



Power prices falling in Victoria over the next two years

Australian Energy Market Commission 2018 residential electricity price trends report

Power prices are estimated to fall in Victoria over the next two years in response to rising renewable generation capacity. This year consumers who are still on standing offers could save \$465 by switching to the lowest competitive market offer.

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

After a fall of around 3.2% this year (2018 to 2019), prices are estimated to fall again by 2.3% in total over the next two years (2019 to 2021) as lower wholesale costs from increasing renewable generation capacity flows through to consumers.

The report found:

Over the next 2 years (from Jan 2019 to Jan 2021) Victorian households are likely to save around \$12.50 a year - \$25 in total - on their electricity bills as wholesale costs continue to fall.

Wholesale costs are estimated to fall by around \$56 this year (2018 to 2019) for the average consumer as more supply comes into the market and demand stays flat. Network and environmental costs are estimated to remain flat/stable

Victoria's representative consumer (the most common type of household based on electricity consumption) will be paying around \$61 less than today January 2021.

In Victoria 94% of residential electricity customers are now on market offers. This year Victorian electricity customers with representative consumption who are still on a standing offer could save \$465 by switching to the best competitive market offer available.

The most common electricity customer in Victoria is a 2-person household, with no off-peak hot water, consuming 3,865 kWh of electricity each year in addition to having a mains gas connection.

Actual bills of course depend on how and when electricity is used in each home.

AEMC Chief Executive, Mrs Anne Pearson, said today that understanding what's driving prices can help give the Victorian Government the information it needs to determine if price changes announced by retailers each January are consistent with changes in the power system's underlying costs

"In response to the retirement of Hazelwood power station and subsequent wholesale price volatility, we have applied a new wholesale cost estimation method to our modelling this year that better reflects how retailers manage their risk and wholesale costs. As a result we now have a clearer picture of what consumers can expect in the next few years.

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.

“It’s in the strong interest of consumers that government and regulatory policy is focused on long-term planning, and on low cost solutions to issues raised by energy transition.”

Continued

“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.

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.

The AEMC’s estimate of the change in Victoria’s standing offer retail price from 2018 to 2019 is within the range announced by EnergyAustralia, AGL and Origin on 30 November 2018. Our estimate was standing offer prices would decrease by 1.5%. Recent announcements included: AGL decrease of 1.6% and both EnergyAustralia and Origin flat at 0%.

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.

Media:

Prudence Anderson 0404 821 935 or DL (02) 8296 7817

Bronwyn Rosser 0423 280 341 or DL (02) 8296 7847

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