

AER Consumer Reference Group

Why \$1 today feels like 50 cents tomorrow

Have you ever noticed that what you can buy with \$1 changes over time? If so, you're not alone.

Finance experts spend a lot of time working out how to allow for the dollar's changing value. For householders, this can mean that our spending power reduces over time. We hope that our wages increase to make up for this reduction.

In the energy sector, the changing value of the dollar can hit hard on energy businesses, energy consumers and the people who provide the funds for investment in the sector.



Inflation – The Changing Value of the Dollar

Inflation is the term for what we've described as the changing value of the dollar.

The poles, wires and pipeline energy businesses have a cap set on how much money they can recover from consumers. The Australian Energy Regulator (AER) sets the cap. As part of the process of setting this cap, the AER allows for expected inflation.

It is relatively easy to determine the actual value of inflation as it is observable. Deciding expected inflation is much more challenging. The AER is currently considering this in its [Review of Inflation 2020](#).

Questions for consumers:

If you knew future prices would be higher than they are now, would it help you if the price was increased gradually over a period of a few years, rather than all at once?

Is it important for you to know how much of your income will need to be put aside for your energy bills each year? Or is it more important to know how much your bills are likely to be?

More Info

The AER has set up a Consumer Reference Group to work with them on the Review of Inflation. The Consumer Reference Group has nine members from diverse backgrounds. Members of the Consumer Reference Group welcome discussion of these questions with you. You can contact us at InflationReview2020@ aer.gov.au