1 July 2012 Electricity Standing Contract Price Adjustment

The Essential Services Commission of SA (the Commission) has today released its decision in respect of the standing contract prices which AGL South Australia Pty Ltd (AGL SA) will be allowed to charge its South Australian electricity standing contract customers from 1 July 2012. The standing contract price will increase by 18%, largely due to the impact of the solar feed-in tariff scheme on network prices, other increases in network charges, and the introduction of a price on carbon emissions. In announcing its decision, the Commission has also announced the commencement of an investigation into the retail costs that comprise the standing contract price, particularly the wholesale cost component, which represents around 40% of the total price.

What is the Standing Contract Price?

The standing contract is the retail electricity contract that AGL SA must offer to all South Australian small customers (customers consuming less than 160 megawatt hours (MWh) per annum). Only 25% of all small electricity customers now use the standing contract, as the majority of customers have elected to switch to a market contract.

The Commission's electricity standing contract price determination comprises network and retail costs. Network costs consist of ElectraNet's transmission tariffs and ETSA Utilities' distribution tariffs, and comprise approximately 45% of a typical residential bill. The retail costs currently make up the remaining 55%, and include the cost of energy and retail operating costs.

The Commission made a standing contract price determination in December 2010, setting out the manner in which standing contract prices will be adjusted during the period 1 January 2011 to 30 June 2014. The price determination introduced a new methodology for fixing standing contract prices, in which the regulated price is adjusted annually, based on the weighted average movement in market contract prices. Under this Relative Price Movement (RPM) methodology, standing contract prices will be allowed to move in line with changes in market contract prices, subject to prices sitting within a predetermined floor and ceiling established by the Commission. Information about the RPM methodology is available in the 2010 Review of Retail Electricity Standing Contract Price Path - Final Decision Inquiry Report & Draft Price Determination - Part A - Statement of Reasons.

The Change in Electricity Standing Contract Prices

The Commission has calculated the movement in the weighted average market offer price by examining historical data and new market offer information submitted by electricity retailers. This information would have implied an increase in the standing contract price of 21.6% from 1 July 2012.

However, the Commission has, in parallel, been reviewing the floor and ceiling to apply to any movement in the standing contract price. The review has specifically examined the impact on the floor and ceiling of the introduction of carbon pricing and changes in network tariffs. The Commission’s determination of those matters has produced a ceiling that accommodates a standing contract price increase of up to 18%, which is less than the increase implied by market offers. The Commission’s decision, therefore, is to cap the standing contract price at an 18% increase.

The major driver of this increase is the change in network prices to apply from 1 July 2012. Network prices are regulated separately by the Australian Energy Regulator; the Commission treats network prices as a pass-through to the standing contract price. The increase in network prices alone would have led to an 11% increase in the standing contract price.

The majority of the increase in network prices is due to the increased payments made by ETSA Utilities for energy exported by rooftop photovoltaic (PV) generators, under the State Government’s Feed-in Tariff scheme. That scheme has led to a significant increase in the uptake of solar panels in South Australia, and the cost of the scheme is effectively met by all electricity customers through higher network prices. The scheme led to an increase in the average household energy bill of approximately $6 in 2011/12. That amount has increased to around $110 in 2012/13, which represents around 7% of a typical household bill.

The introduction of the carbon price has led to an increase in the 2012/13 annual bill for a standing contract customers of around 5% (or around $70 per annum for a typical household).

Customer Impacts

The table below shows indicative increases in standing contract bills between 2011/12 and 2012/13 for residential and small business customers.

Indicative impact on annual electricity bills (GST exclusive)

	Residential (5MWh p.a.)		Small Business (10MWh p.a.)	
2011/12 Annual Bill	**$1,525.94**		**$2,929.51**	
Increased Feed-in Tariff (FiT) costs	+$105.00	(6.9%)	+$214.60	(7.3%)
Increase in network charge (ex-FiT)	+$60.32	(4.0%)	+$107.61	(3.7%)
Carbon price pass-through	+$69.85	(4.6%)	+$139.70	(4.8%)
Other ^	+$39.45	(2.6%)	+$65.25	(2.1%)
2012/13 Annual Bill	**$1,800.56**	**(18.0%)**	**$3,456.67**	**(18.0%)**

^ Includes CPI adjustment to retail tariffs and changes in other retail charges

Investigation of Retail Costs

The Commission has also decided to commence an investigation of the retail cost components that make up the standing contract price. The Commission’s 2010 determination of the standing contract price included wholesale cost allowances that were based on the long run marginal cost of generation. The Commission was unable to rely on wholesale contract data for that review, given the lack of liquidity in the trading of wholesale contracts. Wholesale market liquidity has since increased, and market data suggests that wholesale costs faced by retailers may have changed from the amount determined through the long run marginal cost approach.

The Commission flagged in its 2010 Price Determination that such a review may occur, should liquidity in the wholesale market improve. The Commission intends to conduct the review over the course of the next 6 months, with any change in the standing contract price to apply from 1 January 2013. To commence the review, the Commission will be releasing an issues paper during the week commencing 18 June 2012.

What can Consumers do to Manage Their Energy Bills?

Households and small businesses can minimise the impact of increased energy prices in two ways: by shopping around for better offers and/or by reducing energy consumption.

A significant number of market contract offers available to small customers are priced below standing contract prices; the Commission encourages customers to take advantage of the price discounts available.

The Commission offers an online price comparison service which uses a customer's consumption history to determine the best price available. "The Estimator" is available for households and small businesses through the ESCOSA website (www.escosa.sa.gov.au). A phone based price comparison service is also provided by ESCOSA for those customers that cannot access the on-line Estimator (free-call 1800 633 592).

In addition, the following links may be useful:

- www.sa.gov.au/energy/audit – provides a step-by-step guide to conducting a home energy audit. It enables consumers to assess where energy is used within their homes and suggests ways to save energy.
- www.sa.gov.au/energy/toolkit - provides an overview of the Home Energy Toolkit, which helps consumers to complete a comprehensive audit of their home energy use. Home Energy Toolkits can be borrowed free of charge from public libraries.
- www.sa.gov.au/energy/efficienthouse – identifies ways to save energy in this interactive house.
- www.sa.gov.au/energy/savingguide – provides a checklist of activities that consumers can undertake to save energy, together with indicative costs of those activities.

Any consumer experiencing financial stress should contact their energy retailer to discuss options for managing the payment of bills. Retailers generally offer flexible payment arrangements to consumers and also have in place specific hardship programs and policies for those consumers who are in genuine financial stress. Some consumers may also be entitled to energy concessions offered by the State Government. For details go to: www.sa.gov.au/concessions.

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