

## TAS electricity price trends

### Tasmanian trends are stabilising electricity prices

#### 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 standing offer prices in Tasmania are expected to remain relatively stable.

“While various cost components either increase or decrease in Tasmania, interactions between these drivers means that standing offer prices are generally flat in net terms.

“There is some uncertainty around retail price trends due to changes underway in the Tasmanian electricity market.

“The Office of the Tasmanian Economic Regulator (OTTER) recently amended a portion of the 2013 Retail Price Determination. It is unclear what impact this may have on retail pricing, compared to the results in our report for 2014/15 and 2015/16,” Mr Pierce said.

OTTER published its revised interim price determination on 6 December 2013, and intends to issue a guideline early in the 2014 outlining how standing offer prices may be adjusted in future years. This may impact the trends provided for standing offers from 2014/15 in our report.

There is an annual average fall in prices of 0.5 per cent a year for the two years between 2012/13 and 2014/15. This includes the government announced 5.2 per cent decrease in prices on 1 January 2014.

Prices will increase by 1.1 per cent in 2015/16, returning to 2012/13 levels. This is primarily due to increasing network costs.

#### Environmental policies:

- A range of environmental policies have been introduced to deliver climate change related outcomes. These policies include the carbon price mechanism, the renewable energy target, feed in tariff schemes and energy efficiency schemes.
- OTTER's 2013 Retail Price Determination did not include a specific carbon cost component and a carbon pricing cost has not been included in our report.
- The costs associated with the renewable energy target are not expected to change significantly over the three years from 2012/13 to 2015/16.

#### Regulated networks:

- Network prices are expected to be the largest upward driver of prices in Tasmania.
- The regulated network component makes up 48 per cent of the 2012/13 standing offer price. This includes both transmission and distribution network costs.
- Regulated network costs are increasing by 6.4 per cent a year over the three years from 2012/13 to 2015/16.

Wholesale energy purchase costs and retail markets:

- Wholesale and retail market costs include wholesale energy purchase costs and the costs of the retail sale of electricity. They currently make up around 49 per cent of the average standing offer residential electricity price.
- Our trends for this component in Tasmania are based on the Office of the Tasmanian Economic Regulator (OTTER) price determinations made in July 2013.
- Based on OTTER's July 2013 Retail Price Determination, our reports shows that wholesale energy purchase costs decrease, while retail costs increase, on average, by around 13.5 per cent a year from 2012/13 to 2015/16.

*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.*

For information contact:

AEMC Chairman, John Pierce, (02) 8296 7800

Media Contact: Prudence Anderson, Communications Manager (0404) 821 935  
or DL (02) 8296 7817

13 December

# AEMC 2013 ELECTRICITY PRICE TRENDS REPORT\*

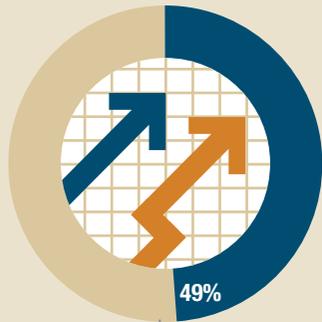
THIS REPORT LOOKS AT WHAT FACTORS WILL DRIVE RESIDENTIAL ELECTRICITY PRICES OVER THE NEXT THREE YEARS TO 30 JUNE 2016

**Tasmanian** standing offer prices are expected to remain stable, on average, over the three years from 2012/13 to 2015/16

## WHAT YOU PAY FOR

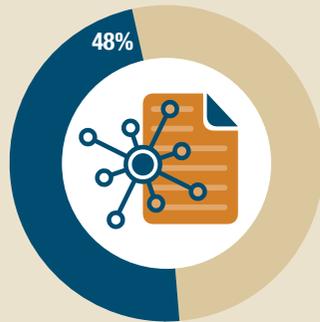
### Wholesale and retail

Wholesale costs and retail<sup>1</sup>



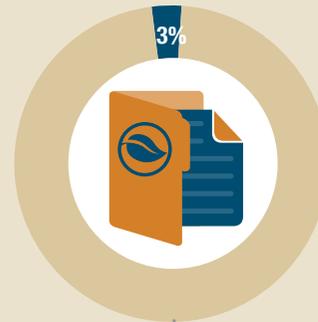
### Regulated networks

Cost of poles and wires continue to impact prices



### Environmental policies

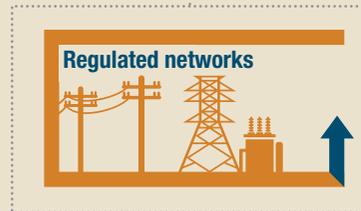
Comprised of the cost of the renewable energy target



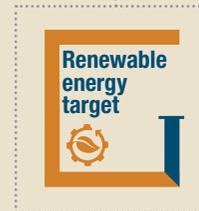
## PRICE TRENDS



- Wholesale costs decrease, on average, to 2015/16. Retail cost increase, on average, by around 13.5% a year from 2012/13 to 2015/16
- Residential electricity prices in Tasmania are currently regulated. Full retail competition will be extended to residential consumers on 1 July 2014.
- Our trends for these costs are based on determinations made by the Office of the Tasmanian Economic Regulator (OTTER) in July 2013



- Regulated network costs increase, on average, by 6% a year to 2015/16
- The AEMC made new rules in November 2012 to give the regulator more discretion in setting network revenue



- Cost of the renewable energy target is not expected to change substantially

- OTTER published its revised interim price determination on 6 December 2013 and intends to issue a guideline in 2014 outlining how future standing offer prices may be adjusted. This may impact the trends we have provided for standing offers from 2014/15 in our report

<sup>1</sup> In Tasmania, this includes the pass through of costs from earlier years

## PRICE MOVEMENTS ANNUAL AVERAGE FY13 – FY16

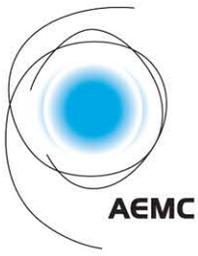
● Standing offer



## 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.



## Tasmania: 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).

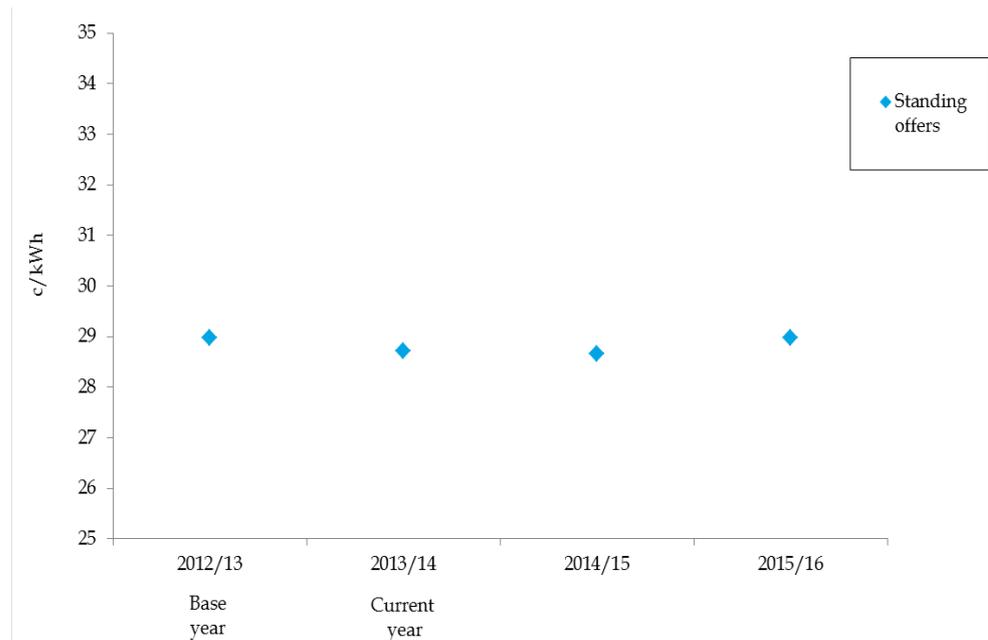
This report is not a forecast of prices. It analyses trends occurring in the competitive market sectors of the industry; the regulated networks sector; and resulting from government environmental policies. We report on how these trends affect overall prices paid by residential consumers.

This report varies from previous reports in that it includes:

- Both *standing* and *market* offer prices in jurisdictions where these offers are available. In Tasmania, trends are based only on the *standing offer* as there is currently no retail competition for residential customers.
- The effect of different household consumption levels on average electricity prices.

### Key findings for Tasmania

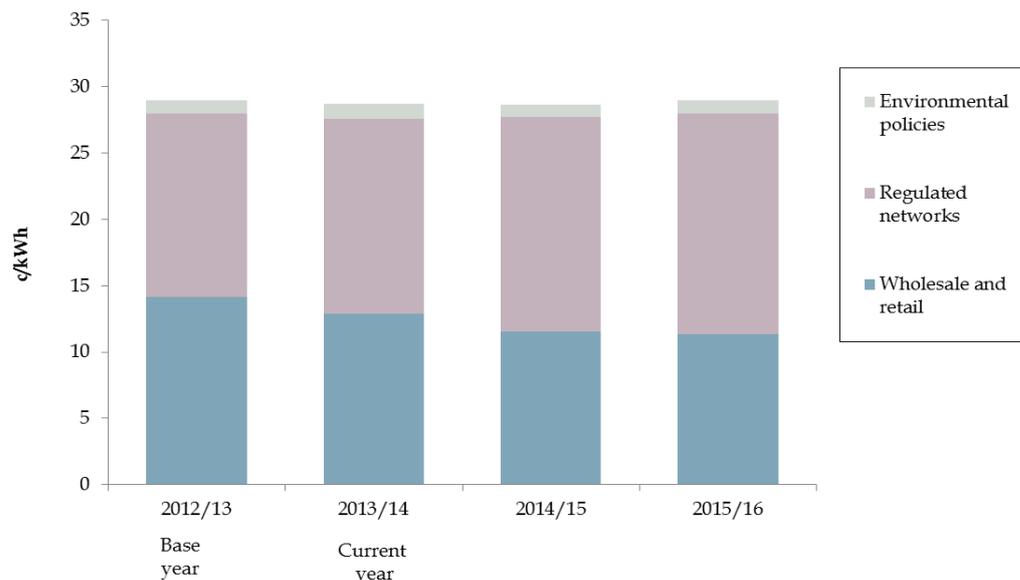
Tasmanian *standing offer* residential electricity prices are expected to remain relatively stable over the next three years from 2012/13 to 2015/16.



Tasmanian prices are expected to remain relatively stable. While various cost components across the supply chain either increase or decrease the net effect is relatively flat *standing offer* prices.

## Drivers of price trends

While various cost components either increase or decrease, interactions between these cost components means that the net effect is relatively flat *standing offer* prices.



## Environmental policy costs

A range of environmental policies have been introduced to deliver climate change related outcomes. These policies include the carbon price mechanism, the renewable energy target, feed in tariff schemes and energy efficiency schemes.

The information for environmental costs for Tasmania has been based on the Office of the Tasmanian Economic Regulator (OTTER) 2013 Retail Price Determination. That determination did not include a specific carbon cost component and a carbon pricing cost has not been included in our report.

The costs associated with the renewable energy target are not expected to change significantly over the three years from 2012/13 to 2015/16.

## Regulated network costs

Regulated network costs currently make up 48 per cent of the average *standing offer* price in Tasmania.

Regulated network prices are expected to be the largest upward driver of prices in Tasmania. This includes both the transmission and distribution costs.

Regulated network costs are increasing by 6.4 per cent a year over the three years from 2012/13 to 2015/16.

## Wholesale and retail market costs

Wholesale and retail market costs include wholesale energy purchase costs and the costs of the retail sale of electricity. They currently make up around 49 per cent of the average *standing offer* residential electricity price.

Our trends for this component in Tasmania are based on the Office of the Tasmanian Economic Regulator (OTTER) determinations made in July 2013.

OTTER published its revised interim price determination on 6 December 2013 and intends to issue a guideline early in the 2014 outlining how *standing offer* prices may be adjusted in future years. This may impact the trends we have provided for *standing offers* from 2014/15 in our report.

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

Based on OTTER's July 2013 Retail Price Determination, our reports shows that wholesale energy purchase costs decrease to 2015/16. Retail costs increase, on average, by around 13.5 per cent a year from 2012/13 to 2015/16.

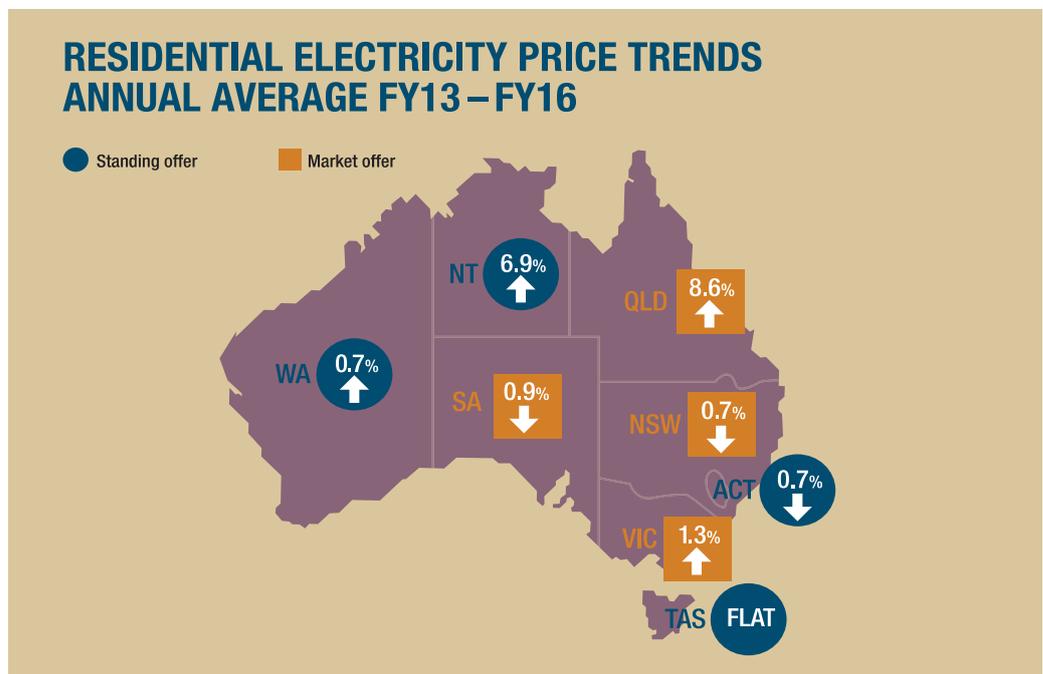
### Jurisdictional price trends

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 Tasmania 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.

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