



## Australian Capital Territory residential electricity price trends

### 2017 Residential electricity price trends report

**Households in the Australian Capital Territory will see prices rise by an estimated 1.8% each year over the next two years from 1 July 2018, driven mainly by increases in the cost of environmental policies.**

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 found residential electricity prices in the ACT rose by around 20% this year, largely due to a 62% 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 wholesale cost increases are expected to reverse over the next two years as more variable wind and solar generation comes online and a Queensland gas generator returns to service. More supply means more downward pressure on prices.

However, 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.

Environmental policy costs, which make up around 12% of the bill in the ACT, are estimated to increase by more than 20% each year over the next two years. The main drivers are the cost of the ACT's feed-in tariff schemes, which include reverse auctions for large-scale feed-in tariff schemes for generators, and also the rising cost of certificates under the large-scale renewable energy target (RET).

Network costs – the poles and wires – which make up around 41% of the typical residential electricity bill in the ACT are estimated to increase slightly over the next two years. There is some uncertainty around this due to the Australian Competition Tribunal's decision that the AER remake the 2014-2019 determination for the ActewAGL distribution business.

### 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 and the availability of mains gas.

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## Modelling for price trends in the ACT

The report estimates electricity prices for the most common type of ACT 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 the ACT, the report uses a figure of 7,151 kWh per year for annual electricity consumption. These consumption figures are based on AER bill benchmarking data 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 the ACT the representative consumer is a two-person household with electric water heating but no mains gas connection or pool.

Representative retail prices for the ACT are based on the regulated standing offer from ActewAGL, which applies to around 77% of residential consumers.

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