

AEMC 2014 ELECTRICITY PRICE TRENDS REPORT

THIS REPORT LOOKS AT THE FACTORS DRIVING RESIDENTIAL ELECTRICITY PRICES OVER THE NEXT THREE YEARS TO 30 JUNE 2017

Tasmanian electricity prices are expected to decrease by 10.3% in 2014/15 and 0.7% in 2015/16, before increasing by 2.3% in 2016/17

WHAT ARE THE COMPONENTS THAT MAKE UP A TYPICAL TASMANIAN ELECTRICITY BILL?

36%

Wholesale and Retail

Wholesale and retail prices are falling

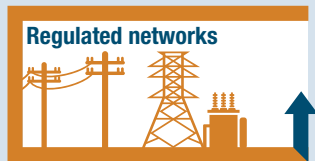


- Wholesale and retail costs are expected to decrease by an average annual 1.9% to 2016/17
- This reflects lower wholesale prices due to a growing oversupply of generation capacity as a result of falling energy consumption and growth in generation subsidised under the Renewable Energy Target
- Full retail competition became available in Tasmania in July 2014
- The AEMC's 2014 Retail Competition Review found that competition is not currently effective in Tasmania. Only the incumbent retailer, Aurora Energy, currently offers retail contracts to residential consumers

60%

Regulated networks

The cost of poles and wires is moderating under a new regulatory framework

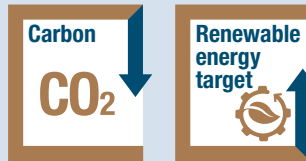


- Regulated network prices are expected to increase at an average annual 1% to 2016/17
- New rules made by the AEMC are being applied in Tasmania which better equip the regulator to set efficient network revenues, so consumers don't pay more than necessary
- A draft determination made by the regulator for TasNetworks is one of the first to be made under the new rules and includes a lower allowed rate of return due to lower interest rates and risk premiums in financial markets, as well as lower capital and operating expenditure
- Tasmania's two distribution and transmission businesses merged in July 2014 into TasNetworks and this is expected to result in efficiencies that reduce costs for consumers

4%

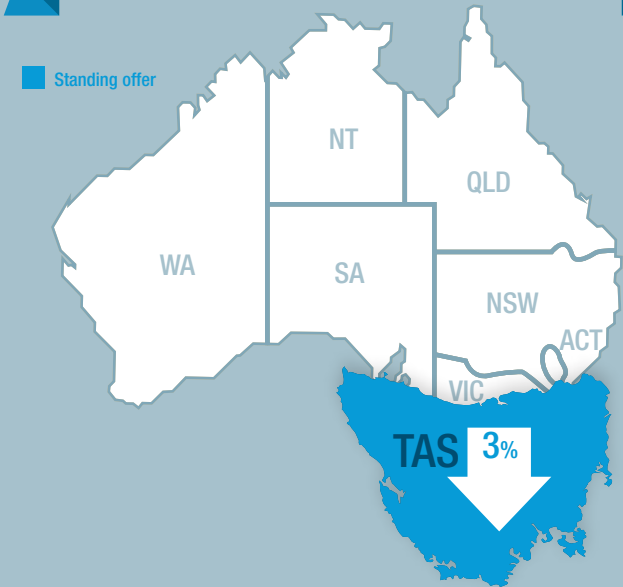
Environmental policies

The cost of the Renewable Energy Target continues to impact prices

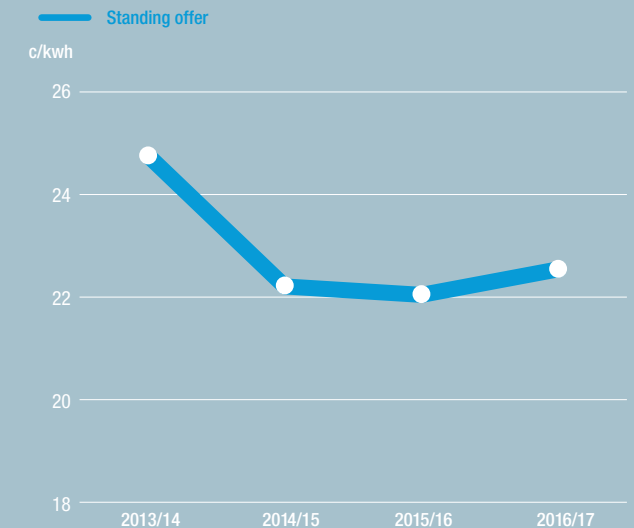


- Prices in Tasmania are lower in 2014/15, mainly due to the removal of the carbon price
- Costs associated with the Renewable Energy Target are expected to rise, on average, by 9 per cent per year to 2016/17

WHAT WILL EXPECTED AVERAGE ANNUAL PRICE TRENDS BE BETWEEN JULY 2014-17?



EXPECTED PRICE TRENDS IN TAS



For further details including methodology, visit www.aemc.gov.au

AUSTRALIAN ENERGY MARKET COMMISSION

CHANGING THE ENERGY LANDSCAPE: NEW RULES FOR NETWORKS

AN INCENTIVE-BASED REGULATORY FRAMEWORK

NOVEMBER 2012:

Economic Regulation of Network Service Providers rule change

OUTCOMES OF THE 2012 RULE CHANGES

Setting revenue allowances for regulated networks

Regulation based on business efficiency means consumers don't pay any more than necessary for the reliable supply of electricity and gas.



NOVEMBER 2014:

Distribution Network Pricing Arrangements rule change

OUTCOMES OF THE 2014 RULE CHANGES

Structuring prices to empower consumers

Making network prices reflect the cost of providing network services to individual consumers means everyone can make informed decisions about how they use electricity. These rules cover how much individual households will pay for their network services.



Allowed revenues for network businesses are now set using the expenditure required by prudent, efficient operators as a benchmark

Companies have incentives to beat the benchmarks so they can keep some of their savings and pass the rest on to customers

By July 2017 the prices we pay will reflect the different ways we use electricity and the costs of providing it

The rules put consumers in the driving seat

The way we pay for power has to keep pace with our modern lifestyle. When prices reflect how much it costs to use different appliances at different times, consumers are able to make more informed decisions



AEMC rules are used by the Australian Energy Regulator (AER) to set the revenues that network businesses can recover as well as the maximum prices they can charge



The AER is able to review the efficiency of past capital expenditure overspends when assessing future revenue proposals



The AER works out revenues based on analysis of efficient costs including operating and capital expenditure, return on capital, depreciation, and tax liabilities



The AER has to release reports on network business performance to compare business performance across jurisdictions and over time



The rules include clear instructions for networks on the requirements to apply when determining how to structure network prices



There is more consumer consultation on how network prices are structured



Earlier notification of network prices allow retailers and consumers to better prepare for price changes



The right information on costs will help people choose energy services that are right for them – whatever technology changes lie ahead

NOVEMBER 2012

AEMC makes new rules on setting network revenue allowances

2013

AER develops guidelines in response to the new rules and conducts public consultation under its Better Regulation Program

27 NOVEMBER 2014

AER releases first draft revenue determinations under the new rules and guidelines

27 NOVEMBER 2014

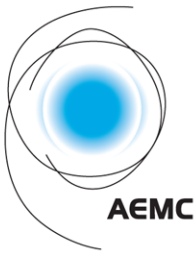
AEMC makes rules requiring cost reflective pricing for individual consumers

2015

Network companies consult consumers and retailers on new tariffs and submit draft proposals to AER mid-year

2017

Cost-reflective prices phased in no later than mid-year



NEWS

Electricity prices moderating in Tasmania over the next two years

The Australian Energy Market Commission (AEMC) today released its 2014 Residential Electricity Price Trends report, which shows prices in Tasmania are set to fall in 2014/15 and 2015/16.

The report analyses trends in the wholesale and retail sectors of the electricity industry; the regulated networks sector; and resulting from government environmental policies. The factors driving each of the three are different, so understanding price trends involves looking into each individually.

AEMC Chairman John Pierce said overall, the cost of supplying electricity in Tasmania has fallen by 10.3 per cent in 2014/15 mainly due to the removal of the carbon price, and is expected to decrease by a further 0.7 per cent in 2015/16, before increasing by 2.3 per cent in 2016/17.

“The factors which had previously led to significant price growth in Tasmania, including network prices, are now moderating,” Mr Pierce said.

“Network prices are expected to increase by an annual average one per cent in Tasmania to 2016/17 – less than inflation – under a new regulatory framework introduced by the AEMC which is now being applied by the Australian Energy Regulator.

“The new rules better equip the regulator to set efficient revenue allowances for regulated network companies so people don’t pay more than necessary for the cost of maintaining and upgrading the poles and wires.

“This year’s price trends report reflects lower operational and capital expenditure allowances proposed by the regulator in their draft determination last month for Tasmania’s transmission network business and lower rates of return. A draft determination for the distribution network business is due in mid-2017.”

Wholesale and retail costs are also expected fall in Tasmania by an annual average 1.9 per cent in the three years to 2016/17, which reflects an oversupply of generation capacity.

The removal of the carbon price has reduced electricity prices in 2014/15, however other environmental policies like the Renewable Energy Target and solar feed-in tariff schemes continue to place upward pressure on prices in Tasmania.

“Costs associated with the Renewable Energy Target are set to rise by an annual average 9 per cent to 2016/17,” Mr Pierce said.

The annual Residential Electricity Price Trends report is part of the AEMC’s work to strengthen consumer engagement in energy markets.

The full report is available at www.aemc.gov.au.

The AEMC's price trends report shows electricity prices are set to fall in Tasmania

About the AEMC

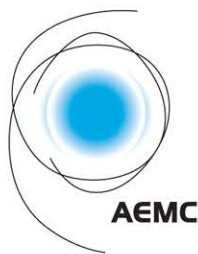
We are the independent body responsible since 2005 for providing advice to Australian governments on development of the electricity and gas sector. We make statutory energy market rules which are applied and enforced by the Australian Energy Regulator (AER).

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EMBARGOED 1pm AEDT, 11 December 2014



Tasmania: Household electricity price trends

Tasmanian residential electricity prices expected to be stable after falling in 2014/15

The 2014 Residential Electricity Price Trends report identifies factors driving electricity prices over the three years to 2016/17 in all states and territories. By providing this information at the request of the COAG Energy Council, the AEMC is seeking to strengthen consumer engagement in the market.

The Residential Electricity Price Trends report presents expected movements in prices for a representative consumer in Tasmania, using an annual consumption level that was provided to us by the Tasmanian Government.

- The annual consumption of the representative consumer in Tasmania is assumed be 7,627 kilowatt-hours (kWh).
- Average electricity prices in this report are specific to the representative consumer and may not reflect the pricing outcomes for all residential consumers.

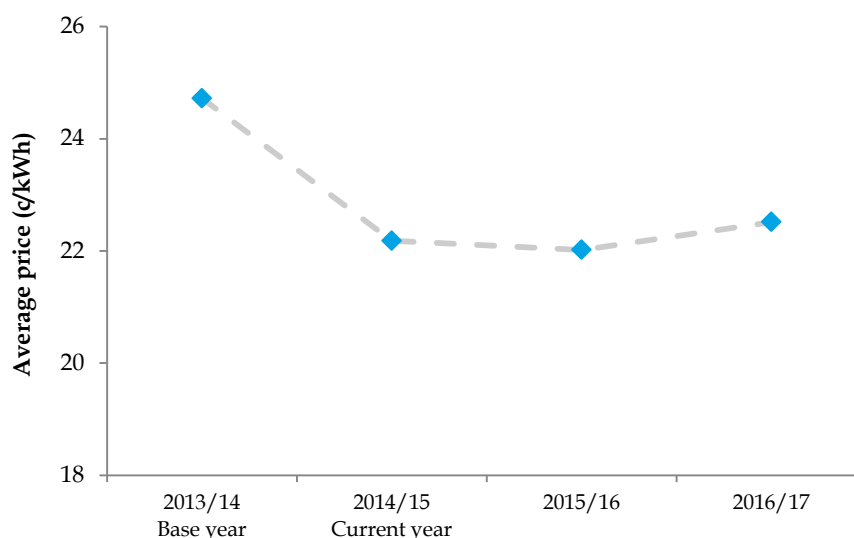
To undertake this work, we analysed trends in the wholesale and retail market sectors of the industry, the regulated networks sector and the impact of government environmental policies. We report on how these trends affect overall prices paid by residential consumers, in order to identify the relative contribution to the price movements of these drivers.

Key findings for Tasmania

On average, *standing offer* prices in Tasmania have decreased by around 10.3 per cent in 2014/15 for the representative consumer, and are expected to decrease by 0.7 per cent in 2015/16 before increasing by 2.3 per cent in 2016/17. This is equivalent to an annual average decrease of 3 per cent over the reporting period, as shown below.

The Tasmanian retail electricity market is undergoing a period of change with the introduction of full retail competition from 1 July 2014. Retailers now have the opportunity to provide *market offers* for consumers, however at the current time only *standing offers* are available.

Trend in Tasmanian *standing offer* price



Tasmania prices are expected to remain relatively stable after a fall in 2014/15 due to the removal of the carbon price

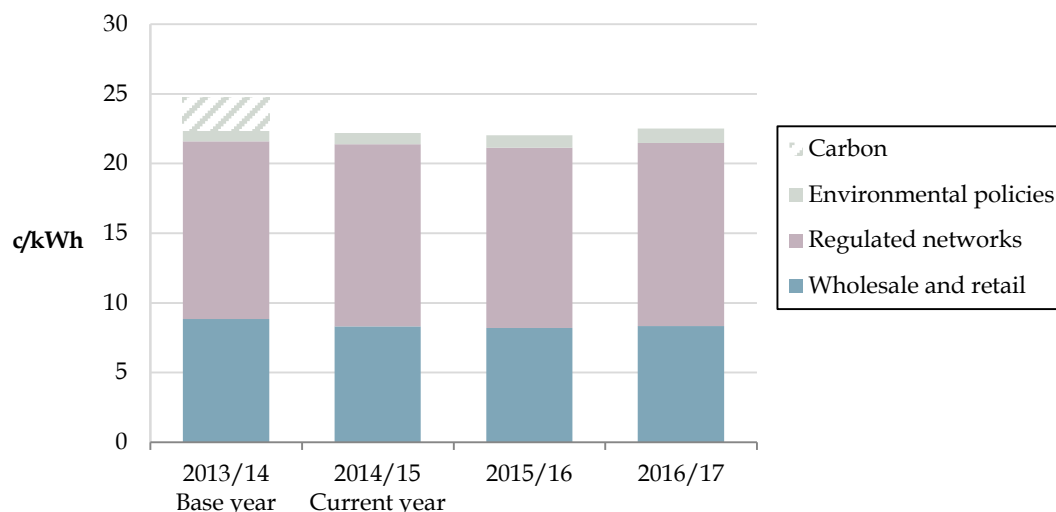
Drivers of price trends

Residential electricity prices in Tasmania are relatively stable over the reporting period after a fall from the removal of the carbon price in 2014/15.

The main driver of the price trend in Tasmania is the removal of the carbon price in 2014/15 and falling wholesale energy purchase costs. Environmental policies and regulated network prices are expected to increase moderately over the reporting period.

In 2014/15, the total electricity bill for a representative consumer in Tasmania is expected to consist of around 60 per cent regulated network prices, 36 per cent wholesale and retail costs and 4 per cent environmental policy costs, as shown below.

Trend in Tasmanian supply chain components



Regulated network prices

Regulated network prices consist of the costs of the transmission and distribution networks.

- Regulated network prices are expected to increase at an average annual rate of 1 per cent between 2013/14 and 2016/17.
- The distribution business, Aurora, and the transmission business, Transend, were merged in July 2014 to form a combined entity called TasNetworks.

In November 2012, the AEMC made new rules relating to how networks are regulated by the Australian Energy Regulator. The new rules improve the capacity of the regulator to determine network prices. Under the new rules, the regulator is better equipped to develop methods and processes to achieve efficient outcomes for consumers, including how the rate of return on capital is set.

An existing distribution network determination applies for the entire reporting period, while a transitional determination has been made for the transmission business for 2014/15. Transmission network prices for 2015/16 and 2016/17 are based on the AER's draft transmission determination for TasNetworks for the 2014-19 regulatory period.

The AER's draft determination for TasNetworks includes:

- a proposed regulated rate of return of 6.88 per cent, which is materially lower than the 10 per cent allowed for the previous regulatory period due to lower interest rates and risk premiums in financial markets; and
- lower capital and operating expenditure compare with the previous regulatory period, which is due to expected flat peak demand growth that is resulting in historically low levels of network augmentation, and efficiencies from combining the transmission and distribution businesses into one entity.

Wholesale and retail market costs

Wholesale and retail market costs consist of the wholesale energy component and the costs associated with retailing electricity to residential consumers.

- Over the reporting period, it is expected that wholesale and retail market costs will decrease at an average annual rate of 1.9 per cent.
- A key driver of the fall in the wholesale and retail component is energy purchase costs. Energy purchase costs are expected to decline in the short-term due to falling energy consumption and increasing renewable generation under the current Renewable Energy Target.

The 2014 Retail Competition Review found that competition is not currently effective in Tasmania. Only the incumbent retailer, Aurora Energy, currently offers retail contracts to residential consumers.

Environmental policy costs

The environmental policies that apply in Tasmania during the reporting period are the:

- carbon pricing mechanism;
- Renewable Energy Target; and
- feed-in tariff scheme.

Costs associated with the carbon pricing mechanism apply only in the base year of our reporting period (2013/14) as the policy was repealed with effect from 1 July 2014.

- In 2013/14, these costs made up around 9.4 per cent of the total bill of a representative consumer.

Costs associated with the Renewable Energy Target made up around 3.3 per cent of the total bill of the representative consumer in 2013/14.

- These costs are expected to increase, on average, by 9 per cent per year between 2013/14 and 2016/17. Our analysis is based on the existing government legislation.

The cost of the feed-in tariff scheme is borne entirely by Aurora Energy. As the scheme costs are not recovered directly from residential consumers via electricity bills, we have not reported on this component.

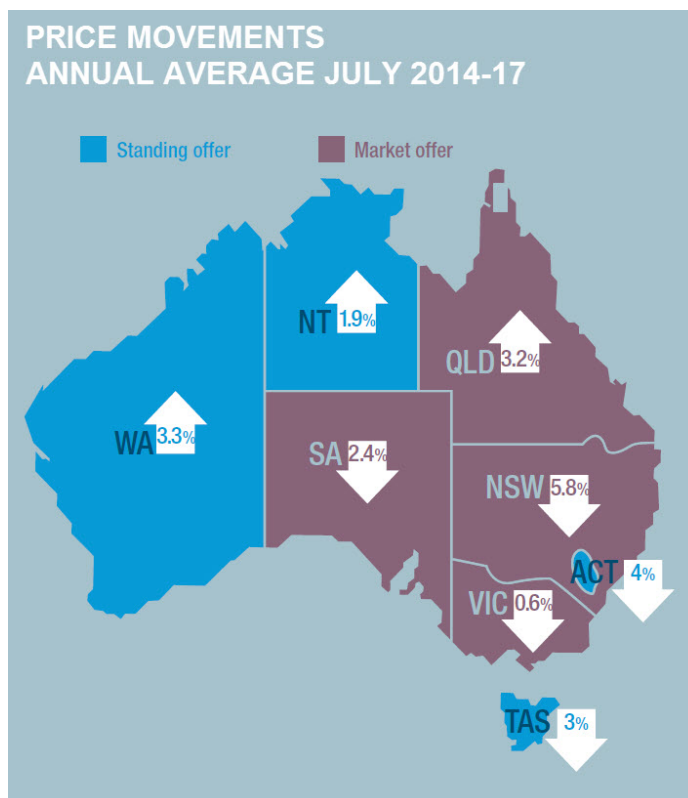
Jurisdictional price trends

Trends in residential electricity prices differ between Australian states and territories. In most jurisdictions, prices are expected to have fallen in 2014/15 following the removal of the carbon price. The extent of this decrease varies between jurisdictions, as the savings are offset by other factors. In 2015/16 to 2016/17, price movements are mixed, reflecting different jurisdictional drivers.

On average across the three year period from 2013/14 to 2016/17, prices are relatively stable or decreasing in most jurisdictions. The exceptions to this trend are Western Australia, Queensland and the Northern Territory, where prices are expected to increase, on average, during the same period.

Our analysis of trends in *market offers* covers Queensland, New South Wales, Victoria and South Australia. In other jurisdictions, our analysis is based on trends in the regulated *standing offer* price. In jurisdictions where both *standing* and *market offers* are available, residential consumers are able to shop around for the best offer from retailers.

Price drivers vary between states and territories, although there are some common underlying trends



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 and is available on our website.

About the AEMC

The Australian Energy Market Commission is the independent body responsible for providing policy advice to Australian governments on the electricity and gas sector. It makes rules that are applied and enforced by the Australian Energy Regulator.

The Residential Electricity Price Trends report is part of the AEMC's work to empower families, businesses and industry to participate confidently in all parts of the energy supply chain, where they desire to do so. It provides annual information to help consumers better understand the factors which drive residential electricity prices.

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