



Power prices falling in South Australia over the next two years

Australian Energy Market Commission 2018 residential electricity price trends report

Power prices are estimated to fall in South Australia over the next two years in response to rising renewable generation capacity. This year consumers who are still on standing offers could save \$357 by switching to the lowest competitive market offer.

Power prices are estimated to fall over the next two years in South Australia according to the Australian Energy Market Commission's annual report on price trends released today.

South Australian households are likely to save \$120 in total (a fall of 6.5%) on their electricity bills from FY19 to FY21 as lower wholesale costs from increasing renewables capacity flows through to consumers.

After a relatively small fall of almost 2% this year (from FY18 to FY19), prices are estimated to fall by an average 3.3% annually over the next two years.

Wholesale costs are likely to fall by around \$154 from 2019 to 2021 for the typical consumer as more supply comes into the market and demand stays flat. These falls will outweigh increases in both regulated network costs (up by an estimated \$31 in total for two years) and flat environmental costs (with the state's environmental costs falling 0.5% or \$1 in total for two years).

South Australia's representative consumer (the most common type of household based on electricity consumption) is estimated to be paying around \$120 less than today by July 2020.

In South Australia 89% of residential electricity consumers are now on market offers. Those who have not yet shopped around are missing out on current savings of \$357 between the lowest competitive market offer and lowest standing offer.

The most common electricity customer is a household consuming 5,000 kWh of electricity each year. Actual bills of course depend on how and when electricity is used in each home.

AEMC Chief Executive, Mrs Pearson, said today that understanding what's driving prices can help give the South Australian Government information it needs to determine if the price changes retailers seek to make from 1 July each year are consistent with changes in the power system's underlying costs.

"In response to the retirement of power stations at Hazelwood and Port Augusta and the subsequent volatility in wholesale prices, we are applying a new wholesale cost estimation method that better reflects how retailers manage their risk and wholesale costs. As a result we now have a clearer picture of what consumers can expect in the next few years," she said.

Mrs Pearson said the energy sector's challenge in years ahead will be to continue balancing electricity supply and demand as the energy market restructures.

"Cost control helps contain prices," she said.

"The changing generation mix is affecting supply and demand at the wholesale end of the supply chain.

"Our report also shows networks account for around half of consumer bills. Managing the costs of connecting new generation will be a major challenge. We must avoid over-engineered solutions to stop gold plating and price spikes," she said.

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Mrs Pearson said it was in the strong interest of consumers that government and regulatory policy focused on long-term planning, focusing on low cost solutions to the issue of energy transition.

She said there was a need to:

- establish more certainty in wholesale markets through more effective management of environmental and security costs
- facilitate greater price competition in the retail market through open and transparent price setting that consumers can trust; and
- develop an integrated, modernised power grid that reduces costs to consumers.

Mrs Pearson said the report recognised there were a range of issues unique to each jurisdiction that were also influencing price outcomes.

Price trends will affect individual households differently depending on how much 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 is important in controlling electricity bills in the future as new technologies become more affordable and energy entrepreneurs expand demand response options for consumers.

ABOUT THIS REPORT

The price trends report is a core document used to inform a range of stakeholders including the Australian Energy Market Operator the International Energy Agency and the Reserve Bank of Australia. It helps consumers understand costs included in their electricity bill. It also provides governments with information they need to understand changes in electricity prices and provides context for long-term decision making on energy policy. Price trends identified in this report are not a forecast of actual prices, but rather are a guide to pricing and bill directions based on current expectations, policy and legislation. Actual price movements will be influenced by how retailers compete, the dynamics of wholesale spot and contract markets, the outcomes of network regulatory decisions, and changes in policy and regulation.

The AEMC residential price trends focuses on the drivers of household bills across the three key parts of the electricity supply chain – wholesale (generation); regulated networks (transmission and distribution); and environmental (government policy schemes). A residual applies in most jurisdictions. It is the difference between bill outcomes and these three key cost components.

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