

NEWS

Falling power prices on the cards for Victorian customers

Australian Energy Market Commission
Residential electricity price trends report 2020

People living in Victoria could save 15% or about \$170 on their home energy bills over the next three years, a new report released today from the Australian Energy Market Commission shows.

The AEMC's 2020 Residential electricity price trends report shows that significant increases in generation capacity (particularly wind farms) and lower gas prices are the largest reason for the drop.

"The results in Victoria demonstrate how new sources of electricity generation like solar and wind are driving down wholesale prices," said AEMC Chief Executive Benn Barr.

"It's great to see prices falling because at the AEMC what drives us is how to keep the lights on and costs down in a decarbonising power system. We are working with our colleagues on the Energy Security Board to best manage the major transformational change that is taking place in the national electricity market."

Mr Barr said the AEMC's 11th price trends report shows costs falling across all three key drivers of Victorian consumers' bills over the period FY 2019/20 to FY 2022/23.

- **Wholesale costs** are expected to fall by 37% or about \$200 (an annual average drop of 14.4%). This is being driven by more supply coming into the market.
- **Environmental costs** are also expected to fall by 11% or \$10 (an annual average drop of 4%), driven by a drop in Large-Scale Renewable Energy Target costs as more generation comes online.
- **Network costs** are set to decrease by 6% or nearly \$30 (an annual average fall of 2%) due to network businesses earning less from their capital investments.

In 2020/21 and 2021/22 Victorian prices overall are expected to drop by 6.8% and 13.2% respectively. In 2022/23 we have modelled a 5% price increase.

However, this modelling pre-dates recent announcements on renewable energy in both NSW and Victoria and so ACT prices in 2023 could well look different.

"With the lowest market prices in the country and 95% of customers on cheaper market offers, it is clear that Victorians are shopping around," Mr Barr said.

However, the 5% of Victorians still on the Victorian Default Offer could save up to \$137 off their energy bill every year if they shopped around."

Prices in this report are based on a 'most common Victorian consumer' – a two-person household with no pool or off-peak water, consuming 3865kWh of electricity a year, in addition to a gas mains connection.

Actual prices will depend on how and when electricity is used in each home and which type of energy offer they are on. Consumers can shop around for the best energy deal using sites such as the Australian Energy Regulator's comparison site Energy Made Easy.

"Knowing how much power you use and when you use it is becoming more important as new technologies and information platforms become more accessible," Mr Barr said.

With the lowest market prices in the country and 95% of consumers on cheaper market offers, it is clear that Victorians are shopping around.

Continued

“Integrating new technologies into the power system and expanding consumers’ ability to participate in the energy market and control their energy consumption is a key focus for the AEMC.

“This report has been giving governments forward looking, policy relevant information on energy prices for more than a decade – but it is important to stress these are projections not predictions. Trends can change sharply in response to new policies and sudden market changes.”

Understanding what’s driving prices can give the Victorian Government information on underlying costs to compare with price changes retailers seek to make from 1 July.

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About this report

This price trends report informs a range of stakeholders including the International Energy Agency, Reserve Bank of Australia and the Australian Energy Market Operator.

It provides governments with information about which parts of the sector are driving electricity prices and provides context for long-term decision making on energy policy.

It also helps customers understand the costs included in their electricity bill.

Price trends identified in this report are not a forecast of actual prices, but rather a guide to pricing and bill directions based on current expectations, policy and legislation. Actual price movements will be influenced by how retailers compete, the dynamics of wholesale, spot and contract markets, the outcomes of network regulatory decisions and changes in policy and regulation.

Prices modelled are an average of the lowest market offer of each retailer weighted by market share.

Prices relate to a ‘typical customer’, which refers to the most common type of household based on electricity consumption.

About the AEMC

The Australian Energy Market Commission makes the rules for the National Electricity Market, elements of the natural gas market and related retail markets. We provide strategic and operational advice to governments on energy and protect consumers with the right trade-off between cost, reliability and security

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AUSTRALIAN ENERGY MARKET COMMISSION

ELECTRICITY PRICE TRENDS REPORT 21 DECEMBER 2020

VICTORIA ELECTRICITY MARKET PRICES ARE DECREASING

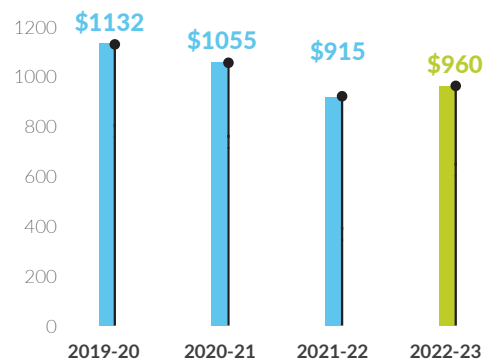
In Victoria, household electricity bills are likely to be \$172 cheaper by 2023. All three cost drivers – wholesale costs, network costs and environmental costs are on their way down in this state, which has a very high proportion of customers on cheaper market offers and lots of gas used for home heating.



CONSUMER

The representative consumer in Victoria is a two-person household using mains gas along with electricity and on a market offer power bill (with total annual consumption level of 3,865kWh).

Annual electricity bill for a typical residential customer



AT A GLANCE



WHOLESALE

The cost of generating electricity

Wholesale costs are expected to fall by 37% or \$197 over the reporting period (an annual average drop of 14.4%). This is being driven by more supply coming into the market and lower gas prices.



NETWORKS

Poles and wires costs depend on regulator revenue determinations

Network costs are set to decrease by 6% or \$27 over the reporting period (an annual average fall of 2%) due to network businesses earning less from their capital investments.



ENVIRONMENTAL

Direct costs of government schemes like the renewable energy target

Environmental costs are also expected to fall by 11% or \$10 over the reporting period. An annual average drop of 4%, driven by lower Large-Scale Renewable Energy Target costs as more generation comes online.

ABOUT THIS REPORT

The AEMC price trends report informs a range of stakeholders including the International Energy Agency, Reserve Bank of Australia and the Australian Energy Market Operator. It provides governments with information on how costs in different parts of the electricity sector are driving future prices and provides context for long-term decision making on energy policy.

The representative consumer is different for each jurisdiction depending on demographic profiles and is defined by using a representative energy consumption level.