

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

Australian Capital Territory electricity prices are expected to decrease by 7.2% in 2014/15 and 7% in 2015/16, before increasing by 2.1% in 2016/17

WHAT ARE THE COMPONENTS THAT MAKE UP A TYPICAL AUSTRALIAN CAPITAL TERRITORY ELECTRICITY BILL?



Wholesale and Retail

Wholesale and retail costs are increasing



- Wholesale and retail costs are expected to increase, on average, by 6% per year to 2016/17
- The retail component increases substantially in 2014/15 due to adjustments to allowed operating costs and the return on investment by the ACT regulator.
- While ACT consumers have the opportunity to choose a market offer, around 80% are on the regulated standing offer and few market offers are currently available. Only 2% of consumers switched retailers in 2013, but this is expected to change as more retailers enter the market, leading to greater competition

Regulated networks

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



- Regulated network costs are expected to decrease at an average 8.7% per year to 2016/17
- New rules made by the AEMC are being applied in the ACT which better equip the regulator to set efficient network revenues, so consumers don't pay more than necessary
- Draft determinations made by the regulator for ACT network businesses are the first to be made under the new rules and includes reductions in allowances for both capital and operating expenditure, and lower rates of return
- Benchmarking analysis undertaken by the regulator for draft determinations highlights the relative efficiencies of network companies

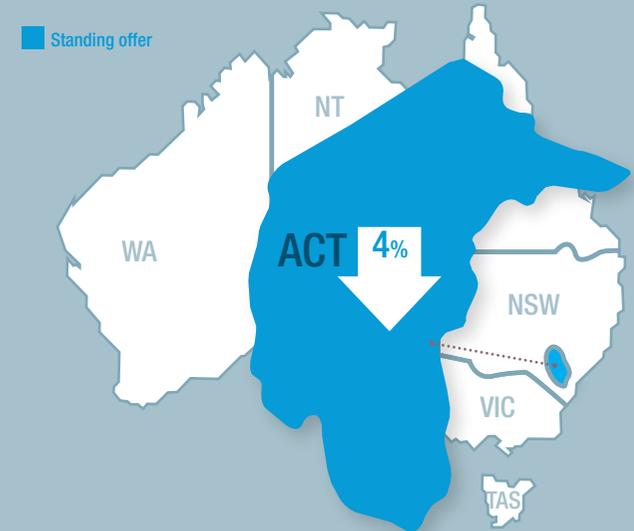
Environmental policies

Environmental policy costs including the Renewable Energy Target continue to impact prices



- Prices in the ACT 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 4.6 per cent per year to 2016/17
- The costs of the ACT's feed-in tariff policies are expected to increase at an average annual rate of 31% to 2016/17
- The Energy Efficiency Improvement Scheme is scheduled to run until December 2015. No decision has been made yet on whether this project will continue beyond 2015

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



EXPECTED PRICE TRENDS IN THE ACT



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 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



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



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

2013

27 NOVEMBER 2014

27 NOVEMBER 2014

2015

2017

AEMC makes new rules on setting network revenue allowances

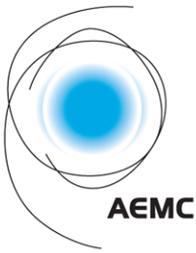
AER develops guidelines in response to the new rules and conducts public consultation under its Better Regulation Program

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

AEMC makes rules requiring cost reflective pricing for individual consumers

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

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



Electricity prices set to fall in the ACT over the next two years

The Australian Energy Market Commission (AEMC) today released its 2014 Residential Electricity Price Trends report, which shows prices are set to fall by an average annual 4 per cent in the ACT to 2016/17.

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 the factors which had previously led to price growth in the ACT, including the regulated cost of poles and wires, were now falling.

“The cost of supplying electricity has fallen by 7.2 per cent in 2014/15 mainly due to removal of the carbon price, and is expected to fall a further 7 per cent in 2015/16, before increasing by 2.1 per cent in 2016/17,” Mr Pierce said.

Mr Pierce said the main factors driving prices down in the ACT were falling electricity demand and lower network prices.

“Network prices are proposed to fall by an annual average 8.7 per cent to 2016/17 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 spending allowances for regulated network companies so people don’t pay more than necessary for the maintenance and upgrade of the poles and wires.”

This year’s price trends report reflects substantially lower revenue allowances proposed by the regulator in their draft determination last month for ACT network businesses.

Mr Pierce said wholesale and retail costs in the ACT are expected to increase by an annual average 6 per cent in the three years to 2016/17, which offsets some of the gains made in lower network costs.

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

“Costs associated with the Renewable Energy Target are set to rise by 4.6 per cent per year and the cost of the ACT’s feed in tariff policies is expected increase by 31 per cent to 2016/17,” Mr Pierce said.

**The AEMC's 2014
price trends report
shows electricity
prices are set to
fall in the ACT**

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.

About the AEMC

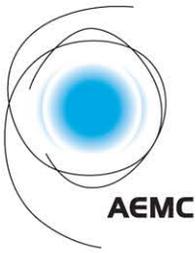
We are the independent body responsible since 2005 for providing advice to Australian governments on development of the electricity and gas sector. We make statutory energy market rules which are applied and enforced by the Australian Energy Regulator (AER).

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EMBARGOED 1pm AEDT, 11 December 2014



Australian Capital Territory: Household electricity price trends

Australian Capital Territory residential electricity prices expected to fall due to moderating network costs

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 the Australian Capital Territory (ACT), using an annual consumption level that was provided to us by the ACT Government.

- The annual consumption of the representative consumer in the ACT is assumed be 7,180 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.

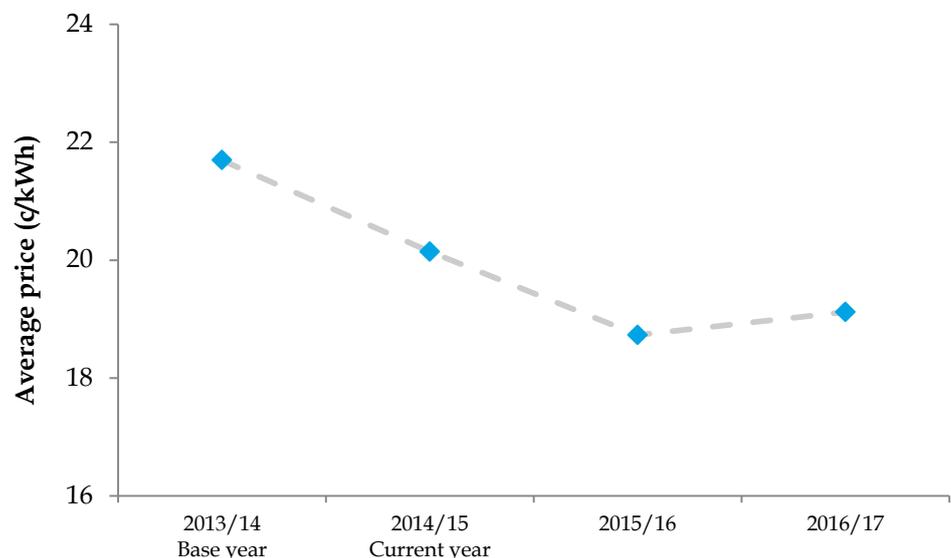
To undertake this work, we analysed trends in the wholesale and retail market sectors of the industry, the regulated networks sector and the impact of government environmental policies. We report on how these trends affect overall prices paid by residential consumers, in order to identify the relative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

Key findings for the ACT

On average, *standing offer* prices in the ACT have decreased by 7.2 per cent in 2014/15 for the representative consumer, and are expected to decrease by 7 per cent in 2015/16 before increasing by 2.1 per cent in 2016/17. This is equivalent to an average annual decrease of 4 per cent over the reporting period, as shown below.

While consumers in the ACT have the opportunity to choose a *market offer*, around 80 per cent are on the regulated *standing offer*. Few *market offers* are currently available, although this is expected to change as more retailers enter the market.

Trend in ACT *standing offer* price



ACT prices fall by an average of 4 per cent per year, due to the removal of the carbon price and lower network prices.

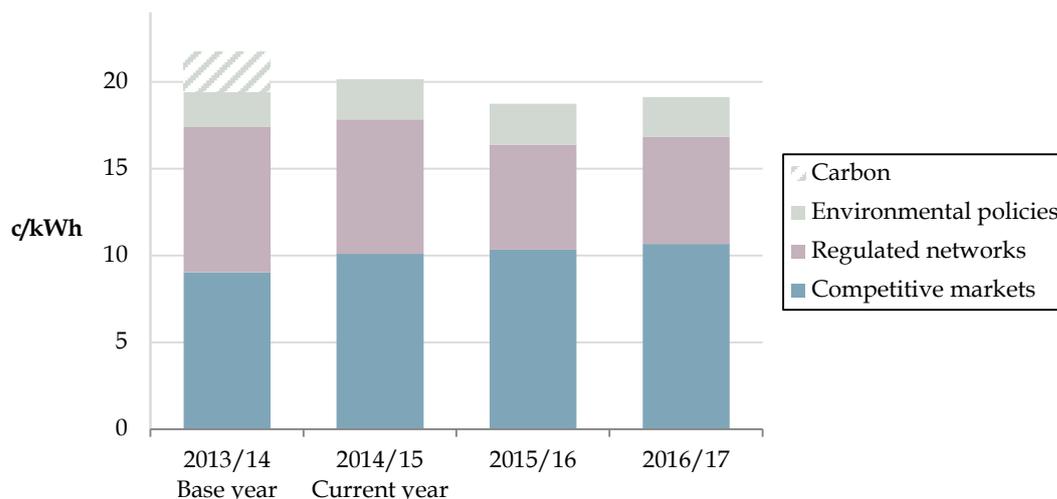
Drivers of price trends

Residential electricity prices in the ACT fall over the reporting period, with substantial price decreases in 2014/15 and 2015/16 due to the removal of the carbon price and lower network prices.

In 2014/15, the savings from the removal of the carbon pricing mechanism are partially offset by an increase in the retail component, as determined by the Independent Competition and Regulatory Commission, the independent ACT regulator.

In 2014/15, it is expected that the total electricity bill for a representative consumer in the ACT will consist of around 38 per cent regulated network prices, 50 per cent wholesale and retail costs and 12 per cent environmental policy costs.

Trend in ACT supply chain components



Regulated network prices

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

- In 2014/15, it is expected that transmission network prices will make up around 11 per cent of the total bill for a representative consumer and distribution network prices will make up 27 per cent.
- Regulated network costs are expected to decrease at an average annual rate of 8.7 per cent between 2013/14 and 2016/17.

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 regulated rate of return is set.

New network rules will apply to the upcoming regulatory periods, meaning that during the three years from 2013/14 to 2016/17, the ACT network businesses are subject to two different sets of rules:

- The previous network business determinations applied from 2008/09 to 2013/14. A placeholder determination has been made for both businesses for 2014/15.
- Network prices for 2015/16 and 2016/17 are based on the AER's draft decision for the 2014-19 regulatory period, which applies the new rules. The final determination for this period will be made in April 2015.

In 2014/15, network prices are expected to have fallen on average by 7.3 per cent, due to the placeholder determinations for network businesses that feature a lower rate of return.

Based on the AER's draft regulatory determination for the 2014-19 period, network prices are expected to decrease by 22 per cent in 2015/16 and increase by 1.7 per cent in 2016/17.

Market offers may provide consumers in the ACT with savings over regulated standing offer prices.

- The expected price decrease in 2015/16 is due to reductions in allowances for both capital and operating expenditure, and lower rates of return.

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 period to 2016/17, it is expected that wholesale and retail market costs will increase, on average, by 6 per cent per year.
- The retail component increases substantially in 2014/15 due to adjustments to allowed operating costs and the return on investment by the ACT regulator. Costs for the remaining two years are escalated by the assumed inflation rate.

The 2014 Retail Competition Review found that around 80 per cent of consumers are on a *standing offer* contract. Only about 2 per cent of consumers in the ACT switched from one retailer to another in the ACT in 2013.

Environmental policy costs

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

- carbon pricing mechanism
- Renewable Energy Target
- feed-in tariff schemes; and
- Energy Efficiency Improvements Scheme

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

- In 2013/14, these costs made up around 10 per cent of the total bill of a representative consumer.

In 2013/14, costs associated the Renewable Energy Target made up around 5.7 per cent, the ACT's feed-in tariff policies made up 2.2 per cent and Energy Efficiency Improvement Scheme costs made up 1.8 per cent of the representative consumer's total bill.

- Based on the current Renewable Energy Target legislation, scheme costs are expected to increase at an annual average rate of 4.6 per cent per year between 2013/14 and 2016/17.
- The costs of the ACT Government's feed-in tariff policies are expected to increase at an average annual rate of 31 per cent between 2013/14 and 2016/17.
- The Energy Efficiency Improvement Scheme is scheduled to run until December 2015. No decision has yet been made on whether this project will continue beyond 2015.

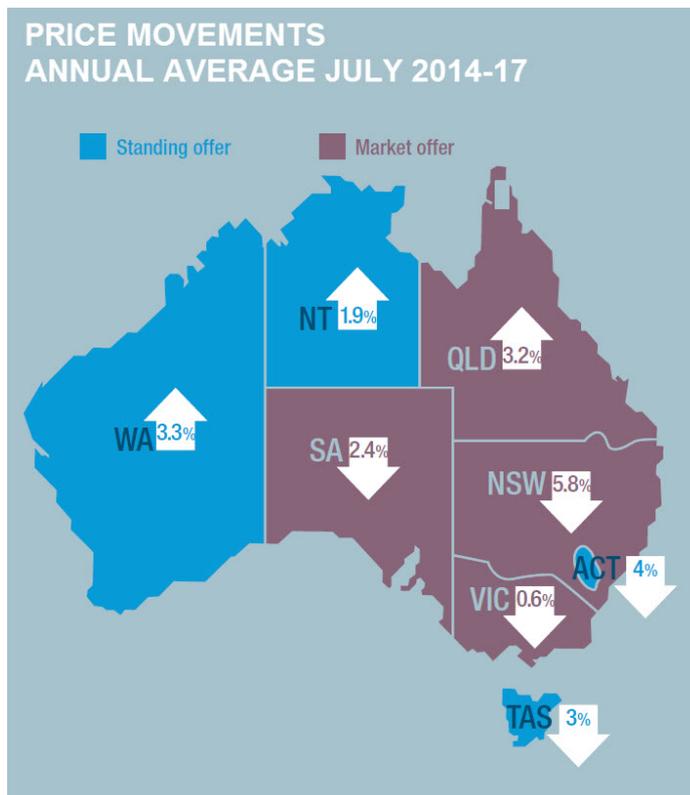
Jurisdictional price trends

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 pricing mechanism. 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 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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