



Electricity prices falling overall with variation between jurisdictions

Australian Energy Market Commission 2018 residential electricity price trends report

The AEMC's annual report on electricity price trends shows a falling price outlook for the next two years.

Overall residential electricity prices for the next two years are estimated to fall slightly on the back of structural change in the electricity market.

AEMC Chief Executive, Anne Pearson, said the report shows consumers can expect a flat to falling price outlook because a pipeline of new renewables supply and flat demand is taking pressure off price.

"Prices across Australia are likely to be down in states which have competitive markets, but there are regional supply chain factors that will affect price outcomes in the jurisdictions depending on where you live and how much electricity you use," Mrs Pearson said.

Overall, a representative consumer will be paying around \$28 less than today by July 2020 with the national average bill falling from \$1367 to \$1338.

Over the next two years the volume of new wind and solar capacity will drive the typical wholesale component cost down by \$55 - offsetting small increases in other parts of the supply chain, with network costs flat and the environmental cost component up by \$4.

From FY19 to FY21:

- **NSW** prices estimated to fall despite rising environmental and transmission network costs
- **Victorian** prices estimated to fall with decreasing wholesale and environmental costs offsetting increases across the rest of the supply chain.
- **South-east Queensland** prices are estimated to fall primarily due to decreasing wholesale costs.
- **South Australian** prices are expected to fall, due to decreasing wholesale costs.
- **Tasmania** prices are expected to fall slightly over the next two years
- **ACT** prices are estimated to increase due to rising environmental and network costs.
- **Western Australia** and **Northern Territory** governments setting slight price rises.

Mrs Pearson said the energy sector's challenge in years ahead will be to continue balancing electricity supply and demand as the energy market restructures.

"Cost control helps contain prices," she said.

"The changing generation mix is affecting supply and demand at the wholesale end of the supply chain with a vast amount of new generation and battery storage entering the national electricity market.

"The large-scale renewable energy target (LRET) is putting downward pressure on prices nationally as large generation certificate (LGC) prices drop ahead of the scheme's 2020 closure. The small-scale renewable energy scheme (SRES) is driving upward pressure on prices nationally in response to strong growth in take-up of solar PV and other technologies like solar hot water, small scale wind systems and source heat pumps.

"Our report shows networks account for around half of consumer bills. Managing the costs of connecting new generation will be a major challenge. We must avoid over-engineered solutions to stop gold plating and price spikes," she said.

‘The energy sector’s challenge in years ahead will be to continue balancing electricity supply and demand as the energy market restructures – cost control helps contain prices’

**Anne Pearson
AEMC Chief Executive**

Continued

Mrs Pearson said it was in the strong interest of consumers that government and regulatory policy focused on long-term planning, focusing on low cost solutions to the issue of energy transition.

She said there was a need to:

- establish more certainty in wholesale markets through more effective management of environmental and security costs
- facilitate greater price competition in the retail market through open and transparent price setting that consumers can trust; and
- develop an integrated, modernised power grid that reduces costs to consumers.

Mrs Pearson said the report recognised there were a range of issues unique to each jurisdiction that were also influencing price outcomes.

“Understanding what’s driving prices can help give state and territory governments the information they need to help determine if price changes announced each year by retailers are consistent with changes in the power system’s underlying costs,” she said.

Price trends will affect individual households differently depending on how much each consumer uses electricity, and how willing they are to switch to a better energy deal where market offers are available. No two households use energy in the same way. Knowing how much power you use and when is important in controlling electricity bills in the future as new technologies become more affordable and energy entrepreneurs expand demand response options for consumers.

ABOUT THIS REPORT

The price trends report is a core document used to inform a range of stakeholders including the Australian Energy Market Operator the International Energy Agency and the Reserve Bank of Australia. It helps consumers understand costs included in their electricity bill. It also provides governments with information they need to understand changes in electricity prices and provides context for long-term decision making on energy policy. Price trends identified in this report are not a forecast of actual prices, but rather are a guide to pricing and bill directions based on current expectations, policy and legislation. Actual price movements will be influenced by how retailers compete, the dynamics of wholesale spot and contract markets, the outcomes of network regulatory decisions, and changes in policy and regulation.

The AEMC residential price trends focuses on the drivers of household bills across the three key parts of the electricity supply chain – wholesale (generation); regulated networks (transmission and distribution); and environmental (government policy schemes). A residual applies in most jurisdictions. It is the difference between bill outcomes and these three key cost components.

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21 December 2018