After a fall of almost 7% this year, prices are estimated to fall again by 5.5% in total over the next two years as more renewable generation drives costs down.

**CONSUMER**

The most common electricity consumer is a two-person household consuming 5,240 kWh annually. In south east Queensland 81% of residential electricity consumers are on market offers.

**Annual electricity bill for a typical residential customer**

In 2017-18 and 2018-19 the annual bill paid by the representative consumer is the amount after removal of the Queensland Government rebate of $50 each year.

**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 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 markets, the outcomes of network regulatory decisions, and changes in policy and regulation.
Power prices to fall in south east Queensland over next two years


South east Queensland consumers can expect falling prices over the next two years in response to rising renewable generation capacity. This year consumers who are still on standing offers could save $254 by switching to the lowest competitive market offer.

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

South east Queensland households are likely to save around $76 (2.8%) or $152 in total on their electricity bills from FY19 to FY21 as wholesale costs continue to fall from increasing renewable generation capacity. This takes into account the $50 annual government rebate paid to customers in FY18 and FY19.

Wholesale costs are likely to fall by around $121 by FY21 for the average consumer as more supply comes into the market and demand stays flat. Network costs are estimated to fall by around $9 while state environmental costs are estimated to decrease by $7.

South-east Queensland’s representative consumer (the most common type of household based on electricity consumption) may expect to be paying around $76 less than today by July 2020.

In South-east Queensland 81% of residential electricity customers are now on market offers. With almost one in five of South-east Queensland consumers on standing offers, those who have not yet shopped around are missing out on current savings of $254 between the lowest market and lowest standing offers for the same type of consumer this year.

The most common electricity customer is a two-person household, consuming 5,240 kWh of electricity each year. Actual bills 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 gives the Queensland Government the information it needs to determine if the price changes retailers seek to make from 1 July each year are consistent with changes in the power system’s underlying costs

“With wholesale power costs now the main driver of prices being paid by consumers pay for the electricity they use, we are applying a new wholesale cost estimation method 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.

“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.
Continued

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.

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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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21 December 2018
South East Queensland 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 2017-2018 to 2020-2021 in all states and territories, and nationally.

Key findings for South East Queensland

In 2017-2018, the electricity bill for the representative residential consumer on a market offer in South East Queensland was approximately $1,526 exclusive of GST. However the Queensland Government provides households with a $50 annual rebate, so the actual consumer bill was $1,476 exclusive of GST.

The electricity bill for the representative residential consumer in South East Queensland, after including the $50 rebate in the calculations:

- decreased by 6.8 per cent from 2017-2018 to 2018-2019
- is expected to decrease by an annual average of 2.8 per cent from 2018-2019 to 2020-2021, based on a decrease of 5.8 per cent in 2019-2020; and an increase the following year of 0.3 per cent in 2020-2021.

The expected decrease in the representative residential electricity bill from 2018-2019 to 2020-2021 is primarily due to decreasing wholesale costs, driven by new generation supply entering the national electricity market (NEM).

In South East Queensland consumers can choose between a market offer and a retail standing offer. Approximately 81 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 South East Queensland on a market offer and a standing offer, after including the benefit of the $50 rebate.

<table>
<thead>
<tr>
<th>South East Queensland</th>
<th>2017-2018</th>
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<tbody>
<tr>
<td>Standing offer total annual bill</td>
<td>$1,649 excluding GST</td>
</tr>
<tr>
<td>Market offer total annual bill</td>
<td>$1,476 excluding GST</td>
</tr>
</tbody>
</table>

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.

**Trends in South East Queensland electricity supply chain components**

Figure: Expected trends in South East Queensland supply chain components from 2017-18 to 2020-21 for the representative consumer on a market offer.

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 South East Queensland, wholesale market costs comprised approximately 38 per cent of the representative market offer in 2017-2018 and are expected to account for a decreasing proportion of the representative consumer’s bill from 2017-2018 to 2020-2021.

**Wholesale electricity costs:**

- decrease by 19.7 per cent from 2017-2018 to 2018-2019
- are expected to decrease by an annual average of 14.0 per cent from 2018-2019 to 2020-2021, based on a decrease of 25.2 per cent in 2019-2020 and an increase of 1.2 per cent the following year in 2020-2021

As noted, the main driver of this trend is increased generation entering the market.
Regulated network costs: these costs relate to transmission network services provided by Powerlink and distribution network services provided by Energex.

Regulated network costs comprised approximately 45 per cent of the representative residential market bill in 2017-2018, and are expected to account for an increasing proportion of a residential electricity consumer’s bill from 2017-2018 to 2020-2021, based on the latest available network pricing decisions by the Australian Energy Regulator (AER).

Regulated network costs:
- decreased by 5.5 per cent from 2017-2018 to 2018-2019
- are expected to decrease by an annual average 0.7 per cent from 2018-2019 to 2020-2021, based on a decrease of 1.7 per cent in 2019-2020 and a following increase of 0.3 per cent in 2020-2021.

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

Environmental policy costs: these costs are related to the renewable energy target (RET) introduced by the Commonwealth Government. 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 2017-2018, the RET comprised 4.2 per cent of the representative residential market bill in South East Queensland and is expected to comprise an increasing proportion of the representative consumer’s electricity bill from 2017-2018 to 2020-2021.

Environmental policy costs:
- increased by 31.3 per cent from 2017-2018 to 2018-2019
- are expected to decrease by an annual average of 4.5 per cent from 2018-19 to 2020-21, based on a decrease of 9.4 per cent in 2019-2020 and an increase of 0.8 per cent in 2020-2021.

This trend is primarily driven by the increase in the Commonwealth Government’s SRES, due to increased uptake of small-scale renewable energy technologies, such as rooftop solar.

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.
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 South East Queensland, the representative consumer:
- is a two-person household that consumes 5,240 kWh of electricity per year
- is on a market offer
- is on a controlled load tariff and has no gas connection.

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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21 December 2018