

Q3 CPI – Electricity Prices

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Summary

- Residential electricity prices consist of wholesale, network, environmental policies (such as the Renewable Energy Target), and retail costs and margins. In Q3, wholesale costs were affected by the removal of the carbon tax as well as changes to regulated prices in some States.
- We expect residential electricity prices to fall in Q3 in New South Wales, Victoria, Western Australia and South Australia but to rise in Queensland. The table below sets out indicative price changes for all States except Tasmania and the territories. These estimates should be treated with some caution on account of increasing market complexity associated with price deregulation in New South Wales, Victoria and South Australia.
- Overall, we expect weighted average electricity prices to fall around 5%. With electricity prices constituting just under 2% of total CPI, the overall impact on CPI is likely to be around -0.1%.

Average estimated change to Q3 residential electricity prices

	NSW	VIC	QLD	WA	SA	Total
% change	-8.5	-7.3	3.0	-2.7	-4.7	-5.3

New South Wales

Price regulation of New South Wales residential prices ceased from 1 July 2014. This complicates any estimation of Q3 price changes, especially given Victoria's experience of considerably higher retail margins after price deregulation in 2009.

Assuming that the effects of non-carbon tax environmental policies and retail costs and margins are held constant from 2013-14, we estimate that the combination of lower wholesale costs and slightly lower network costs would see prices fall 8.5% in Q3, volume weighted for New South Wales' three distribution areas. However, it is possible that the removal of price regulation eat into these savings.

Victoria

The Victorian retail electricity market was largely price deregulated in 2009, which makes it relatively difficult to accurately measure price movements. Victorian customers can choose either a market offer (in which prices are fully determined by the market) or a standing offer (in which prices are determined by the market but must be gazetted in the Victorian Government Gazette).

Owing to often large information asymmetries in retail electricity markets, standing offers generally represent any given retailer's most expensive price. While the Australian Energy Market Commission (AEMC) estimates that around 80% of Victorian customers are on a market offer, in practice many market offers that have not been renegotiated after a year tend to move to standing offer like rates.

Standing offers are generally re-gazetted for each calendar year. However as of 8 September 2014, the Essential Services Commission (Victoria) reports that 12 retailers have varied their standing offers mid-year in response to the removal of the carbon tax.

We estimate that the carbon tax added around \$20.50/megawatt hour (MWh) to the cost of wholesale electricity in the Victorian region of the National Electricity Market (NEM). As network prices are determined on a calendar year basis in Victoria, wholesale is likely to remain the primary contributor to Q3 price changes.

At an assumed retail rate of 28c/kilowatt hour (KWh), a removal of the carbon tax would see prices fall 7.3% assuming full pass through. There is however likely to be substantial variation between Victoria's five distribution areas as well as between retailers.

Queensland

Retail prices remain regulated in Queensland, although customers can move to a market offer. Around 45% of Queensland customers remain on regulated contracts.

Gazetted regulated retail prices for Tariff 11 increased 3.0% from 1 July 2014 using AEMC modelled average residential consumption of 5,370 KWh pa, assuming no seasonality. While marginal retail electricity prices fell 5.1% (in part in response to the removal of the carbon tax), this was more than offset by a 66.1% increase in fixed charges per metering point.

Western Australia

Retail electricity prices remain regulated in Western Australia. Regulated prices for the A1 residential tariff fell 8.1% using AEMC modelled average residential consumption of 5,801 KWh pa, assuming no seasonality. As new prices were not regulated until 1 September 2014, the price change for the average consumer for Q1 is -2.7%, assuming no seasonality.

South Australia

Price regulation of New South Wales residential prices ceased in February 2014. The Australian Energy Regulator approved pricing proposal for South Australia's sole electricity distributor, SA Power Networks, will see higher network costs add 5.1% to the average residential bill in 2014-15.

We estimate that the carbon tax added around \$14.50/mwh to wholesale electricity prices in the South Australian region of the NEM, somewhat lower than the AEMC estimate of \$21/mwh. Using this lower bound estimate, combined with SA Power Networks' approved pricing proposal and AEMC price trend data, we estimate that Q3 residential prices will fall 4.7%. This includes some non-network or wholesale price decreases modelled by AEMC.

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