



## Victoria residential electricity price trends

### 2017 Residential electricity price trends report

**Households in Victoria will see prices drop by an estimated 8.2% each year over the two years from 1 January 2019 as more variable wind and solar generation comes online.**

But over time, without investment in replacement dispatchable capacity, wholesale costs will start to rise again as older generators exit. Uncertainty is stopping investment and will put upward pressure on prices in the medium term.

The AEMC's annual report on price trends provides an overall picture of factors driving electricity prices for households in each state and territory. While the report is not a forecast of prices, it analyses cost trends across the electricity supply chain including generation, the regulated networks sector; and price impacts resulting from government environmental and system security policies.

The report estimates residential electricity prices in Victoria will rise by around 16% on 1 January 2018, largely due to a 48% increase in wholesale energy costs following the closure of Northern and Hazelwood coal power stations, and higher gas prices which increase the cost of operating gas-fired generators.

But these price rises are expected to reverse over the next two years as more wind and solar generation comes online and a Queensland gas generator returns to service. More supply means downward pressure on prices.

While welcoming the expected price falls, AEMC Chairman John Pierce cautioned that without investment in replacement dispatchable generation, wholesale costs will start to rise again in the medium term.

"Older, unprofitable thermal generators are exiting the market – reducing the supply of dispatchable energy," said Mr Pierce.

"Without new investment, wholesale prices will go up again and remain volatile, and the rollercoaster will be repeated."

To this end, the AEMC is working with other market bodies on the Energy Security Board on the national energy guarantee design.

"We have a window right now for the COAG Energy Council to continue its work on mechanisms that can work in the long term interests of consumers and keep the lights on as the energy sector continues to restructure," Mr Pierce said.

Network costs – the poles and wires – which make up around 45% of the typical residential electricity bill in Victoria are estimated to be flat over the next two years.

Environmental policy costs, which make up around 6% of the bill, are estimated to increase by around 10% each year over the next two years. The main drivers are the rising cost of certificates under the large-scale renewable energy target and the cost of the state government's energy efficiency schemes.

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## Background

Price trends identified in the report are not a forecast of actual prices. They are a guide to factors which may drive prices 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, the availability of mains gas, and the prevalence of solar PV systems.

## Modelling for price trends in Victoria

The report estimates electricity prices for the most common type of Victorian residential electricity consumer (the 'representative consumer').

The representative consumer is defined by their electricity consumption characteristics including:

- total annual electricity consumption
- quarterly electricity consumption, to reflect seasonal changes in power use
- use of off-peak tariffs
- gas use
- the number of people in the household.

For Victoria, the report uses a figure of 3,865 kWh for annual electricity consumption based on AER bill benchmarking data. This data is from a survey of around 8,000 households (across all jurisdictions except Western Australia) where participants are asked about their homes and the way they use electricity.

In Victoria the representative consumer is a two-person household with a mains gas connection and no pool.

To develop representative retail prices for Victoria, the AEMC collected standing and market offers from the Victorian Energy Compare website for 2016-2017 and estimated prices for the remainder of the reporting period.

## Media:

Communications Director, Prudence Anderson 0404 821 935 or (02) 8296 7817  
Communications Specialist, Bronwyn Rosser 0423 280 341 or (02) 8296 7847

18 December 2017