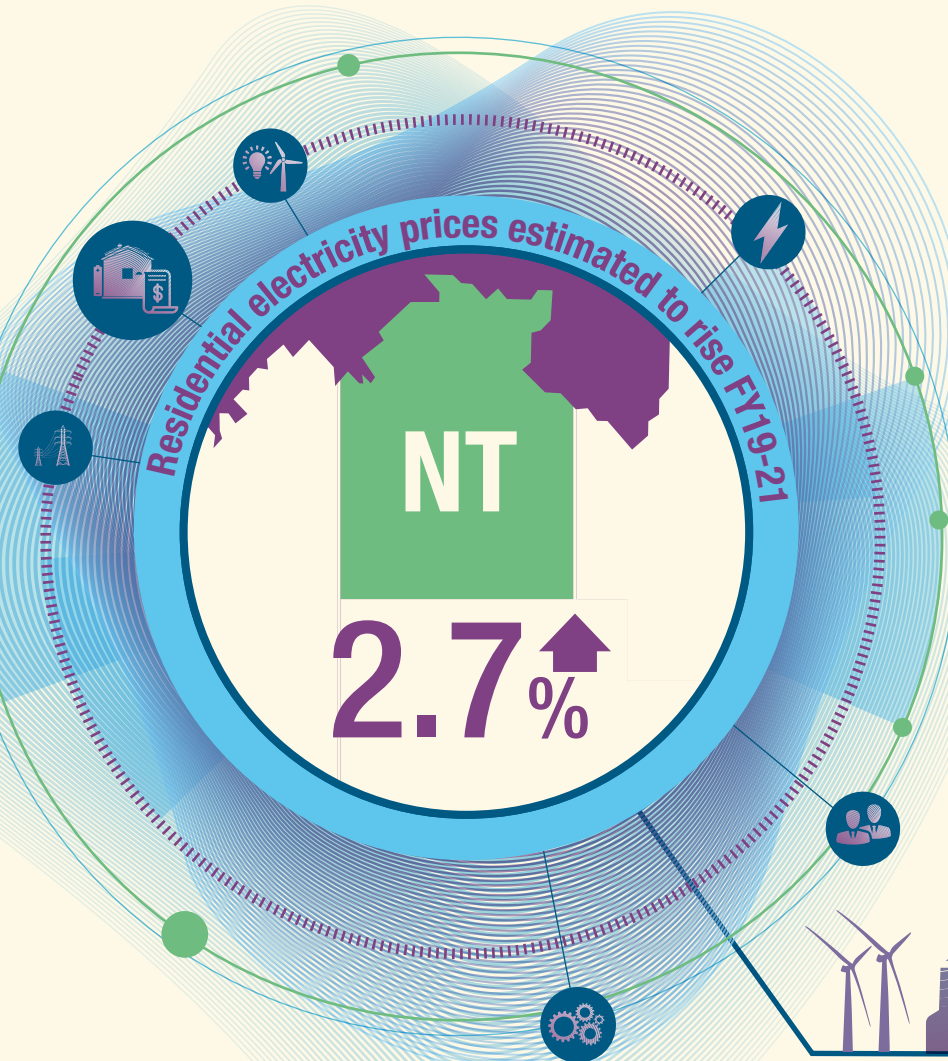


AUSTRALIAN ENERGY MARKET COMMISSION

ELECTRICITY PRICE TRENDS REPORT 21 DECEMBER 2018

NORTHERN TERRITORY'S RESIDENTIAL ELECTRICITY PRICES ARE INCREASING

After an increase of 1% this year, electricity prices are expected to increase by 2.7% in total over the next two years, attributable to the annual increase projected by the Northern Territory Government.



CONSUMER

The most common electricity consumer is a household consuming 6,613 kWh annually. Residential electricity prices in the Northern Territory are set by the Northern Territory Government, which subsidises electricity prices so that the prices paid by consumers are less than the cost of supply.

Annual electricity bill for a typical residential customer



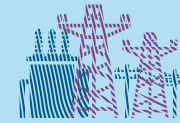
AT A GLANCE



WHOLESALE

The cost of generating electricity

Wholesale costs relating to the operation of the Darwin-Katherine power system account for 56.7% of the typical bill this year and are expected to increase slightly in the next two years putting upward pressure on electricity prices.



NETWORKS

Poles and wires costs depend on regulator revenue determinations

Regulated network costs account for 51.2% of the typical bill this year and are expected to remain relatively flat for the next two years.



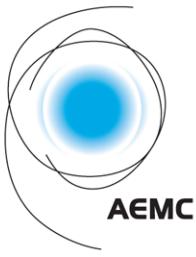
ENVIRONMENTAL

Direct costs of government schemes like the renewable energy target

Environmental costs in customers' bills are a result of the Commonwealth Government's Renewable Energy Target which accounts for 5.1% of the representative retail bill. Environmental policy costs are expected to increase in the next two years driven by continued growth in solar penetration and the consequent increase in costs for the Commonwealth Government's small scale renewable scheme.

ABOUT THIS REPORT

The price trends report is a core document used to inform a range of stakeholders including the Australian Energy Market Operator, the International Energy Agency and the Reserve Bank of Australia. It helps consumers understand costs included in their electricity bill. It also provides governments with information they need to understand changes in electricity prices and provides context for long-term decision making on energy policy. Price trends identified in this report are not a forecast of actual prices, but rather a guide to pricing and bill directions based on current expectations, policy and legislation. Actual price movements will be influenced by how retailers compete, the dynamics of wholesale markets, the outcomes of network regulatory decisions, and changes in policy and regulation.



NEWS

Power prices to rise slightly in The Northern Territory

Australian Energy Commission 2018 residential electricity price trends report

After an increase of 1% this year electricity prices are expected to increase by 2.7% over the next two years in line with the annual increase projected by the Northern Territory Government.

Power prices are estimated to rise slightly over the next two years in the Northern Territory according to the Australian Energy Market Commission's annual report on price trends released today.

Over the next two years the price paid for electricity by Northern Territory households is estimated to increase by a total \$47 (or 2.7%) from FY19 to FY21 in line with the price path set by the Northern Territory Government.

Over the next two years (from 2018-2019 to 2020-2021), the price trend is primarily driven by environmental costs and an average annual increase of 1.3% in wholesale costs with no change in network costs.

The Northern Territory's representative consumer (the most common type of household based on electricity consumption) is expected to be paying around \$47 more in July 2020 than they are today.

These estimated changes are based on the most common electricity customer in the Northern Territory which is a two-person household, consuming 6,613 kWh of electricity each year. Actual electricity bills depend on how and when electricity is used in each home.

AEMC Chief Executive, Mrs Anne Pearson, said the energy sector's challenge in years ahead will be to continue balancing electricity supply and demand as the energy market restructures.

"Cost control helps contain prices," she said.

"The changing generation mix is affecting supply and demand at the wholesale end of the supply chain.

"Our report also shows networks account for around half of consumer bills. Managing the costs of connecting new generation will be a major challenge. We must avoid over-engineered solutions to stop gold plating and price spikes," she said.

Mrs Pearson said it was in the strong interest of consumers that government and regulatory policy focused on long-term planning, focusing on low cost solutions to the issue of energy transition.

She said there was a need to:

- establish more certainty in wholesale markets through more effective management of environmental and security costs
- facilitate greater price competition in the retail market through open and transparent price setting that consumers can trust; and
- develop an integrated, modernised power grid that reduces costs to consumers.

Price trends will affect households differently depending on how much each consumer uses electricity. No two households use energy in the same way. Knowing how much power you use and when is important in controlling electricity bills in the future as new technologies become more affordable.

Continued

Mrs Pearson said the report recognised there were a range of issues unique to each jurisdiction that were also influencing price outcomes.

Price trends will affect individual households differently depending on how much each consumer uses electricity, and how willing they are to switch to a better energy deal where market offers are available. No two households use energy in the same way. Knowing how much power you use and when is important in controlling electricity bills in the future as new technologies become more affordable and energy entrepreneurs expand demand response options for consumers.

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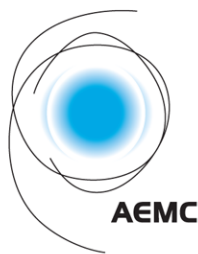
The AEMC residential price trends focuses on the drivers of household bills across the three key parts of the electricity supply chain – wholesale (generation); regulated networks (transmission and distribution); and environmental (government policy schemes). In addition to these three main cost components the NT cost stack includes a cost differential which is the difference between prices set by the government and cost of supply.

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21 December 2018



Northern Territory household electricity prices

Residential electricity price trends report 21 December 2018

Our 2018 residential electricity price trends report identifies what's driving household prices and consumer bills over the next few years from 2017-2018 to 2020-2021 in all states and territories, and nationally.

Key findings for Northern Territory

In 2017-2018, the electricity bill for the representative residential consumer in the Darwin-to-Katherine network was approximately \$1,711 exclusive of GST.

The electricity bill for the representative residential consumer in Northern Territory:

- increased by 1.1 per cent from 2017-2018 to 2018-2019
- is expected to increase by an annual average of 1.3 per cent from 2018-2019 to 2020-2021, based on an increase of 1.0 per cent in 2019-2020; and an increase the following year of 1.7 per cent in 2020-2021.

The expected increase in the representative residential electricity bill from 2018-2019 to 2020-2021 is attributable to the annual increase projected by the Northern Territory Government.

About this report

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.

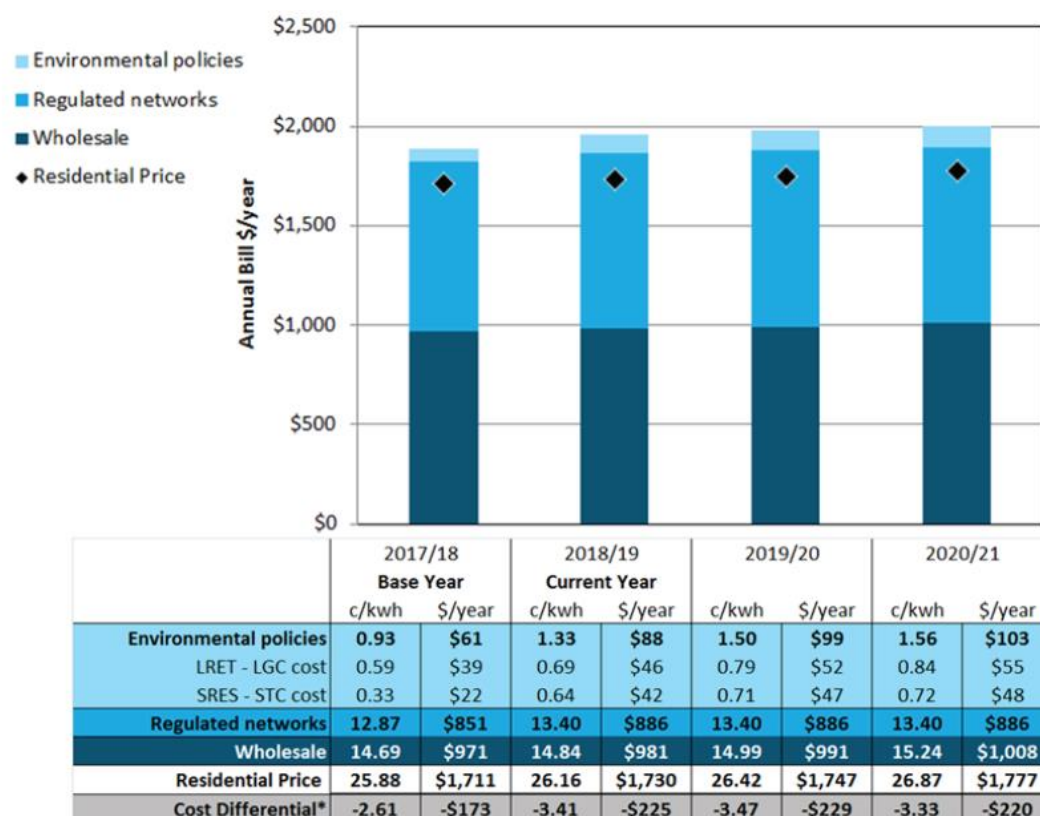
Price trends identified in this report are not a forecast of actual prices, but rather are a guide to pricing and bill directions based on current expectations, policy and legislation. Actual price movements will be influenced by how retailers compete, the dynamics of the wholesale spot and contract markets, the outcomes of network regulatory decisions, and changes in policy and regulation.

The price trends report is a core document used to inform a range of stakeholders including the Australian Energy Market Operator, the International Energy Agency and the Reserve Bank of Australia. It helps consumers understand costs included in their electricity bill. It also provides governments with information they need to understand changes in electricity prices and provides context for long-term decision making on energy policy.

In 2017-2018, the representative consumer on the government set price in Northern Territory was \$1,711.

Trends in Northern Territory electricity supply chain components

Figure: Expected trends in Northern Territory supply chain components from 2017-18 to 2020-21 for the representative consumer on the government set price.



Note: *The cost differential refers to the difference between the residential price set by the Northern Territory government and the cost of supply (which includes the cost of environmental policies, regulated networks and wholesale electricity).

The expected trends in Northern Territory electricity supply chain cost components (wholesale, regulated networks and environmental policies) are summarised below.

Wholesale costs: these costs relate to the operation of Darwin-Katherine power system and were provided to the AEMC by the Northern Territory Government.

In Northern Territory, wholesale costs comprised approximately 56.8 per cent of the representative residential price in 2017-2018 and are expected to account for a stable proportion of the representative consumer's bill from 2017-2018 to 2020-2021.

Wholesale electricity costs:

- increase by 1.0 per cent from 2017-2018 to 2020-2021
- are expected to increase by an annual average of 1.3 per cent from 2018-2019 to 2020-2021, based on an increase of 1.0 per cent in 2019-2020 and an increase of 1.7 per cent the following year in 2020-2021

Regulated network costs: these costs relate to transmission and distribution network services provided by Power and Water Corporation.

Regulated network costs comprised approximately 49.8 per cent of the representative residential price in 2017-2018, and are expected to account for an increasing proportion of a residential electricity consumer's bill from 2017-2018 to 2020-2021, based on the latest available regulated network pricing decisions.

Regulated network costs:

- increased by 4.1 per cent from 2017-2018 to 2018-2019
- are not expected to change 2018-19 to 2020-21.

Environmental policy costs: these costs are related to the renewable energy target (RET) introduced by the Commonwealth Government. The RET applies on a national basis

and consists of the large-scale renewable energy target (LRET) and the small-scale renewable energy scheme (SRES).

In 2017-2018, the RET comprised 4 per cent of the representative residential bill in Northern Territory and is expected to comprise an increasing proportion of the representative consumer's electricity bill from 2017-2018 to 2020-2021.

Environmental policy costs:

- increased by 42.9 per cent from 2017-2018 to 2018-2019
- are expected to increase by an annual average of 8.5 per cent from 2018-19 to 2020-21, based on an increase of 12.9 per cent in 2019-2020 and an increase of 4.3 per cent in 2020-2021.

This trend is primarily driven by the increase in the Commonwealth Government's SRES, due to increased uptake of small-scale renewable energy technologies, such as rooftop solar.

Background

The COAG Energy Council's terms of reference for this report require the AEMC to estimate future retail electricity price outcomes for representative residential consumers in each Australian state and territory along with national electricity prices based on a weighted average of jurisdictional results.

In addition, the AEMC also reports on the trend in customers' annual electricity bills.

Representative consumers are those households with the most common electricity consumption profiles in each jurisdiction. In most jurisdictions, the annual and quarterly consumption profiles of these consumers are based on data from the AER. In the Northern Territory, the representative consumption profile is provided by the Northern Territory government.

In Northern Territory, the representative consumer:

- is a two-person household that consumes 6,613 kWh of electricity per year
- is on the electricity price set by the Northern Territory Government
- has no mains gas connection
- has air conditioning.

As electricity prices and bills in this report are specific to the representative consumer, they do not reflect pricing outcomes for each individual residential consumer.

AEMC's work program

The AEMC is cutting costs in the power system by addressing the drivers of those costs through its work program. Our focus on price impacts drives everything we do through the reliability and security frameworks; consumer choice, control and protection; the networks of the future and the continuing importance of integrating energy and environmental policies. We completed or are undertaking a number of rule changes and reviews with the potential to directly or indirectly impact consumer prices and bills, including:

- new obligations on retailers to give advance notice of price changes and providing advance warnings to shop around before discounts end
- stopping energy discounts that can leave people worse off, allowing electricity and gas customers to have energy bills based on their own meter reading
- raising the standard for better hardship programs and keeping new retail businesses out of the market until they have approved hardship policies in place.

At the same time we are reviewing what's needed to support adequate investment in generation as the power system evolves to include more variable, intermittent generation and demand-side innovation. Our package of reforms in this area includes:

- new technical performance standards for generators

These estimated changes are based on the most common electricity consumer in the Northern Territory which is a two-person household consuming 6,613 kWh of electricity each year. Actual bills depend on how and when electricity is used in each home

- setting up a national register of distributed energy like small-scale battery systems and rooftop solar to help AEMO better manage the power system
- requiring generators to give at least three years' notice of closure
- reviews to improve the coordination of generation and transmission investment and to look at ways to integrate new technologies and demand response to help keep the power system secure
- requiring the AER to calculate and update values of customer reliability, used to develop reliability standards
- enabling AEMO to contract for electricity reserves up to nine months ahead of a projected shortfall under the RERT, the strategic reserve mechanism
- making networks provide minimum levels of inertia along with the services necessary to meet minimum levels of system strength.

We continue our analysis of market design changes which currently includes the market making obligations rule request, and advice on the impact of a default offer which has been requested by the COAG Energy Council.

We are fostering the efficiency of network investment and operations through major projects like the coordination of generation and transmission investment review; introducing new transmission connection and planning arrangements; introducing competition in metering; and establishing the value of customer reliability.

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