

ENA statement

Energy prices

Energy prices have been increasing recently due to a range of factors across the energy market.

Australia's Ministerial Council on Energy has noted that price rises are expected to occur in coming years due to required investments to meet the challenges of ageing infrastructure, growing demand and policies to reduce greenhouse gas emissions.^[1]

Energy consumers typically see one bill which can be affected by price and cost changes across the entire energy chain, so price changes can reflect developments in the energy generation sector, the wholesale market, the cost of transporting energy through pipes and wires, or retail sector.

Typically, the cost of transport of energy through energy networks accounts for around 50 percent of the final price to residential or small business users.^[2]

Across most of Australia network charges are approved by the independent Australian Energy Regulator through public network price review processes which examine, test and adjust expenditure and prices proposed by the network.^[3] The national regulator is tasked with only approving pricing proposals that meet the requirements of a detailed energy regulatory framework. The core guiding objective of this framework is to ensure that outcomes are achieved that promote the 'long term interest of consumers' in efficient prices that safeguard longer-term investment, reliability and safety.

A recent series of price review processes have approved significant capital investment in network assets due to recognition of a need to renew what are typically ageing networks, meet higher peak network demand from the growing penetration of a variety of gas and electric household applications, and sustain or improve overall network reliability. Over \$42 billion of capital expenditure has been approved by energy regulators to help meet these needs over the next five years.

Network charges have also been affected by the increasing cost of sourcing longer-term financing arising from the Global Financial Crisis—for example the debt risk premium (the assessed cost of debt margin over long-term government bond rates) has more than tripled over the past five years. Finally, network costs have also been under pressure by the need to compete for technical and engineering staff with the still expanding resources sector in a relatively tight labour market.

March 2011

^[1] Ministerial Council on Energy Communiqué, 4 December 2009.

^[2] Australian Energy Regulatory *State of the Energy Market 2009*, p.206 and p.305.

^[3] In Western Australia, the WA Economic Regulation Authority is the independent regulatory body for energy networks. In the Northern Territory a similar role is carried out by the Utilities Commission.