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13 February 2015

Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Email: nswact@aer.gov.au

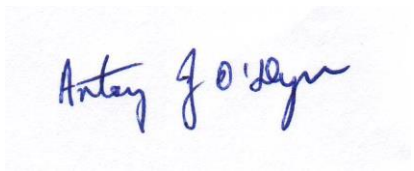
Dear Mr Anderson,

Thank you for the opportunity to comment on the NSW Electricity AER draft determination 2014-2019.

The National Institute of Economic and Industry Research (NIEIR) is a leading economic and energy forecasting organisation. NIEIR has undertaken extensive work for organisations such as AEMO and distribution businesses right across Australia.

Could you please consider the attached paper as part of your final decision.

Thank you.



TONY O'DWYER
Director

Att.

Comments on New South Wales Energy and Peak Demand Forecasts

Prepared by the
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Comments on New South Wales Energy and Peak Demand Forecasts

The electricity industry in Australia has been through extensive structural change over the last five years. Electricity sales have declined in most states and peak demand growth appears to have flattened.

The key drivers of sales outcomes over the 2011 to 2015 period have been:

(i) weak economic growth in some states of Australia;

(ii) a sustained high exchange has led to many electrical intensive industries to rationalise or close their establishments in Australia. These include petrochemicals, base metals (aluminium) and motor vehicle assembly plants;

(iii) sharp increases in electricity prices since 2008 have also had a significant direct impact on sales and peak demand outcomes (see Figure 1); and

(iv) generous subsidies to small scale renewables in most states, in particular to photovoltaic systems.

The operating environment for the electricity industry has now changed fundamentally. This will lead electricity sales to resume growth and peak demands to continue to increase over 2015 to 2019.

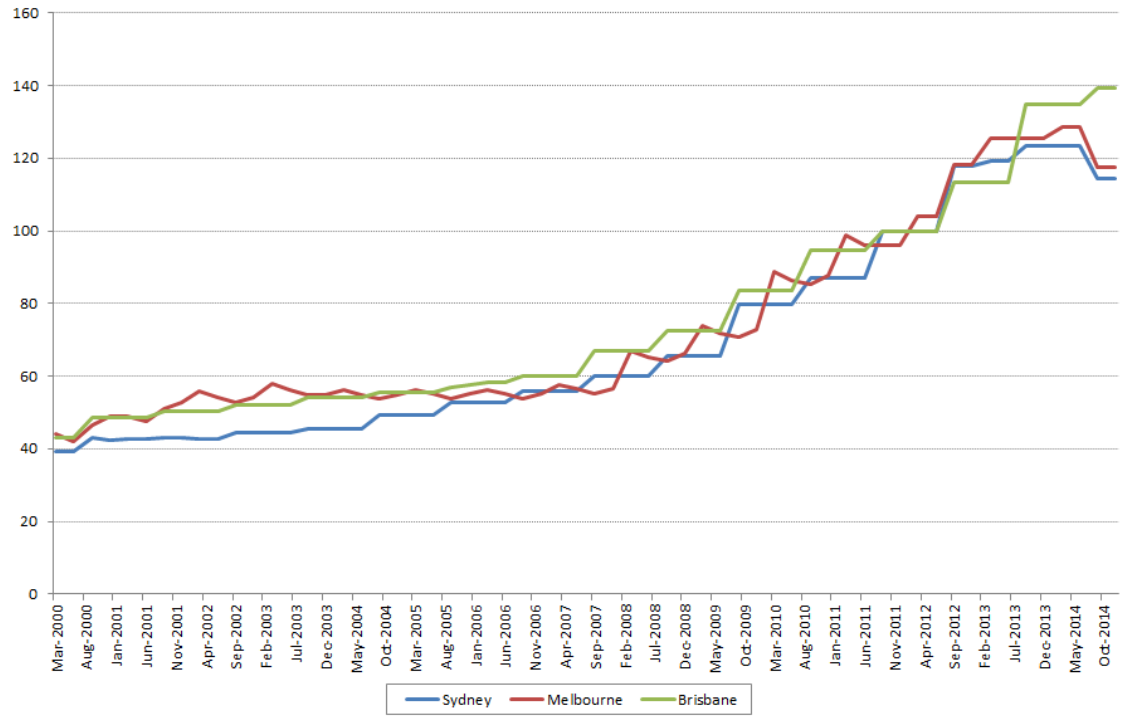
The key drivers of sales and maximum demand outcomes over the 2015 to 2019 period will be:

- the impact of historical electricity price increases have largely run their course in terms of their sales impacts. Indeed, electricity prices are falling as a result of the removal of carbon and falling distribution prices. Residential electricity prices in New South Wales have fallen by 7.2 per cent in nominal terms in 2014-15;
- the downward pressure on the A$USD, particularly since September 2014, will lead to an improvement in manufacturing activity, especially for export and import competing industries;
- the closure of major industry in response to the high exchange rates from 2011 to 2014 appears to have run its course;
- the Reserve Bank of Australia's decision to lower interest rates in February 2015 together with the sharp fall in oil prices will lead to higher levels of household disposable income and higher electricity sales;

- with the removal of generous financial incentives for small scale photovoltaic systems the number of installations have fallen sharply in most states;
- the forecast economic growth in New South Wales over the 2014 to 2019 period by NIEIR will match the national forecast economic growth rate of 2.6 per cent. Historically, over the 2009 to 2013 period New South Wales' economic growth was below the national growth rate;
- the likely sharp rise in wholesale natural gas prices will increase the competitiveness of electricity, particularly for residential customers in New South Wales; and
- air conditioning sales and physical connections to the New South Wales electricity network continue to increase and will support higher peak demand growth through to 2019 (see Figure 2).

We consider that some of the forecasts that are available in the public domain are now too low. We attach NIEIR's forecast for New South Wales energy and summer peak demands as shown in Figures 3 and 4.

Figure 1: Nominal residential electricity prices, quarterly (Index 2011-12 = 100)



Source: ABS

Figure 2: New South Wales annual air conditioner sales (kW), financial years (Index 2011-12 = 100)

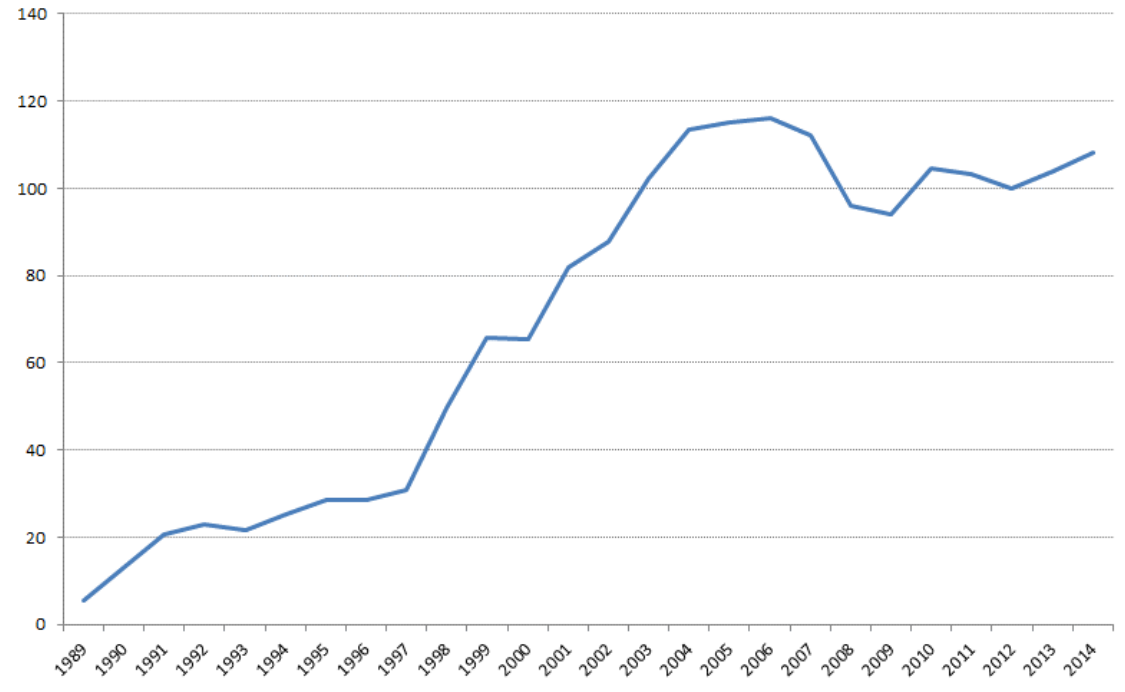


Figure 3: Annual New South Wales energy (GWh) native as sent out

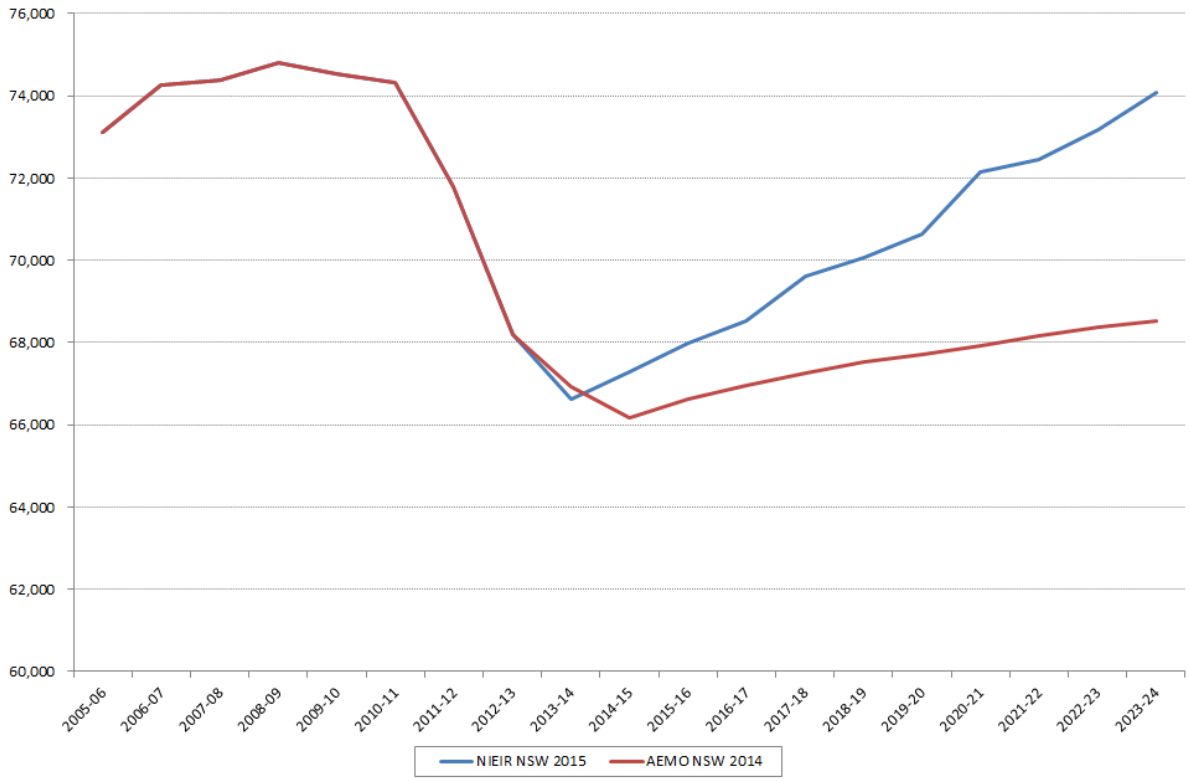


Figure 4: Maximum New South Wales summer demand (MW) – native as sent out