



Tasmanian power prices expected to decrease slightly

Australian Energy Market Commission 2018 residential electricity price trends report

Power prices are estimated to fall in Tasmania over the next two years in response to rising renewable generation capacity. Falling wholesale generation costs are more than offsetting rising network and environmental costs.

Power prices are estimated to fall over the next two years in Tasmania according to the Australian Energy Market Commission's annual report on price trends released today.

Over the next two years the price paid for electricity by Tasmanian households is estimated to decrease by a total of \$39 from FY19 to FY21.

The price trends report modelling shows Tasmania's regulated standing electricity offer prices could decrease by an annual average of 1.0% over the next two years.

The Tasmanian Government has established a cap for electricity price increases at the Hobart consumer price index (CPI) from 2017-2018 to 2020-2021. This capped the actual increase in the state's retail price to 2.05% from 2017-2018 to 2018-2019.

The Tasmanian Government has not yet set prices for the next two years. They are expected to decrease slightly but this will be subject to changes in the energy sector that could happen between now and when prices are set for July 2019 and July 2020.

From FY2019 to FY2021 the expected decrease in standing offer prices is due to decreasing wholesale costs which offset rising environmental and network costs.

Over the next two years the report estimates an average annual increase of \$44 in regulated network costs, and a \$28 average annual increase in environmental policy costs which are offset by a \$120 annual decrease in wholesale costs.

These estimated changes are based on the most common electricity customer – a 2-person household, with no gas connection, and consuming 7,908 kWh of electricity each year, of which 4,349 kWh is attributed to tariff 41 (heating and hot water).

Of course actual electricity bills depend on how and when electricity is used in each home.

AEMC Chief Executive, Mrs Anne 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.

"Our report also 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.

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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.

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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