

Electricity prices falling across the whole supply chain for first time

Australian Energy Market Commission Residential electricity price trends report 2019

The AEMC's annual report on electricity price trends shows a falling price outlook over the next few years. Over the three year period modelled by this report consumers would save \$97 (or 7.1%) on their electricity bills out to 2022.

Overall residential electricity prices out to 2022 are estimated to continue falling on the back of increasing supplies of generation in the electricity market and lower regulated prices for networks.

AEMC Chairman, John Pierce, said the 10th price trends report shows costs falling across the three key drivers of consumers' bills.

Generation costs are falling because of additional generation; regulated network prices have been lowered in response to falling distribution costs; and green scheme costs are being driven down by cheaper large-scale generation certificates for increasing levels of renewable generation.

- Wholesale costs are estimated to fall by around \$62 from FY19 to FY22 for the representative consumer as more supply comes into the market and demand remains flat.
- Network costs are estimated to decrease by \$11 over this period.
- Environmental costs are estimated to fall by \$21 over this period.

"While the overall national trend is down all across the supply chain there are regional differences across states and territories that will affect price outcomes depending on where you live and how much electricity you use," Mr Pierce said.

"Overall, a representative consumer will pay around \$97 less than today by June 2022."

From FY19 to FY22:

- **South east Queensland** electricity prices estimated to fall overall by 20% or \$278 (an annual average drop of 7.0%).
- **South Australia** electricity prices estimated to fall overall by 2% or \$27 (an annual average drop of 0.5%).
- **Victoria** electricity prices estimated to fall overall by 5% or \$53 (an annual average drop of 1.6%).¹
- **NSW** electricity prices estimated to fall overall by 8% or \$107 (an annual average drop of 2.8%).
- **ACT** electricity prices estimated to fall overall by 7% or \$134 (an annual average drop of 2.4%).
- **Tasmania** electricity prices estimated to fall overall by 5% or \$93 (an annual average drop of 1.7%).
- **Western Australia** electricity costs are projected to rise by 6% or \$102. However, actual price outcomes may be different due to different regulatory arrangements in Western Australia.

¹ It is important to note that the Commission's analysis is of market offers. As such, the price projections cannot directly be compared with recent decisions about the level of the Victorian Default Offer (VDO).

These results for FY19 to FY22 point to the state of the market over this specific period which will see significant injection of around 5,000 MW of new supply. More supply puts downward pressure on prices.

Continued

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More supply puts downward pressure on prices. But it’s important to note that over a decade of analysis we have seen trends change sharply in response to factors such as sudden generator closures and implementation of new policies. As such, all price projections should be seen as just that, projections.” Mr Pierce said.

Understanding what’s driving prices can help give state and territory governments the information they need to help determine if price changes announced each year by retailers are consistent with changes in the power system’s underlying costs.

Price trends will affect individual households differently depending on how much electricity each consumer uses, and how willing they are to switch to a better energy deal where market offers are available.

It will continue to be important for customers to shop around to get the best deal for their circumstances through government comparison sites such as the AER’s Energy Made Easy; in Victoria, Victorian Energy Compare; and in NSW, Energy Switch.

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.

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 about which parts of the sector are driving 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 focusses 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: Kellie Bisset, Media & Content Manager, 0438 490 041 or (02) 8296 7813

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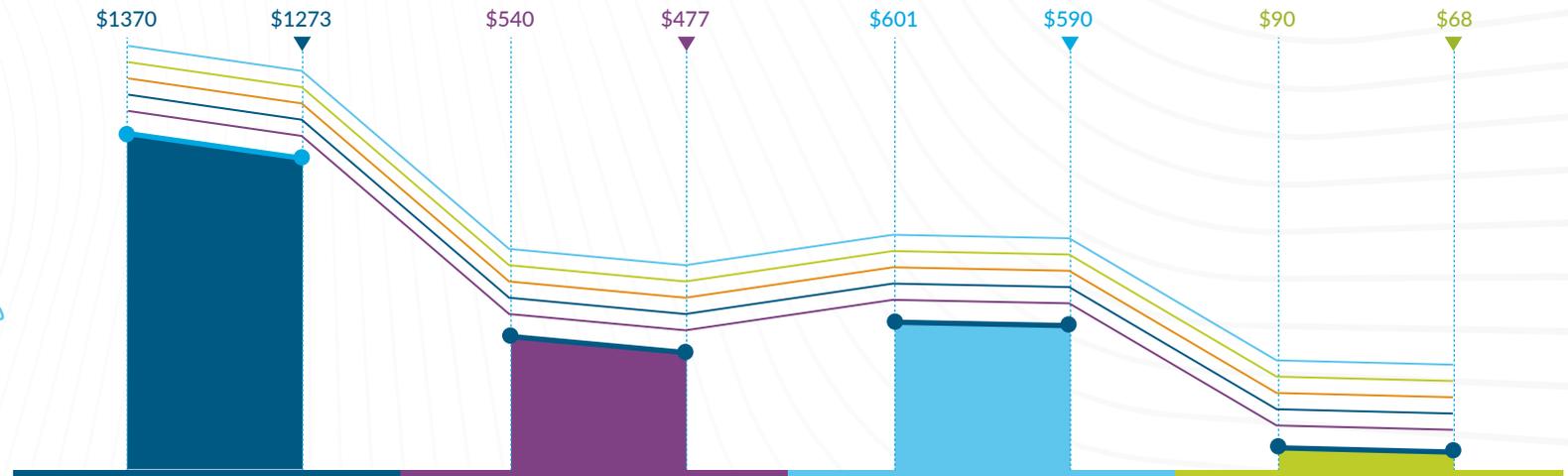
POWER PRICES SET TO FALL OUT TO 2022

RESIDENTIAL ELECTRICITY PRICE TRENDS REPORT 9 DECEMBER 2019

Overall household power prices are estimated to fall from FY19 to FY22 on the back of increasing renewable generation and cuts to regulated network costs. More supply is putting downward pressure on prices. It's important to note that over a decade of analysis we have seen trends change sharply in response to events like generator closures and new policy.



Cost pressures are coming off consumer bills



Bill = USAGE x PRICE

Every household is different. Bills change depending on how much power you use and when. Costs are also affected by where you live.



OVERALL SUPPLY COSTS

Bills are estimated to fall as the 3 key drivers indicate price cuts ahead



WHOLESALE

Lots of new renewable projects coming online adding much-needed supply and driving prices down



NETWORKS

Falling distribution and metering costs are driving regulated network charges down



ENVIRONMENTAL POLICY

These costs are falling as subsidies like the 20% renewable energy target are winding down

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RESIDENTIAL ELECTRICITY PRICE TRENDS

AROUND THE NATION 2019

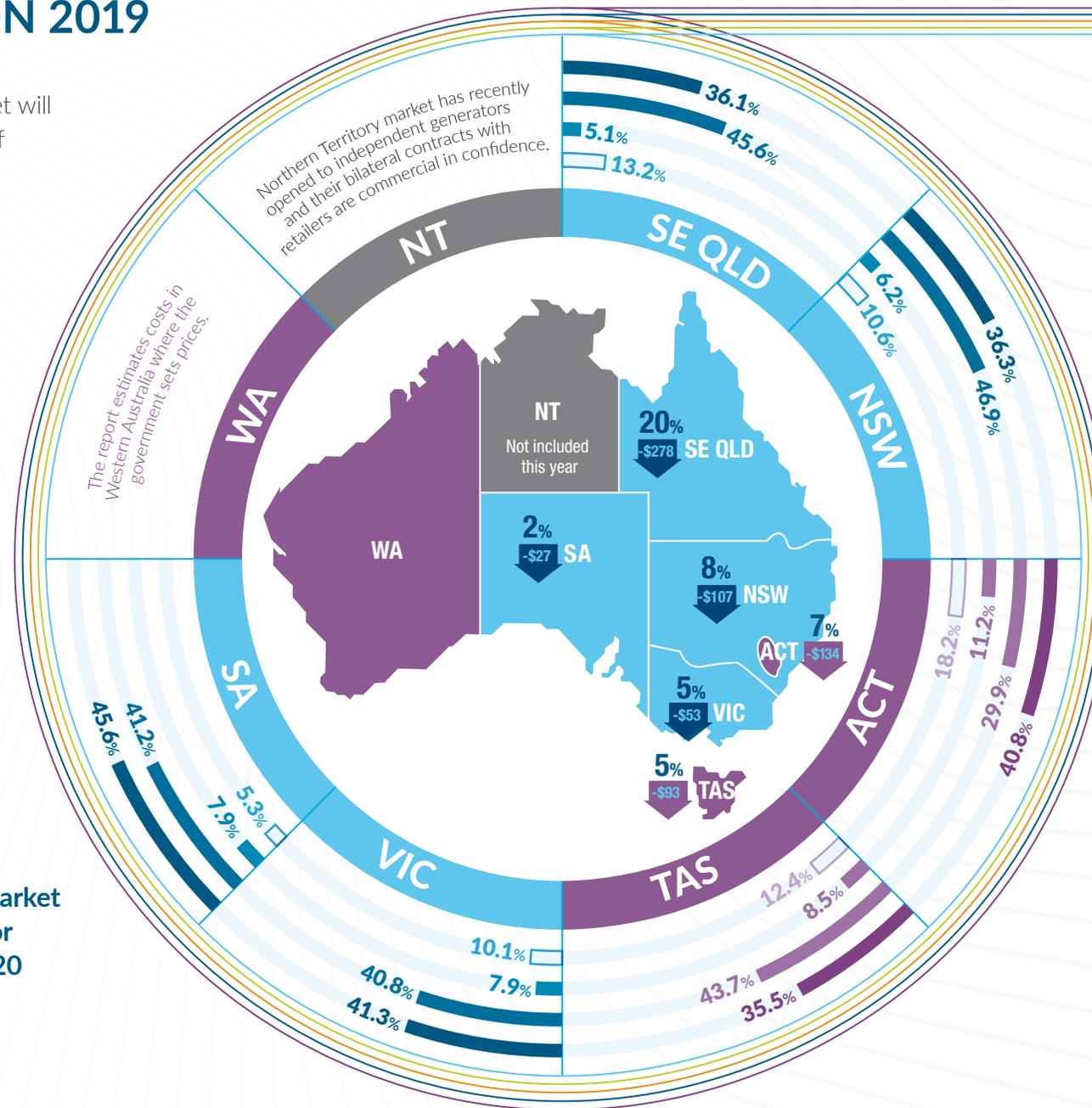
Australians in the national electricity market will see falling prices out to 2022 as supplies of generation continue to rise and regulated network prices are lowered.

Price trends identified in this report are not a forecast of actual prices. They are a guide to pricing and bill directions based on current expectations, policy and legislation. It provides information about which parts of the sector are driving changes up and down in the components of residential bills. Percentage changes are off different levels in each jurisdiction.



Saving from switching to the lowest market offer from the lowest standing offer for representative consumer for 2019-2020

SEQ **\$211** VIC **\$102**
 NSW **\$188** SA **\$250**
 ACT **\$367**



- Legend**
- Supply chain cost components of a typical bill**
- Market offer
 - Wholesale
 - Networks
 - Environmental
 - Residual
 - Standing/regulated offer
 - Wholesale
 - Networks
 - Environmental
 - Residual