

South Australia – 18 December 2017

2017 residential electricity price trends: report 2017

The 2017 residential electricity price trends report identifies cost drivers across the entire electricity supply chain from 2016-17 to 2019-20.

The AEMC provides detailed analysis of forces of changes in Australia's energy markets. We provide government and stakeholders with the data they need to make market transformation work in the long term interests of consumers. This report provides an overall picture of factors driving electricity prices for households in each state and territory.

Key findings for South Australia

The report examines wholesale electricity purchase costs, regulated network costs and environmental policy costs.

Annual electricity prices for the representative consumer on a market offer in South Australia:

- increased by 17.0 per cent from 2016-17 to 2017-18 due to higher wholesale electricity costs, driven by the retirement of Northern and Hazelwood generators and increasing gas prices
- are expected to decrease by an annual average of 7.3 per cent in 2018-19 and 2019-20. The expected decreases are largely attributable to decreases in wholesale electricity costs driven by expected new generation (approximately 4,100 MW across the NEM) and the return to service of the Swanbank E generator (385 MW in Queensland).

Background

The report presents expected movements in electricity prices for a representative consumer in South Australia. In South Australia the annual consumption amount for the representative consumer is provided by the South Australian government

The annual consumption of the representative consumer in South Australia is 5,000 kWh per year.

Average electricity prices in this report are specific to the representative consumer in South Australia and may not reflect pricing outcomes for all residential consumers.

Price trends identified in this report are not a forecast of actual prices. They are a guide to factors which may drive prices up or down. Actual prices will be influenced by how retailers compete in the market, the outcomes of network regulatory process and changes in government legislation. Actual consumer bills will be affected by all these drivers as well as customer's individual consumption choices, and local factors like the weather, and where they live.

The key driver of the trend in annual electricity bills is wholesale electricity purchase costs.

Trends in residential electricity prices

Residential electricity market offers for the representative consumer in South Australia increased by 17.0 per cent from 2016-17 to 2017-18. However, prices are expected to:

- decrease by 6.9 per cent in 2018-19
- decrease by 7.8 per cent in 2019-20.

This is equivalent to an average annual decrease of 7.3 per cent from 2017-18 to 2019-20.

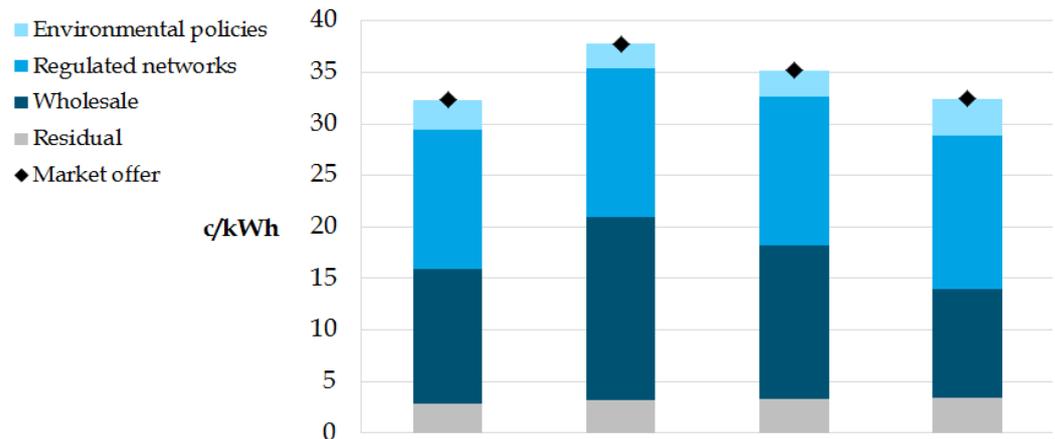
In South Australia, consumers can choose between a market offer and a retail standing offer. Approximately 87 per cent of small customers in South Australia are on a market offer (small customers includes residential and small business customers).

The table below provides information on the total annual bill for a representative consumer in South Australia on a market offer and a standing offer.

South Australia	2016-17
Standing offer total annual bill	\$1,895
Market offer total annual bill	\$1,615

Trends in supply chain cost components

The below figure shows the expected movements in the supply chain cost components for the representative consumer on a market offer in South Australia.



	2016/17 Base Year		2017/18 Current Year		2018/19		2019/20	
	c/kWh	\$/yr	c/kWh	\$/yr	c/kWh	\$/yr	c/kWh	\$/yr
Environmental policies	2.83	\$141	2.43	\$122	2.58	\$129	3.61	\$180
LRET - LGC cost	0.66	\$33	0.78	\$39	0.92	\$46	1.06	\$53
SRES - STC cost	0.37	\$18	0.33	\$17	0.35	\$17	0.33	\$17
Solar FiT	1.55	\$78	1.06	\$53	1.06	\$53	1.06	\$53
REES	0.25	\$13	0.25	\$13	0.25	\$13	0.25	\$13
Energy Security Target	0.00	\$0	0.00	\$0	0.00	\$0	0.90	\$45
Regulated networks	13.52	\$676	14.34	\$717	14.40	\$720	14.92	\$746
Transmission	2.80	\$140	2.89	\$145	2.51	\$126	2.59	\$129
Distribution	10.72	\$536	11.45	\$573	11.88	\$594	12.33	\$617
Wholesale	13.10	\$655	17.80	\$890	14.94	\$747	10.57	\$529
Residual	2.86	\$143	3.21	\$160	3.29	\$164	3.37	\$168
Market offer	32.31	\$1,615	37.79	\$1,889	35.20	\$1,760	32.47	\$1,623

The expected movements in each of the electricity supply chain cost components for South Australia from 2017-18 to 2019-20 are summarised below:

Wholesale electricity purchase costs: these costs include purchases from the spot market and financial contracts, ancillary services, market fees and energy losses from transmission and distribution networks.

Regulated network costs comprised approximately 41.8 per cent of the representative market offer in 2016-17. However, there is uncertainty given the current judicial review application.

In South Australia, wholesale market costs comprised approximately 40.6 per cent of the representative market offer in 2016-17. Wholesale market costs are expected to:

- increase by 35.9 per cent in 2017-18
- decrease by 16.1 per cent in 2018-19
- decrease by 29.2 per cent in 2019-20.

This is equivalent to an average annual decrease of 22.9 per cent from 2017-18 to 2019-20.

The drivers of wholesale market costs are set out in key findings above.

Regulated network costs: these costs include transmission and distribution network service providers' costs associated with providing the necessary infrastructure to enable the power system to operate as a connected system.

The regulated network costs comprised approximately 41.8 per cent of the representative market offer in 2016-17.

Transmission network costs are expected to decrease at an average annual rate of 5.4 per cent from 2017-18 to 2019-20. The trend in regulated transmission charges in these years reflects the transmission use of system charges in SA Power Networks' approved annual pricing proposal for 2017-18, and the revenue growth in the AER's draft decision for ElectraNet for the 2018–23 regulatory period for 2018-19 and 2019-20.

Distribution network costs are expected to increase at an average annual rate of 3.8 per cent from 2017-18 to 2019-20. Distribution trends in 2017-18 are based on SA Power Networks' approved annual pricing proposals, while 2018-19 and 2019-20 are estimated based on the revenue growth rate in AER's 2015–20 final determination for SA Power Networks.

Future network prices are subject to uncertainty. In November 2016, SA Power Networks lodged an application for judicial review in the Federal Court of Australia in respect of the Australian Competition Tribunal's decision for its 2015–20 regulatory determination. The matter was heard in May 2017 and judgement is reserved at the time of writing this report.

Environmental policy and system security costs: these costs are related to policies introduced by the Commonwealth and South Australia governments including the Renewable Energy Target and energy efficiency schemes. It also includes costs related to the Energy Security Target which is a system security scheme.

In 2016-17, environmental and system security schemes comprised 8.8 per cent of the representative market offer and are expected to comprise an increasing proportion from 2017-18 to 2019-20.

The costs associated with the large-scale generation certificate scheme under the large-scale renewable energy target are expected to increase at an average annual rate of 16.3 per cent from 2017-18 to 2019-20.

The small-scale technology certificate costs under the small-scale renewable energy scheme are expected to decrease at an average annual rate of 0.1 per cent from 2017-18 to 2019-20.

South Australia's Retailer Energy Efficiency Scheme costs remain unchanged over the reporting period. The Energy Security Target commences in January 2020.

The national picture

The underlying supply chain cost components and the impact of those trends vary across jurisdictions as a result of population, climate, consumption patterns, government policy and other factors. Against this background, residential prices nationally follow the same general trend as that seen for South Australia. This is as a result of the trend in wholesale electricity purchase costs which is the key driver of the price trends during the reporting period.

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