

## In the future

The exact amount charged by electricity retailers to consumers varies depending on the retailer and type of consumer account, but electricity bills generally reflect costs incurred by participants across the electricity industry. This fact sheet looks at projecting residential electricity costs in the future.

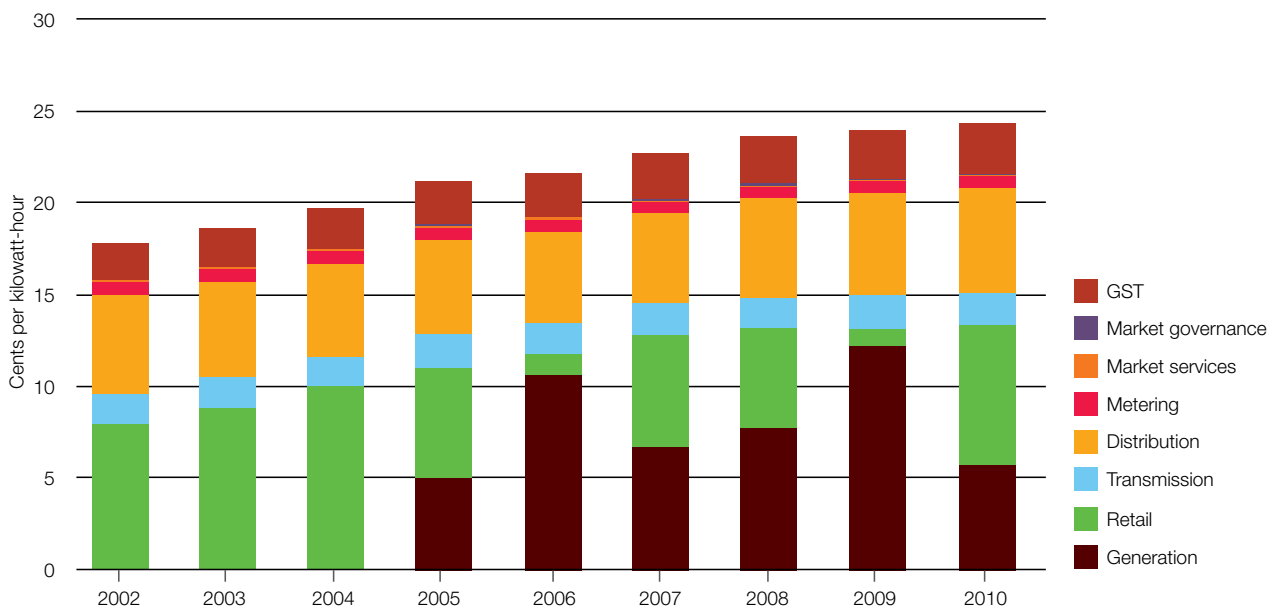
### Projecting future costs

While data on some components of electricity costs is only available up to March 2010 due to the lead times associated with processing and publishing annual data<sup>1</sup>, the Electricity Authority has prepared some estimates of recent cost movements, and projected how consumer prices may change over the next few years.

The graph below shows the components of historical residential electricity costs to 2010. Generation costs have been included with retail costs from 2002 to 2004 due to the limited availability of information about total generation revenue over that period. Costs have been adjusted for inflation using the Consumers Price Index and have been adjusted to their 2010 dollar equivalent.

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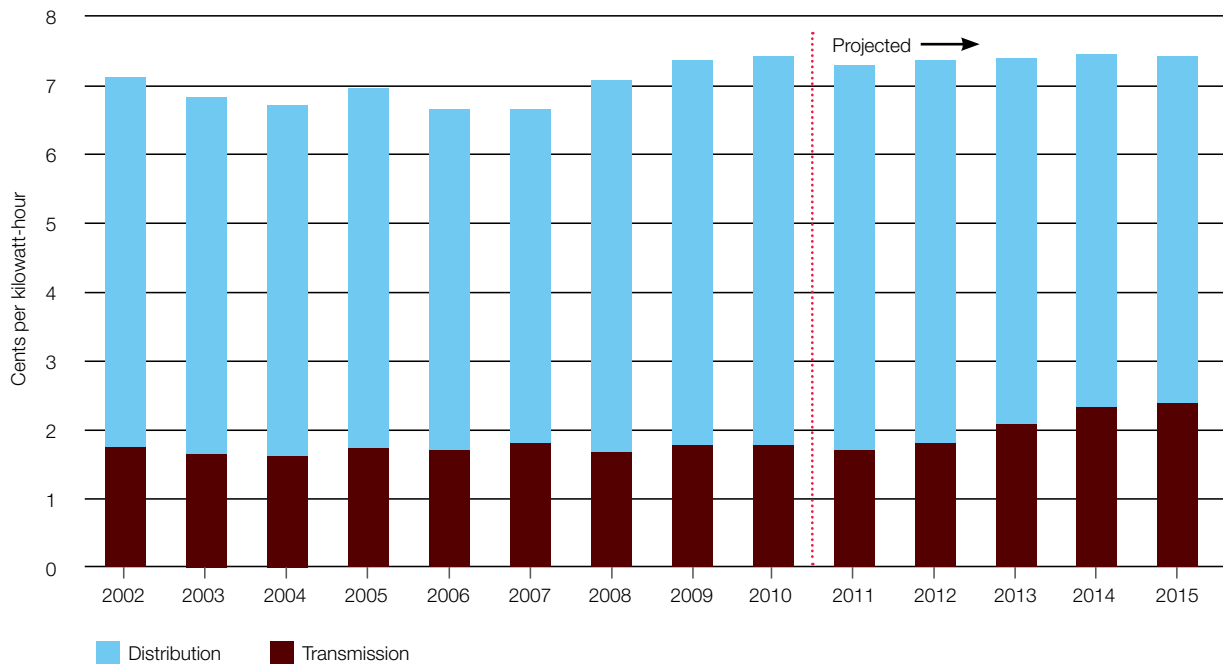
**Residential electricity cost components (inflation adjusted to 2010 dollars)**



1. 2011 data from the Ministry of Business, Innovation & Employment Energy Data File will be published when available.

### Residential transmission and distribution costs (inflation adjusted to 2010 dollars)

The graph below separates out, and shows forecast changes in residential transmission and local distribution system costs. These costs have been adjusted for inflation to their 2010 dollar equivalent.



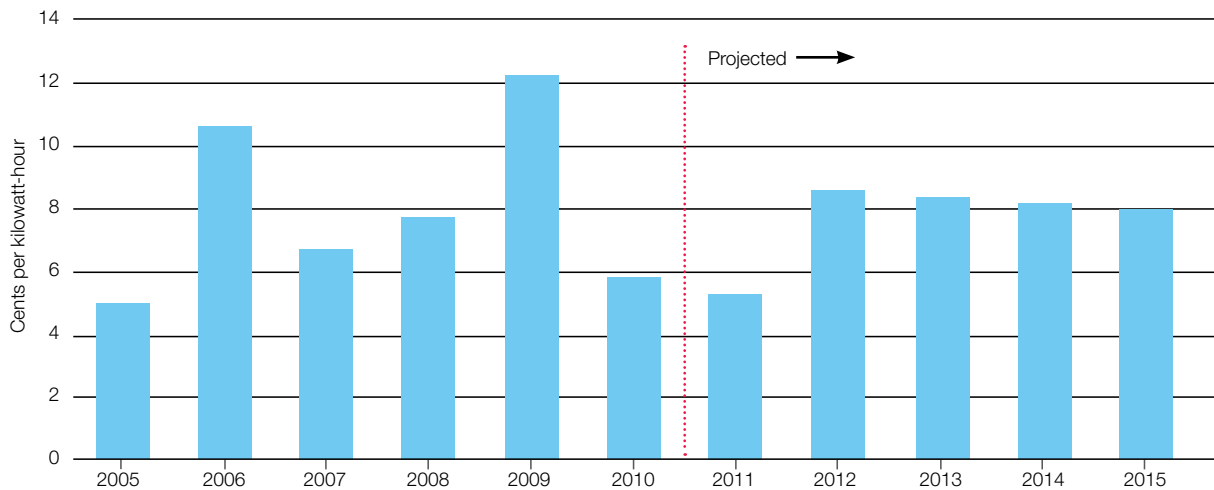
Transmission costs are projected to rise rapidly from 2012 onwards because of the cost of upgrading the high voltage system that connects the North and South Islands, and the need to construct new transmission lines to meet demand in a number of areas in New Zealand. Reducing distribution costs are projected to largely offset rising transmission costs in real<sup>2</sup> terms.



2. After costs are adjusted for inflation

### Generation costs (inflation adjusted to 2010 dollars)

The graph below shows historical and projected generation costs. Projected generation costs are based on the future prices in the hedge markets that participants use to manage market risk. While only a limited proportion of future electricity consumption is traded in the hedge market, the hedge market prices are the best available indicator of how the industry buyers and sellers expect prices, and consequently total electricity costs, to change in the future. Generation costs are projected to rise steeply in 2012 relative to 2011 costs, and then remain relatively steady at 2012 levels.



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**Fact sheets in this series** cover topics including the electricity supply chain, breakdown of a typical bill, price comparisons between different consumer groups and internationally, and projecting future costs. The full set can be found at [ea.govt.nz/consumer/factsheets](http://ea.govt.nz/consumer/factsheets)