



South Australia electricity prices stable as network savings balance expected wholesale rises

Falling network costs and environmental policy costs to be offset by expected rises in wholesale electricity, as electricity prices remain largely flat in South Australia over the next three years.

The 2015 Australian Energy Market Commission (AEMC) Residential Electricity Price Trends report looks at the trends in the underlying cost components of household electricity bills, including the competitive market sectors of wholesale generation and retail; the regulated networks sector; and price implications from government environmental policies.

AEMC Chairman John Pierce said the report has found that lower network costs, along with a reduction in the cost of the State's solar feed-in tariff scheme, are largely responsible for an initial fall of 7.2 per cent in residential prices in 2015/16 despite expected increases in wholesale costs. However, from 2016/17 these gains are offset by expected rises in wholesale market and network costs. These increases are expected to lead to overall price rises of 6.8 per cent in 2016/17 and 3.4 per cent in 2017/18.

"Wholesale electricity costs are expected to rise as increasing consumption puts pressure on diminishing supply," Mr Pierce said.

"Increasing consumption, as forecast by the Australian Energy Market Operator, is expected to coincide with the announced retirement of the Northern Power Station. Higher gas prices are also projected to contribute to rising wholesale electricity costs.

"Significant wind powered generation is expected over the reporting period, leading initially to lower wholesale electricity costs. However to the extent that wind investment contributes to generator retirements this is expected to apply upward price pressure over the medium term."

Mr Pierce said that the impact of these higher costs is being mitigated by lower network revenues, which has reduced costs associated with poles and wires in South Australia this year by 17 per cent. Smaller increases over the following two years would still result in network costs being lower in 2018 than they were in 2014.

"South Australia's price trends take into account the most recent determination by the Australian Energy Regulator which sets the revenues the South Australian network business is allowed to collect from customers," Mr Pierce said.

The South Australian distribution business and the South Australian Council of Social Service have applied to the Australian Competition Tribunal for a review of the AER determination which led to an overall fall in price. This outcome is now uncertain while review processes continue.

"Regulated network costs represent 51 per cent of an average South Australian residential electricity bill," Mr Pierce said. "So changes in these costs clearly have a big impact on what households pay for their electricity."

Environmental policy costs are expected to decrease as a result of cost reductions associated with the South Australian feed-in tariff schemes.

Mr Pierce said the way these trends will impact individual households depends on how each consumer uses electricity, and how willing they are to switch to a better energy deal where market offers are available.

"No two households use energy in the same way. Knowing how much power you use and when, will be the key tool in controlling electricity costs in the future," Mr Pierce said.

"Consumption profiles are becoming increasingly diverse as new technology and significant changes to the National Electricity Rules over the past three years facilitate greater demand side participation in energy markets.

**The AEMC's 2015
Price Trends
report shows
South Australian
electricity prices
to be stable.**

“Right now, switching to a better energy deal remains the most effective way for consumers to save money in South Australia. Average savings from switching from an average standing offer to an average market offer in 2014/15 were \$222 in South Australia.

The annual Residential Electricity Price Trends report provides an understanding of the cost components of the electricity supply chain that contribute to the overall price paid by residential consumers, and the expected trends in each of these components.

The full report and further information is available at www.aemc.gov.au.

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4 December 2015