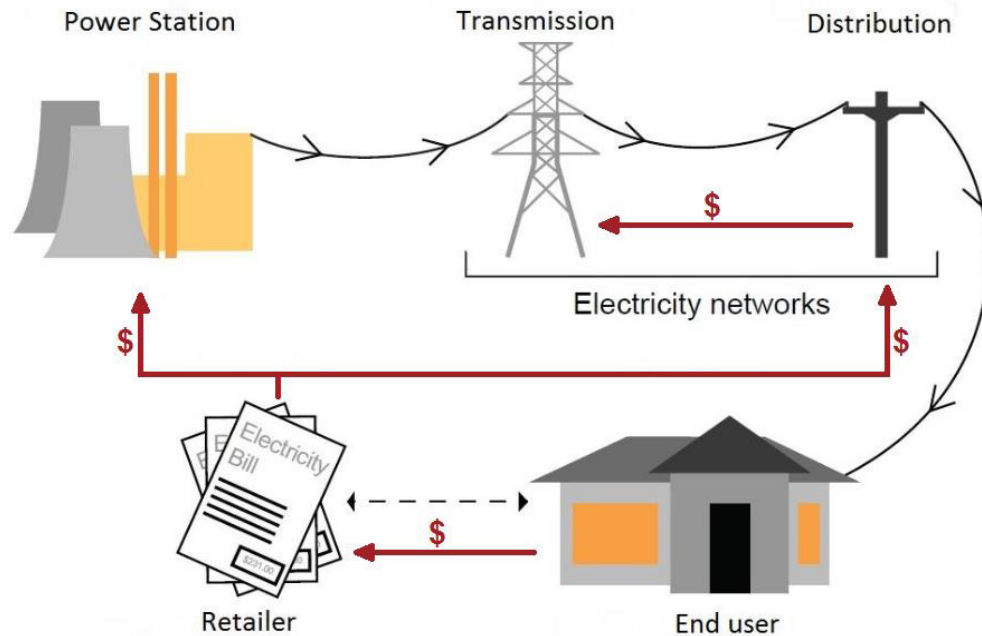


## How The Price Of Electricity Is Determined.

Electricity prices are made up of:



- *Grattan Institute graphic*

### The Generator

The electricity that we use in our homes is generated by a **power station** and then sold on the competitive wholesale energy market. The cost of the electricity changes depending on the demand for energy at a given time. This market is monitored by the Australian Energy Market Operator (AEMO).

**The Network**, that is responsible for the **transmission and distribution** of the electricity, brings this energy to our homes and to industry. The electricity travels through wires on big poles at a dangerously high voltage, so before it can be used in our homes the voltage needs to be lowered. This process occurs in the substations. After that, the electricity is supplied to the distributors who are the owners of the poles and wires that we see on the streets connecting the electricity to our homes.

Some of these distributors are Ausgrid, Endeavour or Essential energy.

The Australian Energy Regulator (AER) sets the price of the transmission and distribution service every 5 years.

The **retailer** is the company who sells the electricity directly to the consumers.

Before offering a tariff, the retailer has to take into account the cost of buying the energy from the generator and the charges by the networks for delivering the electricity.

This final tariff usually includes:

- 20 - 25% for the cost of the generator or power station
- 50 - 60% for the cost of the transmission and distribution
- 10 - 15% retailers' costs, including green schemes and the carbon tax (which will soon be removed from your costs).

**The Australian Energy Regulator (AER) is in the process of *resetting* the price of the transmission and distribution of electricity in NSW and the ACT for the next 5 years.**

The AER was concerned that the **Network** costs grew by 64% between 2006 and 2013 and so proceeded with a reform process. This reform provided guidelines for the networks to follow when they do their calculations in order to propose an increase of the price.

In November 2012 the Australian Energy Market Commission (AEMC) changed the rules resulting in a renewed emphasis on long term interests of consumers. These changes have meant that the proposals for the increase of the price need to demonstrate that the consumers were engaged in the process.

The proposals submitted by the networks for price increases for the years 2014 – 2019 are available on the AER website ([www.aer.gov.au](http://www.aer.gov.au) ) or on the websites of the distributors: Ausgrid, Endeavour or Essential energy. Each of the distributors has proposed to increase their earnings more than what they are currently allowed. As a consequence, the average annual price increases about 2%.