



South Australia residential electricity price trends

2017 Residential electricity price trends report

Households in South Australia will see prices drop by an estimated 7.3% each year over the next two years from 1 July 2018 as more variable wind and solar generation comes online.

But over time, without investment in replacement dispatchable capacity, wholesale costs will start to rise again as older generators exit. Uncertainty is stopping investment and will put upward pressure on prices in the medium term.

The AEMC's annual report on price trends provides an overall picture of factors driving electricity prices for households in each state and territory. While the report is not a forecast of prices, it analyses cost trends across the electricity supply chain including generation, the regulated networks sector; and price impacts resulting from government environmental and system security policies.

The report found South Australian residential electricity prices rose by around 17% this year, largely due to a 36% increase in wholesale energy costs following the closure of Northern and Hazelwood coal power stations, and higher gas prices which increase the cost of operating gas-fired generators.

But these price rises are expected to reverse over the next two years as more wind and solar generation comes online and a Queensland gas generator returns to service. More supply means downward pressure on prices.

While welcoming the expected price falls, AEMC Chairman John Pierce cautioned that without investment in replacement dispatchable generation, wholesale costs will start to rise again in the medium term.

"Older, unprofitable thermal generators are exiting the market – reducing the supply of dispatchable energy," said Mr Pierce.

"Without new investment, wholesale prices will go up again and remain volatile, and the rollercoaster will be repeated."

This is of even greater relevance to South Australia, where wholesale costs are higher than in other parts of the national electricity market due in part to the state's greater reliance on gas-fired generation.

To this end, the AEMC is working with other market bodies on the Energy Security Board on the national energy guarantee design.

"We have a window right now for the COAG Energy Council to continue its work on mechanisms that can work in the long term interests of consumers and keep the lights on as the energy sector continues to restructure," Mr Pierce said.

Network costs, which make up around 40% of the typical residential electricity bill in South Australia, are estimated to increase slightly, although there is some uncertainty due to the ongoing judicial review of the AER's revenue determination for the South Australian distribution business, SA Power Networks.

Environmental and system security costs, which make up around 9% of the bill, are estimated to increase by around 22% each year over the next two years. The main drivers for the increase are the rising cost of certificates under the large-scale renewable energy target, and also the cost of the state government's Energy Security Target.

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The Energy Security Target provides a subsidy to gas-fired generators and other sources of system security services such as large-scale batteries. Direct costs are likely to be passed through to consumers from 2019-2020.

The cost of South Australia’s feed-in tariff schemes should decrease by around 30% this year then remain stable for the next two years.

Background

Price trends identified in the 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 processes, and changes in government legislation.

Actual consumer bills will be affected by all these drivers as well as customers’ individual consumption choices, and local factors like the weather, the availability of mains gas, and the prevalence of solar PV systems.

Modelling for price trends in South Australia

The report estimates electricity prices for the most common type of residential electricity consumer in South Australia (the ‘representative consumer’).

The representative consumer is defined by their electricity consumption characteristics including:

- total annual electricity consumption
- quarterly electricity consumption, to reflect seasonal changes in power use
- use of off-peak tariffs
- gas use
- the number of people in the household.

For South Australia, the report uses a figure of 5,000 kWh for annual electricity consumption based on data provided by the South Australian government. The quarterly consumption profile for South Australia is based on AER bill benchmarking data, which is drawn from a survey of around 8,000 households (across all jurisdictions except Western Australia) where participants are asked about their homes and the way they use electricity.

To develop representative retail prices for South Australia, the AEMC collected standing and market offers from the AER’s Energy Made Easy website for 2016-2017 and 2017-2018.

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