

SA electricity price trends

South Australian trends put downward pressure on prices

AEMC 2013 Residential electricity price trends report

Today the Australian Energy Market Commission released its report on factors driving residential electricity prices over the next three years to 2015/16.

The report analyses trends in the competitive market sectors of the industry; the regulated networks sector; and resulting from government environmental policies in each state and territory.

AEMC Chairman, John Pierce, said market offer prices in South Australia are expected to decrease, on average, by 0.9% a year over the three years from 2012/13 to 2015/16.

“The most significant driver of the falling market price is reduced pressure from competitive market costs in addition to falling environmental policy costs – both of which have offset some increase in regulated network costs.

“Wholesale costs in the competitive market are expected to show steady moderation over the three years from 2012/13 to 2015/16 in response to projected increases in South Australia’s electricity generation capacity, coupled with continued decreases in demand for electricity.

“Changes to the carbon pricing mechanism are expected to have the greatest impact on prices between 2014/15 and 2015/16.

Mr Pierce said South Australian consumers had the option of obtaining savings by switching from regulated standing offer prices to market offers with local households potentially able to save around 9% by switching to a market offer in 2012/13.

Standing offer prices are expected to increase, on average, by 0.3 percent a year over the three years from 2012/13 to 2015/16.

Environmental policies:

- Environmental policies considered for SA include the carbon pricing mechanism, the renewable energy target, the Residential Energy Efficiency Scheme and South Australian feed in tariff schemes. Together, these environmental policies make up around 20 per cent of the average market offer price in South Australia.
- Carbon pricing costs were based on existing legislation. The Australian Government has introduced legislation to remove the existing carbon price as at 1 July 2014. The removal of the carbon price will reduce the prices compared to those presented in the report for 2014/15 and 2015/16.
- Moving to a floating carbon price from 1 July 2015 under current legislation is one of the key drivers of the expected 4 per cent fall in SA market offer prices in 2015/16.
- The costs associated with the renewable energy target, feed in tariff schemes, and SA residential energy efficiency scheme are not expected to change significantly over the two years to 2015/16.

Regulated networks:

- Regulated network costs are expected to moderate and currently make up around 48 per cent of the average market offer price in South Australia.

- Distribution network costs are expected to increase by around 10.5 per cent a year, for the two years from 2012/13 to 2014/15. These increases reflect the revenue allowances that were included in existing regulatory determinations made prior to the recent network regulation rule changes which were made at the end of 2012. A new regulatory period will begin for SA Power Networks on 1 July 2015.
- The underlying factors which had previously driven network cost increases, including the cost of capital as well as average and peak demand growth are all moderating.
- New rules made by the AEMC in November 2012 have given the Australian Energy Regulator more discretion when setting allowable revenues for regulated network businesses.

Competitive markets:

- Competitive market costs include wholesale energy purchase costs and the costs of the retail sale of electricity. They currently make up around 32 per cent of the average market offer price.
- Competitive market costs are expected to show a steady decrease of 4.3% on average over the three years from 2012/13 to 2015/16.
- This reflects projected increases in generation capacity in South Australia, coupled with continued decreases in demand for electricity, resulting in a moderation in wholesale energy purchase costs.
- The competitive market allows consumers to shop around for the best offer from retailers. Consumers may have saved around 9 per cent if they switched from a standing offer to a market offer in 2012/13.
- Potential savings are based on each retailer's lowest generally available market offer as at February 2013 and vary according to electricity consumption, geographic location and individual circumstances.
- It is likely that consumers can achieve even greater savings by shopping around for the offer that best suits their needs.

About the Price Trends Report

The AEMC Pricing Trends Report identifies drivers of residential electricity price increases. It is not a forecast of actual prices but a guide to price trends. It identifies components that are driving trends based on current knowledge and assumptions. The report does not take account of some decisions by governments and regulators announced recently. Trends vary in each state and territory according to approaches taken by jurisdictional regulators to setting prices, and the different costs associated with population spread and density, weather, customer consumption levels, technology, economic strengths, consumer choices and environmental schemes.

About the AEMC

We are the independent body responsible since 2005 for providing policy advice to Australian governments on the electricity and gas sector. We are separate from the Australian Energy Regulator, which regulates the energy market.

For information contact:

AEMC Chairman, John Pierce, (02) 8296 7800

Media Contact: Prudence Anderson, Communications Manager (0404) 821 935
or DL (02) 8296 7817

13 December

AEMC 2013 ELECTRICITY PRICE TRENDS REPORT*

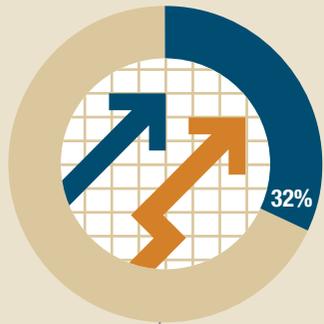
THIS REPORT LOOKS AT WHAT FACTORS WILL DRIVE RESIDENTIAL ELECTRICITY PRICES OVER THE NEXT THREE YEARS TO 30 JUNE 2016

South Australian market offer prices are expected to decrease, on average, over the three years from 2012/13 to 2015/16

WHAT YOU PAY FOR

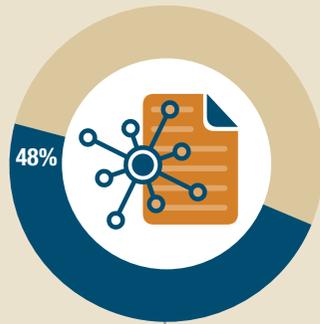
Competitive markets

Wholesale costs and retail. In the states where there are market offers, consumers can save money if they shop around



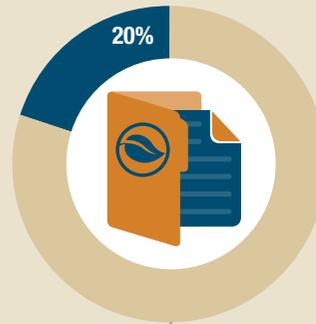
Regulated networks

Pressure on costs of poles and wires is moderating

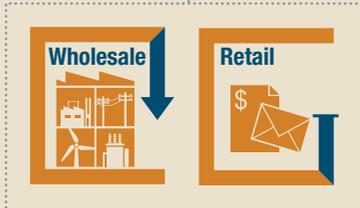


Environmental policies

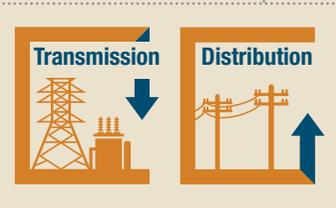
Continue to place downward pressure on prices



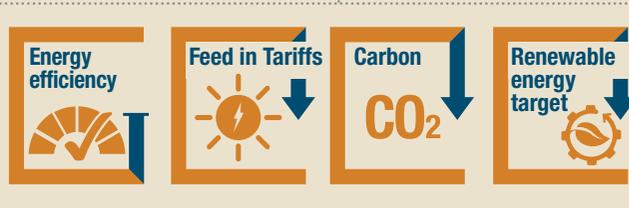
PRICE TRENDS



- Competitive market costs decrease, on average, by 4.3% a year to 2015/16. This reflects projected increases in generation capacity in South Australia, coupled with continued decreases in demand for electricity, resulting in a moderation in wholesale energy purchase costs.
- By switching from a standing to a market offer, consumers may have saved around 9% in 2012/13



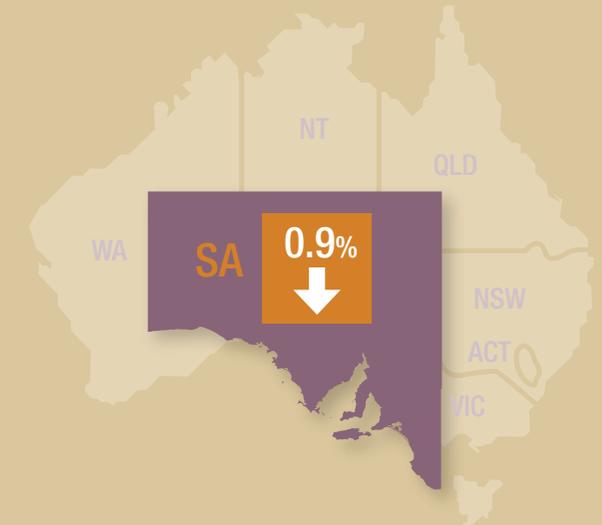
- The underlying factors which had previously driven historic network cost increases are moderating. These factors include the cost of capital, and peak and average demand growth.
- Transmission network costs decrease, on average, by 0.5% a year to 2015/16
- Distribution network costs increase, on average, by around 10.5% a year for the two years from 2012/13 to 2014/15. These increases reflect the revenue allowances included in existing regulatory determinations made prior to the recent network regulation rule changes. A new regulatory period will begin on 1 July 2015
- The AEMC made new rules in November 2012 to give the regulator more discretion in setting network revenue



- The fall in prices in 2015/16 reflects the move to a floating carbon price under existing legislation
- Removing the carbon pricing mechanism will reduce prices compared to those in this report in 2014/15 and 2015/16
- Costs of the energy efficiency and feed in tariff schemes and the renewable energy target are not expected to change substantially

PRICE MOVEMENTS ANNUAL AVERAGE FY13 – FY16

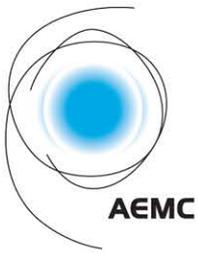
Market offer



STANDING AND MARKET OFFER PRICE DIFFERENCES FOR SOUTH AUSTRALIA



* This fourth annual pricing trends report is based on policies and regulations in each jurisdiction in 2013. It's based on AEMC analysis of power usage by a representative residential consumer in each jurisdiction and consideration of trends across the competitive market sector, the regulated networks sector and government environment policies, drawn from information from governments, regulators, market modelling, retailers, and our own analysis.



South Australia: Household electricity price trends

Possible future residential electricity price movements to 30 June 2016

The AEMC pricing trends report identifies factors driving electricity prices over the next three years to 2015-2016 in the states and territories, and consolidates these to provide a national average picture. It is the fourth report prepared for the Standing Council on Energy and Resources (SCER) at the request of the Council of Australian Governments (COAG).

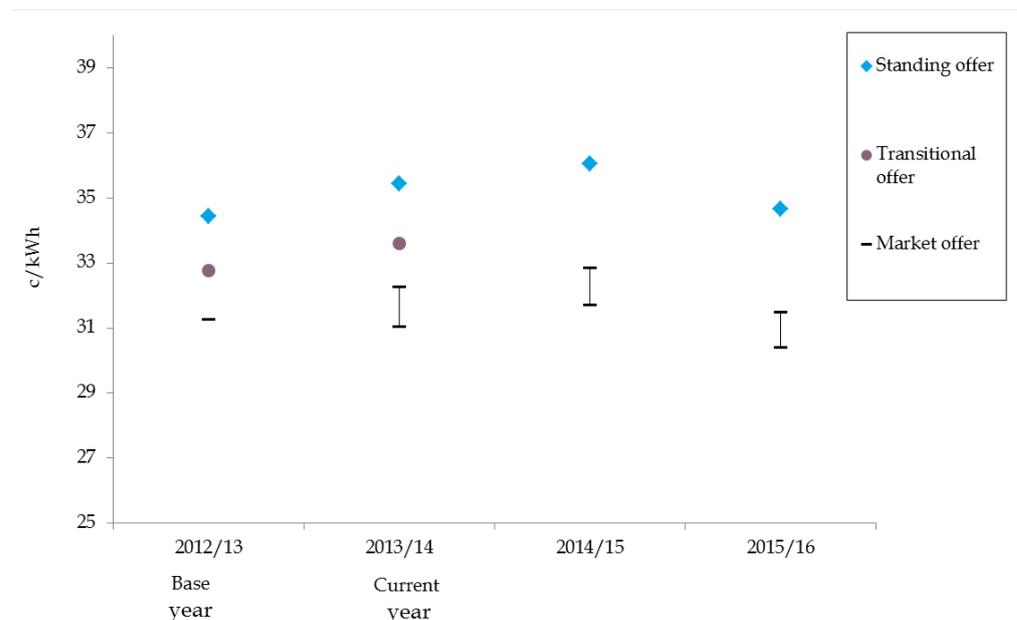
This report is not a forecast of prices. It analyses trends occurring in the competitive market sectors of the industry; the regulated networks sector; and resulting from government environmental policies. We report on how these trends affect overall prices paid by residential consumers.

This report varies from previous reports in that it includes:

- Both *standing* and *market offer* prices in jurisdictions where these offers are available.
- The effect of different household consumption levels on average electricity prices.

Key findings for South Australia

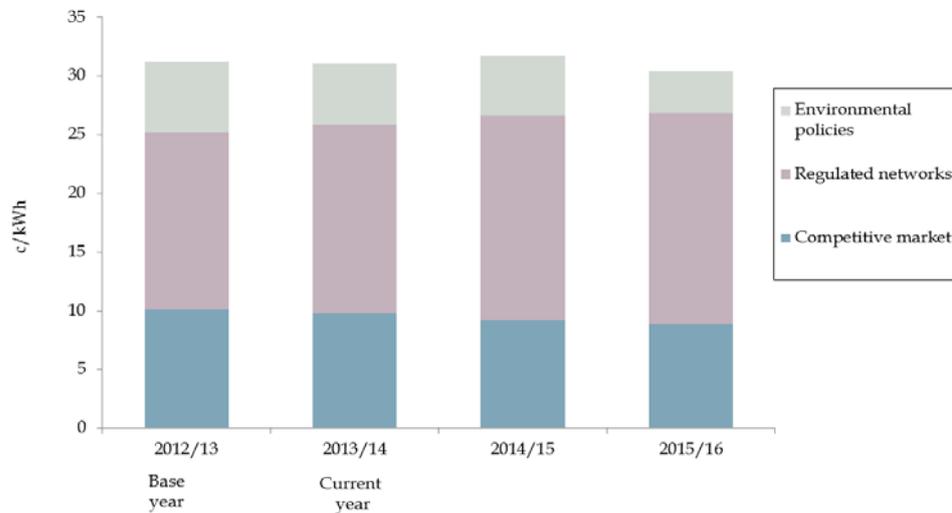
Market offer prices in South Australia are expected to decrease, on average, by 0.9 per cent a year for the three years from 2012/13 to 2015/16. *Standing offer* prices are expected to increase, on average, by 0.3 per cent a year over the three years from 2012/13 to 2015/16.



The decrease in market offer prices is largely driven by moderate increases in network costs, offset by decreases in competitive market and carbon pricing costs.

Drivers of price trends

The trends for South Australia are largely driven by increases in regulated network costs, which are offset by reductions in competitive market costs and changes in carbon pricing costs under existing legislation.



Environmental policy costs

The carbon pricing mechanism, the renewable energy target, the Residential Energy Efficiency Scheme and the South Australian feed in tariff schemes impact on electricity prices and currently make up 20 per cent of the South Australian average *market offer* price.

Our assessment of carbon pricing costs has been based on existing legislation. We note that the Australian Government has introduced legislation to remove the existing carbon price as at 1 July 2014. Removing the carbon pricing mechanism will reduce prices compared to those presented in the report for 2014/15 and 2015/16.

Changes to the carbon pricing mechanism under existing legislation are expected to have the greatest impact on electricity prices between 2014/15 and 2015/16.

The costs associated with the renewable energy target, feed in tariff schemes, and South Australian Residential Energy Efficiency Scheme are not expected to change significantly over the next two years to 2015/16.

Regulated network costs

Regulated network costs currently make up 48 per cent of the average *market offer* price in South Australia.

For the two years, from 2012/13 to 2014/15, distribution network costs are expected to increase by around 10.5 per cent a year. These increases reflect the revenue allowances that were included in existing regulatory determinations made prior to the recent network regulation rule changes which were made at the end of 2012. A new regulatory period will begin for SA Power Networks on 1 July 2015.

The increases in regulated network costs also reflects moderation in the underlying factors which had previously driven network cost increases, including the cost of capital, as well as average and peak demand.

Regulatory reform is another key driver of change in regulated network costs, including new rules made by the AEMC in November 2012 that have given the AER more discretion in setting network revenues.

Market offers are providing consumers with savings over standing offer prices.

Competitive market costs

Competitive market costs include wholesale energy purchase costs and the costs of the retail sale of electricity. They currently make up around 32 per cent of the average *market offer* price.

Over the three years from 2012/13 to 2015/16, competitive market costs are expected to show a steady decrease, on average, of 4.3 per cent a year. This reflects projected increases in generation capacity in South Australia, coupled with continued decreases in demand for electricity.

The competitive market in South Australia allows consumers to shop around for the best offer from retailers. Consumers may have saved around 9 per cent if they switched from a standing offer to a *market offer* in 2012/13.

Potential savings are based on each retailer's lowest generally available *market offer* as at February 2013 and vary according to electricity consumption, geographic location and individual circumstances.

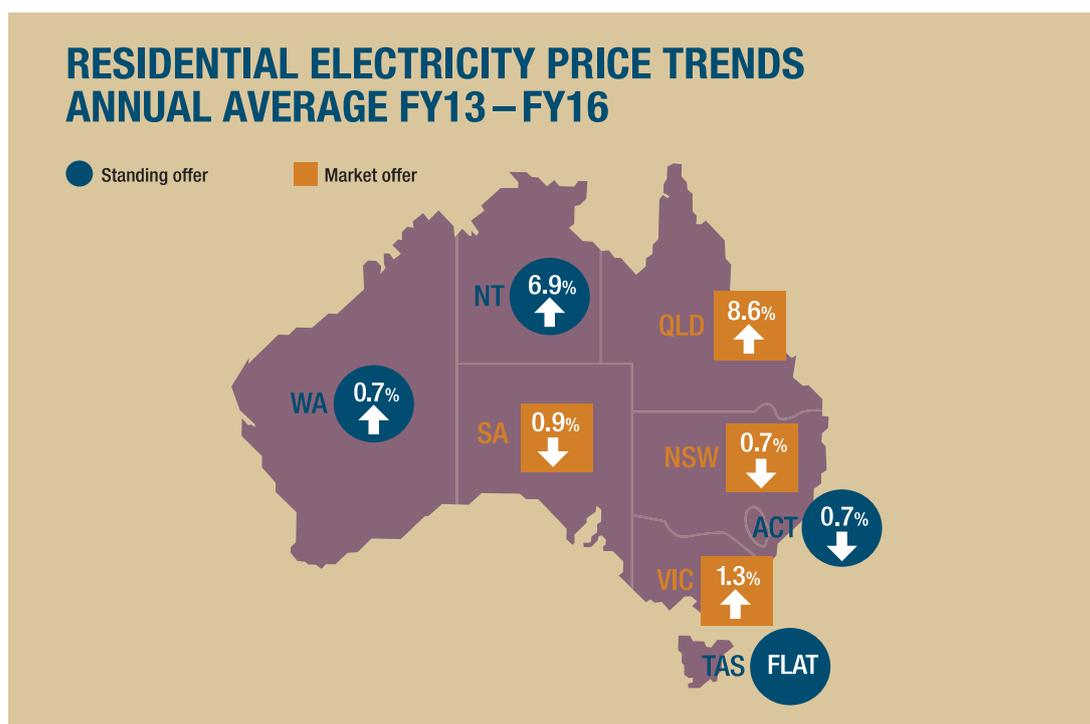
Jurisdictional price trends

There is a reasonable degree of variability between the states and territories that underlies the national summary.

Price trends in most states and territories are expected to show little overall change over the next three years, except Queensland and the Northern Territory. This reflects variations in population spread and density, climate, consumption patterns, tariff structure, regulation and policies for each state or territory.

Our analysis of trends in *market offers* covers Queensland, New South Wales, Victoria and South Australia. In jurisdictions where both *standing* and *market offers* are available, residential consumers are able to shop around for the best offer from retailers.

Depending on where consumers live and their electricity consumption, they may have saved between 5 and 16 per cent by switching from a *standing offer* to a *market offer* in 2012/13. Consumers can also benefit by considering their consumption profile and seeking out an offer that best reflects the way they use electricity.



The AEMC price trends report identifies factors driving residential electricity prices over the next three years to 2015-2016 in each state and territory.

Information sources

Information for this report has been sourced from jurisdictional governments and regulators. We also sourced information from the Australian Energy Regulator in relation to transmission and distribution network costs and from retailers operating in the relevant states for our analysis of *market offer* prices. The AEMC also commissioned independent modelling of wholesale energy purchase costs, carbon pricing mechanism costs and Renewable Energy Target costs. Our modelling was undertaken based on current knowledge and assumptions as well as existing legislation.

Our findings may be impacted by a number of factors including

- changes in demand and generation;
- input cost changes;
- entry and exit of generation;
- changes in cost allowances in network regulatory determinations;
- approaches to retail price regulation; and
- changes in legislation.

Continuing electricity reform

The AEMC's work program is enhancing NEM frameworks to allow businesses and the regulator to deliver reliable electricity supply for consumers in the most cost efficient way. This requires an electricity market that can adapt to changing circumstances and deliver efficient investment and innovation. Our role as rule maker is to be impartial and objective. We make rules to help give energy consumers reliable services at efficient prices, so they don't pay more than necessary; and to promote a strong and healthy industry that can supply Australia's energy needs in the long term.

For information contact:

AEMC Chairman, **John Pierce** (02) 8296 7800

AEMC Chief Executive, **Paul Smith** (02) 8296 7800

Media: Communication Manager, Prudence Anderson 0404 821 935 or (02) 8296 7817

Date: 13 December 2013