



Victoria household electricity prices

Residential electricity price trends report 21 December 2018

Our 2018 residential electricity price trends report identifies what's driving household prices and consumer bills over the next few years from 2018 to 2021 in all states and territories, and nationally.

Key findings for Victoria

In 2018, the electricity bill for the representative residential consumer on a market offer in Victoria was approximately \$1,132 exclusive of GST.

The electricity bill for the representative residential consumer in Victoria:

- decreased by 3.2 per cent from 2018 to 2019
- is expected to decrease by an annual average of 1.2 per cent from 2019 to 2021, based on a decrease of 3.3 per cent in 2020; and an increase the following year of 1.0 per cent in 2021.

The expected decrease in the representative residential electricity bill from 2019 to 2021 is primarily due to decreasing wholesale costs, driven by new generation supply entering the national electricity market (NEM).

In Victoria consumers can choose between a market offer and a retail standing offer. Approximately 94 per cent of small customers are on a market offer (small customers includes residential and small business customers). The table below shows the total annual bill for a representative consumer in Victoria on a market offer and a standing offer.

Victoria	2018
Standing offer total annual bill	\$1,132 excluding GST
Market offer total annual bill	\$1,597 excluding GST

About this report

Trends in the underlying supply chain cost components and drivers of trends will vary across jurisdictions and over time. This reflects differences in population, climate, consumption patterns, government policy and other factors across the states and territories. The way these trends affect an individual consumer will depend on how that consumer uses electricity. This is particularly relevant as the consumption profiles of consumers become increasingly diverse.

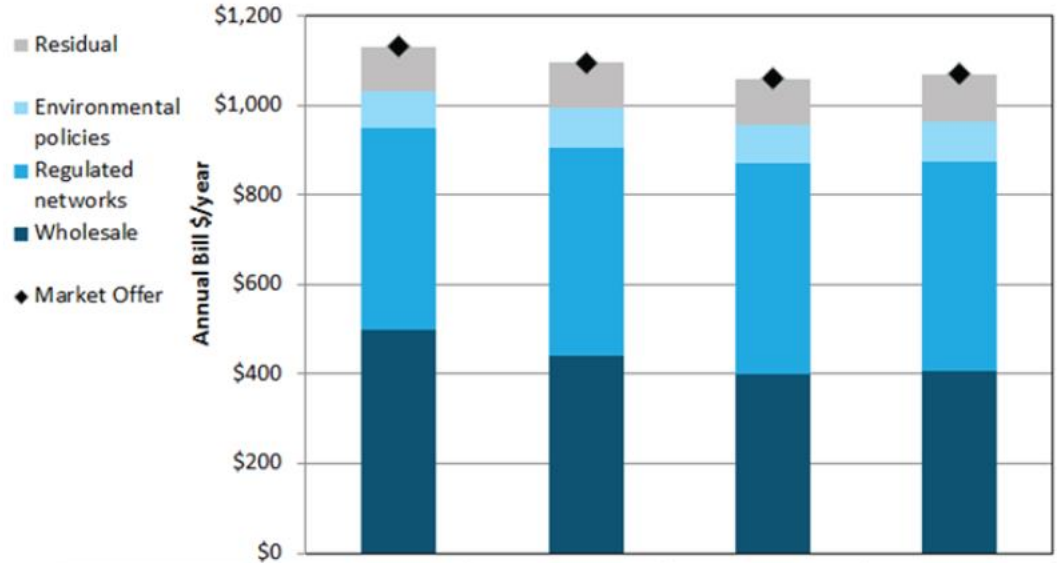
Price trends identified in this report are not a forecast of actual prices, but rather are a guide to pricing and bill directions based on current expectations, policy and legislation. Actual price movements will be influenced by how retailers compete, the dynamics of the wholesale spot and contract markets, the outcomes of network regulatory decisions, and changes in policy and regulation.

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.

In 2017-2018, the representative consumer on an electricity market offer in Victoria was \$1,132

Trends in Victoria electricity supply chain components

Figure: Expected trends in Victoria supply chain components from 2018 to 2020-21 for the representative consumer on a market offer.



	2018 Base Year		2019 Current Year		2020		2021	
	c/kwh	\$/year	c/kwh	\$/year	c/kwh	\$/year	c/kwh	\$/year
Environmental policies	2.12	\$82	2.33	\$90	2.17	\$84	2.31	\$89
LRET - LGC cost	0.95	\$37	0.97	\$37	0.71	\$28	0.69	\$27
SRES - STC cost	0.63	\$25	0.75	\$29	0.73	\$28	0.82	\$32
Feed-in Tariff Schemes	0.34	\$13	0.38	\$15	0.41	\$16	0.43	\$17
VEU	0.19	\$7	0.23	\$9	0.32	\$12	0.37	\$14
Regulated networks	11.74	\$454	11.98	\$463	12.18	\$471	12.13	\$469
Transmission	1.45	\$56	1.41	\$54	1.42	\$55	1.43	\$55
Distribution	8.62	\$333	8.86	\$342	9.15	\$354	9.09	\$351
ACS Metering	1.67	\$65	1.71	\$66	1.61	\$62	1.61	\$62
Wholesale	12.86	\$497	11.41	\$441	10.37	\$401	10.49	\$406
Residual	2.57	\$99	2.64	\$102	2.70	\$104	2.77	\$107
Market Offer	29.29	\$1,132	28.35	\$1,096	27.42	\$1,060	27.70	\$1,071

Note: These electricity prices and bills are based on a weighted average of retailer's lowest market offers for the representative consumer in Victoria.

The expected trends in Victoria electricity supply chain cost components (wholesale, regulated networks and environmental policies) are summarised below.

Wholesale electricity purchase costs: these costs include purchases from the spot market and financial contracts, ancillary services, market fees and energy losses from transmission and distribution networks.

In Victoria, wholesale market costs comprised approximately 43.9 per cent of the representative market offer in 2018 and are expected to account for a decreasing proportion of the representative consumer's bill from 2018 to 2021.

Wholesale electricity costs:

- decreased by 11.3 per cent from 2018 to 2019
- are expected to decrease by an annual average of 4.1 per cent from 2019 to 2021, based on a decrease of 9.1 per cent in 2020 and an increase of 1.2 per cent the following year in 2021

As noted, the main driver of this trend is increased generation entering the market.

The expected decrease in representative residential electricity market offer prices from 2018-19 to 2020-21 is mainly due to falling wholesale costs, driven by new generation supply entering the market.

Regulated network costs: these costs relate to transmission network services provided by AusNet Services and distribution network services provided by AusNet Services, Jemena, United Energy, Powercor and CitiPower.

Regulated network costs comprised approximately 40.1 per cent of the representative residential market bill in 2018, and are expected to account for an increasing proportion of a residential electricity consumer's bill from 2018 to 2021, based on the latest available network pricing decisions by the Australian Energy Regulator (AER).

Regulated network costs:

- increased by 2.0 per cent from 2018 to 2019
- are expected to increase by an annual average 0.6 per cent from 2019 to 2021, based on an increase of 1.7 per cent in 2020 and a following decrease of 0.4 per cent in 2021.

The main driver of this trend is the increase in distribution network costs.

Environmental policy costs: these costs are related to the Commonwealth Government's renewable energy target (RET) and the Victorian Government's Victorian Energy Upgrades (VEU) scheme and the feed-in-tariff (FiT) schemes. The RET applies on a national basis and consists of the large-scale renewable energy target (LRET) and the small-scale renewable energy scheme (SRES).

In 2018, the environmental policies comprised 7.2 per cent of the representative residential market bill in Victoria and are expected to comprise an increasing proportion of the representative consumer's electricity bill from 2018 to 2021.

Environmental policy costs:

- increased by 10.1 per cent from 2018 to 2019
- are expected to decrease by an annual average of 0.5 per cent from 2018-19 to 2020-21, based on a decrease of 6.8 per cent in 2020 and an increase of 6.2 per cent in 2021.

This trend is primarily driven by the increase in costs associated with:

- the Commonwealth Government's SRES, due to increased uptake of small-scale renewable energy technologies, such as rooftop solar, and
- Victorian Energy Upgrades (VEU).

New approach to modelling wholesale costs

This year's report has changed the method used to calculate wholesale costs. Previous price trends reports modelled future spot prices and added a contract premium to estimate retailers' wholesale electricity purchase costs. This approach effectively assumes that a retailer buys all of its electricity and hedging contracts at a single point in time.

However, it became apparent in the past two years that with high volatility in forward prices after generator retirements, short-term estimates made through this method were largely inconsistent with market outcomes. For this reason, the report estimates wholesale costs using a blended method. Where possible, the analysis uses observable market contract prices that retailers use to build up their hedge contract book over time. Where there is limited forward contract data available, a spot price estimate and contract premium is used. This method more closely resembles how retailers actually hedge their loads, and is therefore considered a more realistic basis for estimating forward prices.

Background

The COAG Energy Council's terms of reference for this report require the AEMC to estimate future retail electricity price outcomes for representative residential consumers in each Australian state and territory along with national electricity prices based on a weighted average of jurisdictional results.

In addition, the AEMC also reports on the trend in customers' annual electricity bills.

We are focussed on cutting costs in the power system by addressing the drivers of those costs through our work program

Representative consumers are those households with the most common electricity consumption profiles in each jurisdiction. In most jurisdictions, the annual and quarterly consumption profiles of these consumers are based on data from the AER.

In Victoria, the representative consumer:

- is a two-person household that consumes 3,865 kWh of electricity per year
- is on a market offer
- has a mains gas connection, and therefore is a dual fuel customer
- is not on a “controlled load” tariff.

As electricity prices and bills in this report are specific to the representative consumer, they do not reflect pricing outcomes for each individual residential consumer.

AEMC’s work program

The AEMC is cutting costs in the power system by addressing the drivers of those costs through its work program. Our focus on price impacts drives everything we do through the reliability and security frameworks; consumer choice, control and protection; the networks of the future and the continuing importance of integrating energy and environmental policies. We completed or are undertaking a number of rule changes and reviews with the potential to directly or indirectly impact consumer prices and bills, including:

- new obligations on retailers to give advance notice of price changes and providing advance warnings to shop around before discounts end
- stopping energy discounts that can leave people worse off, allowing electricity and gas customers to have energy bills based on their own meter reading
- raising the standard for better hardship programs and keeping new retail businesses out of the market until they have approved hardship policies in place.

At the same time we are reviewing what’s needed to support adequate investment in generation as the power system evolves to include more variable, intermittent generation and demand-side innovation. Our package of reforms in this area includes:

- new technical performance standards for generators
- setting up a national register of distributed energy like small-scale battery systems and rooftop solar to help AEMO better manage the power system
- requiring generators to give at least three years’ notice of closure
- reviews to improve the coordination of generation and transmission investment and to look at ways to integrate new technologies and demand response to help keep the power system secure
- requiring the AER to calculate and update values of customer reliability, used to develop reliability standards
- enabling AEMO to contract for electricity reserves up to nine months ahead of a projected shortfall under the RERT, the strategic reserve mechanism
- making networks provide minimum levels of inertia along with the services necessary to meet minimum levels of system strength.

We continue our analysis of market design changes which currently includes the market making obligations rule request, and advice on the impact of a default offer which has been requested by the COAG Energy Council.

We are fostering the efficiency of network investment and operations through major projects like the coordination of generation and transmission investment review; introducing new transmission connection and planning arrangements; introducing competition in metering; and establishing the value of customer reliability.

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