

Get Ready Pack



Energy prices in Australia

Energy constitutes a major cost for many businesses. While the slowing global economy has taken some of the pressure off energy prices for the moment, the Federal Government's proposed Carbon Pollution Reduction Scheme and the 20% Renewable Energy Target will put upward pressure on prices, as generators pass on costs from purchasing carbon permits or investing in low-emissions power.

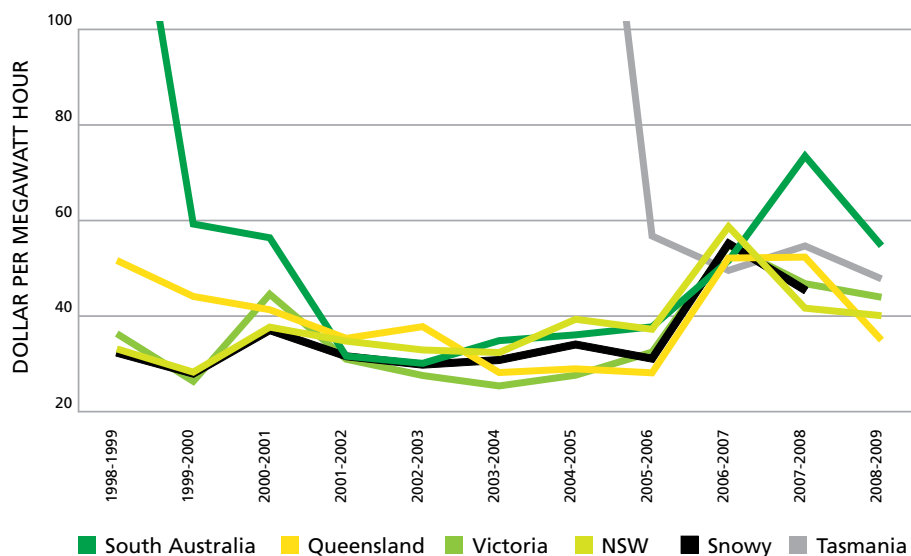
This fact sheet gives a brief overview of factors influencing energy costs and provides tips on strategies that your company can implement to reduce your exposure.

Factors influencing energy prices

The electricity and gas prices paid by the consumer are a composite of wholesale energy costs, network charges, and retail costs and margin. Since the introduction of full retail contestability¹ electricity prices in NSW, VIC, QLD, SA and the ACT have been characterised by increasing volatility. Gas prices are less volatile and rises have been more modest, although there is variation between states reflecting differences in demand and infrastructure.

Key factors influencing movements in wholesale energy prices include: the extended drought; bushfire damage to electricity transmission lines; and spikes in demand due to unusually intense heatwaves and cold snaps. Strong economic growth prior to the current global financial crisis

AVERAGE
WHOLESALE PRICES
IN THE NATIONAL
ELECTRICITY MARKET



Source: National Electricity Market Management Company

1. Small electricity users in NSW, QLD, SA and the ACT, and small gas users in NSW, VIC, SA and WA can still choose to pay regulated prices rather than entering into market-price contracts. In WA only large electricity users can choose market contracts.

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pushed up the costs of fuel, steel and labour, making operation and construction of plants significantly more expensive. Mandatory increases in gas and renewable generation have also had some impact. New Liquefied Natural Gas export facilities will make domestic gas prices more subject to movements in the international price.

Network charges are set by regulators, and reflect the costs of transmission and distribution infrastructure. These charges have moved very differently between the States. They have fallen in VIC, risen in line with inflation in SA, and risen by 2-3% more than inflation in QLD, WA and TAS. Sharper rises are set for 2009-10 in NSW and the ACT, where average electricity bills are expected to rise by 4-7%. The rises are largely due to the need for higher capital investment to replace old assets, improve reliability, and meet growing demand. We have also seen growth in retail margins which has flowed through to customers.

Reduce your exposure to energy prices

Businesses should seek to reduce exposure to high prices by increasing the efficiency of energy use. A variety of government initiatives, including the Federal Government's temporary 30% business tax break, provide opportunities to invest in energy-efficient plant and equipment. For details see Ai Group's on-line list of Government Funding Programs at www.aigroup.com.au.

Seek out the best energy deal for your business

Businesses should seek out and compare offers for energy contracts from a number of retailers.

Some useful tips include:

- Be aware of when your contract expires: don't leave it to the last minute to approach retailers. Historically, autumn and spring have been the best times to negotiate prices. Try to avoid re-negotiation of contracts in peak demand periods such as summer.
- Check the status of retail contestability in your state, and whether you are eligible for a regulated safety-net tariff.
- Providing information on your energy use for the last 12 months and load profile will help the retailer assess your needs. Generally, a customer with a peak load in the mid afternoon in summer will be a greater risk to retailers and will pay a higher price.
- Ask for quotations in writing before accepting. Also

request quotations for 1, 2 and 3 year periods.

- Request confirmation of whether you are on the correct network tariff.
- Validity on retailer offers is often very short. Be ready to analyse and respond quickly.
- Be sure that you understand the implications of any penalty clauses in your contract. If you consume more or less energy than you contracted for you can be penalised.
- Have a negotiating strategy and stick to it.
- Account management services vary from retailer to retailer. Be sure that you are not paying for a service that you do not really need.
- Some retailers provide a basic service but this is not necessarily clear from their documentation. Explore this with potential suppliers.
- There is no standard quote format, which makes it difficult for users to compare different retailers. Try to make sure you can identify the various cost elements. Ask your retailer to itemise the retail offer, network charges and pass through costs.
- Ensure that you understand the various components of the bill. If you changed retailers, make sure you haven't been "double billed".
- Know the National Meter Identifier (NMI) number for your account.
- If changing electricity retailer, allow for the cost and installation time for a "smart meter".
- Make sure that your retail contract does not expose you to volatile wholesale prices.
- If you have a number of sites, consider bundling the accounts together in your contract. You may be able to negotiate contracts for both electricity and gas together.
- Make sure price offers include GST. Also check for exit fees.

Further assistance

Ai Group's Energy and Sustainable Business Helpdesk can assist with energy contracting and implementation of energy efficiency initiatives. Call 1300 733 752 or email sustainablebusiness@aigroup.asn.au.

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