INFORMATION

Retail electricity price forecasts

The MCE has asked the AEMC to report on trends in residential electricity price movements over the next three years, following a request for this report from the Council of Australian Governments.

This report was submitted to the MCE on 30 November 2010 and was based on publicly available information where possible. Since then a number of price determinations and policy announcements have occurred and, as a result, some of the data in the report is now outdated.

Possible retail electricity price movements: 1 July 2010 to 30 June 2013

Between 2009-2010 and 2012-2013, most Australian states and territories face nominal increases of 20-40% in residential electricity prices. Pricing outcomes and drivers behind the increases vary considerably across jurisdictions. While increasing network investment expenditure, higher wholesale electricity prices, and government schemes are common factors, the relative proportions of these drivers differs significantly across jurisdictions.

Australia-wide

Nationally, residential electricity prices are forecast to increase by 30% in nominal terms (or 5.84 c/kWh) over 2009-2010 to 2012-2013. In real terms this is a 19% increase.

Contribution to price increase

Distribution services (41% contribution to the national price increase)

- Distribution costs will increase in most jurisdictions due to increased levels of capital works and an increase in the costs of undertaking these works. The level of capital works is increasing because of growing maximum demand for electricity and the need to replace ageing assets. The cost of capital works will be more expensive due to higher debt financing costs.

Wholesale electricity (19% contribution)

- Wholesale costs are increasing due to changes in generation mix, higher fuel prices, increased price volatility and financing risks linked to carbon pricing uncertainty. A tightening supply-demand balance is forecast over 2012-2013, adding pressure to prices.

Retail electricity (14% contribution)

- Retail costs are growing as other cost components increase (retail margins are typically calculated at around 5% of the total cost of providing retail services).

Renewable Energy Target (LRET/SRES) (11% contribution)

- RET costs are being primarily driven by the uptake of small scale renewable technologies under the Small Scale Renewable Energy Scheme.

Transmission services (8% contribution)

- Higher transmission costs due to increasing transmission investment to meet growing maximum demand, and higher input prices (steel and labour) and debt financing costs.

Feed-in tariffs (3% contribution) and other jurisdictional schemes (3% contribution)

- Feed in tariffs costs will depend upon both the design of the state schemes and uptake.

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We have used published figures where available. Some cost components had to be estimated. Consequently this report is not a definitive forecast. It is a guide to trends in future price movements

Queensland

- Queensland residential electricity prices are forecast to increase by 32% in nominal terms between 2009/10 and 2012/13.

Drivers of Queensland price movements

- 49% of the forecast increase is due to increases in distribution costs, driven by increases in maximum demand and consumption, higher rates of return following the Global Financial Crisis, and increases in the cost of land and materials.
- 24% of the forecast increase is due to wholesale costs due to an expected tightening in the supply/demand balance, while 11% is due to retail costs.

New South Wales

- New South Wales residential electricity prices are forecast to increase by 39% in nominal terms between 2009/10 and 2012/13.

Drivers of New South Wales price movements

- 59% of the forecast increase is due to increases in distribution costs, driven by increases in maximum demand, higher rates of return following the Global Financial Crisis, the replacement of aging assets, and higher reliability standards.
- 11% of the forecast increase is due to wholesale costs, which reflects increases in fuel and capital costs for generators in recent years.

Victoria

- Victorian residential electricity prices are forecast to increase by 27% in nominal terms between 2009 and 2012.

Drivers of Victorian price movements

- As retail price regulation has been removed in Victoria, the estimation of individual cost components is more difficult.
- Wholesale prices are forecast to fall over 2010 and 2011 as slower economic growth reduces demand. Over these years, retail costs will comprise a larger proportion of the total retail price. Wholesale costs are expected to increase in 2011 and 2012 as demand increases and the supply/demand balance tightens.
- 21% is of the forecast increase is related to increases in metering service costs, which includes the cost of the Victorian mandated smart meter roll-out

Australian Capital Territory

- Australian Capital Territory residential electricity prices are forecast to increase by 20% in nominal terms between 2009/10 and 2012/13.

Drivers of Australian Capital Territory price movements

- 34% of the forecast increase is related to wholesale costs due to a tightening in the supply/demand balance between 2011/12 and 2012/13.
- 22% of the forecast increase is related to distribution costs, due to a 69% increase in capital expenditure to build/augment substations and improve supply security.

South Australia

- South Australia's residential electricity prices are forecast to increase by 31% in nominal terms between 2009/10 and 2012/13.

Drivers of South Australian price movements

- 39% of the forecast increase is relation to distribution costs, driven by higher maximum demand and higher rates of return following the Global Financial Crisis.

- 36% of the forecast increase is related to wholesale costs, due to high summer peak demands and higher expected costs of generation to meet this demand.

Tasmania

- Tasmanian residential electricity prices are forecast to increase by 25% in nominal terms between 2009/10 and 2012/13.

Drivers of Tasmania's price movements

- 48% of the forecast increase is related to wholesale costs, which reflects recent changes to ensure the retailer is able to recover its energy purchasing costs from the regulated retail tariff.
- 22% of the forecast increase is related to increases in distribution costs, due to increasing demand, replacement of aging assets, and higher reliability standards.

Distribution investment is forecast to be $33 billion over current regulatory determination periods in the National Electricity Market and WA.

Transmission investment is forecast to be $8.7 billion over the same periods.

Western Australia

- As retail electricity prices in Western Australia are subsidised by the Western Australian Government, the report reflects expected movements in the costs of supply for residential electricity customers rather than movements in the retail electricity price.
- Western Australia's residential electricity supply costs are forecast to increase by 45% in nominal terms between 2009/10 and 2012/13.

Drivers of Western Australia's supply cost movements

- 63% of the forecast increase is related to increases in distribution costs, while 12% is due to transmission.
- Network cost increases are being driven by increases in customer demand, higher than forecast capital expenditure in the previous regulatory period, increases in the Tariff Equalisation Contribution, and higher rates of return.

Northern Territory

- As retail electricity prices in the Northern Territory are subsidised by the Northern Territory Government, the report reflects expected movements in the costs of supply for residential electricity customers rather than movements in the retail electricity price.
- Northern Territory residential electricity supply costs are forecast to increase by 14% in nominal terms between 2009/10 and 2012/13.

Drivers of the Northern Territory's supply cost movements

- 45% of the increase is related to wholesale costs, while 28% is related to distribution costs.
- Wholesale and network costs are being driven by increasing demand, high operational and maintenance costs due to ageing assets, and wages growth. Further distribution costs are likely as recommendations from the NT Government's Davies Enquiry are implemented to improve asset management and network reliability.

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