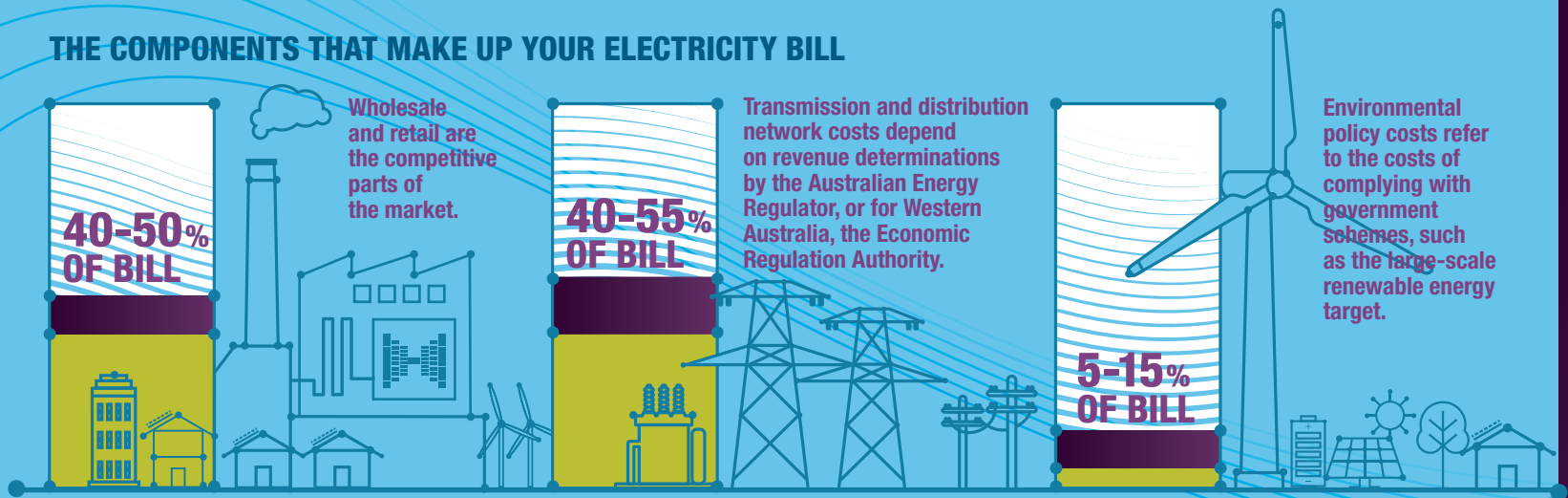
AEMC 2016 RESIDENTIAL ELECTRICITY PRICE TRENDS REPORT

PRICES RISING WITH VARIATION BETWEEN REGIONS

Average residential electricity prices are expected to rise, driven by significant increases in wholesale costs following retirement of two large generators. The generation mix is changing as more wind and solar enters the market and coal-fired generators retire. Electricity flows across regions are changing too, leading to greater price variations.

THE COMPONENTS THAT MAKE UP YOUR ELECTRICITY BILL



WHOLESALE AND RETAIL COSTS

Wholesale and retail are the competitive parts of the market.

REGULATED NETWORKS COSTS

Transmission and distribution network costs depend on revenue determinations by the Australian Energy Regulator, or for Western Australia, the Economic Regulation Authority.

ENVIRONMENTAL POLICY COSTS

Environmental policy costs refer to the costs of complying with government schemes, such as the large-scale renewable energy target.

PRICE DRIVERS IN OUR EVOLVING MARKET

Across most states average wholesale costs are estimated to increase by between 5% and 15% each year over 2015/16 to 2018/2019, largely driven by the closure of Hazelwood and Northern power stations, while electricity consumption remains flat.

Wholesale electricity costs are a key driver in customer bills and are increasingly connected with:

Emissions policy – the large-scale renewable energy target has led to substantial investment in wind generation – contributing to closure of coal-fired plant and recent increases in wholesale and retail prices.

The wholesale gas market – the price for gas affects electricity prices through gas-fired power stations, which are expected to play a larger role in the market.

System security – the increased reliance on renewable non-synchronous generation affects the technical characteristics of the system and the ability to supply reliable, secure energy. There is likely to be a need for additional services to manage system security, potentially impacting retail prices over the longer term.

The AEMC is responding to the interconnected nature of this market transformation in strategic ways

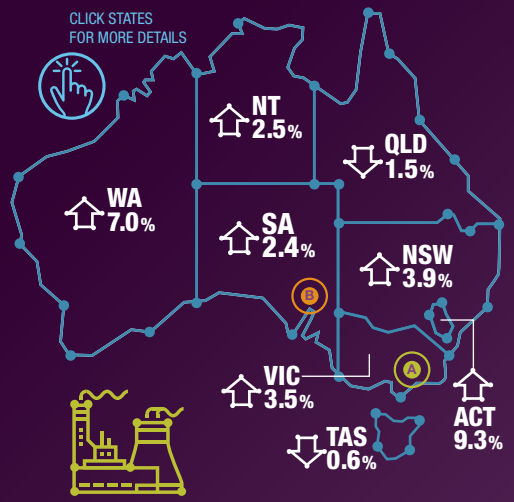
Well designed and integrated emissions reduction and energy policies can reduce emissions while delivering reliable, secure energy at the best price for consumers. The AEMC is advising energy ministers on the mechanism to achieve emissions reductions at the lowest cost to consumers.

A more efficient gas market lowers the wholesale cost of electricity by decreasing the costs of operating gas-fired generators. In 2016, following the AEMC's gas market review, governments committed to implementing a gas market reform package to enable faster and more efficient gas trading along the east coast.

The AEMC's power system security review is developing and implementing new market frameworks to support the entry of new technologies and participants in a way that delivers secure energy at the least cost for consumers.

AVERAGE ANNUAL PRICE TRENDS BETWEEN 2016/17 and 2018/19*

Trends in the underlying cost components of residential electricity bills vary across the country and over time as a result of differences in population, climate, consumption patterns, government policy and other factors.



A Hazelwood power station – to close March 2017

B Northern power station – closed May 2016

* From 2016/17 to 2018/19 annual average change in bill

PRICE IMPACTS OF HAZELWOOD POWER STATION CLOSURE

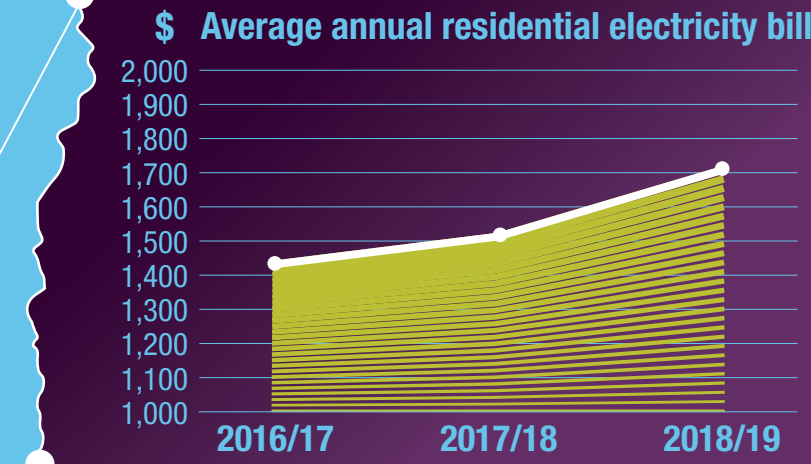
The owners of Hazelwood power station, which provides around 20% of Victoria's electricity, made a commercial decision to close in 2017. This will lead to large changes in electricity flows across regions and wholesale costs.

Increase in annual typical bill in 2018/19*

*Compared to a scenario where Hazelwood power station did not retire

2016 RESIDENTIAL ELECTRICITY PRICE TRENDS REPORT

Higher costs are expected across all bill components – wholesale and retail, network and environmental policies – with environmental policy costs having the largest increase mainly due to the increased costs of Feed-In Tariff schemes. Network costs are uncertain due to ongoing legal proceedings.



From 2016/17 to 2018/19 annual average change in bill

UP **9.3%**

ACT

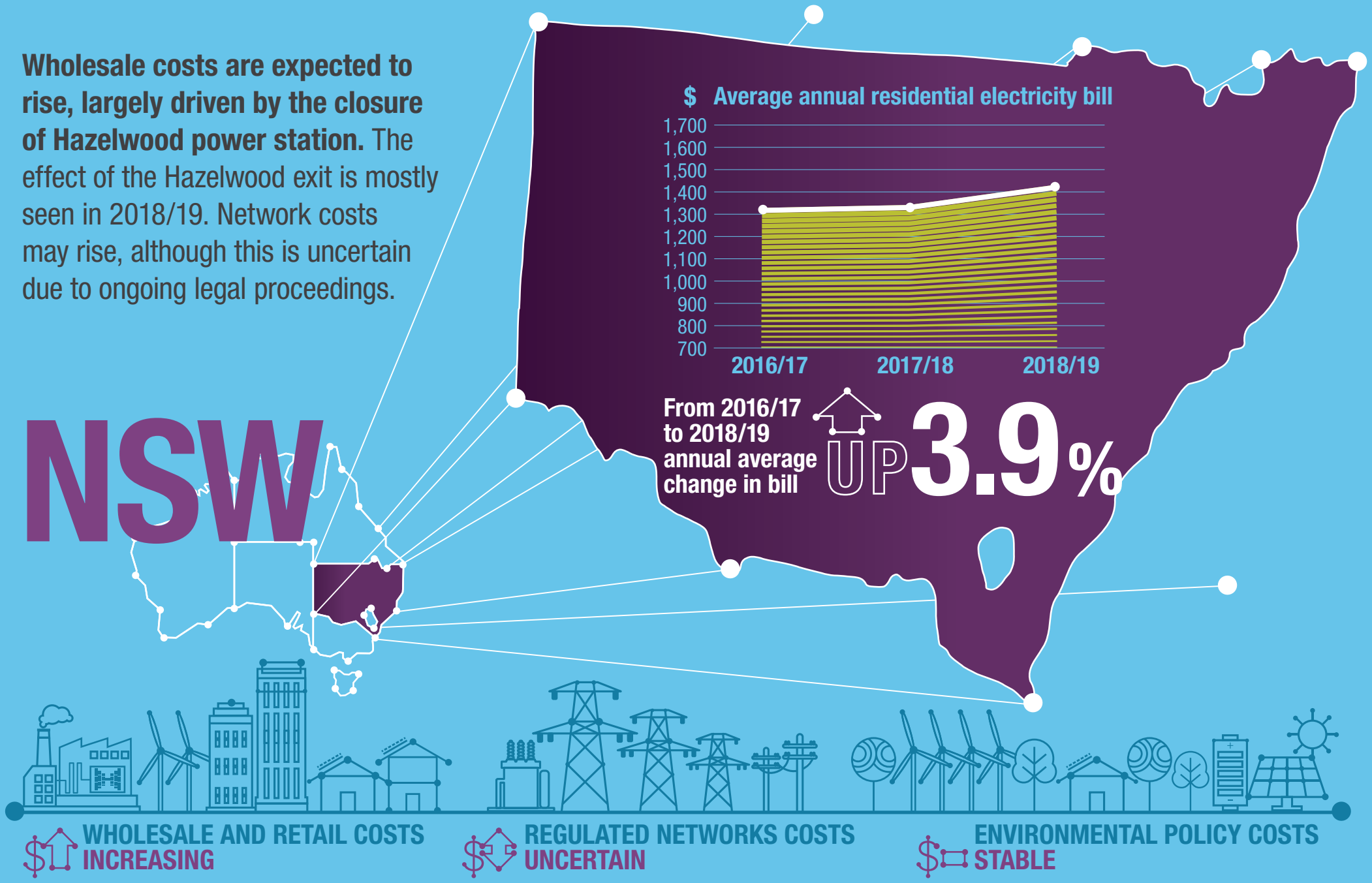
WHOLESALE AND RETAIL COSTS INCREASING

REGULATED NETWORKS COSTS UNCERTAIN

ENVIRONMENTAL POLICY COSTS INCREASING

2016 RESIDENTIAL ELECTRICITY PRICE TRENDS REPORT

Wholesale costs are expected to rise, largely driven by the closure of Hazelwood power station. The effect of the Hazelwood exit is mostly seen in 2018/19. Network costs may rise, although this is uncertain due to ongoing legal proceedings.



WHOLESALE AND RETAIL COSTS INCREASING

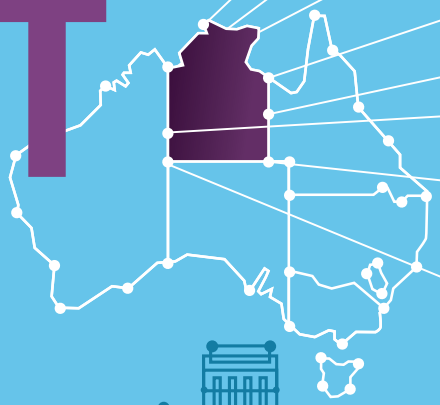
REGULATED NETWORKS COSTS UNCERTAIN

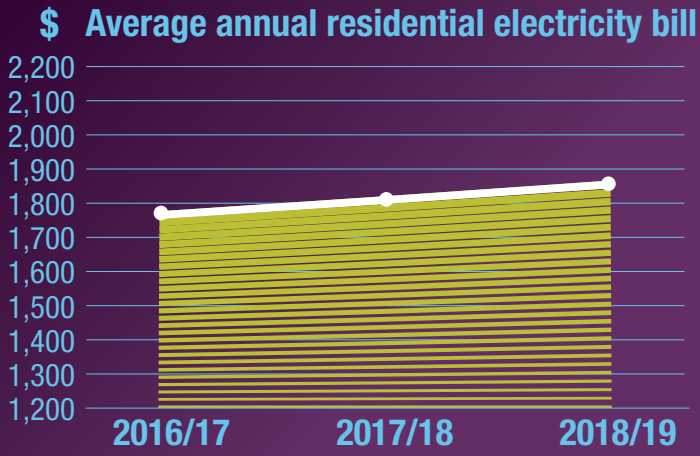
ENVIRONMENTAL POLICY COSTS STABLE

2016 RESIDENTIAL ELECTRICITY PRICE TRENDS REPORT

Residential electricity prices in the NT are set by the territory government. The prices paid by consumers are less than the cost of supply.

NT





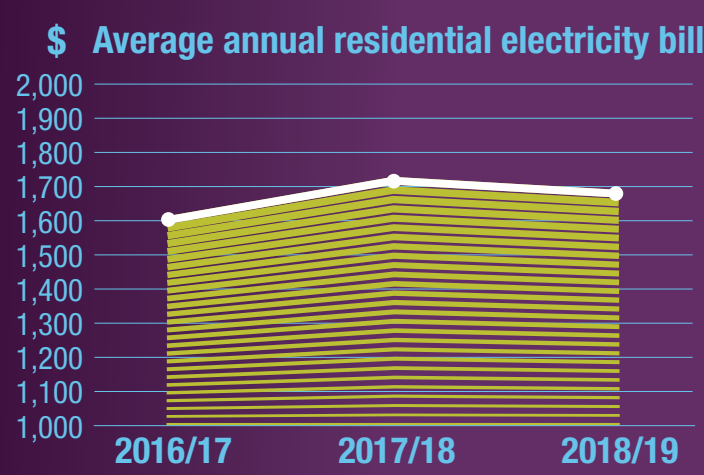
From 2016/17 to 2018/19 annual average change in bill

UP 2.5%

WHOLESALE AND RETAIL COSTS | **REGULATED NETWORKS COSTS** | **ENVIRONMENTAL POLICY COSTS**

2016 RESIDENTIAL ELECTRICITY PRICE TRENDS REPORT

Wholesale costs are expected to rise, largely due to the closure of Hazelwood power station, followed by a slight decrease in 2018/19 as more wind power comes on line. Network costs may increase slightly, although this is uncertain due to ongoing legal proceedings.



From 2016/17 to 2018/19 annual average change in bill **UP 2.4%**

SA

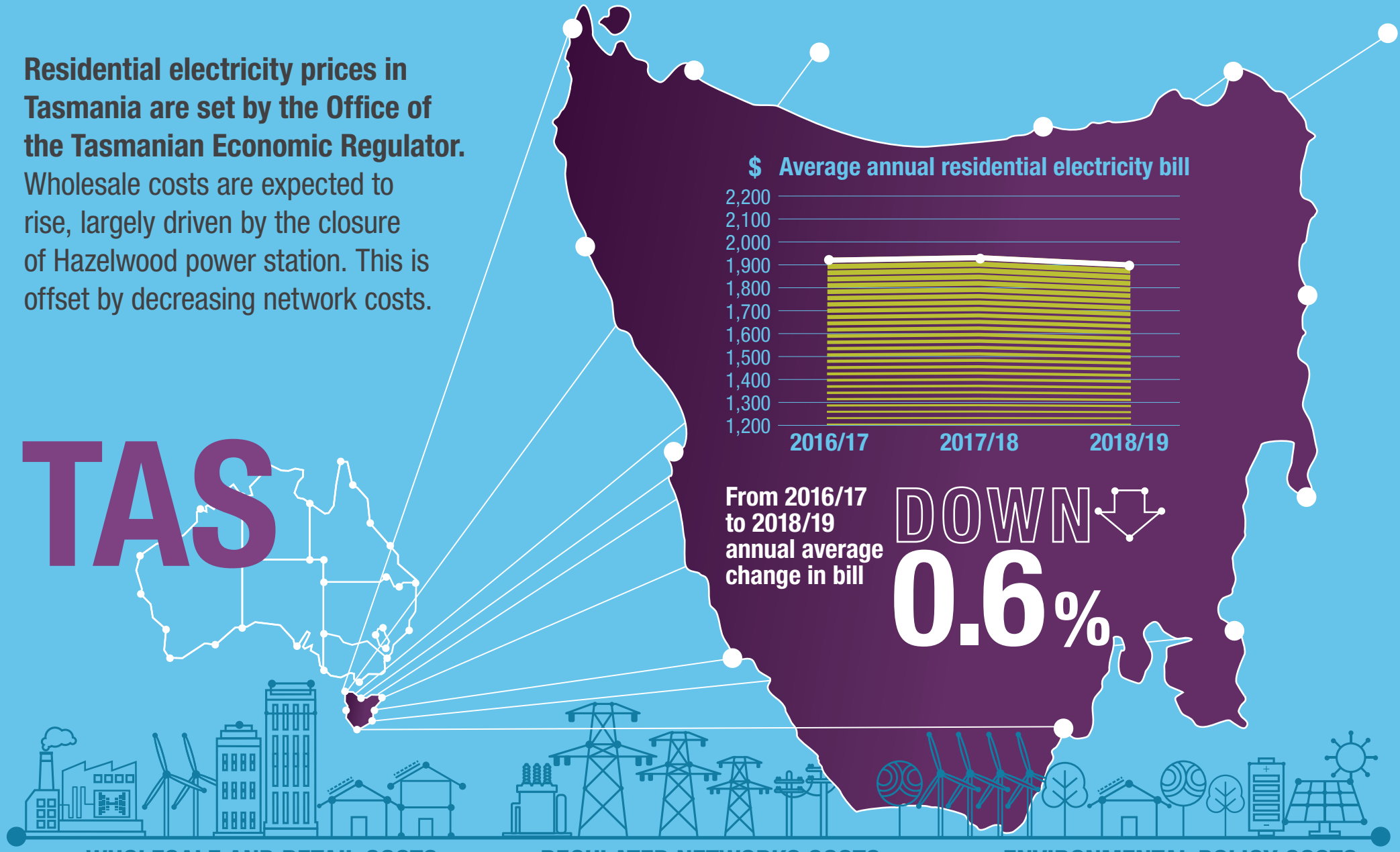
WHOLESALE AND RETAIL COSTS INCREASING

REGULATED NETWORKS COSTS UNCERTAIN

ENVIRONMENTAL POLICY COSTS STABLE

2016 RESIDENTIAL ELECTRICITY PRICE TRENDS REPORT

Residential electricity prices in Tasmania are set by the Office of the Tasmanian Economic Regulator. Wholesale costs are expected to rise, largely driven by the closure of Hazelwood power station. This is offset by decreasing network costs.



WHOLESALE AND RETAIL COSTS INCREASING

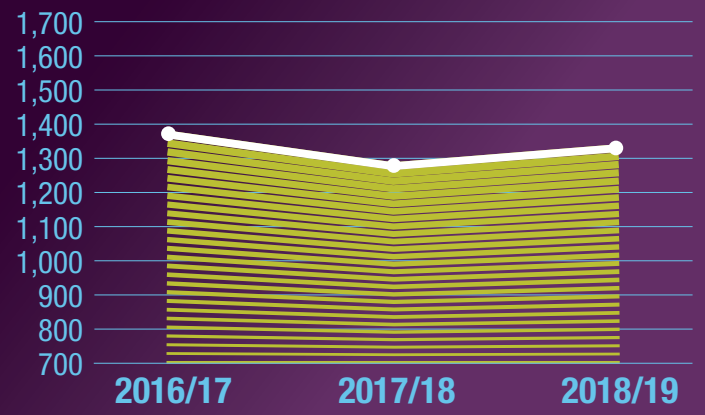
REGULATED NETWORKS COSTS DECREASING

ENVIRONMENTAL POLICY COSTS STABLE

2016 RESIDENTIAL ELECTRICITY PRICE TRENDS REPORT

Increasing wholesale costs, largely driven by the closure of Hazelwood power station, are expected to be offset by decreases in QLD Solar Bonus Scheme costs.

QLD



From 2016/17 to 2018/19 annual average change in bill

DOWN 1.5%

WHOLESALE AND RETAIL COSTS INCREASING

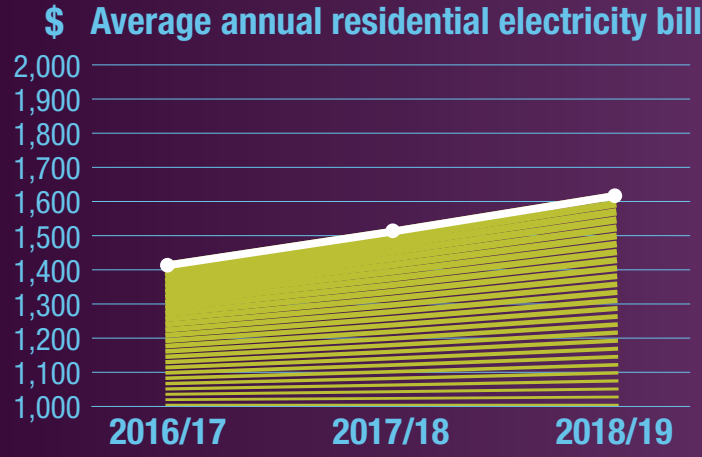
REGULATED NETWORKS COSTS STABLE

ENVIRONMENTAL POLICY COSTS DECREASING

2016 RESIDENTIAL ELECTRICITY PRICE TRENDS REPORT

Residential electricity prices in WA are set by the state government.
The prices paid by consumers are currently less than the cost of supply. The expected increase in the cost of supply is mostly due to higher wholesale costs.

WA



From 2016/17 to 2018/19 annual average change in bill UP **7.0%**

WHOLESALE AND RETAIL COSTS INCREASING

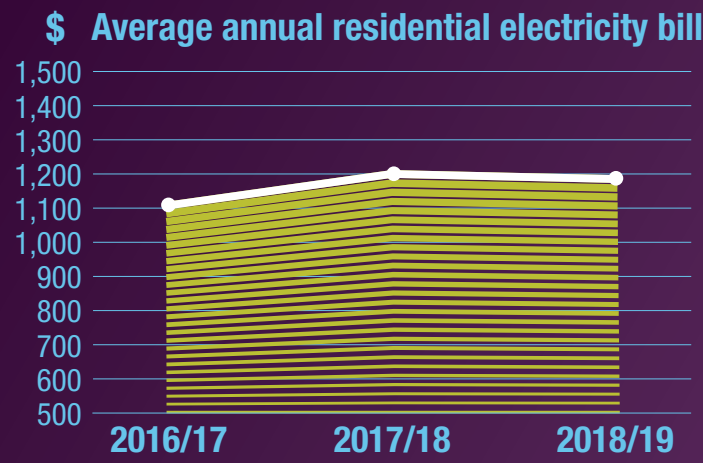
REGULATED NETWORKS COSTS STABLE

ENVIRONMENTAL POLICY COSTS STABLE

2016 RESIDENTIAL ELECTRICITY PRICE TRENDS REPORT

Wholesale costs are expected to rise, largely due to the closure of Hazelwood power station, followed by a slight decrease in 2018/19 as more wind power comes on line. Network costs may decrease, although this is uncertain due to ongoing legal proceedings.

VIC



From 2016/17 to 2018/19 annual average change in bill

UP 3.5%

WHOLESALE AND RETAIL COSTS INCREASING

REGULATED NETWORKS COSTS UNCERTAIN

ENVIRONMENTAL POLICY COSTS STABLE

AEMC

NEWS

Tasmania residential electricity price trends

2016 Residential Electricity Price Trends report

Average residential electricity prices in Tasmania are expected to decrease slightly over the next two years as rising wholesale costs following the retirement of Hazelwood power station are offset by decreasing network costs.

The AEMC's annual report on household price trends looks at what is driving changes in the underlying cost components of household electricity bills. It analyses the competitive market sectors of wholesale generation and retail; the regulated networks sector; and price implications from government environmental policies.

AEMC Chairman John Pierce said although electricity prices in Tasmania are determined by the Office of the Tasmanian Economic Regulator (OTTER), an analysis of underlying costs found that rising wholesale costs following the closure of Hazelwood would be more than offset by decreasing network costs. Tasmanian residential electricity prices are expected to decrease by 0.6 per cent on average for each of the next two years, while demand remains flat.

"Across the national electricity market the generation mix is changing – with the large-scale renewable energy target leading to substantial investment in wind generation. This is contributing to the closure of coal-fired plants and increasing wholesale and retail prices," said Mr Pierce.

The report estimates that a typical Tasmanian consumer will pay an extra $204 for their electricity in 2018/19 due to Hazelwood power station retiring, compared with Hazelwood continuing to operate.

Network costs, which make up around half of a residential electricity bill, are expected to decrease significantly and should more than offset rising wholesale costs over the next two years.

The report found a range of factors will drive wholesale electricity costs over the longer term.

"Wholesale electricity costs are a key driver in customer bills. These costs are increasingly connected with the mechanisms used to achieve emissions policy objectives – that is, how the energy sector will contribute to the emissions reduction target set by the government as part of the Paris commitment," said Mr Pierce.

System security costs will also increasingly drive wholesale costs.

"Having more renewable non-synchronous generation affects the technical characteristics of the electricity system. We can expect that additional services will be needed to manage system security, potentially impacting retail prices over the longer term," Mr Pierce said.

Electricity prices are also affected by the price for gas through gas-fired power stations, which are expected to play a larger role in the market in the future.

"Any future increase in the price of gas will result in higher input costs for generators, flowing through to higher costs in the wholesale electricity market," said Mr Pierce.

"The report says gas prices are expected to remain flat but this is a volatile sector."

Mr Pierce said price trends would impact individual households differently depending on how each consumer uses electricity.

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Lots of new wind and solar generation has entered in response to mechanisms like the large-scale renewable energy target.

Now the generation mix is changing as old coal-fired power stations leave the market. Contract supply is shrinking and prices are rising.

“No two households use energy in the same way. Knowing how much power you use and when, will be the key tool in controlling electricity costs in the future,” Mr Pierce said.

Reforms are underway to give consumers greater control over how they manage and use energy:

- From 1 July 2017 network businesses will be required to structure their prices to better reflect the consumption choices of individual consumers. This aims to give consumers price signals about the cost of using electricity in different ways and at different times, so they can make more informed energy choices.
- New rules to open up competition in metering come into force from 1 December 2017 and will give consumers more opportunities to access a wider range of new energy products and services with real time information about their energy use.

Media: Communication Director, Prudence Anderson 0404 821 935 or (02) 8296 7817

14 December 2016

INFORMATION

Tasmania – 14 December 2016

2016 Residential Electricity Price Trends: Final Report

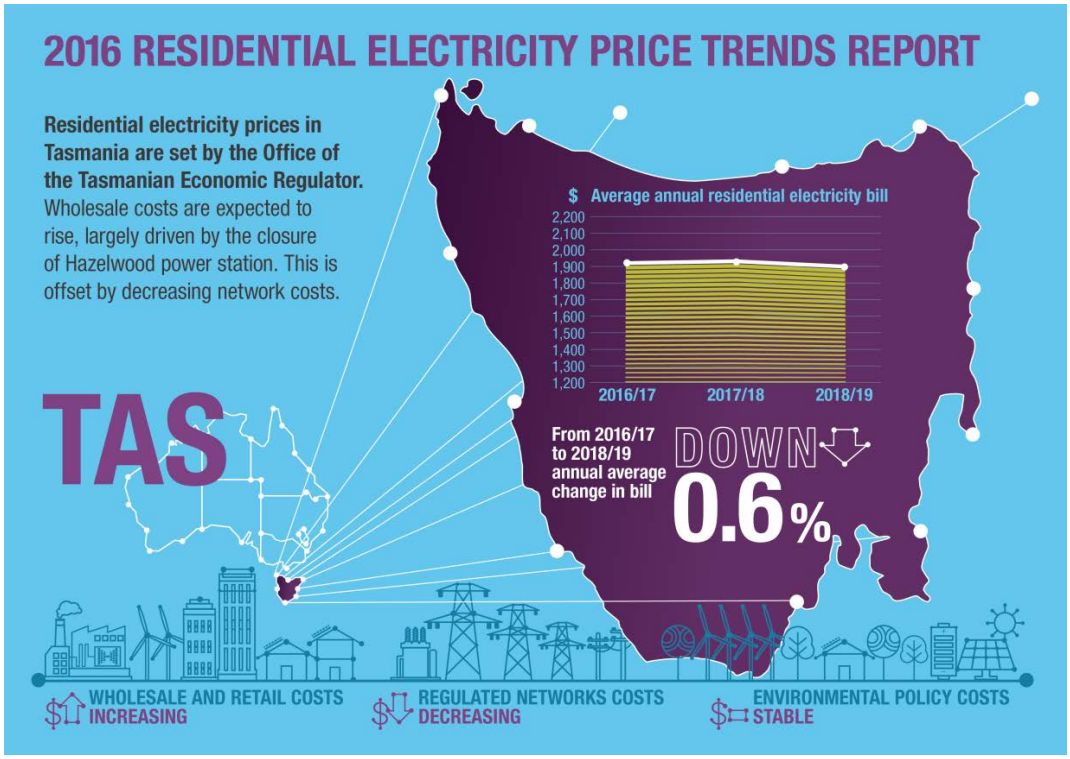
The 2016 Residential Electricity Price Trends report (the report) identifies drivers of movement in electricity prices from July 2016 to June 2019.

Key findings

The key supply chain cost components under analysis are wholesale and retail costs, regulated network costs and environmental policy costs.

Residential electricity prices in Tasmania are expected to decrease by an annual average of 0.6 per cent over the two years to June 2019, for the representative consumer on a *standing offer*. This trend is subject to future retail pricing determinations made by the Office of the Tasmanian Economic Regulator (OTTER). The trend in residential electricity prices is expected to be mostly driven by:

- increasing wholesale costs in 2017/18 as a result of the retirement of Hazelwood power station;
- decreasing wholesale costs in 2018/19 as a result of ongoing wind generation investment driven by the Large-scale Renewable Energy Target (LRET) scheme design across the National Electricity Market (NEM) and relatively flat demand; and
- large decreases in regulated network costs.



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The trend in residential electricity prices is expected to be mostly driven by changing wholesale costs.

Background

The report presents expected movements in electricity prices for a representative consumer in Tasmania, using an annual consumption level that was calculated from benchmark values published by the Australian Energy Regulator (AER).

- The annual consumption of the representative consumer in Tasmania is 8,550 kilowatt-hours (kWh) of electricity each year, of which approximately 41 per cent is allocated to Tariff 31 and the remainder to Tariff 42.
- Average electricity prices in this report are specific to the representative consumer and may not reflect the pricing outcomes for all residential consumers.

This report analyses trends in the wholesale and retail sector, the regulated networks component and the environmental policy component. The report shows how these trends affect overall prices paid by residential consumers, and identifies the relative contribution of these drivers to electricity price movements.

Price trends identified in this report are not a forecast of actual prices, but rather a guide as to what may influence prices based on current expectations, assumptions and government legislation. Prices in 2017/18 and 2018/19 will be set by OTTER based on projected cost movements.

Trends in residential electricity prices

Residential *standing offer* electricity prices for the representative consumer in Tasmania increased by 3.4 per cent in 2016/17 and are expected to:

- *increase* by 0.6 per cent in 2017/18; and
- *decrease* by 1.7 per cent in 2018/19.

This is equivalent to an average annual decrease of 0.6 per cent to June 2019. The 2015/16 and 2016/17 OTTER retail pricing determinations were used in developing this trend.

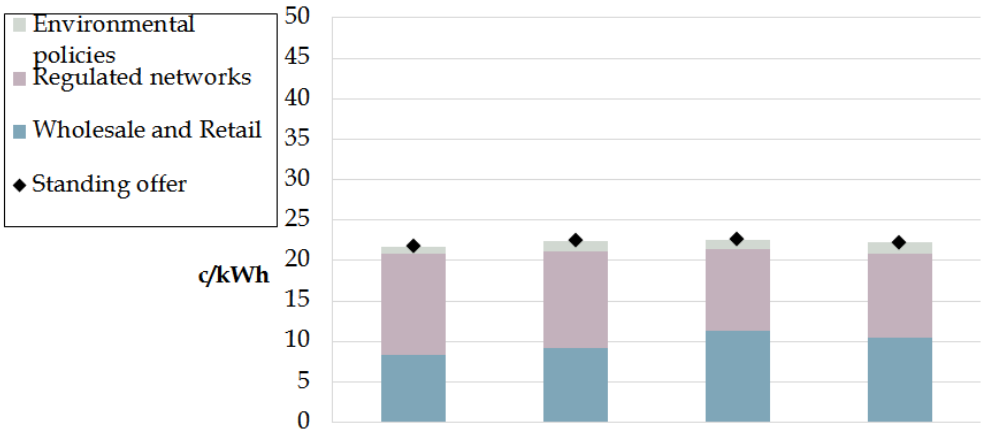
Full retail contestability was introduced from 1 July 2014 and retailers were able to offer market contracts. No new retailer has entered the Tasmanian electricity market and Aurora Energy continues to be the sole supplier of electricity to retail consumers. Since most residential customers remain on *standing offers*, this report does not cover *market offers* for Tasmania.

In 2015/16, a representative consumer on the regulated *standing offer* using 8,550 kWh per year had a total annual bill of $1,856 exclusive of GST.

Trends in supply chain cost components

The figure shows the expected movements in the supply chain cost components for the representative consumer on a *standing offer* in Tasmania.

Changing wholesale electricity costs are largely driven by the retirement of Hazelwood power station and on-going wind generation investment driven by the LRET scheme design.



	2015/16		2016/17 Current Year		2017/18		2018/19	
	c/kWh	$/yr	c/kWh	$/yr	c/kWh	$/yr	c/kWh	$/yr
Environmental policies	**0.91**	**$78**	**1.30**	**$111**	**1.20**	**$103**	**1.32**	**$113**
LRET - LGC cost	0.53	$45	0.87	$74	0.80	$68	0.93	$80
SRES - STC cost	0.38	$33	0.43	$37	0.40	$34	0.39	$33
Regulated networks	**12.52**	**$1,071**	**12.03**	**$1,029**	**10.06**	**$860**	**10.40**	**$889**
Transmission	3.07	$262	2.82	$241	2.87	$245	2.93	$250
Distribution	9.46	$808	9.21	$788	7.19	$614	7.47	$639
Wholesale and Retail	**8.28**	**$708**	**9.12**	**$780**	**11.33**	**$969**	**10.50**	**$898**
Wholesale and Retail								
Standing offer	**21.71**	**$1,856**	**22.46**	**$1,920**	**22.59**	**$1,931**	**22.21**	**$1,899**

The expected movements in each of the electricity supply chain components for Tasmania from 2016/17 to 2018/19 are summarised below:

Wholesale and retail costs consist of the wholesale electricity component and the costs associated with retailing electricity to residential consumers. They comprise approximately 41 per cent of a Tasmanian residential electricity bill in 2016/17. They are expected to increase at an average annual rate of 7.3 per cent from 2016/17 to 2018/19 and comprise around 47 per cent of the bill at this time.

In Tasmania, competitive market costs are expected to increase by 24 per cent from 2016/17 to 2017/18, before decreasing by seven per cent from in 2018/19.

- The effect of the Hazelwood power station retirement in Victoria is expected to be mostly seen in 2017/18. The retirement is expected to lead to a reduction in supply in Victoria and cause Victoria to import more frequently from the northern states. This will cause frequent binding of the interconnector between Victoria and New South Wales and price separation between the northern and southern states. This is expected to place upward pressure on wholesale electricity prices.
- The expected decrease in 2018/19 is influenced by ongoing wind generation investment driven by the LRET scheme design across the NEM and relatively flat demand. This is expected to lead Victoria to import less frequently from the northern states, leading to the interconnector between Victoria and New South Wales binding less frequently, and therefore placing downward pressure on wholesale electricity prices.

For a representative Tasmanian customer, power bills are expected to be about $204 higher in 2018/19 than they would have been if Hazelwood was still expected to operate (a rise of 12 per cent).

Regulated network costs are expected to decrease due to expected reductions in transmission and distribution costs.

The retail component of the *standing offer* price is determined by OTTER. OTTER determined that Aurora Energy will have a retail margin of 5.7 per cent per annum on total costs for each year of the regulatory period (1 July 2016 to 30 June 2019). OTTER deems this retail margin comparable to retail margins allowed by regulators in other jurisdictions.

Regulated network costs consist of transmission and distribution costs and comprise approximately 54 per cent of a Tasmanian residential electricity bill in 2016/17. They are expected to decrease at an average annual rate of 7.0 per cent over the two years to June 2019 and comprise 47 per cent of the bill at this time.

Transmission network costs are expected to increase at an average annual rate of 1.9 per cent over the two year period to June 2016. The trend in regulated transmission network prices in these years reflects the smoothed annual revenue in the AER's final determination for TasNetworks for the 2014-19 regulatory period.

Distribution network costs are expected to decrease at an average annual rate of 10 per cent over the two year period to June 2019. The trend in regulated distribution prices in these years reflects the AER's draft determination for TasNetworks over the 2017-19 regulatory period.

Environmental policy costs comprise approximately 4.2 per cent of a Tasmanian residential electricity bill. They are expected to increase at an average annual rate of 0.5 per cent over the two years to June 2019. These higher costs are driven by increased investment in wind generation to meet the requirements of the LRET.

The national picture

The underlying supply chain cost components and drivers of those trends vary across jurisdictions as a result of population, climate, consumption patterns, government policy and other factors. Against this background residential prices are expected to increase across the reporting period for most jurisdictions, driven to a greater or lesser degree by the same factors influencing Tasmania.

Q&A

What will electricity prices be in Tasmania?

For a representative consumer on the representative *standing offer*, residential electricity prices in Tasmania are expected to decrease by an annual average of 0.6 per cent over the two years to June 2019.

Why are prices going up?

Electricity prices are made up of wholesale, retail, network and environmental policy costs. Trends in Tasmanian electricity prices over the two years to June 2019 will be driven by:

- increasing wholesale costs in 2017/18 as a result of the retirement of Hazelwood power station;
- decreasing wholesale costs in 2018/19 as a result of on-going wind generation investment driven by the Large-scale Renewable Energy Target (LRET) scheme design across the National Electricity Market (NEM) and relatively flat demand; and
- large decreases in regulated network costs across the reporting period.

What is the effect on power bills of Hazelwood power station retiring?

For a typical Tasmanian customer, power bills will be about $204 higher in 2018/19 than they would have been if Hazelwood were still expected to operate.

Residential prices are expected to increase across the reporting period for most jurisdictions, mostly driven by higher wholesale electricity costs.

How does Tasmania compare to other jurisdictions?

Trends in electricity prices and bill components vary across jurisdictions and over time. This reflects difference in population, climate, consumption patterns, government policy and other factors across states and territories. The way these trends affect an individual consumer will depend on how that consumer uses electricity.

Against this background, residential prices are expected to increase across the reporting period for most jurisdictions, driven mainly by rising wholesale electricity costs.

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14 December 2016