

SACOSS Essential Services Factsheet: Energy



SACOSS

South Australian Council
of Social Service

Electricity Pricing

Overview

By the time an energy bill is received by a consumer, a number of costs have been factored in that do not appear, and which may not be known to consumers. Because consumers are billed by retailers, only the final cost is displayed, and this cost includes a number of elements including generation, transmission, distribution, and retail margin. In markets such as South Australia, there still exists a regulated price for both electricity and gas. For electricity, AGL administers the regulated price, known as the Standing Contract, while all retailers offer unregulated, or Market, contracts. The Standing Contract price is decided through a regulatory process undertaken by the Essential Services Commission of SA (ESCOSA), which takes into account all elements of the total cost of providing electricity to a household or business.

The 'Price Stack'

The term 'price stack' refers to the total of all the cost elements involved in providing electricity to a customer. The price stack method is used by ESCOSA in setting the Standing Contract price, and each element is assessed before being added to the 'stack'. The price stack includes (approximate %):

- *Wholesale Energy Costs, or Electricity Generation (WEC) (35%)*: The WEC is the cost to retailers of purchasing electricity from the wholesale 'pool', and includes both the direct cost (which varies significantly) and the cost of hedging against the risk of high price rises.
- *Transmission (8%)*: Transmission is the movement of electricity from the generating plant to the transformers that are dotted throughout urban areas, before the distribution system carries it to the home or business. In SA, Electranet is the sole transmission business.
- *Distribution (35%)*: Distribution refers to the process of delivering electricity to the home or business and like transmission is considered a natural monopoly. ETSA Utilities is the sole Distribution Network Service Provider (DNSP) in South Australia and its costs are regulated on a five-yearly basis, formerly by ESCOSA but now by the Australian Energy Regulator (AER).
- *Retail Operating Costs (9%)*: It is energy retailers that have the most interface with consumers, and essentially act as the 'middleman' between the other market players and the customer. Retail costs include actual operating costs — ie billing systems, call centres etc.
- *Retail Margin (4%)*: The retail margin is the profit made by retailers after factoring in all their operating costs. The margin made by retailers is a relatively small component of the bill.
- *GST (10% on all of above)*: In reality, all of the components above represent only 90% of the total bill — on top of all these costs sits 10% GST.

What the price stack and price regulation means to energy businesses

By ensuring that all the elements of the price stack are transparently presented, regulators ensure that when setting Standing Contract prices, we 'know what we are getting'. It also means that transmission and distribution companies and retailers all need to make a case for any rises in their costs and to comply with any ruling, whether through the AER (transmission and distribution) or through ESCOSA (retailers).

What the price stack and price regulation means to consumers

Transparency, robust scrutiny and certainty are the key for energy consumers in terms of the price stack. Use of the price stack and the open and transparent way in which its elements are scrutinised to ensure the best outcomes for consumers means that there can be a level of trust placed in ESCOSA. Knowledge of the way in which prices are set also allows consumers to be informed and to participate in these processes — either individually or through organisations and peak bodies.

What the price stack and price regulation means to community sector organisations

For community sector organisations, knowledge of the price stack is not as important as knowledge of the obligation for retailers to offer a Standing Contract to their customers. However by understanding the elements of a retail energy bill and the process involved — particularly the ESCOSA retail price setting process — advocates can become involved in this process when it occurs. By informing regulators of the issues faced every day by low income and disadvantaged consumers, and relating these issues to the price setting process with reference to the issue of equity in pricing, community sector organisations can affect the end price. Moreover, organisations can become involved in the tariff structures that determine how much is paid by different customers.

*For other SACOSS Essential Services Factsheets
or further information on energy markets visit
www.sacoss.org.au/essential-services*

*For further information regarding this fact sheet
contact SACOSS on 8305 4222 or email sacoss@sacoss.org.au*