



CLEAN ENERGY PACKAGE

ELECTRICITY PRICES AND ENERGY MARKET REFORM

ELECTRICITY PRICES

Components of retail electricity prices

Retail electricity prices currently paid by consumers comprise a number of cost components. The Australian Energy Market Commission's *Future Possible Retail Electricity Price Movements: 1 July 2010 to 30 June 2013* estimates those components to include:

- electricity generation costs (about 33% of retail price);
- transmission (7%) and distribution network (37%) costs (total of about 44% of retail price);
- customer retail services (about 15% of retail price); and
- existing climate change policies – such as state feed in tariffs and the bipartisan Renewable Energy Target (about 8% of retail price).

Household electricity prices have risen around 40 per cent from 2007 to 2010 (adjusted for inflation). Electricity prices are projected to continue to rise, even without a carbon price, due to rising gas prices, the need for new, higher capital cost power plants, particularly to meet peak demand and increasing network charges.

If uncertainty about carbon pricing continues, this will add further upward pressure to electricity prices.

The additional price rises due to the carbon price will be relatively modest. A \$23 per tonne carbon price is expected to add around 10 per cent to household electricity prices in 2012-13.

On average, household spending is expected to increase under the \$23 carbon price by \$3.30 per week in 2012-13 due to higher electricity prices. The increase can be expected to vary by jurisdiction due to differing means of setting retail tariffs.

Many households will receive generous assistance to help meet the cost of higher electricity prices and costs resulting from the carbon price.

Historical prices

Australia has historically had stable electricity prices, and still enjoys some of the lowest prices in the developed world. Even with carbon pricing Australia's electricity prices are expected to remain relatively low by world standards.

Recent price rises and drivers

Electricity prices have risen in recent years. Retail electricity prices rose sharply in 2007 and 2008 as drought conditions drove up wholesale electricity prices due to constraints on hydro-electric generation capacity and power station cooling operations.

More recently, rising network charges have been the main driver of rising electricity prices. This is due to the significant network investment needs, driven by: the need to replace ageing assets (given significant network investment occurred between the 1950s and 70s, and these assets are now nearing the end of their economic life and must be replaced); rising energy demand, particularly at peak times (mostly driven by increased use of air-conditioners in households), and due to new connections; and, increased jurisdictional licensing conditions and other obligations for network security, safety and reliability.

Climate change policies, including the bipartisan Renewable Energy Target scheme and state based feed-in tariff and energy efficiency schemes, have also emerged as contributors to increases in electricity prices.

Outlook for prices

The short to medium term outlook is for further similar price rises over the next three years. The Australian Energy Market Commission's (AEMC) recent report to COAG, *Future Possible Retail Electricity Price Movements: 1 July 2010 to 30 June 2013*, estimated nominal rises in residential electricity prices of around 30% in total over the three years to June 2013 (in the absence of a carbon price).

Rising network charges will remain a major cost driver as planned network investment is delivered over the next three to four years.

ENERGY MARKET REFORM

The Commonwealth, in cooperation with the states and territories, has introduced a number of reforms which aim to ensure the competitiveness and efficiency of energy markets to deliver outcomes for consumers and households.

In his Climate Change Update, Professor Garnaut raised the need to continue work to deliver outcomes for electricity consumers and households. As part of the Clean Energy Future Package announced on 10 July 2011, the Government is progressing work to ensure our energy markets, and in particular networks, continue to operate efficiently.

The ongoing Ministerial Council on Energy (soon to be the Standing Council on Energy and Resources) program includes:

- reviews of network reliability and investment frameworks to ensure the delivery of the right balance between network expenditure and costs for the community;
- demand side participation initiatives to assist consumers to better manage their energy use and bills; and
- the implementation of the National Energy Customer Framework across participating jurisdictions to ensure consistent consumer protections, particularly for those customers facing financial hardship.

Furthermore, the Government will seek to:

- bring forward a statutory review of the current network merits review appeal process to ensure it is delivering effective outcomes that are both fair for consumers and network businesses;
- commission an independent review to benchmark distribution network efficiency, to assess whether the incentives in the existing regulatory framework are delivering improved efficiency in these businesses and identify opportunities to improve productivity, regardless of ownership structure; and
- undertake a scoping study for the establishment of an energy information hub to improve energy information disclosure that would provide consumers with easier access to their energy information currently held by retailers and distributors. Greater transparency for households and consumers will enable them to better understand and manage their energy use.