

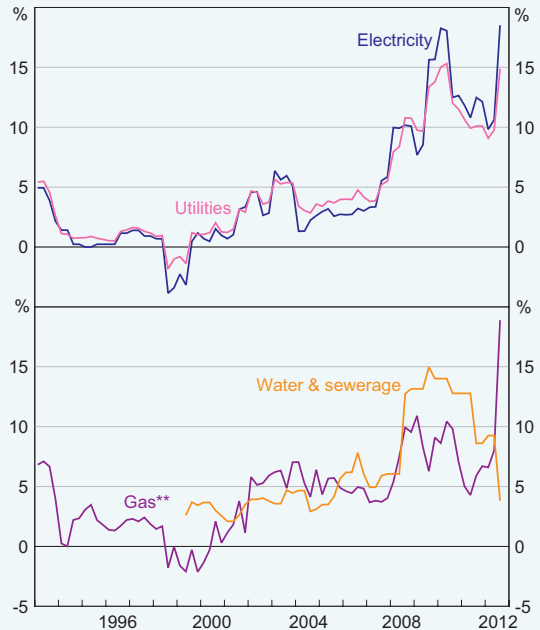
## Box D

# Recent Developments in Utilities Prices

Inflation in utilities prices has been higher than overall consumer price inflation over the past decade, with large increases in the prices of electricity, gas and water & sewerage (Graph D1). The run-up in utilities prices largely reflects the increase in capital costs associated with higher infrastructure investment.<sup>1</sup> Electricity network operators have made substantial investments to replace ageing assets, satisfy growing peak demand and meet more stringent reliability standards. A high level of investment has also been required to expand gas networks and to improve the reliability of urban water supply during drought periods like that experienced in the mid 2000s. The ongoing pass-through to consumers of significant capital expenditure costs underpinned the rise in utilities prices over the past year. The introduction of the carbon price on 1 July also contributed to utilities price increases, particularly for electricity and gas. In aggregate, utilities prices rose by 15 per cent over the past year. With utilities having a weight in the consumer price index (CPI) of around 4 per cent, these price increases contributed ½ percentage point to inflation over the year to the September quarter. The carbon price accounted for a little less than half of the total increase in utilities prices over the past year, with this effect on utilities prices contributing around ¼ percentage point to headline inflation.

Of the three utilities, electricity has the largest weight in the CPI, at 2½ per cent, while gas and water & sewerage both have weights of around 1 per cent. Turning to developments in each:

**Graph D1**  
**Utilities Price Inflation\***  
Year-ended



\* Adjusted for the tax changes of 1999–2000

\*\* Includes other household fuels

Sources: ABS; RBA

- Prices for electricity rose by 18½ per cent over the year to the September quarter. The introduction of the carbon price led to an increase in the cost of generating electricity. Household electricity prices are regulated in most states, and the higher generation costs have been taken into account in determining regulated price increases. State price regulators' public announcements imply that the carbon price accounted for around half of the increase in electricity prices over the year, in line with the effect anticipated by Treasury's modelling of the policy.<sup>2</sup> In addition to the effect of the carbon

1 See Plumb M and K Davis (2010), 'Developments in Utilities Prices', *RBA Bulletin*, December, pp 9–17.

2 See Commonwealth Treasury (2011), 'Strong Growth, Low Pollution: Modelling a Carbon Price'.

price, increases in network costs continued to contribute to the rise in retail electricity prices.

- Gas prices rose by 19 per cent over the past year. Ongoing growth in distribution costs contributed to the increase in gas prices in many states, although the importance of these costs varied across states. Based on information available from regulators and industry liaison, it appears that the carbon price accounted for less than half of the increase in gas prices in the year to the September quarter, which is also consistent with the impact anticipated by Treasury's modelling.
- Water & sewerage prices rose by 3.8 per cent over the past year. The rate of price increases has slowed recently, with much of the higher costs associated with earlier capital expenditure having already flowed through to retail prices. Compared with its impact on electricity and gas prices, the introduction of the carbon price has had only a small effect on water and sewerage prices. In some states, steps have been taken by state agencies to lessen the price rises faced by households by restricting price increases or by providing rebates. ✖