

Electricity pricing—how it works

THERE ARE MANY DIFFERENT COSTS INVOLVED IN THE GENERATION, TRANSPORT AND SALE OF ELECTRICITY TO CONSUMERS. CONSUMERS ARE OFTEN ONLY AWARE OF THE BILL THAT AN ELECTRICITY RETAILER SENDS, YET MANY OTHER PARTIES ARE INVOLVED IN THE SUPPLY OF ELECTRICITY.

Retailers are essentially the middlemen that link electricity customers or users with the companies that produce and transport electricity. Electricity use can only really be measured at the point of consumption, so electricity retailers bundle the costs of generation, transmission and distribution and send customers a single bill.

Generation

In the National Electricity Market (NEM), comprised of Queensland, NSW, ACT, Victoria, SA and Tasmania, generators offer electricity at a variety of prices, and the cheapest electricity is used to supply customers. Customers have no way of knowing which generator has produced the electricity they use.

Before the reform of the electricity market, each state generated its own power to sell to its own customers. Now, electricity is traded across state borders (except WA and NT) using interconnectors between high voltage networks. Stronger interconnection means sharing reserves between states and results in greater security of supply.

Transmission and distribution

Each state is served by its own transmission company, which transports electricity along large capacity electricity lines from the site of generation to smaller lines.

Due to the huge costs involved in establishing and maintaining transmission assets, there is generally only one transmission company in each state or area, and for this reason they earn a fixed revenue. The ACCC was responsible for determining revenues for transmission companies in NEM participating states. However, from July 2005 the Australian Energy Regulator came into being and took on the regulation of the electricity transmission networks.

The final transport of electricity to the customer is completed by smaller lines, known as distribution lines, the lines we see in our streets. Distribution companies are regulated by price caps, which are determined by state regulators. Transmission companies work out the prices they can charge from the revenue they are allowed to earn. Whereas, distribution companies are told what prices they can charge their customers, which determines the revenue they can earn.

