

AEMC Electricity Price Trends report released

The Australian Energy Market Commission (AEMC) today released its Electricity Price Trends Report, which looks at trends in household electricity prices and examines the drivers of those trends.

Electricity prices are made up of a number of components. In recent years the network component has consistently been the major driver of price increases. It is expected that increases in this component will moderate significantly after July 2013.

AEMC Chairman Mr John Pierce said that on a national basis - after a projected average total price increase of 14% for households in the year to 30 June 2013, it is expected that the rate of price increases will moderate to an average annual rise of 3% for the two years to June 2015.

"Network prices will continue to drive the total prices paid by households, but as investment needs are progressively re-assessed this may lead to lower network costs.

"If current trends continue, overall wholesale prices are expected to remain flat, and we expect retail costs to flatten as well.

"The price impact of environmental initiatives is also moderating. The carbon price has already been factored into wholesale energy costs, and the impact of various state and commonwealth environmental schemes is likely to slow from this year. This reflects the end of the solar credits multiplier under the Small-scale Renewable Energy Scheme from 1 January 2013, and the closing of higher feed-in tariffs to new participants in many states," Mr Pierce said.

The AEMC Pricing Trends Report identifies which factors are driving electricity prices and the impact they are likely to have in each state from 1 July 2012 to 30 June 2015.

It is not a forecast of actual prices but a guide to pricing trends and identifies the components that are driving those trends. The report does not take account of some decisions by governments and regulators announced in recent months.

Trends vary in each state according to the 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.

"Network prices account for the bulk of anticipated total increases, but the impact of these can vary significantly across the states and territories," Mr Pierce said.

"There are wide variations across the different states and territories but, on current trends, prices rise by an average 3.7 c/kWh this financial year, with that growth falling to less than 1 c/kWh on average for 2014 and 2015."

Mr Pierce said although the report identifies clear trends in electricity pricing, final prices are likely to be impacted by further changes to the approach taken by jurisdictional regulators to price setting, particularly in relation to forecasting wholesale energy costs; the entry and exit of generators from the wholesale electricity market; and changes in network prices following the finalisation of new regulatory determinations for individual network businesses by the Australian Energy Regulator (AER).

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AEMC Chairman, **John Pierce** (02) 8296 7800 Media: Communication Manager, Prudence Anderson 0404 821 935 or (02) 8296 7817 22 March 2013

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Figure 1: Modelled household electricity price movements 2011-2012 to 2014-2015

This table does not take into account recent decisions of the Tasmanian, South Australian and Northern Territory Governments, the Australian Energy Regulator and Queensland Competition Authority made since late 2012.

	National	Queensland	New South	Australian	Victoria	South	Tasmania	Western	Northern
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A. Comparison of nominal residential electricity prices bewteen 2011/12 - 2014/15									
Base year (2011/12) price (c/kWh)	25.9	22.1	25.4	16.9	28.8	29.9	26.2	26.2	21.7
Current year (2012/13) price (c/KWh)	29.6	25.6	30.4	19.1	31.9	33.7	29.2	28.4	23.8
Final year 2014/15 price (c/kWh)	31.3	27.9	31.0	20.2	35.2	33.3	31.1	29.7	31.8
Total increase (c/kWh)	5.4	5.8	5.5	3.3	6.5	3.4	4.9	3.5	10.1
Average annual rate of change from base year	7%	8%	7%	6%	7%	4%	6%	4%	14%
Average annual rate of change from current year	3%	4%	1%	3%	5%	-1%	3%	2%	16%
B. Nominal change from base year (2011/12) to final year (2014/15) of each component in c/kWh									
Transmission	0.8	0.2	1.9	0.5	0.1	0.7	1.3	0.7	0.0
Distribution	2.5	3.4	1.3	1.4	3.3	5.0	2.0	0.4	1.1
Wholesale	1.4	0.7	2.0	1.5	2.0	-2.1	0.8	2.0	8.9
Retail	0.7	1.5	0.3	0.0	3.0	-0.3	0.8	0.5	0.2
Total (c/kWh)	5.4	5.8	5.5	3.3	6.5	3.4	4.9	3.5	10.1
C. Nominal change from current year (2012/13) to final year (2014/15) of each component in c/kWh									
Transmission	0.3	0.1	0.5	0.2	0.1	0.4	0.6	0.6	0.0
Distribution	1.4	1.9	0.4	1.0	2.4	1.9	0.4	0.9	0.7
Wholesale	0.0	0.4	-0.2	-0.1		-2.2	0.6	0.0	7.2
Retail	0.0	-0.1	-0.1	0.0	0.9	-0.5	0.3	-0.2	0.1
Total (c/kWh)	1.7	2.3	0.5	1.2	3.4	-0.4	1.9	1.3	8.0

Notes:

1. Values are nominal (not adjusted for inflation) and exclusive of GST.

2. Numbers may not add due to rounding.

3. Retail component values are inclusive of the Victorian wholesale energy component. The grouping of these values for Victoria is indicated by the shaded area.

4. Queensland prices and component values do not incorporate recent pass through approvals by the AER in respect of feed-in tariff costs for 2011/12, or retail price proposals under the QCA's draft retail price determination for 2013/14.

5. New South Wales transmission network component values reflect distribution pricing rather than transmission price rises.

6. Victorian prices shown are based on published standing offers and are likely to overstate the actual prices paid by representative residential customers receiving supply on market offers.

How to read this table:

Part A lists the residential retail electricity prices in c/kWh for each jurisdiction and nationally as at the base year (2011/12), the current year (2012/13) and as modelled for the final year of this report (2014/15).

It also sets out the average annual rate of change between the base year and the final year, and the current year and the final year.

Part B sets out the nominal change of each component of the retail price, in c/kWh, from the base year to the final year of this report.

Part C sets out the nominal change of each component of the retail price, in c/kWh, from the current year to the final year of this report.



Household Electricity Price Trends

AEMC Electricity Price Trends Report: Possible Future Retail Electricity Price movements 1 July 2012 to 30 June 2015

The Australian Energy Market Commission's annual report on retail electricity price trends identifies factors which are driving household electricity prices in each state and territory.

The report is based on Australian Energy Market Commission (AEMC) analysis of market trends across the electricity supply chain, including generation, transmission and distribution networks and retail. This is the third report prepared for Australia's energy ministers on the Standing Committee on Energy and Resources (SCER). The report is required by its terms of reference to describe trends over a four year period. This report covers 2011-2012 to 2014-2015.

Scope of the report

This report outlines reasons why household electricity prices might rise or fall for each state and territory, and consolidates these to provide a national picture.

It is not a forecast of actual prices but a guide to pricing trends.

Electricity prices are complex. The factors driving them can change. Actual price outcomes in the years ahead may differ from this report because of a range of uncertainties including:

- entry and exit of generators from the wholesale market;
- changes in demand and peak demand;
- changes to retail price regulation, with several jurisdictions (New South Wales, Tasmania and Queensland) reviewing or changing their approach, particularly in estimating wholesale energy costs;
- changes in network prices following the finalisation of new regulatory determinations for individual network businesses; and
- price outcomes from jurisdictional decisions such as South Australia's removal of price regulation from 1 February 2013, and recent changes to the announced price increases in the Northern Territory.

This report uses prices from the regulated or standing offers by retailers in each jurisdiction in the base year of 2011-2012 and current year of 2012-2013. It applies identified trends to prices over the following two years for a representative set of household customers.

Wherever possible, publicly available data and information has been used to calculate the impact of different components on household electricity prices.

Modelling is based as far as possible on approaches used by regulators in each jurisdiction to set retail prices. It should also be noted that estimates of retail electricity price movements in this report are based on regulated or published standing offers and may therefore overstate the actual prices paid by the majority of customers who are receiving supply on market offers.

JJSTRALIAN ENERGY MARKET COMMISSION LEVEL 5, 201 ELIZABETH STREET SYDNEY NSW 2000 02 8296 7800 E: AEMC@AEMC.GOV.AU W: WWW.AEMC.GOV.AU The AEMC's modelling for Victoria is based on standing offer prices. Standing offers differ in nature from the regulated retail prices in other jurisdictions as they are not set by a regulator. According to analysis by the Essential Services Commission Victoria, the standing offer is on average 12% higher than market offers. Based on the AEMC's estimate of the 2012-2013 standing offer price (31.9 c/kWh) removing the 12% in 2012-2013 would equate to a discount of 3.4 c/kWh, making an average market offer price of 28.5 c/kWh.

Price trends

Nationally, from 2011-2012 to 2014-2015, household electricity prices are estimated to increase nominally from 25.9 c/kWh to 31.3 c/kWh. This is a total nominal increase of 5.4 c/kWh. This equates to an annual rate of change of 7%.

Much of this increase is now historical, having occurred between 2011-2012 and 2012-2013. During this period, national retail prices increased nominally by 14% (3.7 c/kWh). This increase included the impact attributable to the introduction of the carbon price.

This growth is estimated to slow considerably to a national average increase of 3% annually (a total of 1.7 c/kWh) for the final two years to 30 June 2015.



Notes:

1. Queensland prices do not incorporate recent pass through approvals by the AER in respect of feed-in tariff costs for 2011/12, or retail price proposals under the QCA's draft retail price determination for 2013/14. A preliminary assessment of the impact of these changes indicates that the total retail price in 2013/14 would increase by 0.5 c/kWh to 27.7 c/kWh (from 27.1 c /kWh), and in 2014/15 it would increase by 0.5 c/kWh to 28.5 c/kWh (from 27.9 c/kWh).

2. Victorian prices are based on published standing offers and are likely to overstate the actual prices paid by representative residential customers receiving supply on market offers. According to the Essential Services Commission in Victoria, based on 2011/12 prices, the published standing offers are, on average, 12 per cent higher than current market offers. This would reduce the estimated 2011/12 Victorian standing offer price of 28.8 c/kWh by 3.1 c/kWh, resulting in an average market offer price of 25.7 c/kWh.

3. Values are nominal (not adjusted for inflation) and exclusive of GST.

4. Numbers may not add due to rounding.

The main driver of upward pressure on retail prices in the short-term continues to be network prices, but this is estimated to stabilise. Price trends in each state and territory are different as costs vary due to population spread and density, weather, technology and resources, economic strengths and consumer choices. Each jurisdictional regulator applies different approaches to setting regulated prices, reflecting jurisdictional policies on price regulation. See fact sheets for detail on price trends in each state and territory.

Transmission and distribution networks

The main driver of upward pressure on retail prices in the short-term continues to be network prices, but this is estimated to stabilise.

From base year to 2015 (2011-2012 to 2014-2015):

- <u>Transmission network</u> prices are estimated to increase nominally by 43%, or 0.8 c/kWh. This accounts for 15% of the total retail price increase over this entire period. Of this increase 27%, or 0.5 c/kWh, occurred in 2011-2012 to 2012-2013.
- <u>Distribution network</u> prices are estimated to increase nominally by 25%, or 2.5 c/kWh. This accounts for 46% of the total retail price increase over this entire period. Of this increase 11%, or 1.1 c/kWh, occurred in 2011-2012 to 2012-2013.

From current year to 2015 (2012-2013 to 2014-2015):

- <u>Transmission network</u> prices are estimated to increase nominally by 13%, or 0.3 c/kWh. This will account for 19% of the total price increase for this portion of the review period.
- <u>Distribution network</u> prices are estimated to increase nominally by 12%, or 1.4 c/kWh. This will account for 81% of the total price increase for these three years.

Network businesses operate in accordance with multiyear regulatory control periods whereby the energy regulator determines the allowed prices or revenues for the businesses.

During the period covered by this report, a significant number of transmission and distribution businesses across Australia will enter into new regulatory control periods under determinations which will be governed by new rules set by the AEMC in November 2012.

Wholesale energy

Wholesale prices are estimated to moderate nationally because of reduced demand and increased generation of renewable energy.

Nominal wholesale prices rose nationally by 14% (1.4 c/kWh) from 2011-2012 to 2012-2013, in part reflecting the impact of the carbon price. Negligible change is estimated through until 2014-2015.

Retail costs

The retail component is estimated to rise by 16% (0.7 c/kWh) over the period 2011-2012 to 2012-2013. Again, negligible change is estimated to occur through to 2014-2015.

The cost to consumers of other environmental initiatives is expected to moderate, with price impacts of various state and commonwealth environmental schemes likely to slow from this year from changes including decisions on the early phase-out of the solar credits multiplier under the Small-scale Renewable Energy Scheme and closure of higher feed-in tariffs to new participants in many states.

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22 March 2013

Price trends in each state and territory are different as costs vary due to population spread and density, weather, technology and resources, economic strengths and consumer choices.

AEMC ELECTRICITY PRICE TRENDS REPORT

This report looks at what factors will drive household electricity prices over the next three years to 30 June 2015.





Australian Capital Territory: Electricity price trends to FY15

The AEMC Electricity Price Trends Report: 1 July 2012 to 30 June 2015 was published on 22 March 2013. Following the general national trend we see indicative electricity prices in the Australian Capital Territory rise 13% in the current financial year (FY) 2013, and 3% each following year, in response to falling wholesale prices and moderating transmission network prices.



Recent ACT developments

This report does not include the impacts of recent Australian Energy Regulator (AER) distribution network approvals for a decrease in the feed-in tariff allowance and an increase for the costs relating to the National Energy Customer Framework.

What this market looks like

Regulation

The Australian Capital Territory regulator, the Independent Competition and Regulatory Commission (ICRC), determines regulated electricity prices on a two-year basis. The current determination covers prices to 30 June 2014.

The distribution network services in the Australian Capital Territory are provided by ActewAGL. Transmission network services are provided by the NSW transmission business, TransGrid. The AER is the economic regulator of the network businesses in the Australian Capital Territory. The current regulatory control period for both network businesses commenced on 1 July 2009 and expires on 30 June 2014.

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Customer consumption

The representative residential customer in the Australian Capital Territory uses 8,156 kWh of electricity annually.

ACT analysis

Wholesale component

Wholesale energy costs rose by 27% from FY12 to FY13, including the 2c/kWh impact of the first year of the carbon price. They are estimated to fall to an average of -1% per year for FY13 to FY15, reflecting estimated lower wholesale spot market prices.

Network components

The difference in the impact of transmission network costs on Australian Capital Territory customers, compared to New South Wales customers, reflects charges made by TransGrid to service the Australian Capital Territory and the methodology adopted by distribution network operator, ActewAGL, to recover TransGrid's transmission charges.

Transmission prices rose by 20% from FY12 to FY13. This increase is estimated to slow to an average of 7% each year until the end of FY15.

Distribution prices increased by 5% from FY12 to FY13 for representative residential customers and are modelled to increase an average 8% each year from FY13 to FY15.

The current distribution determination reflects allowances made by the AER based on expectations at the time, relating to replacement of ageing network assets, several major capital projects and construction of new assets to improve security of supply. The impact of the feed-in tariff scheme, in particular the IT requirements, is also relevant.

The network components (including feed-in tariffs) together make up around 43% of the total regulated residential retail price for the Australian Capital Territory in FY13.The Australian Capital Territory networks will be subject to new regulatory determinations from 1 July 2014. Network price trends may change as a result.

Retail component

The retail component for the representative residential customers fell by 1% from FY12 to FY13 and is estimated to remain stable over the remaining period to FY15.

This component is inclusive of impacts of the Commonwealth's large-scale Renewable Energy Target and Small scale Renewable Energy Scheme, as well as the Australian Capital Territory Energy Efficiency Improvements Scheme. A retail margin is applied by the regulator as a percentage over the total retail costs.



Breakdown of Australian Capital Territory's representative household price for FY13

About the AEMC Electricity Price Trends Report

The AEMC Electricity Price Trends Report identifies the factors driving residential electricity prices, and outlines reasons why they may rise or fall over three years to FY15. It is not a forecast of actual prices, but a guide to pricing trends based on current knowledge and assumptions. The report is prepared annually at the request of the Standing Council on Energy and Resources (SCER).

Price comparisons across jurisdictions

It is not possible to directly compare electricity prices across jurisdictions. The costs vary due to population spread and density, weather, technology, economic strengths and consumer choices. The regulator in each state and territory applies different policies in setting regulated prices. For information contact:

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Date: Friday 22 March 2013

Due to the timing of announcements the report does not include determinations by the AER in relation to cost passthrough applications for feed-in-tariffs and the National Energy Customer Framework for ActewAGL.



New South Wales: Electricity price trends to FY15

The AEMC Electricity Price Trends Report: 1 July 2012 – 30 June 2015 was published on 22 March 2013. Estimates indicate that the rate of electricity price rises in New South Wales is moderating. Most of the regulated retail price increase has already occurred in the current financial year (FY) for 2013, reflecting past adjustments to network prices and wholesale costs.



What this market looks like

Regulation

The formerly Government owned retailers were privatised in 2011 with EnergyAustralia sold to TRUenergy, and Integral Energy and Country Energy to Origin Energy.

The New South Wales regulator, the Independent Pricing and Regulatory Tribunal (IPART), determines regulated electricity prices every three years. Its current determination covers prices to 30 June 2013, with a new determination due in May 2013 to set maximum average regulated prices until 30 June 2016. This determination may alter price trends in NSW.

Distribution network services are provided by three operators: Ausgrid, Endeavour Energy and Essential Energy. The management of the operations of these businesses have been merged under a single structure, Networks NSW. Transmission services are provided by TransGrid. All NSW network businesses are New South Wales Government owned.

The Australian Energy Regulator (AER) is the economic regulator of the network businesses in New South Wales. The current regulatory control period for all New South Wales networks businesses commenced on 1 July 2009 and expires on 30 June 2014.

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Customer consumption

The representative residential customer in New South Wales uses 7,000 kWh of electricity annually.

NSW analysis

Wholesale component

Wholesale energy costs rose by 29% from FY12 to FY13, including the 2c/kWh impact of the first year of the carbon price. They are estimated to fall to an average of -1% per year for FY13 to FY15.

Network components

From FY12 to FY13, total network prices rose by 16.3%. This comprised an increase in transmission of 64% and an increase in distribution of 8%.

Distribution networks pass on the transmission price as well as their own distribution prices to retailers, which recover these through the retail prices that are charged to customers.

The difference between transmission and distribution increases for FY12 to FY13 reflects changes made by Ausgrid to its network price structure which do not change the total amount charged to the customer but do change the way recovery is achieved. For the representative residential customer in the Ausgrid distribution region the component of the price for distribution fell by 0.5%, while the transmission component rose 102% in this same period. This compares to the total allowed price increase for TransGrid of 5.3%.

For FY13 to FY15 distribution price increases are estimated to slow to an average of 1% per year for the rest of the period. Transmission price increases are estimated to slow to an average of 7% per year. However, all network operators have put forward proposals to the New South Wales Government to cap their price increases at or below CPI over the next six years.

The network components (including feed-in tariffs) together make up around 55% of the total regulated retail price for New South Wales in FY13. The New South Wales networks will be subject to new regulatory determinations from 1 July 2014. Network price trends may change as a result.

Retail component

Retail prices increased by 13% from FY12 to FY13. These costs are estimated to fall by an average of two per cent per year from FY13 to FY15. This component includes the current IPART margin in forward estimates, the impacts of the Commonwealth large-scale Renewable Energy Target and Small scale Renewable Energy Scheme, and the New South Wales Energy Savings Target.

Breakdown of New South Wales' representative household price for FY13



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Date: Friday 22 March 2013



Northern Territory: Electricity price trends to FY15

The AEMC Electricity Price Trends Report: 1 July 2012 – 30 June 2015 was published on 22 March 2013. The Northern Territory Government has adopted a policy to move to more cost-reflective electricity prices.



Recent Northern Territory market developments

In November 2012 the Northern Territory Government announced a 30% increase in the regulated residential price effective from 1 January 2013. On 14 March 2013 this increase was amended to 20% from 1 January 2013, with over-payments to be credited back to customers. The remaining 10% increase will be phased in, with a 5% increase coming into effect on 1 January 2014 and a further 5% to be applied on 1 January 2015. This report reflects the November 2012 announcement.

What this market looks like

Regulation

The government-owned Power and Water Corporation (PWC) is the leading provider of generation, network and retail services in the Northern Territory. The Northern Territory Utilities Commission (NTUC) is responsible for network price regulation and also has oversight of the wholesale electricity prices to ensure that offers are cost reflective. Regulated retail electricity prices are set by the Northern Territory Government. PWC's generation and network businesses are also required to provide services to all retailers. Retail licences were granted to two new entrants in 2012.

Customer consumption

The representative residential customer in the Northern Territory uses 8,904 kWh of electricity annually.

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Northern Territory analysis

Wholesale component

In the AEMC's modelling, wholesale prices increased 13% from financial year (FY) 2012 to FY13. The estimated increase in this component is estimated to average 21% per year from FY13 to FY15. This outcome is consistent with a total price increase of 30%, as originally announced, restricting the network component to inflation plus an allowed average price increase. The carbon price added around 1.3 c/kWh in FY13, increasing to 1.9 c/kWh in the following two years.

Network component

There is no distinction made between transmission and distribution networks in the Northern Territory. From FY12 to FY13 network prices increased by 5% reflecting the allowance under the current regulatory control period of 3.4% plus inflation. This allowance funds capital expenditure, maintenance and repairs to boost security of supply; and meets increasing consumer demand.

The network component's estimated annual average increase for each of the two years from FY13 to FY15 is 4%. The network component makes up around 33% of the total regulated residential retail price for the Northern Territory in FY13. The NTUC has begun reassessing revenue requirements for the next network regulatory period which starts on 1 July 2014. Network price trends may change as a result.

Retail component

The retail price component increased by 10% from FY12 to FY13. The estimated increase in the retail component is an average 21% per year from FY13 to FY15. This outcome results from the AEMC's modelling of a total price increase of 30%, as announced.



Breakdown of Northern Territory's representative household price for FY13

About the AEMC Electricity Price Trends Report

The AEMC Electricity Price Trends Report identifies the factors driving residential electricity prices, and outlines reasons why they may rise or fall over three years to FY15. It is not a forecast of actual prices, but a guide to pricing trends based on current knowledge and assumptions. The report is prepared annually at the request of the Standing Council on Energy and Resources (SCER).

Price comparisons across jurisdictions

It is not possible to directly compare electricity prices across jurisdictions. The costs vary due to population spread and density, weather, technology, economic strengths and customer choices. The regulator in each state and territory applies different policies in setting regulated prices.

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Queensland: Electricity price trends to FY15

The AEMC Electricity Price Trends Report: 1 July 2012 to 30 June 2015 was published on 22 March 2013. Queensland's underlying trend for price movements excludes the Queensland Government's decision to freeze the most common residential retail tariff in this financial year (FY) 2013.



Recent Queensland market developments

The Queensland Government froze the main residential retail tariff (Tariff 11) at FY12 levels for 12 months, resulting in no increase in residential prices for FY13 beyond the carbon price impact. Our report is not modelled to reflect this announcement. This report estimates an underlying trend for the wholesale, retail and network components of electricity prices.

The Queensland Competition Authority (QCA) released a draft determination for retail prices on 22 February 2013. It proposed a 21% increase to Tariff 11 for FY14, as the first stage in a transition to cost reflective prices by 1 July 2015. This determination was released after the AEMC had completed modelling for this report and is not reflected in our figures.

Our modelling does not include the impact of the Australian Energy Regulator (AER) determination for Energex and Ergon (10 January 2013) approving the pass-through of costs in relation to feed-in tariffs.

Customer consumption

The representative residential customer in Queensland uses 5,370 kWh of electricity annually.

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What this market looks like

Regulation

Energex and Ergon provide distribution services, while Powerlink is responsible for transmission services in Queensland. These are Queensland government owned businesses.

The AER is responsible for economic regulation of Queensland network businesses. The current regulatory control period for Ergon and Energex expires on 30 June 2015, while the current regulatory determination for Powerlink expires on 30 June 2017.

Full retail competition commenced in Queensland on 1 July 2007. Around this time the retail arm of Energex was sold to Origin Energy, and Ergon's retail business, covering contestable customers was sold to AGL. Ergon continues to provide retail services to the non-contestable customers located in regional and remote parts of Queensland.

Regulated prices are retained for customers who were not offered, or who choose not to have market contract for electricity supply.

The QCA determines regulated retail prices in Queensland. Determinations for regulated prices are based on the Energex network tariffs in line with the Queensland Government's uniform tariff policy.

Queensland analysis

Wholesale component

Wholesale prices in Queensland rose by 4% from FY12 to FY13. This reflects the introduction of the carbon price (2.4 c/kWh) and the new methodology used by the QCA to determine the wholesale energy component for regulated tariffs. The AEMC has modelled future wholesale price increases using estimated CPI.

Network components

Transmission network prices rose by 4% in the year from FY12 to FY13. They are estimated to increase on average by 3% each year from FY13 to FY15.

Distribution network prices increased by 16% in the year from FY12 to FY13. They are estimated to increase on average by 9% each year from FY13 to FY15. Increases are due to regulator allowances for expected network expansion in response to the state's population growth and increased economic activity in the minerals sector, in addition to requirements to meet higher reliability standards.

The costs of the Queensland Solar Bonus Scheme are met through distribution network charges. In January 2013 the AER approved the increase of revenue allowances in FY14 for both Energex and Ergon, to recover costs relating to this scheme. These pass-through amounts (\$28m for Ergon and \$78.5m for Energex) are not included in this report due to timing. The QCA will be releasing a report in March determining a fair and reasonable feed-in tariff.

The network components (including feed-in tariffs) together make up around 50% of the total regulated residential retail price for Queensland in FY13.

Retail component

Retail costs increased by 48% from FY12 to FY13. This increase in part reflects a reallocation of prices between components that was caused by a change in QCA methodology for setting regulated retail prices.

The retail component is estimated to decrease on average by 1% each year from FY13 to FY15.

Queensland has a uniform tariff policy, which is a government policy to deliver price parity to all customers regardless of their geographical location.

Breakdown of Queensland's representative household price for FY13

30.0 Queensland Queensland 2012/13 2012/13 regulated retail price regulated 25.0 retail price Transmission component 4.9 c/kWh Distribution component 20.0 Wholesale energy component Retail component 8.0 15.0 Retail component 8% Wholesale energy 10.0 component 19% 10.6 Distribution 5.0 component 42% 31% 1.9 Transmission 0.0 component 25.6

About the AEMC Electricity Price Trends Report

The AEMC Electricity Price Trends Report identifies the factors driving residential electricity prices, and outlines reasons why they may rise or fall over three years to FY15. It is not a forecast of actual prices, but a guide to pricing trends based on current knowledge and assumptions. The report is prepared annually at the request of the Standing Council on Energy and Resources (SCER).

Price comparisons across jurisdictions

It is not possible to directly compare electricity prices across jurisdictions. The costs vary due to population spread and density, weather, technology, economic strengths and customer choices. The regulator in each state and territory applies different policies in setting regulated prices.

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South Australia: Electricity price trends to FY15

The AEMC Electricity Price Trends Report: 1 July 2012 to 30 June 2015 was published on 22 March 2013. South Australian residential electricity prices are estimated to moderate with a rise this year followed by price falls.



Recent South Australia market developments

Retail electricity price deregulation commenced in South Australia on 1 February 2013. The South Australian Government has reached agreement with AGL to reduce prices by 9.1% for residential customers formerly on regulated prices for two years until 31 December 2014. Our modelling predates these changes and reflects previous methodology used by the utilities regulator, the Essential Services Commission of South Australia (ESCOSA).

What this market looks like

Regulation

Full retail competition was introduced for customers in South Australia in 2003 enabling all customers to choose their own retailer. Until 1 February 2013, the regulation of residential electricity prices, and the contractual terms and conditions, was overseen ESCOSA.

Following price deregulation ESCOSA moved from price regulation to price monitoring. The Australian Energy Regulator (AER) is the economic regulator of network businesses in South Australia.

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Regulation continued.

Transmission services are provided by ElectraNet. Its current regulatory control period expires on 30 June 2013. Distribution services are provided by SA Power Networks (formerly ETSA Utilities). SA Power Networks current regulatory control period commenced on 1 July 2010 and expires on 30 June 2015.

Customer consumption

The representative residential customer in South Australia uses 5,000 kWh of electricity annually.

SA analysis

Wholesale component

Wholesale energy prices (including the carbon price) for representative residential customers increased by 2% from financial year (FY) 2012 to FY13. They are expected to decrease by an average of 11% per year.

This reflects changes that ESCOSA was proposing to the calculation of wholesale electricity cost (replacing a long-run marginal cost approach with a market-based approach) prior to the removal of price regulation. However, this trend is also consistent with that created by the removal of price regulation.

Wholesale energy costs in South Australia have traditionally been high due to the relatively small market, high dependence on gas fired generation and limited interconnection capability.

This looks likely to ease with an increasing volume of wind generation that now accounts for about 24% of generation capacity.

Network components

Distribution network prices increased by 28% from FY12 to FY13. This is estimated to fall to an average of 7% each year, from FY13 to FY15.

Distribution network prices are the largest contributing factor to price rises in South Australia, and are primarily driven by the prevailing revenue requirements set by the Australian Energy Regulator in 2010, for the 2010-2015 regulatory period.

The South Australian feed-in tariff scheme contributed 2.2 c/kWh to distribution price in 2013-2014, to make up for the cumulative under-recovery of costs in past years. As these costs are recovered the effect will ease to 1.3 c/kWh in FY15.

Transmission network prices increased by 10% from FY12 to FY13. This component is estimated to increase by 7% on average each year for the FY13 to FY15. This reflects revenue allowances set in 2008 for the replacement of ageing assets and higher reliability standards.

The network components (including feed-in tariffs) together make up around 51% of the total regulated retail price for South Australia in FY13.

ElectraNet will be subject to a new revenue determination by the AER from 1 July 2013. Transmission network price trends may change as a result.

Retail component

The AEMC's modelling was undertaken prior to the announcement of a pricing agreement between the South Australian Government and the state's largest retailer, AGL. The outcome of that agreement is not reflected in this analysis for South Australia.

The price for a representative residential customer was modelled to increase by 4% for FY12 to FY13 and then fall in each following year by an average 5%.

This trend reflects falls in the price for the Small Scale Renewable Energy Scheme and reductions in the retail margin flowing from falls in wholesale costs (retail margins are calculated as a percentage of non-network costs).

Breakdown of South Australia's representative household price for FY13

Wholesale energy costs in South Australia have traditionally been high due to the relatively small market, high dependence on gas fired generation and limited interconnection capability. This looks likely to ease with an increasing volume of wind generation.



About the AEMC Electricity Price Trends Report

The AEMC Electricity Price Trends Report identifies the factors driving residential electricity prices, and outlines reasons why they may rise or fall over three years to FY15. It is not a forecast of actual prices, but a guide to pricing trends based on current knowledge and assumptions. The report is prepared annually at the request of the Standing Council on Energy and Resources (SCER).

Price comparisons across jurisdictions

It is not possible to directly compare electricity prices across jurisdictions. The costs vary due to population spread and density, weather, technology, economic strengths and customer choices. The regulator in each state and territory applies different policies in setting regulated prices.

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Date: Friday 22 March 2013



Tasmania: Electricity price trends to FY15

The AEMC Electricity Price Trends Report: 1 July 2012 to 30 June 2015 was published on 22 March 2013. Estimates indicate that prices in Tasmania are moderating from the current financial year (FY) 2013. The distribution network and wholesale energy components are the main drivers of change.



Recent Tasmanian market developments

In May 2012, Tasmania's Government announced plans to restructure all aspects of its electricity market including introduction of full retail competition by 1 January 2014. The wholesale energy market will be reformed to facilitate independent regulation of Hydro Tasmania's market activities. Price regulation will remain for customers who don't enter a market contract.

What this market looks like

Regulation

Retail price regulation is conducted by the Office of the Tasmanian Energy Regulator (OTTER). The current retail determination sets out the regulators decision on prices until 2012-2013.

Transend provides transmission network services. Distribution services are provided by Aurora. In May 2012 the Tasmanian Government announced that the transmission and distribution networks will be integrated. The Australian Energy Regulator (AER) regulates networks in Tasmania. The next regulatory control period for Aurora commences on 1 July 2013. The current regulatory determination for Transend expires on 30 June 2014.

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Customer consumption

The representative residential customer in Tasmania uses 7,841 kWh of electricity annually.

Tasmanian analysis

Wholesale component

Wholesale energy costs are expected to increase by 2% from FY12 to FY13 due to the introduction of the carbon price being offset by changes made by OTTER to the methodology it uses to determine wholesale energy cost for retailers. The AEMC estimates that on average Tasmania's wholesale costs will increase by 3% each year from FY13 to FY15.

Network components

Two-thirds of the residential price increases in Tasmania over the three years to FY15 are expected to be driven by network costs. Distribution prices increased by 15% from FY12 to FY13 and transmission prices increased by 21% for the same period. These prices are expected to moderate to average rises of 7% for transmission and 2% for distribution each year from FY13 to FY15.

Transmission revenue allowances set by the regulator for the current determination period (2009 to 2014) were based on expectations of system needs for replacement and maintenance of ageing assets and requirements to meet increased reliability standards.

The change in distribution prices for FY14 and FY15 reflects the reduction in price increases allowed by the AER in the distribution regulatory determination.

The network components (including feed-in tariffs) together make up around 57% of the total regulated retail price for Tasmania in FY13.Transend will be subject to a new regulatory determination from 1 July 2014. Transmission network price trends may change as a result.

Retail component

The retail component price increased by 15% from FY12 to FY13 reflecting the increase in the Commonwealth's Large-scale Renewable Energy Target. It is estimated that average annual price increases in the retail component price may be 4% on average per year.

Breakdown of Tasmania's representative household price for FY13



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Victoria: Electricity price trends to FY15

The AEMC Electricity Price Trends Report: 1 July 2012 – 30 June 2015 was published on 22 March 2013. It recognises difficulties in modelling price trends for Victoria's privatised and deregulated market. Analysis is based on published standing offers which are around 12% higher than market prices paid by most customers according to Victoria's regulator.



What this market looks like

Regulation

Victoria has a largely privatised and deregulated retail electricity sector. While all retailers are required to have standing offer prices for residential customers who are not on market contracts, there is no regulated price. The Essential Services Commission Victoria (ESCV) oversees compliance and performance reporting by energy businesses, and issue energy distribution and retail licenses in Victoria.

There are five electricity distribution businesses in Victoria; Citipower, Powercor, SP Ausnet, United Energy and Jemena. The transmission network is owned by SPAusnet. The National Electricity Market operator, AEMO, undertakes specific network functions.

The Australian Energy Regulator (AER) is the economic regulator of Victoria's networks. The current regulatory control period for the SP Ausnet transmission business expires on 30 March 2014. The regulatory control period for the Victorian distribution businesses expires on 31 December 2015.

Customer consumption

The representative residential customer in Victoria uses 4,636 kWh of electricity annually.

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Overall trend

There are particular difficulties in modelling retail price trends for Victoria due to its deregulation. In this report, data for indicative retail price movements are based on Victoria's published standing offers. These offers differ from regulated retail tariffs in other jurisdictions because they are not set by a regulator.

The standing offer tariffs used in this report are likely to overstate the actual prices paid by customers on a market offer in Victoria. According to the ESCV, the standing offer is on average 12% higher than market offers¹. Based on AEMC modelling of the financial year (FY) 2013 standing offer price (31.9 c/kWh) removing the 12% standing offer premium would put the average market offer price at 28.5 c/kWh for most Victorian customers.

The main contributing factors to changes in Victorian household electricity prices are increased distribution network charges and the impact of environmental schemes on the retail component.



Wholesale and retail components

Wholesale and retail prices are estimated to follow a moderating trend which will rise 2% on average from the current year as falling demand and increasing investment in renewable energy keep downward pressure on wholesale spot market prices.

The carbon price added around 2.2 c/kWh in FY13, increasing to 2.5 c/kWh in the following two years.

Further increases to this combined component will flow from the impacts of the Commonwealth large-scale Renewable Energy Target and the Victorian Energy Efficiency Target.

Networks component

Distribution network prices, including feed-in tariffs and advanced metering obligations, increased by 11% from FY12 to FY13 and are estimated to increase annually by an average 12% for the remainder of the period.

Revenue requirements for the five Victorian distribution networks were determined by the AER in 2011, allowing for additional expenditure to replace ageing assets, meet higher peak demand forecasts which had been identified at that time and to meet new safety obligations introduced following the Victorian bushfires in 2009. These requirements are reflected in distribution network costs which are driving more than half of the price increase

Victoria has a deregulated retail electricity sector. This report is based on the standing offer prices published by Victoria's electricity retailers from time to time. The standing offer is on average 12% higher than market prices.

¹ Essential Services Commission, Energy retailers comparative performance report – pricing 2012, September 2012, p 43

in Victoria. The provision of advanced metering infrastructure and payment of the Victorian feed-in tariff schemes are also included in distribution network costs.

Transmission network prices increased by 2% from FY12 to FY13 and are estimated to rise each year on average by 2% for the remainder of the period. The network components (including feed-in tariffs) together make up around 34% of the total residential standing offer price for Victoria in FY13.





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Price comparisons across jurisdictions

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Western Australia: Electricity price trends to FY15

The AEMC Electricity Price Trends Report: 1 July 2012 - 30 June 2015 was published on 22 March 2013. The Western Australia trend largely reflects rising network charges and falling wholesale and retail charges.



What this market looks like

Regulation

Final residential electricity prices are set by the Western Australian Government. These are generally influenced by levels of subsidisation for network and retail services, which are also set by the Western Australian Government.

Western Power operates the networks in the South Western Interconnected System (SWIS) with prices set in consultation with the Economic Regulation Authority (ERA). The access charges that generators and retailers must pay to use the networks between 2012 and 2017 were approved and finalised by the ERA in November 2012.

Customer consumption

The representative residential customer in Western Australia uses 5,801 kWh of electricity annually.

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WA analysis

Wholesale component

Wholesale energy prices increased by 17% from financial year (FY) 12 to FY13, largely reflecting the introduction of the carbon price which increased prices by 2.1 c/kWh over this period. The wholesale component is expected to remain largely unchanged for the FY13 to FY15 period.

Network components

Transmission network prices increased by 3% from FY12 to FY13. Distribution prices fell by 6% in the same period. Transmission prices are expected to increase by 14%, and distribution prices by 5%, on average for each of the remaining two years FY13 to FY15.

Network prices, in part, reflect the Western Australian Government's Uniform Tariff Policy which ensures that Western Australian residential customers are levied a uniform network price across the state.

The network components together make up around 37% of the total regulated residential retail price for Western Australia in FY13.

Retail component

The retail price component rose by 19% in FY12 to FY13 reflecting, in part, a fall in the tariff equalisation contribution payable by customers located in the SWIS. It is estimated that the retail component will fall by 2% on average for each of the two years from FY13 to FY15.



Breakdown of Western Australia's representative household price for FY13

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