

Senate Select Committee on Electricity Prices – Responses to questions from the 25 September 2012 Public Hearing

- *Question from Senator Milne: I wonder whether the government has considered the impact PV can have on peak demand in parts of the network with commercial buildings? I wonder what you are doing about how you can encourage the uptake of PV on commercial buildings and facilitating their access to the grid?*

The Australian Energy Market Commission (AEMC) is considering a rule change request to amend the National Electricity Rules (NER) to make a more efficient process for connecting embedded generators to distribution networks and clarify the costs for connections. The rule change request has been made by Climate Works Australia, Seed Advisory and the Property Council of Australia (the proponents).

The AEMC has published a consultation paper and information sheet on this rule change request; submissions closed on 9 August 2012. The AEMC will consider submissions received as it develops its draft determination on the rule change request.

- *Question from Senator Cormann: I am looking here at data released by the Australian Energy Regulator, AER, and it shows that, for 2011-2012, electricity costs in South Australia and Tasmania are far higher than in any of the other states in the national electricity market. Would you be able to shed some light as to why that would be the case? Is that related to renewable energy generation?*

The Department refers to the answers to this question provided by the Australian Energy Market Commission and the Australian Energy Regulator at the 25 September 2012 and 27 September 2012 respectively.

In terms of the commitment to provide information by state, the Department refers the Committee to the AEMC's report 'Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014' which provides estimates of household electricity prices by jurisdictions and the associated drivers of price movements. The AEMC's report can be found at www.aemc.gov.au/Market-Reviews/Completed/possible-future-retail-electricity-price-movements-1-july-2011-to-30-june-2014.html.

- *Question from Senator Cormann: What carbon price does the department assume in the modelling undertaken as part of the development of the White Paper, once the carbon tax reverts to a trading scheme.*

The Commonwealth Treasury's *Strong Growth, Low Pollution* carbon price modelling is used throughout the Energy White Paper (EWP) and is the same modelling that underpins the Australian Government's Clean Energy Future Plan. This trajectory was applied in the fixed and floating price period for the carbon pricing mechanism. The methodology being used in the final EWP is the same as that used for the draft EWP.

- *Questions from Senator Xenophon: Are you able to take on notice whether we are now paying above OECD rates for electricity?*

The Bureau of Resources and Energy Economics has provided the following response.

Figure 1 shows household electricity prices in Australia compared to other OECD countries. The series are measured in Australian cents per kilowatt-hour converted at 2010 and 2011 exchange rates (monthly averages).

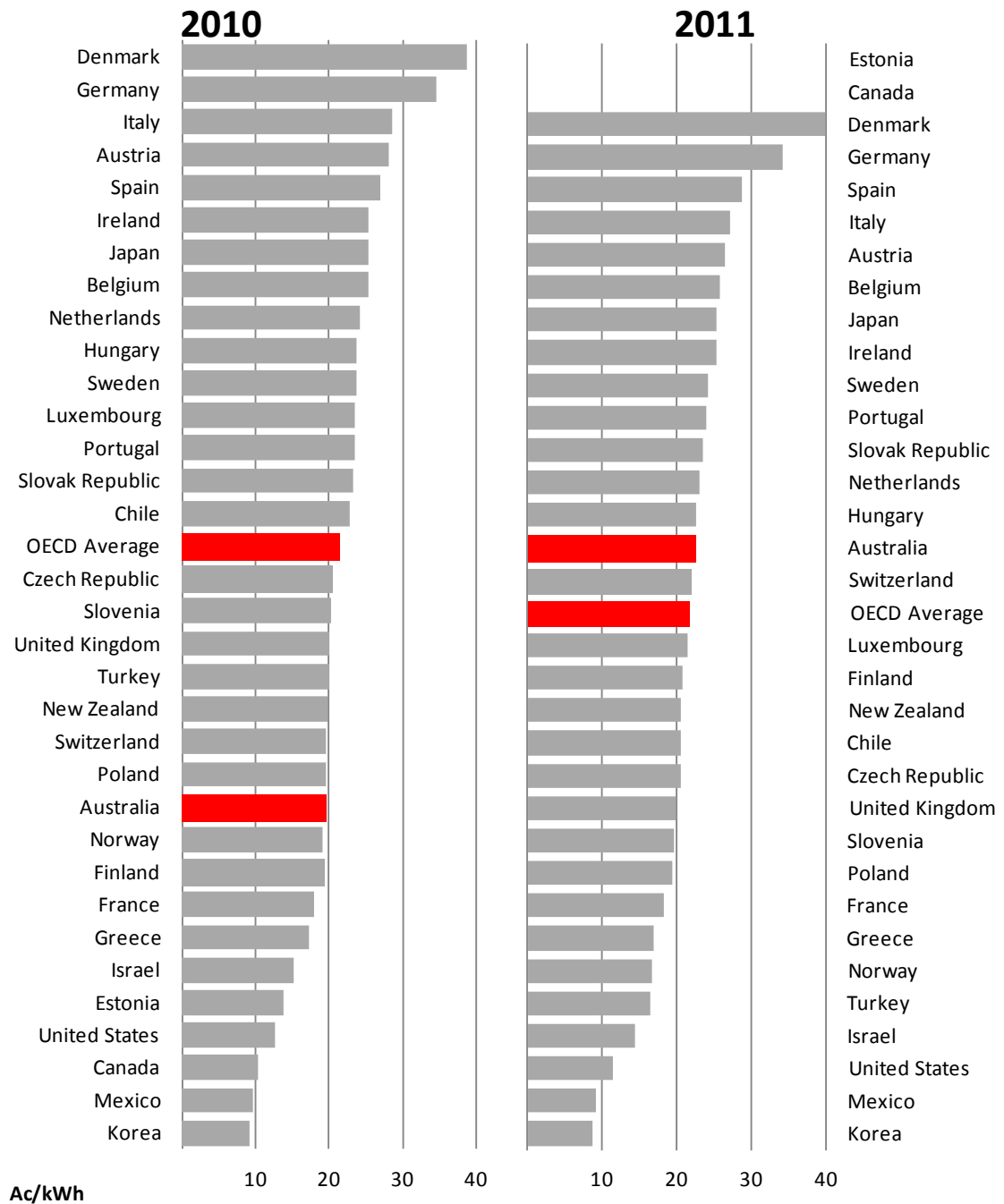
A more meaningful comparison than relying on calculations using currency exchange rates is to use purchasing power parity (PPP) exchange rates. PPPs reflect the purchasing power of different currencies (ie. what can actually be bought with money in different countries). A PPP measure avoids the effect of exchange rate fluctuations in making price comparisons between countries. PPPs are the rates of currency conversion that provide measures of the differences in price levels between countries.

Figure 2 shows household electricity prices (using a PPP measure) in Australia compared to other OECD countries. The series are measured in comparative price levels which may be defined as the ratios of PPPs to national exchange rates (i.e. a relative exchange rate).¹

Using a PPP measure, residential electricity prices in Australia averaged 12.66 USc PPP/kWh in 2010 and 14.20 USc PPP/kWh in 2011. Using this measure, Australian prices are well below the OECD average in 2010 and 2011.

¹ Comparative price levels are defined as the ratios of PPPs for private final consumption expenditure to exchange rates.

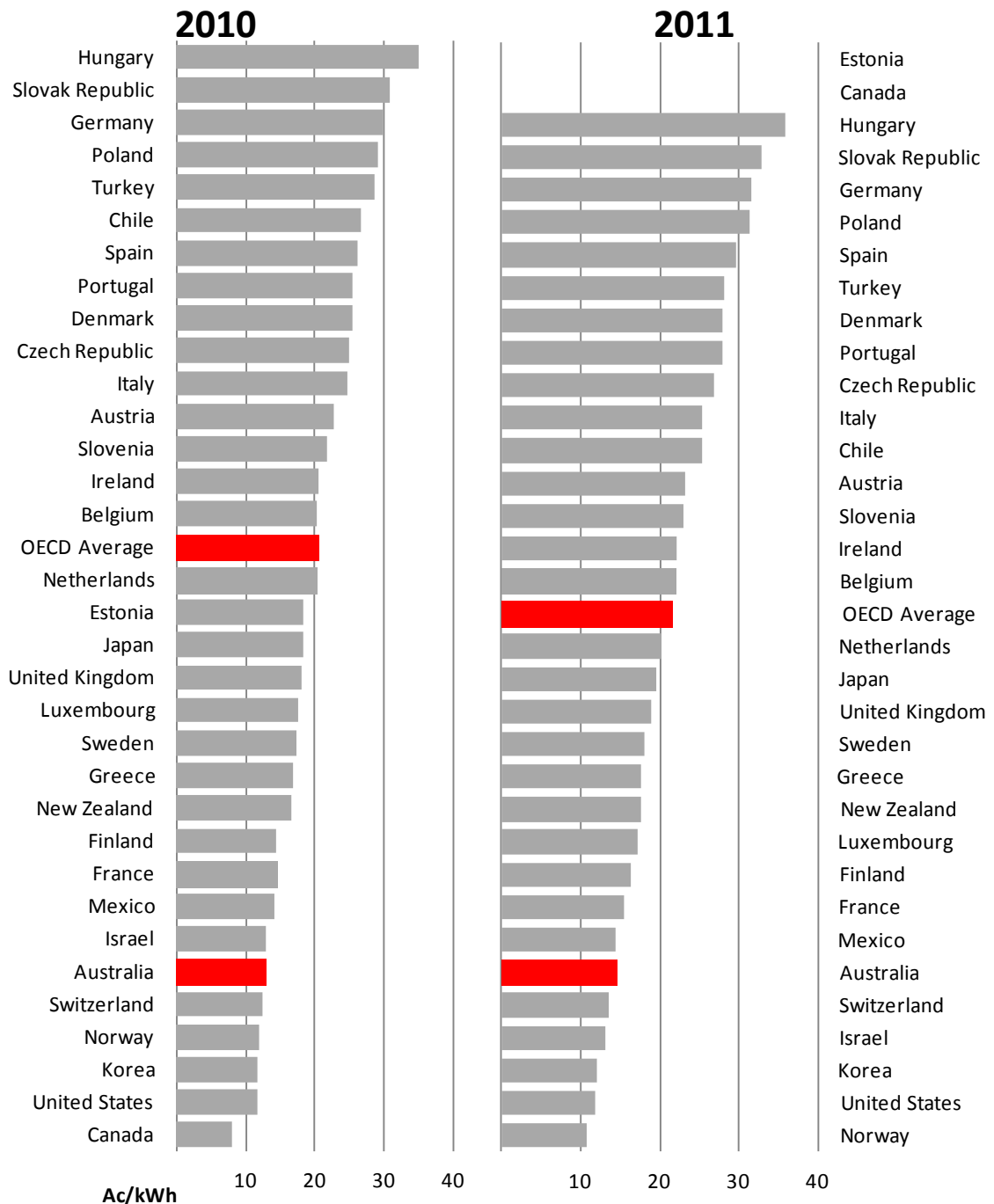
Figure 1: Household electricity prices, OECD economies, measured in Ac/kWh



Sources: BREE; Australian Energy Market Commission (AEMC), *Future Possible Retail Electricity Price Movements: 1 July 2010 to 30 June 2013 and Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014*; International Energy Agency (IEA), 2012 *Electricity Prices and Taxes*².

² The AEMC base its analysis on standard offers to household electricity users. The household electricity price data for the other OECD countries is sourced from the International Energy Agency (IEA) (*Electricity Prices and Taxes*). Prices, in national currency per physical unit, submitted to the IEA Secretariat by administrations are expressed in USD per unit using the exchange rates to the US dollar from the OECD Main economic indicators. Most of these prices are submitted on a quarterly or annual basis to the IEA Secretariat by administrations; others are taken from national administrations

Figure 2: Household electricity prices, OECD economies, PPP measure



Sources: BREE; Australian Energy Market Commission, *Future Possible Retail Electricity Price Movements: 1 July 2010 to 30 June 2013* and *Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014*; International Energy Agency (IEA), *2012 Electricity Prices and Taxes*; OECD.Stat.³

or websites. Data is not available for Iceland for both 2010 and 2011. In addition, residential electricity price data for Canada and Estonia is not available from the IEA for 2011.

- *Question from Senator Xenophon: Asked if the change in the national electricity objective from 'act in the interest of consumers' to 'act in the long term interests of consumers' represents a watering down of the objective.*

The National Electricity Objective (NEO) was introduced into the National Electricity Law (Schedule to the *National Electricity (South Australia) Act 1996*) in 2005. The NEO has always referred to the 'long term interests of consumers'.

- *Committed to providing the committee with copies of the Australian Energy Technology Assessment*

The report can be found on the Bureau of Resources and Energy Economics website or by following the link below:

<http://www.bree.gov.au/publications/aeta.html>