

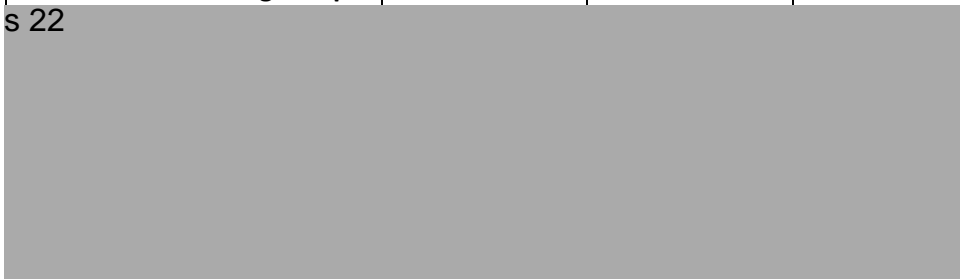
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RETAIL ELECTRICITY PRICE ONLY IMPACT ON CPI

	2022-23	2023-24	2024-25
	Electricity price Increase	Electricity price Increase	Electricity price Increase
October Budget Forecast	20	30	2½
Updated forecasts	20	36	2½
With either coal or gas cap	20	29	
With both coal and gas cap	20	23	

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GAS PRICES

	2022-23	2023-24

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	Gas Price Increase	Gas Price Increase
October Budget Forecast	20	20

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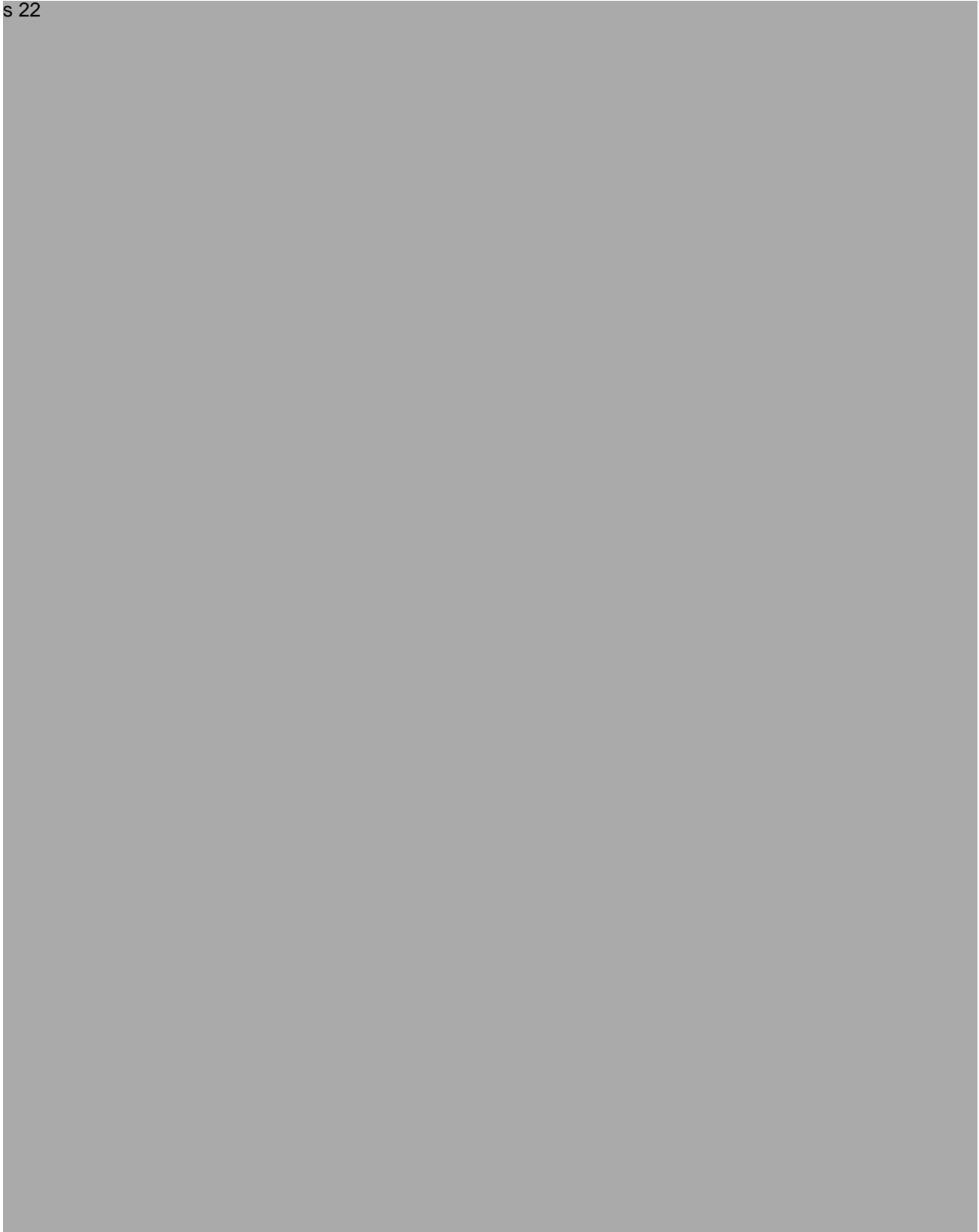


STATE ACTUALS (STANDING OFFER BASIS)

Jurisdiction	2022-23 standing offer price	Projected 2023-24 standing offer price changes without interventions		Projected 2023-24 standing offer price changes with Energy Price Package		Bills would be ppt/\$ more without action	
		% change	\$ change	% change	\$ change	ppt change	\$ change
ACT	\$1,807	3%	\$63	3%	\$63	0	\$0
NSW	\$1,747	40%	\$702	26%	\$459	14 ppt	\$243
NT	\$2,007	3%	\$70	3%	\$70	0	\$0
QLD	\$1,589	43%	\$683	29%	\$458	14 ppt	\$225
SA	\$1,840	51%	\$931	37%	\$683	14 ppt	\$248
TAS	\$2,479	29%	\$725	20%	\$487	9 ppt	\$238
VIC	\$1,695	43%	\$725	29%	\$487	14 ppt	\$238
WA	\$1,956	3%	\$68	3%	\$68	0	\$0
National average	\$1769	36%	\$637	23%	\$407	13 ppt	\$230

- The table above comprises Treasury and DCCEEW analysis and estimated retail standing offer price impacts of the Energy Price Package.
- The Treasury and DCCEEW price impacts have been estimated utilising AER estimates of the 2023-24 DMO, which drew from wholesale modelling commissioned by DCCEEW.
- The specific approaches applied by the Treasury and DCCEEW to determine the estimates across jurisdictions are as below:
- For NSW and SA, distribution level DMO estimates have been aggregated to the jurisdiction level based on publicly-reported customer numbers.
- For Queensland, South-East Queensland DMO estimates have been combined with an estimated figure for regional Queensland to produce a state-level figure.
- For Victoria and Tasmania a weighted average projected cost increase based on DMO distribution zones was applied.
- For Western Australian, Northern Territory, ACT a projected cost increase based on forecast CPI increases was applied.
- To derive a nationally-representative figure, a weighted average of jurisdiction estimates was made by the Treasury on the basis of CPI weightings.
- All estimates and projections were made at a point in time. Final regulated price determinations in each jurisdiction are expected to be made in the first half of 2023 by the relevant authorities, including the AER in relation to DMO regions.

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From: Redmond, Ineke <Ineke.Redmond@treasury.gov.au>

Sent: Thursday, 8 December 2022 11:15 AM

To: s 22 <[REDACTED]@TREASURY.GOV.AU>; Crawford, Claudia
<Claudia.Crawford@TREASURY.GOV.AU>; s 22 <[REDACTED]@TREASURY.GOV.AU>

Cc: s 22 <[REDACTED]@TREASURY.GOV.AU>; s 22 <[REDACTED]>

s 22 <[REDACTED]@TREASURY.GOV.AU>; s 22 <[REDACTED]>

s 22 <[REDACTED]@TREASURY.GOV.AU>; Maloney, Matthew

<Matthew.Maloney@TREASURY.GOV.AU>; Reinhardt, Sam

<Sam.Reinhardt@TREASURY.GOV.AU>; D'Arcy, Patrick <Patrick.Darcy@TREASURY.GOV.AU>;
Yeaman, Luke <Luke.Yeaman@TREASURY.GOV.AU>; s 22
s 22 [@TREASURY.GOV.AU](mailto:s 22@TREASURY.GOV.AU)>

Subject: RE: Updated electricity and gas price projections [~~SEC PROTECTED,~~
~~CAVEAT SH: CABINET~~]

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October Budget Electricity Estimate

- The October Budget projected an increase in national retail electricity prices of **30 per cent**.
- Given the high degree of volatility in the market at the time, to underpin this estimate, Treasury considered a range of possible outcomes for wholesale electricity prices.
- Specifically, Treasury considered increases in the wholesale electricity costs of retailers of between 70 per cent and 100 per cent (relative to wholesale costs that underpinned the previous Designated Market Offer (DMO)).
- The AER provided an indicative assessment of how these different wholesale prices could flow through to the next DMO. Treasury then averaged these estimates and converted this into a national retail price increase of 30 per cent.

Updated Electricity Baseline Estimate

- Based on the latest available information and updated advice from DCCEEW and the AER, Treasury now considers that a wholesale price increase of 100 per cent represents a more likely outcome in the absence of policy intervention. This broadly reflects actual forward contract prices and ongoing volatility in domestic and global energy markets
 - Since early October, average contract prices for 2023 were, on average, towards the upper end of the 70 to 100 per cent range adopted at Budget (notwithstanding recent falls), suggesting that a 100 per cent increase in wholesale prices would represent a more likely outcome in the absence of policy intervention.
 - More recent falls in contract prices largely reflects the expectation of government intervention. In the absence of this, we consider contract prices would have remained elevated at around 100 per cent above 2022-23 levels.
- Applying a wholesale price increase of 100 per cent (rather than a range of 70-100 per cent); again taking AER advice on how this would translate into an updated DMO; and converting this to a national retail price outcome results in an updated baseline national retail electricity price increase of **36 per cent**.

Updated \$12/GJ gas price assumption

- Under a \$12/GJ price cap, retail gas prices are expected to increase by 4 per cent in 2023-24, well below the up to 20 per cent increase expected at Budget.
- This reflects the direct impact of a temporary cap on wholesale gas prices through to



1. How have you arrived at the electricity and gas price forecasts this Budget?

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Electricity

- Treasury expects retail electricity prices to **increase 20 per cent in 2022-23**, largely based on a 10 per cent increase in the retail tariff regulated by the AER (Default Market Offer), last set on 1-July 2022. We assumed that discounted market offers would increase to around the level of the DMO, resulting in a 20 per cent overall increase (Table 1).
 - ACCC data confirms that new market offers have increased by more than 20 per cent between April and October across much of the National Energy Market (NEM).
- Given forward contract prices for wholesale electricity remain elevated, retail electricity prices are expected to **rise by a further 30 per cent in 2023-24**. Based on electricity futures, NEM wholesale costs were assumed to increase by between 70 and 100 per cent above levels accounted for in the 2022-23 DMO. This includes the impact of existing hedge contracts rolling off onto higher future contract prices.
- Detailed drivers of the outlook for higher wholesale prices were not directly modelled. We assume electricity futures prices reflects market expectations of **global events impacting on coal and gas generation fuel costs**, the flowthrough of higher wholesale contract costs from **the mid-2022 wholesale price spike**, and the risk of further domestic market disruptions from **aging generation infrastructure and outages**.

Table 1: Assumed electricity price rises by Capital city in 2022-23

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Weighted average price increase	20.3
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Gas

- Retail gas prices are expected to **increase by 20 per cent in both 2022-23 and 2023-24**.
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- This is based on recent increases in wholesale prices, **partly driven by global events** and increased domestic demand from gas powered generation.

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Table 2: Contributions to domestic retail gas prices

Household gas price driver	21/22	22/23	23/34	Notes
LNG export unit value (EUV) (\$/GJ)				
ACCC Netback price* (\$/GJ)				
Marginal domestic wholesale price (new contract) (\$/GJ)				
Wholesale market exposure (%)				
Average wholesale cost (\$/GJ)				
Non-wholesale cost in retail bill (\$/GJ)				
Total retail price (\$/GJ)				
Retail price increase (% over 2-years)				Average of ~20% in both 2022-23 and 2023-24

*Calculated by the ACCC by taking the price that could be received for LNG and subtracting or 'netting back' the costs incurred by the supplier to convert the gas to LNG and ship it to the destination port. In terms of the forward estimates, this comprises forward short-term LNG netback prices, including based on market expectations of future Asian LNG spot prices; and estimates of oil-linked prices under medium-term LNG contracts for delivery to Asia.

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Senate Economics Legislation Committee**ANSWERS TO QUESTIONS ON NOTICE****Treasury Portfolio**

Budget Estimates 2022 - 2023

Agency: Department of the Treasury
Question No: SBE001
Topic: Power price assumptions
Reference: Spoken p.9 (8 November 2022)
Senator: Susan McDonald

Question:

Senator McDONALD: Statement 2 in Budget Paper No. 1 only talks about wholesale power prices in general terms. Are there specific wholesale power price assumptions that inform this section of the budget?

Mr Yeaman: A combination of factors led to that forecast. For the current financial year, the way we approached this was that there was a default market offer judgement made by the Australian Energy Regulator for this year. So we looked at that DMO increase and then made assumptions about how other people in the market who were not yet on the DMO would move. Essentially we assumed that people who were on the default market offer would move with that decision and that those who were below the default market offer would catch up and move to that same level. That's how we got to the 20 per cent increase for this year.

For next year, we don't have an explicit wholesale price assumption. What we have done is look closely at futures market curves for electricity prices and we've consulted closely with the Department of Climate Change, Energy, the Environment and Water and the AER and tested our judgements on that. So we don't have a specific wholesale price assumption underneath it, but it is based on an assessment of the market curves and best advice from industry and the regulators.

Senator McDONALD: Can you table those assumptions, please.

Mr Yeaman: I can certainly look at what we have. As I said, it's based on a series of judgements combining different pieces of information. I'm happy to look at that.

Senator McDONALD: What were the power price components in the inflation forecast presented by the Treasurer in his July ministerial statement?

Mr Yeaman: I will have to go back and confirm. We would have had some information on the default market offer for this financial year, which I think was included. I think we had an increase in power prices for this financial year in the July statement. But for the next year we hadn't yet gone through the process of looking at those wholesale curves. Our traditional approach in this area has been not to forecast electricity prices separately from the broader inflation dynamics, because it hasn't been moving sufficiently. I will come back and confirm to you, Senator. My understanding is that in the first year we had an increase in electricity prices. Then in the second year it would've probably been growing at the standard rates of inflation, and we updated that in this budget.

Senator McDONALD: If you could come back to me on that—thank you. Statement 2 in Budget Paper No. 1 says that the Commonwealth and state governments' actions to accelerate the uptake of renewables and modernise the grid are expected to put downward pressure on wholesale electricity prices over time. What time frame is 'over time'?

Answer:

1. At the October 2022 Budget the electricity price forecast of a 20 per cent rise in 2022-23 were based on an average 10 per cent increase in the retail tariff regulated by the AER DMO (Default Market Offer), last set on 1-July 2022. We assumed that discounted market offers

would increase to around the level of the DMO, resulting in a 20 per cent overall increase. Given forward contract prices for wholesale electricity remain elevated, retail electricity prices were expected to rise by a further 30 per cent in 2023-24.

The July 2022 Ministerial Statement inflation forecasts for 2022-23 took into account the anticipated impact of the AER DMO final determination, which was released on 26 May and other available information. For 2023-24, forecasts for retail electricity prices had not yet been formulated with electricity prices assumed to increase in line with broader price rises.

2. The GenCost 2021-22 report by the CSIRO showed that renewable energy technologies, including wind and solar are among the lowest cost forms of energy generation in Australia. The CSIRO made this finding taking into account additional integration costs owing to the variable output of renewables, including energy storage and transmission. As these sources of generation increasingly make up a greater proportion of the electricity generation mix, they are expected to place downward pressure on average wholesale electricity prices.