



THE UNIVERSITY
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Peak Pricing

An analysis of the South Australian Electricity
Market

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This thesis is submitted to the University of Adelaide as a partial fulfillment for the Degree of Bachelor of Economics (Honours)

Declaration

Except where appropriately acknowledged this thesis is my own work, has been expressed in my own words and has not previously been submitted for assessment

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Abstract

This paper examines whether there is justification for the implementation of peak pricing in the South Australian electricity market. Peak pricing in the South Australian electricity market appears to improve social welfare by improving consumer surplus, but this analysis is based on strong assumptions that include constant marginal cost and zero cross elasticity of demand. An analysis of peak pricing was investigated with varying cross elasticity of demand. It was found that a greater cross price elasticity value the greater the social welfare improvement in the off-peak model due to a greater increase in off-peak electricity consumption. However, the converse happens for the peak model. In the analysis of benefits outweighing costs, the estimated metering charge to consumers is approximately \$120, but the savings on household bills due to time of use pricing almost covers the charge. However, the total expenditure on metering is likely to exceed savings on network costs of approximately \$134 million over ten years. Hence, the costs are likely to outweigh the benefits of metering, the case for time of use pricing based is weak.

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