AEMC

NEWS

South east Queensland residential electricity price trends

2017 Residential electricity price trends report

Households in south east Queensland will see prices drop by an estimated 7.1% each year over the next two years from 1 July 2018 as more variable wind and solar generation comes online.

But over time, without investment in replacement dispatchable capacity, wholesale costs will start to rise again as older generators exit. Uncertainty is stopping investment and will put upward pressure on prices in the medium term.

The AEMC's annual report on price trends provides an overall picture of factors driving electricity prices for households in each state and territory. While the report is not a forecast of prices, it analyses cost trends across the electricity supply chain including generation, the regulated networks sector; and price impacts resulting from government environmental and system security policies.

The report found residential electricity prices in south east Queensland rose by around 3.4% this year, largely due to a 21.8% increase in wholesale energy costs following the closure of Northern and Hazelwood coal power stations, and higher gas prices which increase the cost of operating gas-fired generators.

But these price rises are expected to reverse over the next two years as more wind and solar generation comes online and Queensland's Swanbank E gas generator returns to service. More supply means downward pressure on prices.

While welcoming the expected price falls, AEMC Chairman John Pierce cautioned that without investment in replacement dispatchable generation, wholesale costs will start to rise again in the medium term.

"Older, unprofitable thermal generators are exiting the market – reducing the supply of dispatchable energy," said Mr Pierce.

"Without new investment, wholesale prices will go up again and remain volatile, and the rollercoaster will be repeated."

To this end, the AEMC is working with other market bodies on the Energy Security Board on the national energy guarantee design.

"We have a window right now for the COAG Energy Council to continue its work on mechanisms that can work in the long term interests of consumers and keep the lights on as the energy sector continues to restructure," Mr Pierce said.

Network costs – the poles and wires – which make up nearly half of the typical residential electricity bill in Queensland are estimated to decrease slightly over the next two years.

Environmental policy costs, which make up around 14% of the bill, decreased by 73% this year due to changes to the funding of the Queensland government's Solar Bonus Scheme. This is a feed-in tariff scheme that currently makes up around 10% of a typical bill and will end in 2028.

From 2017-2018 the costs of the Solar Bonus Scheme will be included in the state government budget and no longer recovered directly from electricity customers.

Over the next two years, starting from July 2017, environmental policy costs will increase by an estimated 12% each year. The main driver is the rising costs of certificates under the large-scale renewable energy target.

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Background

Price trends identified in the report are not a forecast of actual prices. They are a guide to factors which may drive prices up or down. Actual prices will be influenced by how retailers compete in the market, the outcomes of network regulatory processes, and changes in government legislation.

Actual consumer bills will be affected by all these drivers as well as customers' individual consumption choices, and local factors like the weather and the availability of mains gas.

Modelling for price trends in Queensland

The report estimates electricity prices for the most common type of residential electricity consumer (the 'representative consumer') in south east Queensland.

The representative consumer is defined by their electricity consumption characteristics including:

- total annual electricity consumption
- quarterly electricity consumption, to reflect seasonal changes in power use
- use of off-peak tariffs
- gas use
- the number of people in the household.

For Queensland, the report uses a figure of 5,240 kWh for annual electricity consumption based on AER bill benchmarking data. This data is from a survey of around 8,000 households (across all jurisdictions except Western Australia) where participants are asked about their homes and the way they use electricity.

In Queensland the representative consumer is a two-person household with air conditioning and off-peak hot water, but no mains gain connection or pool.

To develop representative retail prices for Queensland, the AEMC collected standing and market offers from the AER's Energy Made Easy website.

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