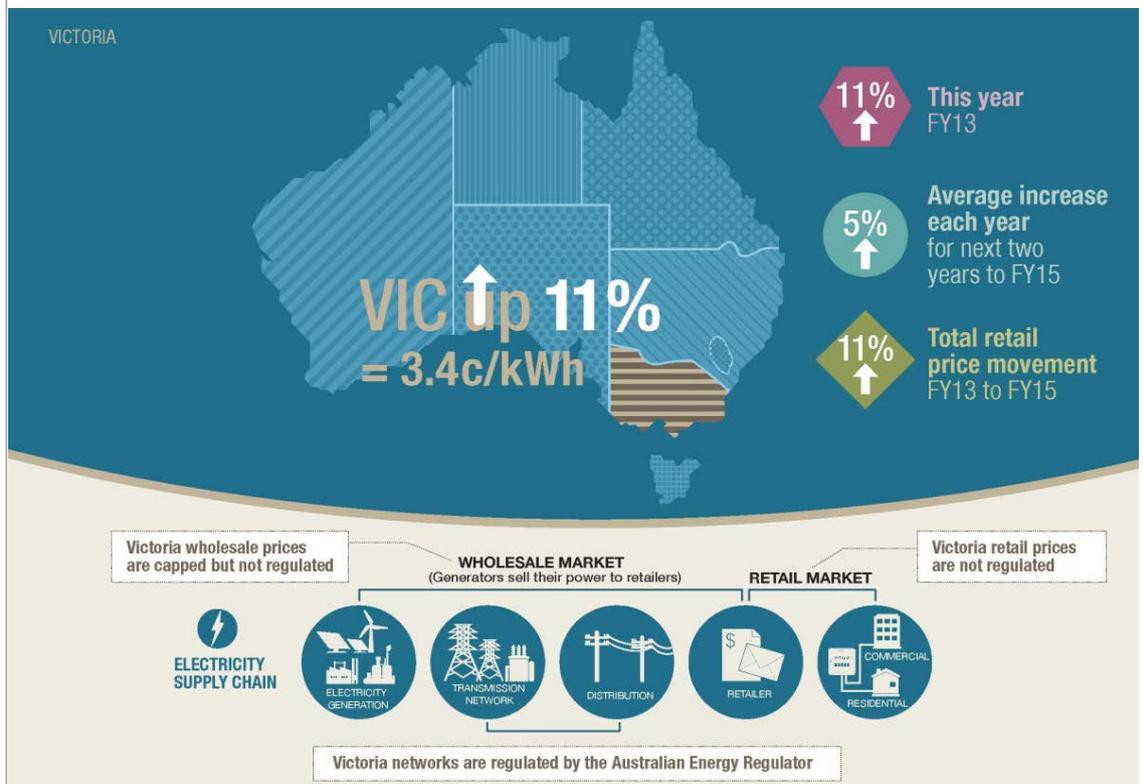


## Victoria: Electricity price trends to FY15

The AEMC Electricity Price Trends Report: 1 July 2012 – 30 June 2015 was published on 22 March 2013. It recognises difficulties in modelling price trends for Victoria’s privatised and deregulated market. Analysis is based on published standing offers which are around 12% higher than market prices paid by most customers according to Victoria’s regulator.



### What this market looks like

#### Regulation

Victoria has a largely privatised and deregulated retail electricity sector. While all retailers are required to have standing offer prices for residential customers who are not on market contracts, there is no regulated price. The Essential Services Commission Victoria (ESCV) oversees compliance and performance reporting by energy businesses, and issue energy distribution and retail licenses in Victoria.

There are five electricity distribution businesses in Victoria; Citipower, Powercor, SP Ausnet, United Energy and Jemena. The transmission network is owned by SPAusnet. The National Electricity Market operator, AEMO, undertakes specific network functions.

The Australian Energy Regulator (AER) is the economic regulator of Victoria’s networks. The current regulatory control period for the SP Ausnet transmission business expires on 30 March 2014. The regulatory control period for the Victorian distribution businesses expires on 31 December 2015.

#### Customer consumption

The representative residential customer in Victoria uses 4,636 kWh of electricity annually.

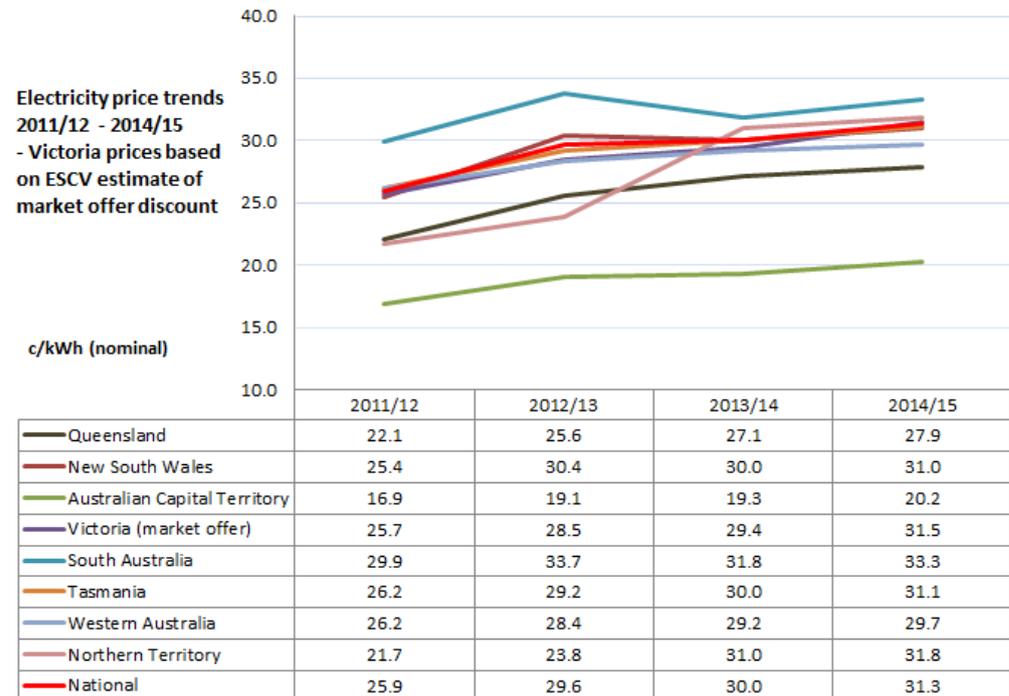
Victoria has a deregulated retail electricity sector. This report is based on the standing offer prices published by Victoria's electricity retailers from time to time. The standing offer is on average 12% higher than market prices.

## Overall trend

There are particular difficulties in modelling retail price trends for Victoria due to its deregulation. In this report, data for indicative retail price movements are based on Victoria's published standing offers. These offers differ from regulated retail tariffs in other jurisdictions because they are not set by a regulator.

The standing offer tariffs used in this report are likely to overstate the actual prices paid by customers on a market offer in Victoria. According to the ESCV, the standing offer is on average 12% higher than market offers<sup>1</sup>. Based on AEMC modelling of the financial year (FY) 2013 standing offer price (31.9 c/kWh) removing the 12% standing offer premium would put the average market offer price at 28.5 c/kWh for most Victorian customers.

The main contributing factors to changes in Victorian household electricity prices are increased distribution network charges and the impact of environmental schemes on the retail component.



## Wholesale and retail components

Wholesale and retail prices are estimated to follow a moderating trend which will rise 2% on average from the current year as falling demand and increasing investment in renewable energy keep downward pressure on wholesale spot market prices.

The carbon price added around 2.2 c/kWh in FY13, increasing to 2.5 c/kWh in the following two years.

Further increases to this combined component will flow from the impacts of the Commonwealth large-scale Renewable Energy Target and the Victorian Energy Efficiency Target.

## Networks component

Distribution network prices, including feed-in tariffs and advanced metering obligations, increased by 11% from FY12 to FY13 and are estimated to increase annually by an average 12% for the remainder of the period.

Revenue requirements for the five Victorian distribution networks were determined by the AER in 2011, allowing for additional expenditure to replace ageing assets, meet higher peak demand forecasts which had been identified at that time and to meet new safety obligations introduced following the Victorian bushfires in 2009. These requirements are reflected in distribution network costs which are driving more than half of the price increase

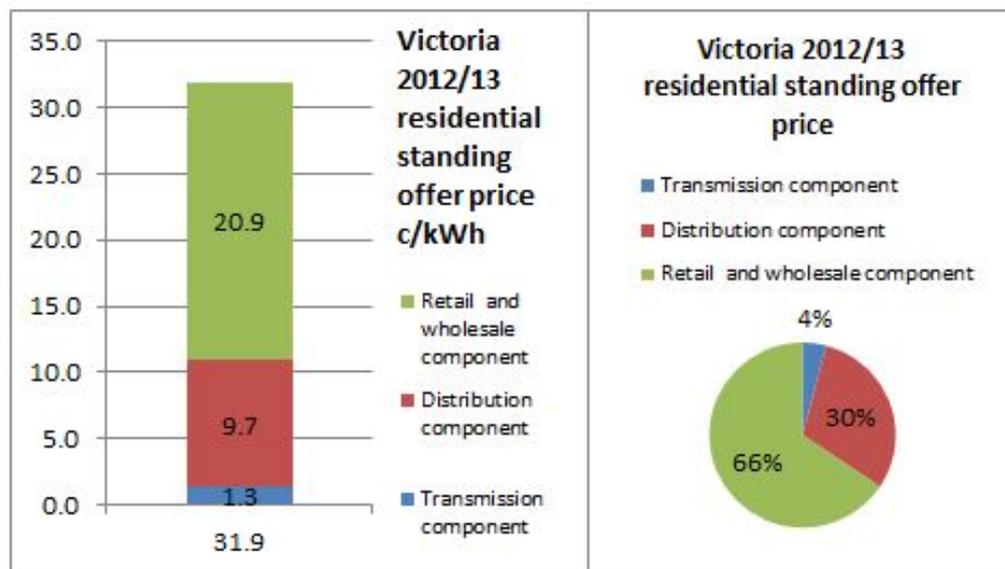
<sup>1</sup> Essential Services Commission, Energy retailers comparative performance report – pricing 2012, September 2012, p 43

**This report is not a forecast of actual prices. It is a guide to pricing trends and identifies the components that are driving those trends.**

in Victoria. The provision of advanced metering infrastructure and payment of the Victorian feed-in tariff schemes are also included in distribution network costs.

Transmission network prices increased by 2% from FY12 to FY13 and are estimated to rise each year on average by 2% for the remainder of the period. The network components (including feed-in tariffs) together make up around 34% of the total residential standing offer price for Victoria in FY13.

### Breakdown of Victoria's representative household price for FY13



### About the AEMC Electricity Price Trends Report

The AEMC Electricity Price Trends Report identifies the factors driving residential electricity prices, and outlines reasons why they may rise or fall over three years to FY15. It is not a forecast of actual prices, but a guide to pricing trends based on current knowledge and assumptions. The report is prepared annually at the request of the Standing Council on Energy and Resources (SCER).

### Price comparisons across jurisdictions

It is not possible to directly compare electricity prices across jurisdictions. The costs vary due to population spread and density, weather, technology, economic strengths and customer choices. The regulator in each state and territory applies different policies in setting regulated prices.

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Date: Friday 22 March 2013