

Commonwealth – 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 and system security policy costs.

On a national basis, residential electricity prices are expected to decrease by an annual average of 6.2 per cent from 2017-18 to 2019-20.

The trend in residential electricity prices largely reflects falling wholesale costs in 2018-19 and 2019-20, driven by expected new generation (approximately 4,100 MW across the national electricity market), 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.

The Northern Territory, ACT and Western Australia are exceptions to this national trend. In the Northern Territory and Western Australia the trend is increasing prices over the reporting period and in the ACT, prices rise until 2018-19 and then decrease in 2019-20.

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.

Background

Average electricity prices in this report are specific to the representative consumer 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 prices up or down. Actual prices will be influenced by how retailers compete in the market, the outcomes of network regulatory processes and change 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.

National residential electricity prices are expected to decrease from 2017-18 to 2019-20, mostly driven by falling wholesale electricity costs.

Trends in residential electricity prices

Nationally, residential electricity prices are expected to decrease by an average annual rate of 6.2 per cent for the average national consumer from 2017-18 to 2019-20.

Under the terms of reference provided to the AEMC by the COAG Energy Council, a national level summary where the jurisdictional estimates are weighted to determine nationally indicative prices and cost components must be included in this report.

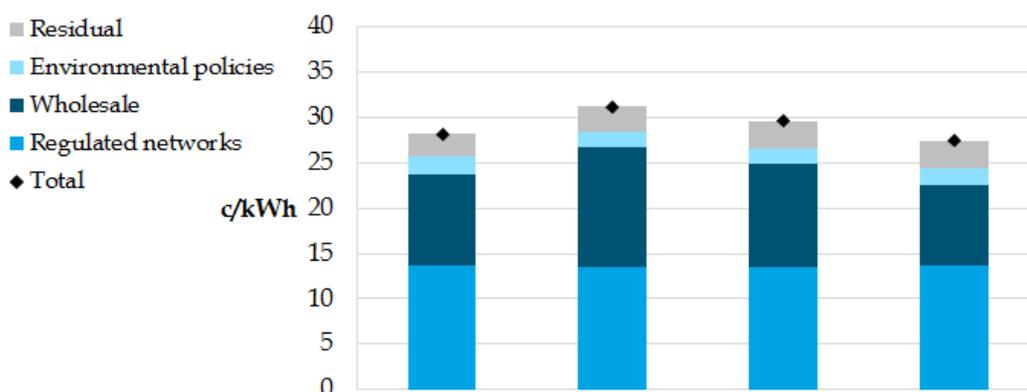
As the national numbers are an average of jurisdictional results that are, in some cases, already averages of several different network regions, they do not reflect the actual costs faced by consumers in Australia. Due to this averaging process, the trends are only indicative.

Jurisdictional estimates have been weighted by the number of residential connections in each jurisdiction. As such, the trends in the national summary most closely reflect the cost trends in the most populous jurisdictions. This also means that the national summary is more representative of trends in the national electricity market that covers the eastern states.

The national weighted average consumption level is 4,596 KWh per year in 2016-17. At this consumption level, the national average total annual bill in 2016-17 is \$1,294, exclusive of GST.

Trends in supply chain cost components

The below figure shows the expected movements in the supply chain cost components for the average national consumer across the reporting period.



	2016/17 Base Year		2017/18 Current Year		2018/19		2019/20	
	c/kWh	\$/yr	c/kWh	\$/yr	c/kWh	\$/yr	c/kWh	\$/yr
Residual	2.52	\$116	2.87	\$132	2.95	\$135	3.03	\$139
Environmental policies	2.01	\$92	1.62	\$74	1.78	\$82	1.93	\$89
LRET	0.65	\$30	0.76	\$35	0.89	\$41	1.03	\$47
SRES	0.36	\$17	0.32	\$15	0.34	\$15	0.32	\$15
FIT Schemes	0.85	\$39	0.37	\$17	0.37	\$17	0.39	\$18
Other state schemes	0.15	\$7	0.16	\$7	0.19	\$9	0.20	\$9
Wholesale	10.01	\$460	13.23	\$608	11.28	\$518	8.81	\$405
Regulated networks	13.63	\$627	13.47	\$619	13.57	\$623	13.67	\$628
Transmission	2.48	\$114	2.36	\$108	2.36	\$108	2.39	\$110
Distribution	11.15	\$512	11.11	\$511	11.21	\$515	11.28	\$518
Total	28.16	\$1,294	31.19	\$1,433	29.58	\$1,359	27.45	\$1,261

In summary, the expected national movements in each of the electricity supply chain components from 2017-18 to 2019-20 are:

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.

Overall, wholesale market costs are expected to:

- increase by 32.2 per cent in 2017-18

The trend in regulated network costs is uncertain due to ongoing legal and regulatory proceedings, including requirements for the Australian Energy Regulator to remake determinations.

- decrease by 14.8 per cent in 2018-19
- decrease by 21.8 per cent in 2019-20.

This is equivalent to an average annual decrease of 18.4 per cent from 2017-18 to 2019-20.

The drivers of wholesale market costs are set out in key findings above.

Regulated network costs: consists of transmission and distribution costs and are expected to increase at an average annual rate of 0.8 per cent from 2017-18 to 2019-20. Over the reporting period, network costs:

- are uncertain in New South Wales and the ACT as the AER is required to remake revenue determinations in these jurisdictions for the 2014-19 regulatory period.
- in South Australia network costs are also uncertain due to potential outcomes of a judicial review application before the Federal Court
- are uncertain in Western Australia due to ongoing processes related to Western Power's 2017-22 Access Arrangement
- are generally stable in other jurisdictions.

Environmental and system security policy costs: refers to a number of schemes that have been introduced by the Commonwealth and jurisdictional governments that affect residential electricity prices. The environmental policies that considered are the Commonwealth Government's Renewable Energy Target, feed-in tariff schemes and additional jurisdictional government schemes. The only "system security policy" is the Energy Security Target (EST) in South Australia which commences in the first half of 2020.

On a national basis, environmental and system security policy costs are expected to increase at an average annual rate of 9.3 per cent from 2017-18 to 2019-20. This is due to higher large-scale generation certificate costs and increases in jurisdictional feed-in tariff schemes.

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