

NT electricity price trends

Northern Territory trends drive electricity prices to reflect costs

AEMC 2013 Residential electricity price trends report

Today the Australian Energy Market Commission released its report on factors driving residential electricity prices over the three years to 2015/16.

The report analyses trends in the competitive market sectors of the industry; the regulated networks sector; and resulting from government environmental policies in each state and territory.

AEMC Chairman, John Pierce, said standing offer prices in the Northern Territory increased by 11.8% from 2012/13 to 2013/14. They are then expected to increase, on average, by 4.4% a year in 2013/14 and 2015/16.

The main driver for electricity prices in the Northern Territory is the government's decision to move towards cost reflectivity.

The Northern Territory government has announced electricity price movements of a 20 per cent increase in standing offers on 1 January 2013, followed by 5 per cent increases on 1 January 2014 and 1 January 2015.

Environmental policies:

- Environmental policies in the NT include the carbon pricing mechanism and the renewable energy target. Together these make up 11% of average standing offer electricity prices in 2012/13.
- The Australian Government has introduced legislation to remove the existing carbon price as at 1 July 2014. The removal of the carbon price may reduce the prices presented in this report for 2014/15 and 2015/16.

Regulated networks:

- Regulated network costs make up 38 per cent of average Northern Territory household electricity prices. The NT Utilities Commission determines the revenue allowances for both the transmission and distribution networks.
- Network costs increased by 21 per cent between 1 July 2012 and 1 July 2013. Our report assumes they will increase from this base by inflation over the next three years to 2015/16. These price trends could be significantly impacted by the outcome of the next regulatory determination.

About the Price Trends Report

The AEMC Pricing Trends Report identifies drivers of residential electricity price increases. It is not a forecast of actual prices but a guide to price trends. It identifies components that are driving trends based on current knowledge and assumptions. The report does not take account of some decisions by governments and regulators announced recently. Trends vary in each state and territory according to approaches taken by jurisdictional regulators to setting prices, and the different costs associated with population spread and density, weather, customer consumption levels, technology, economic strengths, consumer choices and environmental schemes.

About the AEMC

We are the independent body responsible since 2005 for providing policy advice to Australian governments on the electricity and gas sector. We are separate from the Australian Energy Regulator, which regulates the energy market.

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13 December

AEMC 2013 ELECTRICITY PRICE TRENDS REPORT*

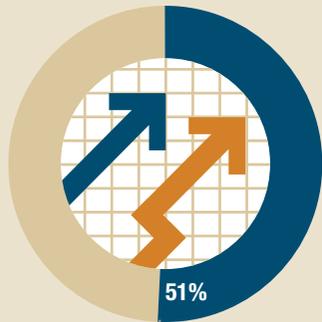
THIS REPORT LOOKS AT WHAT FACTORS WILL DRIVE RESIDENTIAL ELECTRICITY PRICES OVER THE NEXT THREE YEARS TO 30 JUNE 2016

Northern Territory standing offer prices are expected to increase, on average, over the three years from 2012/13 to 2015/16

WHAT YOU PAY FOR

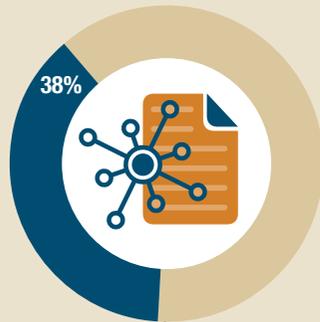
Wholesale and retail

Wholesale costs and retail



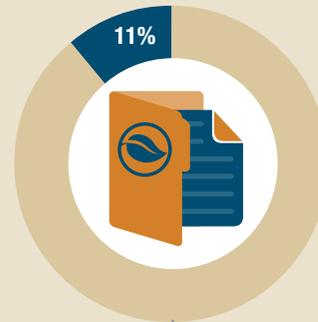
Regulated networks

Cost of poles and wires



Environmental policies

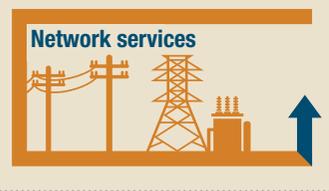
Continue to place downward and upward pressure on prices



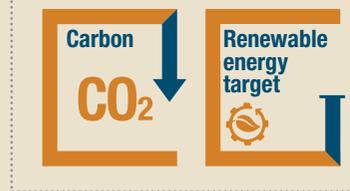
PRICE TRENDS



- The main driver for the increase in electricity prices is a move towards more cost reflectivity in standing offer prices.
- Residential electricity prices are currently regulated by the Northern Territory government



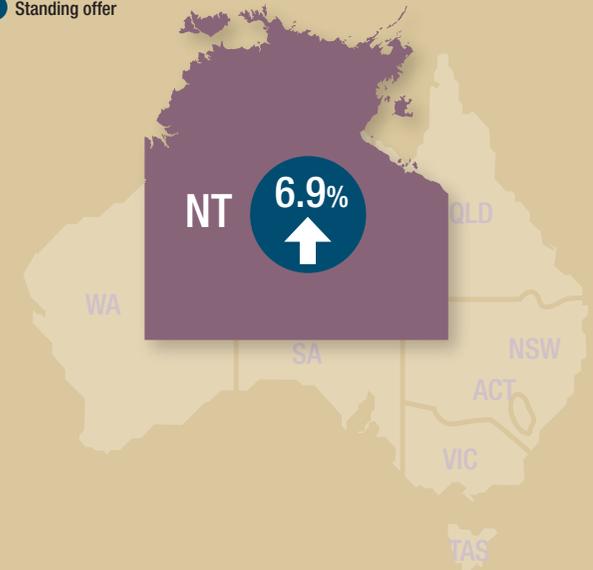
- Regulated network costs increased by 21 % between 1 July 2012 and 1 July 2013. Network costs are then assumed to increase at the rate of inflation to 2015/16. This outcome may be significantly impacted by the outcome of the next regulatory determination.
- Information on network costs for the Northern Territory has been sourced from the Northern Territory government



- Removing the carbon pricing mechanism may reduce prices compared to those in this report in 2014/15 and 2015/16
- Cost of the renewable energy target is not expected to change substantially

PRICE MOVEMENTS ANNUAL AVERAGE FY13 – FY16

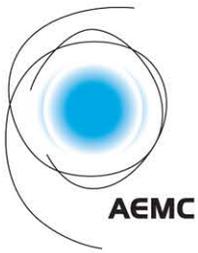
● Standing offer



TRENDS IN STANDING OFFER PRICES



* This fourth annual pricing trends report is based on policies and regulations in each jurisdiction in 2013. It's based on AEMC analysis of power usage by a representative residential consumer in each jurisdiction and consideration of trends across the wholesale and retail sector, the regulated networks sector and government environment policies, drawn from information from governments, regulators, market modelling, retailers, and our own analysis.



Northern Territory: Household electricity price trends

Possible future residential electricity price movements to 30 June 2016

The AEMC pricing trends report identifies factors driving electricity prices over the next three years to 2015-2016 in the states and territories, and consolidates these to provide a national average picture. It is the fourth report prepared for the Standing Council on Energy and Resources (SCER) at the request of the Council of Australian Governments (COAG).

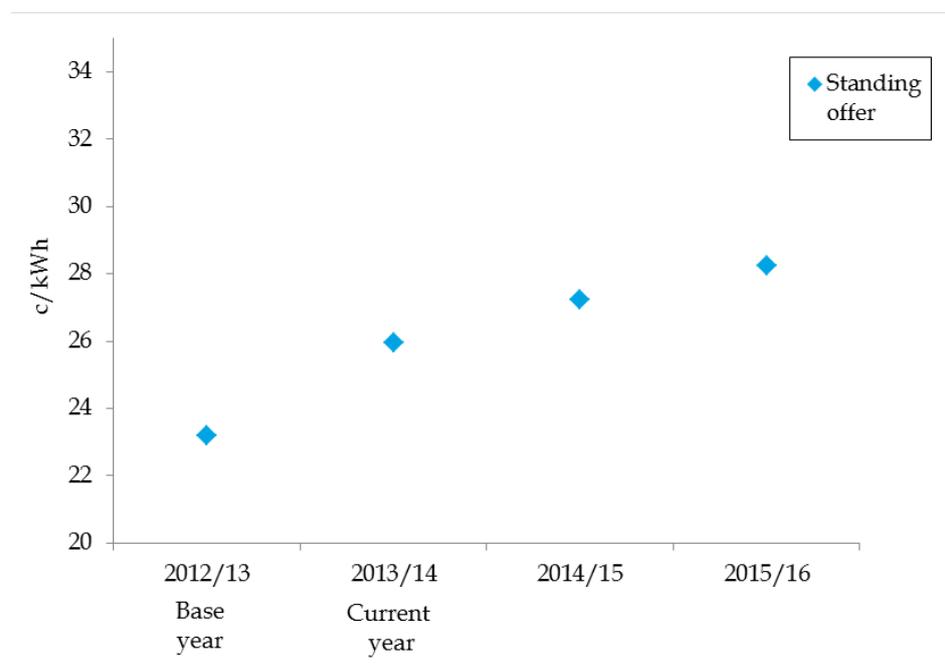
This report is not a forecast of prices. It analyses trends occurring in the competitive market sectors of the industry; the regulated networks sector; and resulting from government environmental policies. We report on how these trends affect overall prices paid by residential consumers.

This report varies from previous reports in that it includes:

- Both *standing* and *market* offer prices in jurisdictions where these offers are available. While retail competition is allowed in the Northern Territory, at this stage residential consumers do not have access to *market* offers as Power and Water Corporation remains the only residential operator in the Northern Territory.
- The effect of different household consumption levels on average electricity prices.

Key findings for Northern Territory

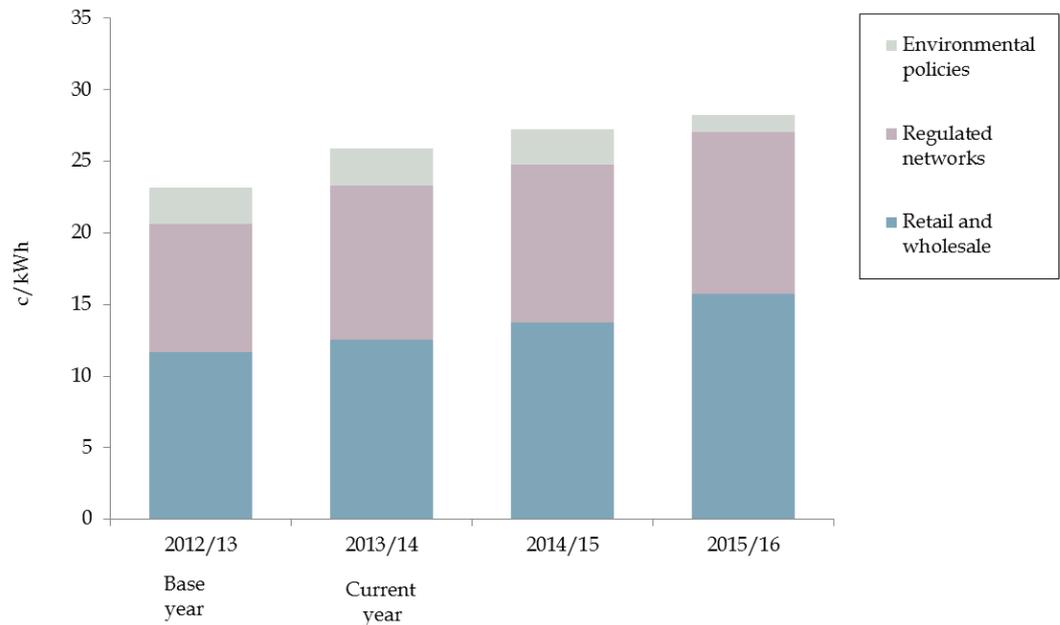
Standing offer prices in Northern Territory are expected to increase, on average, around by 6.9 per cent a year for the next years from 2012/13 and 2015/16.



Prices are expected to increase by 6.9 per cent a year on average between 2012/13 and 2015/16

Drivers of price trends

In 2012/13, residential retail electricity prices in the Northern Territory were lower than the actual cost of supplying electricity. The trends in price increases are largely driven by the Northern Territory's government's decision to move towards cost reflectivity.



Environmental policy costs

Environmental policies in the Northern Territory include the carbon pricing mechanism and the renewable energy target. These currently make up 11 per cent of average *standing offer* electricity prices in 2012/13.

The Australian Government has introduced legislation to remove the existing carbon price as at 1 July 2014. The removal of the carbon price may reduce the prices presented in this report for 2014/15 and 2015/16.

Regulated network costs

Regulated network costs currently make up 38 per cent of the average *standing offer* residential prices in the Northern Territory.

The Northern Territory Utilities Commission determines the revenue allowances for both the transmission and distribution networks.

Regulated network costs increased by 21 per cent between 1 July 2012 and 1 July 2013. Our report assumes they will increase from this base by inflation over the next three years to 2015/16. These price trends could be impacted by the outcome of the next regulatory determination.

Wholesale and retail market costs

There is no wholesale market in operation in the Northern Territory. The purchase of wholesale energy from the Northern Territory Power and Water Corporation is via bilateral contracts.

Wholesale energy purchase costs currently make up 63 per cent of the representative *standing offer* price. From 2013/14, we assumed that wholesale energy purchase costs increase at the rate of inflation.

Different types of generation, geography, population density, consumption, specific policies and different tariff structures mean that trends are not comparable across different jurisdictions.

Residential electricity prices are currently regulated by the Northern Territory government. And electricity prices are provided through electricity pricing orders.

The prices trends identified are based on continuation of current policies including subsidies under Community Service Obligations and uniform tariff policy. Any changes to these policies would impact prices.

We note that the Northern Territory government has announced reforms to Power and Water Corporation. We have not attempted to determine the impact this may have on price trends.

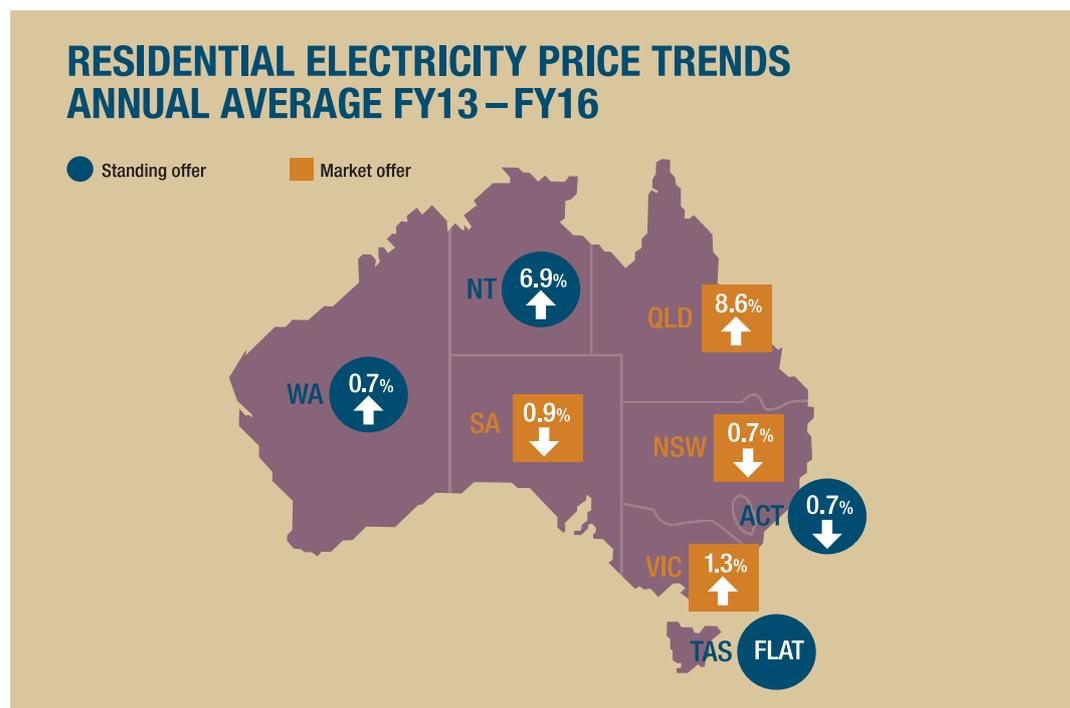
Jurisdictional price trends

There is a reasonable degree of variability between the states and territories that underlies the national summary.

Price trends in most states and territories are expected to show little overall change over the next three years, except Queensland and the Northern Territory. This reflects variations in population spread and density, climate, consumption patterns, tariff structure, regulation and policies for each state or territory.

Our analysis of trends in *market offers* covers Queensland, New South Wales, Victoria and South Australia. In jurisdictions where both *standing* and *market offers* are available, residential consumers are able to shop around for the best offer from retailers.

Depending on where consumers live and their electricity consumption, they may have saved between 5 and 16 per cent by switching from a *standing offer* to a *market offer* in 2012/13. Consumers can also benefit by considering their consumption profile and seeking out an offer that best reflects the way they use electricity.



Information sources

Information for the Northern Territory has been sourced from the relevant jurisdictional department and/or regulator. For the other states or territories, where relevant we also sourced information from relevant jurisdictional governments and regulators, the Australian Energy Regulator in relation to transmission and distribution network costs and from retailers operating in the relevant states for our analysis of *market offer* prices. The AEMC also commissioned, as appropriate, independent modelling of wholesale energy purchase costs, carbon pricing mechanism costs and Renewable Energy Target costs. This modelling was undertaken based on current knowledge and assumptions as well as existing legislation.

Our findings may be impacted by a number of factors including

- changes in demand and generation;
- input cost changes;
- entry and exit of generation;
- changes in cost allowances in network regulatory determinations;
- approaches to retail price regulation; and
- changes in legislation.

Continuing electricity reform

The AEMC's work program is enhancing NEM frameworks to allow businesses and the regulator to deliver reliable electricity supply for consumers in the most cost efficient way. This requires an electricity market that can adapt to changing circumstances and deliver efficient investment and innovation. Our role as rule maker is to be impartial and objective. We make rules to help give energy consumers reliable services at efficient prices, so they don't pay more than necessary; and to promote a strong and healthy industry that can supply Australia's energy needs in the long term.

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