

Northern Territory – 18 December 2017

Residential electricity price trends report 2017

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 interests of consumers. This report provides an overall picture of factors driving electricity prices for households in each state and territory.

Key findings for Northern Territory

This report examines wholesale electricity costs, regulated network costs and environmental policy costs.

Residential electricity prices in the Northern Territory are expected to have an average annual increase of 2.5 per cent from 2017-18 to 2019-20, for the representative consumer, based on an assumed rate of inflation.

The expected increases in the estimated residential electricity supply cost are driven by increases across all cost components with wholesale costs having the largest rise.

Ongoing reforms to the regulatory framework governing the Northern Territory's electricity industry have been underway since 2014. Any changes that occur as a result of these reforms may affect future residential retail prices within the period covered by this report.

Background

The expected movements in electricity prices for a representative consumer in the Northern Territory have been based on annual consumption levels provided by the Northern Territory government based on 2016-17 retailer information.

The annual consumption of the representative consumer in the Northern Territory is 6,613 kWh per year. Average electricity prices in this report are specific to the representative consumer in the Northern Territory and may not reflect pricing outcomes for all residential consumers.

Maximum residential electricity prices in the Northern Territory are set by the Northern Territory Government, which subsidises electricity prices such that the prices paid by consumers are less than the cost of supply. As a result, the retail price paid by consumers does not necessarily reflect the underlying costs of supplying electricity, nor follow cost trends.

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 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 costs.

Trends in residential electricity prices

Residential electricity prices for the representative consumer in the Northern Territory increased by 0.5 per cent from 2016-17 to 2017-18. However, prices are expected to increase by:

- increase by 2.5 per cent in 2018-19
- increase by 2.5 per cent in 2019-20.

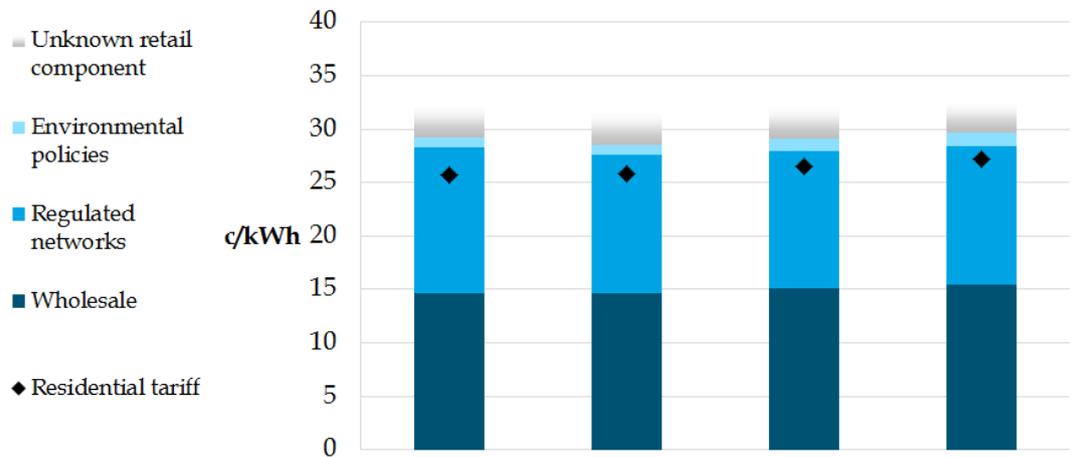
This is equivalent to an average annual increase of 2.5 per cent from 2017-18 to 2019-20.

Actual price outcomes will depend on decisions made by the Northern Territory Treasurer closer to when the prices apply, noting that the Northern Territory Government has indicated that any power price rises are capped at CPI for its first term in office (until 2020).

In 2016-17, a representative consumer using 6,613 kWh per year had a total annual bill of \$1,702, exclusive of GST.

Trends in supply chain cost components

The below figure shows the expected movements in the supply chain cost components for the representative consumer in the Northern Territory.



	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	0.93	\$62	1.01	\$67	1.14	\$75	1.26	\$83
LRET - LGC cost	0.60	\$40	0.71	\$47	0.82	\$55	0.96	\$63
SRES - STC cost	0.33	\$22	0.30	\$20	0.31	\$21	0.30	\$20
Regulated networks	13.64	\$902	12.87	\$851	12.94	\$855	12.94	\$855
Wholesale	14.69	\$971	14.69	\$971	15.06	\$996	15.43	\$1,021
Residual	-3.51	-\$232	-2.69	-\$178	-2.61	-\$172	-2.44	-\$161
Residential tariff**	25.74	\$1,702	25.88	\$1,711	26.52	\$1,754	27.19	\$1,798

Note: The "residual" is the difference between the residential tariff and the aggregate of the supply chain costs. It is a contribution to the retail component. As a result the cost stack shown in the table underestimates total costs. In the case where the residual is negative, the aggregate of the supply chain costs, excluding the retail component, is higher than the residential price.

*The unknown retail component includes a range of different costs, including the retailer operating costs, consumer acquisition and retention, and return on investment for investing capital in the business. The quantum of the retail component is not known and this is illustrated by the faded element at the top of the cost stack in the graph.

**Residential tariffs are set by the Northern Territory Government. Residential Tariffs for 2016–17 were based on an average of the prices set for the 2016 and 2017 calendar years. The Northern Territory Government moved to updating prices on a financial year basis for 2017–18. It is assumed that residential tariffs for 2018–19 and 2019–20 will increase at an inflation rate of 2.5 per cent.

The expected increases in the estimated residential electricity supply cost are driven by increases across all cost components with wholesale costs having the largest rise.

The expected movements in each of the electricity supply chain cost components for the Northern Territory from 2017-18 to 2019-20 are summarised below:

Wholesale electricity costs: these costs include purchases of energy including ancillary services.

In the Northern Territory, wholesale electricity costs comprised approximately 57.1 per cent of the representative residential tariff in 2016-17. Wholesale market costs are expected to:

- remain unchanged in 2017-18
- increase by 2.5 per cent in 2018-19
- increase by 2.5 per cent in 2019-20.

This is equivalent to an average annual increase of 2.5 per cent from 2017-18 to 2019-20.

The drivers of wholesale market costs are set out in key findings above.

Regulated network costs: consist of transmission and distribution costs and comprise approximately 53 per cent of the residential tariff in 2016-17, noting this tariff is below the total cost of supply in the Northern Territory.

In the Northern Territory there is no distinction between transmission and distribution prices when network prices are recovered from consumers. 2017-18 network prices are based on a Ministerial Direction while 2018-19 is based on the growth rate from the Northern Territory Utilities Commission 2014–19 final determination for the Power and Water Corporation. 2019-20 network prices are kept constant in nominal terms with 2018-19.

Environmental policy costs: these costs are related to policies introduced by the Commonwealth government — namely, the Renewable Energy Target.

In 2016-17, environmental schemes comprised 3.6 per cent of the representative residential tariff and are expected to comprise an increasing 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 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.

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. Residential prices nationally peak in 2017-18 and decrease in both 2018-19 and 2019-20. This is as a result of the national trends being influenced by wholesale electricity purchase costs in the national electricity market (NEM) which is the key driver of the price trends during the reporting period.

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