

Media Release
30th April 2014

Smarter Electricity Prices for a Sustainable Future

While some key electricity cost drivers are falling, consumers need access to smarter pricing structures to keep control of energy bills, new Energy Network Association (ENA) publications show.

As the energy networks industry meets for its biennial conference in Melbourne this week the ENA will release its road map for pricing reform, *The Road to Fairer Prices* and an overview of *Electricity Prices and Network Costs*.

ENA CEO John Bradley said that the publications highlight a turnaround in key network cost drivers that influenced electricity prices in recent years.

"Since 2007 household electricity bills have increased on average by 10% per annum and, along with environmental schemes and the carbon tax, network costs were a key driver," Mr Bradley said.

"However, significant falls are now occurring in key network cost drivers, including the cost of finance, capital expenditure, and changes to prescriptive reliability standards."

Mr Bradley said while these falling cost drivers were positive for consumers, customer bill outcomes continue to be exposed to trends in demand growth, subsidised solar schemes and retail offers.

"Energy consumption has been falling since 2007, but it is the peak demand on just a few days per year that drive network capacity costs.

"Customer bills will also be affected by whether customers shop around for an electricity retailer, as savings of up to 15% to 25% are available between the most expensive and cheapest offers in almost all jurisdictions.

"Network pricing reform is essential to keep downward pressure on electricity pricing, ensure fairness and ensure the Grid can accommodate major changes in use," Mr Bradley said.

"Most Australians would be surprised to learn that the way they pay for their electricity network bears little relationship to how much it costs to supply them.

"Most electricity customers pay network charges based on the volume of energy they use in a quarter, regardless of what time of day it's used or how much they contribute to the peak demand," Mr Bradley said.

"This creates unfair cross-subsidies. For instance, it's estimated a customer using an air-conditioner without load control at peak times receives a hidden subsidy of \$350 per year from other customers who don't."

Mr Bradley said significant cost-shifting had occurred with the rapid take-up of solar panels, which are now used by almost 1.2 million network customers. If tariffs are based on energy volume, customers without solar panels are likely to pay more than their fair share.

"Recent Victorian indicative analysis suggests that solar customers can receive network subsidies from other customers of \$60 to \$180 per year, while in Queensland approximately \$100 million has been added to the electricity bills of households without solar PV."

Mr Bradley said smarter tariffs were required which ensure fairer cost recovery and reward consumers who conserve energy at times of peak demand, reducing network cost pressure.

"It makes sense to have tariffs which reward customers who help to reduce the need for network investment.

"Smarter tariffs have the potential to provide immediate and long-term savings to consumers but require smart meters which allow the time of energy use to be recorded," Mr Bradley said.

Ends.

Media Contact: Emma Watts 0402459565

KEY ELEMENTS

Changes to key network cost drivers and a moderate outlook for electricity prices;

- As debt markets recover from the GFC, the approved cost of finance is now 2-3% lower than the high levels required in 2011.
- Demand has been falling and distribution networks have responded, reducing capital expenditure by approximately \$3 billion in total for the three years from 2009/10 to 2011/12
- Network companies are continuing to hunt cost savings, with NSW distribution companies projecting savings of \$4.3 billion over the 5 years from 2011, resulting in falls in network charges for consumers.
- Recent decisions of New South Wales and Queensland Governments to remove prescriptive reliability planning standards are also expected to save more than \$2 billion in networks capital expenditure in the next 5 years.
- For retail residential electricity prices the AEMC has projected that overall the national average annual increase will be lower than the expected level of inflation at 1.2% a year from 2012/13 to 2015/16. Similarly the latest investment and pricing proposals for the NSW electricity distribution businesses Ausgrid, Endeavour Energy and Essential Energy project a fall in real household electricity prices for a second year in a row.

ENA's roadmap to fairer prices includes five key elements:

- A **balanced framework for smart meters** that achieves the fastest, economic rollout to benefit all consumers.
- **Better information and decision tools** for consumers through a joint initiative between electricity networks, retailers and governments.
- **National agreement to introduce flexible pricing and smart meters** for key consumers, based on triggers (such as the connection of solar panels, battery storage, electric vehicles and connections to new premises) and consumption thresholds.
- **Review of customer hardship programs** to support vulnerable consumers during change to pricing structures.
- **Deregulation of retail prices**, delivering long-standing Council of Australian Governments (COAG) commitments to deregulate where markets are sufficiently competitive.