinations which were made prior to the recent network regulation rule changes.

The increases in regulated network costs 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 in setting network revenues.

Competitive market costs

Competitive market costs include wholesale energy purchase costs and the costs of the retail sale of electricity. They currently make up around 28 per cent of the average market offer price.

Over the three years from 2012/13 to 2015/16, competitive market costs are expected to increase, on average, by 5 per cent a year.

The competitive market in Queensland allows consumers to shop around for the best offer from retailers. Consumers may have saved around 5 per cent if they switched from a *standing offer* to a *market offer* in 2012/13.

Potential savings are based on each retailer's lowest generally available *market offer* as at February 2013 and vary according to electricity consumption, geographic location and individual circumstances.

Jurisdictional price trends

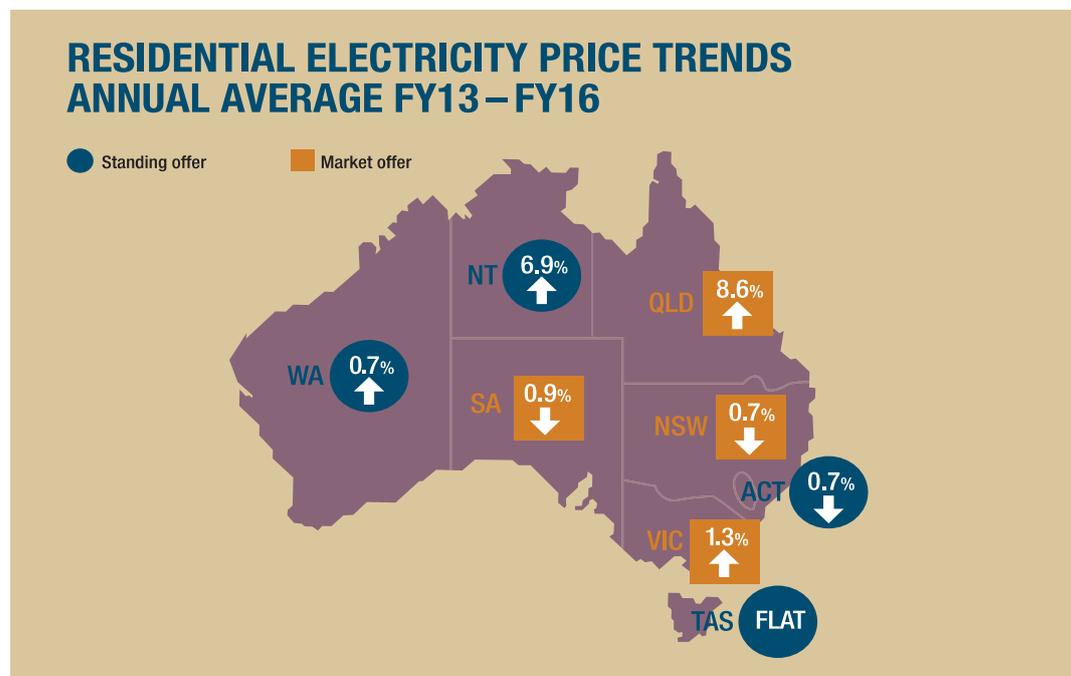
There is a reasonable degree of variability between the states and territories that underlies the national summary.

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.

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