

Australian Capital Territory – 18 December 2017

Residential electricity price trends report 2017

The 2017 residential price trends report identifies cost drivers across the entire electricity supply chain from 2016-17 to 2019-20.

The AEMC provides detailed analysis of forces for change in Australia's energy markets. We provide governments and stakeholders with the data they need to make market transformation work in the long term interests of consumers. This report provides an overall picture of factors driving electricity prices for households in each state and territory.

Key findings

This report examines wholesale electricity purchase costs, regulated network costs and environmental policy costs.

Annual electricity prices for the representative consumer on a standing offer in the ACT:

- increased by 20.3 per cent from 2016-17 to 2017-18 due to higher wholesale electricity costs, driven by the retirement of Northern and Hazelwood generators and increasing gas prices
- are expected to increase by an annual average of 1.8 per cent in 2018-19 and 2019-20. The expected increase over this period is largely attributable to increases in regulated network costs, environmental policy costs and higher wholesale costs in 2018-19.

In addition, in the ACT, regulated network costs are uncertain in the two years to June 2020 due to the AER being required to remake the revenue determination for the ACT distribution network service provider, ActewAGL, for the 2014–19 regulatory period.

Background

The expected movements in electricity prices for a representative consumer in the ACT have been based on annual consumption calculated from benchmark value data published by the Australian Energy Regulator (AER). The AER published updated benchmark values in December 2017. These new figures have been used in the report.

The annual consumption of the representative consumer in the ACT is 7,151 kWh per year. Average electricity prices in this report are specific to the representative consumer in the ACT and may not reflect pricing outcomes for all residential consumers.

Price trends identified in this report are not a forecast of actual prices. They are a guide to factors which may drive price up or down. Actual prices will be influenced by how retailers compete in the market, the outcomes of network regulatory processes and changes in government legislation. Actual consumer bills will be affected by all these drivers as well as customers' individual consumption choices, and local factors like the weather, and where they live.

The key drivers of the trend in annual electricity bills are wholesale costs and environmental policy costs.

Trends in residential electricity prices

Residential electricity standing offers for the representative consumer in the ACT increased by 20.3 per cent from 2016-17 to 2017-18. However, prices are expected to:

- increase by 8.0 per cent in 2018-19
- decrease by 4.1 per cent in 2019-20.

This is equivalent to an average annual increase of 1.8 per cent from 2017-18 to 2019-20.

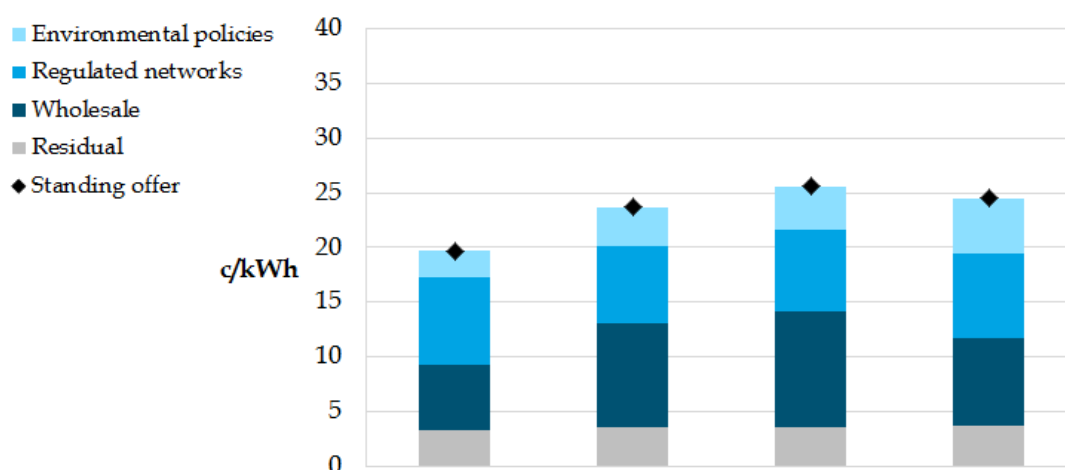
In the ACT consumers can choose between a market offer and a retail standing offer. Approximately 77 per cent of small customers in the ACT are on a standing offer (small customers includes residential and small business customers).

The table below provides information on the total annual bill for a representative consumer in the ACT on a standing offer and a market offer.

Australian Capital Territory	2016-17
Standing offer total annual bill	\$1,407
Market offer total annual bill	\$1,291

Trends in supply chain cost components

The below figure shows the expected movements in the supply chain cost components for the representative consumer on a standing offer in the ACT.



	2016/17 Base Year		2017/18 Current Year		2018/19		2019/20	
	c/kWh	\$/yr	c/kWh	\$/yr	c/kWh	\$/yr	c/kWh	\$/yr
Environmental policies	2.33	\$167	3.50	\$251	3.96	\$283	5.09	\$364
LRET - LGC cost	0.64	\$46	0.78	\$55	0.91	\$65	1.05	\$75
SRES - STC cost	0.36	\$26	0.33	\$24	0.34	\$24	0.33	\$24
FIT schemes	0.84	\$60	1.98	\$142	2.30	\$164	3.29	\$235
EEIS	0.49	\$35	0.42	\$30	0.42	\$30	0.42	\$30
Regulated networks	8.10	\$579	7.10	\$508	7.46	\$533	7.67	\$549
Transmission	2.38	\$171	1.06	\$76	1.13	\$81	1.20	\$86
Distribution	5.71	\$408	6.04	\$432	6.32	\$452	6.47	\$463
Wholesale	5.90	\$422	9.55	\$683	10.54	\$754	8.08	\$578
Residual	3.35	\$240	3.52	\$252	3.61	\$258	3.70	\$265
Standing offer	19.68	\$1,407	23.68	\$1,693	25.57	\$1,829	24.54	\$1,755

*The residual component is derived for 2016-17 and 2017-18 by subtracting wholesale, environmental and network costs from the standing offer price. The residual cost is assumed to increase at an inflation rate of 2.5 per cent for future years in the reporting period. As the residual component is derived specifically for the representative consumer using the methodology in this report, it may differ from the regulated retail cost in the ACT.

The expected movements in each of the electricity supply chain cost components for the ACT from 2017-18 to 2019-20 are summarised below:

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 the ACT, wholesale market costs comprised approximately 30.0 per cent of the representative standing offer in 2016-17. Wholesale market costs are expected to:

- increase by 62.0 per cent in 2017-18
- increase by 10.3 per cent in 2018-19
- decrease by 23.4 per cent in 2019-20.

This is equivalent to an average annual decrease of 8.1 per cent from 2017-18 to 2019-20. Decreased wholesale market costs are driven by expected new generation (approximately 4,100 MW across the NEM), the return to service of the Swanbank E generator (385 MW in Queensland) and reduced short-run costs for South Australian gas plants due to the Energy Security Target.

Regulated network costs: these costs include transmission and distribution network service providers' costs associated with providing the necessary infrastructure to enable the power system to operate as a connected system.

The regulated network costs comprised approximately 41.1 per cent of the representative standing offer in 2016-17.

Transmission network costs are expected to increase at an average annual rate of 6.2 per cent from 2017-18 to 2019-20. Regulated transmission charges are based on transmission use of system charges in the ACT distributors' (ActewAGL) approved pricing proposal in 2017-18, while 2018-19 and 2019-20 costs are based on the revenue growth rate in the AER's draft decision for TransGrid for the 2018-23 regulatory period.

Distribution network costs are expected to increase at an average annual rate of 3.6 per cent from 2017-18 to 2019-20. This trend is uncertain due to the Australian Competition Tribunal's decision that the AER remake the 2014-19 revenue determination for the ACT distribution business (ActewAGL). Regulated distribution network charges in 2017-18 are based on ActewAGL's enforceable undertaking and in 2018-19 charges are based on the escalation rate in the 2017-18 enforceable undertaking. In 2019-20, charges are based on ActewAGL's revenues being kept constant in nominal terms with 2018-19.

Environmental policy costs: these costs are related to policies introduced by Commonwealth and ACT governments including the Renewable Energy Target, feed-in tariffs and energy efficiency schemes.

In 2016-17, environmental schemes comprised 11.8 per cent of the representative standing offer and are expected to comprise an increasing proportion from 2017-18 to 2019-20.

The costs associated with the large-scale generation certificate scheme under the large-scale renewable energy target are expected to increase at an average annual rate of 16.3 per cent from 2017-18 to 2019-20.

The small-scale technology certificate costs under the small-scale renewable energy scheme are expected to decrease at an average annual rate of 0.1 per cent from 2017-18 to 2019-20.

Feed-in tariff costs in the ACT are expected to increase at an average annual rate of 28.9 per cent from 2017-18 to 2019-20. Costs for the ACT's energy efficiency scheme, the Energy Efficiency Improvement Scheme, remain unchanged from 2017-18 to 2019-20.

The national picture

The underlying supply chain cost components and the impact of those trends vary across jurisdictions as a result of population, climate, consumption patterns, government policy and other factors. Residential prices nationally peak in 2017-18 and decrease in both 2018-19 and 2019-20. This is as a result of the trend in wholesale electricity purchase costs which is the key driver of the price trends during the reporting period.

For information contact:

AEMC Chairman, **John Pierce** (02) 8296 7800

AEMC Chief Executive, **Anne Pearson** (02) 8296 7800

Media: Communication Director, Prudence Anderson 0404 821 935 or (02) 8296 7817

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