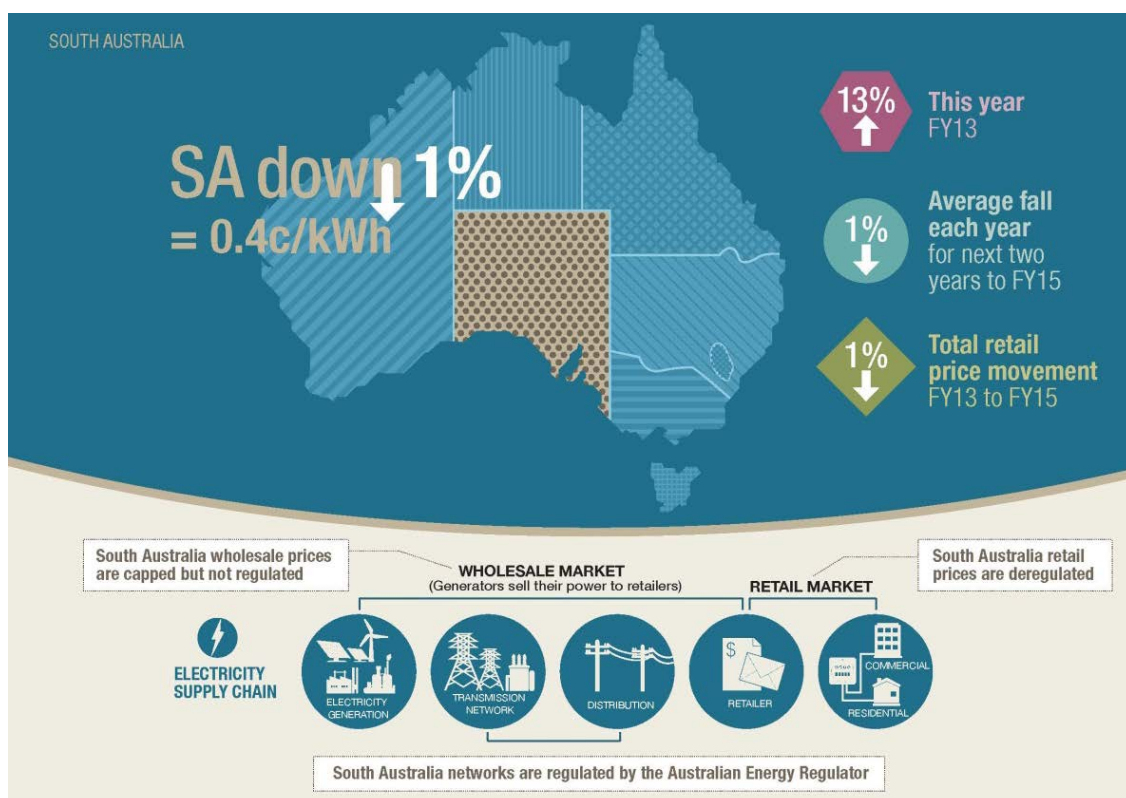


South Australia: Electricity price trends to FY15

The AEMC Electricity Price Trends Report: 1 July 2012 to 30 June 2015 was published on 22 March 2013. South Australian residential electricity prices are estimated to moderate with a rise this year followed by price falls.



Recent South Australia market developments

Retail electricity price deregulation commenced in South Australia on 1 February 2013. The South Australian Government has reached agreement with AGL to reduce prices by 9.1% for residential customers formerly on regulated prices for two years until 31 December 2014. Our modelling predates these changes and reflects previous methodology used by the utilities regulator, the Essential Services Commission of South Australia (ESCOSA).

What this market looks like

Regulation

Full retail competition was introduced for customers in South Australia in 2003 enabling all customers to choose their own retailer. Until 1 February 2013, the regulation of residential electricity prices, and the contractual terms and conditions, was overseen ESCOSA.

Following price deregulation ESCOSA moved from price regulation to price monitoring. The Australian Energy Regulator (AER) is the economic regulator of network businesses in South Australia.

This report is not a forecast of actual prices. It is a guide to pricing trends and identifies the components that are driving those trends.

Regulation continued.

Transmission services are provided by ElectraNet. Its current regulatory control period expires on 30 June 2013. Distribution services are provided by SA Power Networks (formerly ETSA Utilities). SA Power Networks current regulatory control period commenced on 1 July 2010 and expires on 30 June 2015.

Customer consumption

The representative residential customer in South Australia uses 5,000 kWh of electricity annually.

SA analysis

Wholesale component

Wholesale energy prices (including the carbon price) for representative residential customers increased by 2% from financial year (FY) 2012 to FY13. They are expected to decrease by an average of 11% per year.

This reflects changes that ESCOSA was proposing to the calculation of wholesale electricity cost (replacing a long-run marginal cost approach with a market-based approach) prior to the removal of price regulation. However, this trend is also consistent with that created by the removal of price regulation.

Wholesale energy costs in South Australia have traditionally been high due to the relatively small market, high dependence on gas fired generation and limited interconnection capability.

This looks likely to ease with an increasing volume of wind generation that now accounts for about 24% of generation capacity.

Network components

Distribution network prices increased by 28% from FY12 to FY13. This is estimated to fall to an average of 7% each year, from FY13 to FY15.

Distribution network prices are the largest contributing factor to price rises in South Australia, and are primarily driven by the prevailing revenue requirements set by the Australian Energy Regulator in 2010, for the 2010-2015 regulatory period.

The South Australian feed-in tariff scheme contributed 2.2 c/kWh to distribution price in 2013-2014, to make up for the cumulative under-recovery of costs in past years. As these costs are recovered the effect will ease to 1.3 c/kWh in FY15.

Transmission network prices increased by 10% from FY12 to FY13. This component is estimated to increase by 7% on average each year for the FY13 to FY15. This reflects revenue allowances set in 2008 for the replacement of ageing assets and higher reliability standards.

The network components (including feed-in tariffs) together make up around 51% of the total regulated retail price for South Australia in FY13.

ElectraNet will be subject to a new revenue determination by the AER from 1 July 2013. Transmission network price trends may change as a result.

Retail component

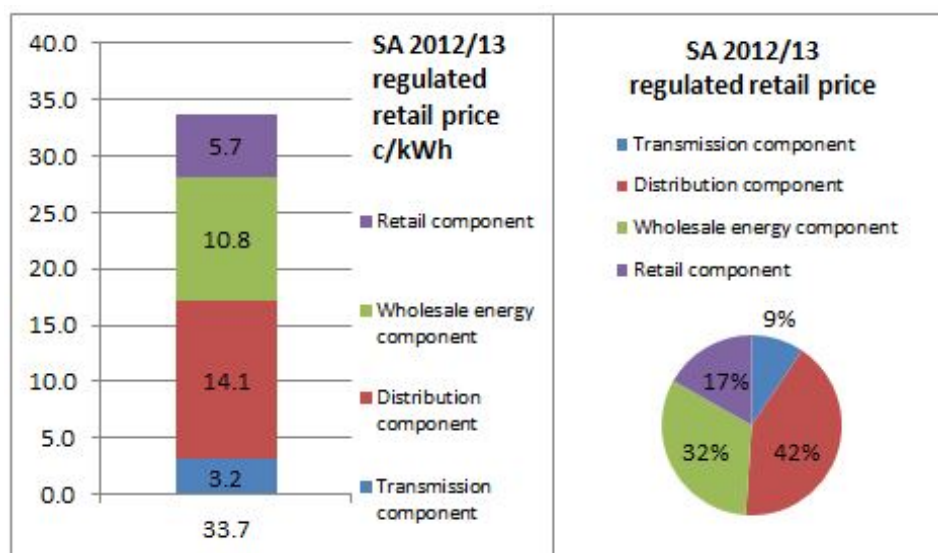
The AEMC's modelling was undertaken prior to the announcement of a pricing agreement between the South Australian Government and the state's largest retailer, AGL. The outcome of that agreement is not reflected in this analysis for South Australia.

The price for a representative residential customer was modelled to increase by 4% for FY12 to FY13 and then fall in each following year by an average 5%.

This trend reflects falls in the price for the Small Scale Renewable Energy Scheme and reductions in the retail margin flowing from falls in wholesale costs (retail margins are calculated as a percentage of non-network costs).

Wholesale energy costs in South Australia have traditionally been high due to the relatively small market, high dependence on gas fired generation and limited interconnection capability. This looks likely to ease with an increasing volume of wind generation.

Breakdown of South Australia's representative household price for FY13



About the AEMC Electricity Price Trends Report

The AEMC Electricity Price Trends Report identifies the factors driving residential electricity prices, and outlines reasons why they may rise or fall over three years to FY15. It is not a forecast of actual prices, but a guide to pricing trends based on current knowledge and assumptions. The report is prepared annually at the request of the Standing Council on Energy and Resources (SCER).

Price comparisons across jurisdictions

It is not possible to directly compare electricity prices across jurisdictions. The costs vary due to population spread and density, weather, technology, economic strengths and customer choices. The regulator in each state and territory applies different policies in setting regulated prices.

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