

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

21 – 22 October 2009

Question: sbt 31

Topic: Electricity Power Demand #2

Hansard Page: E14 (22/10/09)

Senator XENOPHON asked:

Senator XENOPHON—When the public electricity assets in South Australia were privatised in the late- 1990s there was an increase to the retail price in the region of 32 per cent. Could you take on notice how much drop in demand there was, because I suggest that there was not much of a drop in demand at all, even with the spike in electricity prices, which says something about the inelasticity.

Ms Quinn—I can certainly take that on notice. There is an issue that a spike in electricity prices is likely to have less of an impact on electricity demand response than an expected permanent increase in electricity prices. If consumers are looking forward and they know that the prices are going to go up 10 per cent one year and then go back down again then they have much less incentive to change their behaviour in the way they use electricity.

Senator XENOPHON—They did not go back down again in South Australia.

Ms Quinn—The wholesale prices that I have in front of me for South Australia for 2008-09 are lower than they were in 1999-2000.

Senator XENOPHON—Is that in terms of what consumers were paying? Could you take that on notice?

Ms Quinn—Yes.

Senator XENOPHON—Thank you.

Answer:

The demand for electricity has exhibited an upward trend as both the population and the economy have continued to grow, both in South Australia and in Australia as a whole since the late 1990s. As a result, detailed analysis would have to be performed in order to accurately isolate the effect of electricity privatisation on the demand for electricity. This analysis would be further complicated by the protracted de-regulation and privatisation process which occurred in South Australia in the late 1990's and early 2000's.

However, it is accurate to say that in the short-run electricity demand is expected to be inelastic with respect to prices, especially if the price change is thought to be temporary. A permanent increase in electricity prices will more likely lead to a demand response as consumers adjust their behaviour by investing in improvements in efficiency which take time to justify their initial cost.

In South Australia, the average electricity spot price in the financial year 1999-2000 was \$59.27 per megawatt hour; in the financial year 2008-09 the average electricity spot price was \$50.98 per MWh. While these prices are spot prices, retail and spot prices move together over time.