SPINIFEX ENERGY
AUSTRALIAN ENERGY SOLUTIONS

# Never Be Confused About an Electricity Supply Contract Again

## Who is this Document For?

This document is written **for anyone in charge of managing the electricity costs of a business or school and wants to be an authority** on their outgoings.

If you are signing an electricity supply contract for the next 3-5 years you are likely signing up to spend six figures on an operating expense. With that amount of money at stake, you also want to **be 100% certain** what you are signing is going to be best for the business, and the lowest cost option. You would like to speak with **authority** about the terms, conditions, electricity rates and energy market movements so when the board or management team has questions you can confidently explain the position.

If you have said any of the below statements recently this document will add some value to your next review of your electricity supply contracts:

1. I have recently signed a contract with an energy retailer but **have no idea what all the line items are** on my new electricity bill;
2. I fielded a couple of quotes from energy retailers but have **no idea whether they are market value or a 'good deal';**
3. We usually just resign with our incumbent energy company because **they contact us right before our current contract expires.**

In this document I'll outline how to ensure you are sourcing competitive offers for your new electricity supply contracts, a description of all the relevant fees and charges you would normally see on your electricity bills, and how to monitor historic and recent movements in the energy market for pricing competitiveness.

I'd also be honoured to have you join us at Spinfiex Energy as a client – we can manage your energy usage from a holistic perspective and ensure your energy expenses are being **proactively managed to optimise costs,** by the hardest working energy consultancy in Australia.

Click Here to book a call with one of our energy experts.

# Electricity Bill Line Items Explained

Most of you have paid hundreds of electricity bills, but I would guess to say that you are either ONLY reading the total amount for payment, and perhaps sometimes reading through each line item with little interest or understanding what they all mean.

It is important to note however that Energy Charges only usually make up 30-50% of your total energy bill, so the balance of charges hold significance, so knowing what they are and why they are charged is necessary to be confident in renewing electricity supply contracts.

**Here is a list of the most common electricity bill charges and fees:**

## ENERGY CHARGES

Energy Charges are the main *contestable* charges on your electricity bill, and are the volumetric kind measured in kilowatt hours. They are *contestable* because Retailers offer their pricing based what they can competitively offer their customers.

1. **Off Peak:** Charges applied to energy consumption during off-peak hours, typically late at night or early morning, when electricity demand is lower.
2. **Peak:** Charges for electricity consumed during peak hours when demand is at its highest, usually during the day or evening.
3. **Shoulder Charge:** A charge applied for electricity usage during the shoulder period, which falls between peak and off-peak times. This period often occurs in the morning and late afternoon, when electricity demand is moderate.

## NETWORK CHARGES

Network tariffs in the C&I (Commercial and Industrial) electricity market include charges for using the transmission (TUOS) and distribution (DUOS) networks, which cover the cost of delivering electricity from generators to end-users. These charges are typically passed through by your electricity retailer. Key network charges include “daily supply charges”, demand charges, which are calculated based on your maximum power use (often measured in kVA or KW) during peak times.

Understanding the specific rates for these tariffs is crucial because they directly impact your total electricity bill. For example, *“peak demand”* charges are applied when your business’s energy use spikes during high-demand periods, and *“excess demand”* charges may apply if your usage exceeds a certain threshold. If your business has high demand during off-peak hours or operates with a more stable load, selecting the right tariff structure could significantly reduce these costs.

You can often change the tariff your business is on to align better with your consumption patterns. By adjusting to a tariff with lower rates for off-peak or shoulder periods, or by minimizing your kVA demand, you may lower your overall bill and better manage high demand-related charges.

1. **Metering Charge:** A fee for the service of reading and maintaining your electricity meter, which tracks your consumption.
2. **DUOS Network Daily Charge (Cost):** Distribution Use of System (DUOS) fees are daily charges for using the local electricity distribution network to deliver power to your premises.
3. **DUOS Peak:** Charges for using the distribution network during periods of high demand (peak hours).
4. **TUOS Network Daily Charge (Cost):** Transmission Use of System (TUOS) fees are daily charges for accessing the high-voltage transmission network that transports electricity over long distances.
5. **TUOS Peak:** Charges for using the transmission network during periods of high demand (peak hours).
6. **DUOS Demand (kVA/Mth):** A charge based on the maximum power demand (measured in kilovolt-amperes) placed on the distribution network during the billing period.
7. **TUOS Demand (kVA/Mth):** A charge for the highest level of power demand placed on the transmission network during the billing period.
8. **NUOS (Network Use of System)** charges on Australian electricity bills are simply the sum of two types of costs:
    - **DUOS (Distribution Use of System)** – charges for using the local electricity network that delivers power to homes and businesses.
    - **TUOS (Transmission Use of System)** – charges for the high-voltage network that transports electricity over long distances from power stations.

    These charges cover the cost of maintaining and operating the electricity infrastructure, and they are regulated by the government.
9. **NUOS Energy charges** are the *volumetric* Network Charges based on the volume of kWh used over the billing period.

## ENVIRONMENTAL CHARGES

1. **AEMO Ancillary Charge:** A fee from the Australian Energy Market Operator (AEMO) to cover services that maintain grid stability and support system operations.
2. **AEMO Connection Point Fee:** A charge for connecting your site to the national electricity grid, managed by AEMO.
3. **AEMO Pool Fees:** Charges related to the national electricity pool, where electricity is traded between generators and retailers.

4. **LRET (Large-scale Renewable Energy Target):** A cost related to the government's renewable energy program, which incentivizes the production of large-scale renewable energy.

5. **SREC (Small-scale Renewable Energy Scheme):** A fee supporting small-scale renewable energy installations, such as residential solar panels, as part of Australia's broader renewable energy goals.

These descriptions provide a clear understanding of each charge that may appear on future electricity bills.

With an understanding of *why* these charges are being charged, and *how* they are being charges, I hope you now have a better understanding of each of the line items on your C&I electricity bill, so if anyone asks, you are now the authority on the matter.  It might be useful to keep this document saved in your files for the next time you need a refresher.

## Key Terms in an Electricity Supply Offer

When evaluating an electricity supply agreement or OFFER from a prospective electricity **Retailers it's important to understand several key terms as they pertain to your overall cost competitiveness of each offer:**

1. **Validity Period:** This is the timeframe during which the retailer's offer remains valid. After this period, the terms, rates, and conditions may change. Locking in the agreement within the validity period ensures that you secure the quoted rates and terms.

2. **Load Flex:** This refers to the flexibility in your energy consumption levels allowed under the contract without incurring additional charges. Some agreements offer a range within which your energy use can fluctuate. This is crucial for businesses with variable energy demands, as exceeding these limits can lead to penalties or higher costs.

3. **Roll-in/Roll-out Conditions:** These conditions outline the procedures for starting a new energy agreement (roll-in) or exiting an existing one (roll-out). Understanding these conditions is essential to avoid unexpected costs or service disruptions when transitioning between contracts or retailers.

4. **Energy Rates – Stepped vs. Smoothed:** Stepped pricing means the energy rates change each year of the contract, typically outlined in advance. This can be beneficial if rates decrease or align with expected market trends. Smoothed rates, on the other hand, offer a consistent rate throughout the contract term, providing price stability and predictability for budgeting.

Whilst it is important to have a thorough understanding of all terms and conditions of any contract before signing, armed with the above knowledge is a great place to start as these are the most T's and C's that are discussed most frequently.

# How do I assess how competitive my electricity supply contract offers are?

You have most likely seen your cost of electricity close to double over the last few years, and as such you are also likely putting more hours into finding ways to reduce this cost as it is a significant line item in your expense columns.

When your electricity supply contracts are up for renewal, this is often an opportunity to try and find some savings, but to **drastically improve** those **savings,** you need to make sure you are **getting the BEST deal.**

**But how do I make sure I am getting the best deal when I am looking to renew?**

Renewing your electricity supply contracts **through a *competitive tender* process** is a crucial strategy for any business seeking to optimize costs and ensure they are **getting the best deal available in the market.**

**Here are three key reasons why this approach is essential:**

1. **Significant Cost Variance Across Retailers:** The electricity market in Australia is highly competitive, and prices can vary significantly between retailers. By inviting a panel of retailers (minimum of 6) to participate in a tender, you can expect to see a variance of up to 20% from lowest to highest offers. For a business with an annual electricity bill of $100,000, this could translate into a potential saving of $20,000 by ensuring an exhaustive panel of Retailers participates in the tender. Without a competitive tender process you risk overpaying for your energy, as you may not be aware of the most competitive rates available. Often the lowest cost Retailer is not the most common Retailers in the market either, so the cost of have a narrow panel is high.
2. **Understanding Retailer Procurement Strategies:** Different retailers source their electricity in various ways—some buy directly from the National Electricity Market (NEM), while others generate their own energy or enter long-term contracts with generators. These procurement strategies can affect pricing, and without a comprehensive tender process, you might miss out on the best options tailored to your energy needs. A competitive tender allows you to evaluate offers from multiple retailers, ensuring that you select the one that aligns best with your consumption profile and risk appetite.
3. **Creating a Competitive Environment:** When Retailers know they are competing against 8-10 others, they are more likely to offer their most competitive pricing and terms to secure your business. This competitive pressure ensures that no single Retailer can take advantage of the renewal process. In contrast, requesting a renewal offer from the incumbent Retailer often lacks this pressure, leading to less favorable outcomes for the customer.

Additionally, it's beneficial to take a long-term view of your electricity contracts. Many retailers offer the option to lock in pricing or review it up to five years in advance. This long-term forecasting allows you to hedge against potential price increases and budget more effectively over time. By considering future market trends and locking in favourable rates, you can protect your business from market volatility and ensure more predictable energy costs.

# How long should I contract for?

The length of a new electricity supply contract can be a bit more complicated than just choosing between a 1 or 2 year term as there are many moving parts to consider.

**Here are some key questions to ask that will help you determine an ideal length of electricity supply contract:**

### Are the new rates offered higher or lower than the rates you are on currently? *(i.e., will you save money on your next term if you sign today?)*

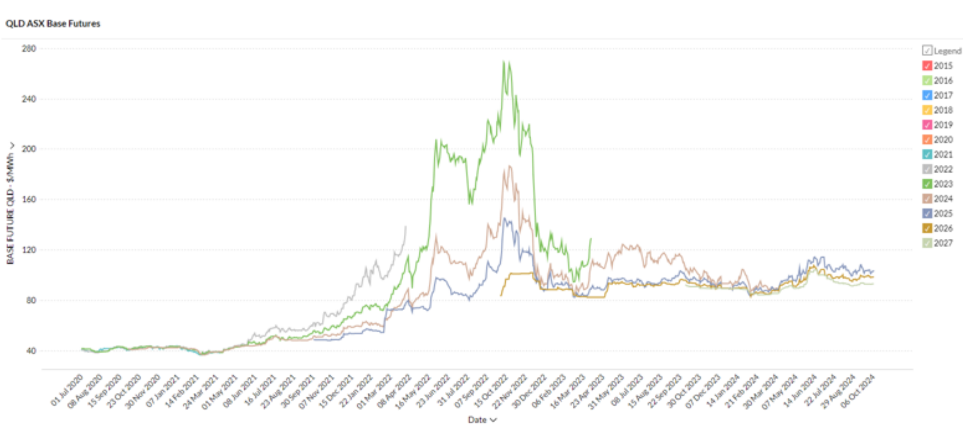
**If the answer to this question is yes, then it is a simple 'yes' recommendation.** For example if you are currently paying $400,000 per year in electricity costs, contracted out December 2025, and you receive offers that will be $50,000 cheaper for 2026 AND 2027 contracts, then we would recommend locking those savings in. Yes, the market may drop further and open up more savings if you wait for a better time in the market, but you will need to be equally happy if that opportunity doesn't arrive, and your next offer is HIGHER that the previous.

In addition, 6-12 months from commencing a contract, we can start looking at rates for the next term, and there will be another opportunity to look forward and lock in further savings IF they are presented.

### What wholesale market movements have there been recently in your State, and what is the forecast?

Predicting the price of energy is like predicting which stock to buy – it is almost impossible to A) time the market perfectly buying in a trough, but also B) predict whether pricing will go up or down in the future. If we knew this, we would all be millionaires.

It is helpful however to review some historical data to understand how today's pricing compares to this time last month, last year, or this time 5 years ago.
**I always find it helpful to look at a longer-term trend line as exampled below, where we can see that over the longer term, pricing has been on a relatively steady increase:**




*QLD ASX Base Futures | July 2020-October 2024*

Our electricity market is a globally traded commodity, so understanding how supply and demand is effecting your pricing is important.

**Key factors effecting supply:**

- Are there new wind or solar farms likely to be switched on in the near future?
- When is the next fossil fuel generator being decommissioned, and will that supply be complimented sufficiently by new renewable assets?
- Has there been any inclement weather causing renewable assets to produce below expectations (zero or low wind, heavy storms, fire etc)?
- Have there been any unexpected loss in generator capacity or failures?

**Key factors effecting demand:**

- What volume of new housing and industrial estates are likely to be built during the year?
- Have we experienced hotter than normal weather conditions over summer causing air conditioners to work harder / longer?
- Is our economy growing?

Additionally, factors such as changes in government policy and global fuel costs should be considered. Understanding these elements helps inform the optimal contract duration, balancing the risks of locking in too early or too late in a volatile market.

## What is my forecast energy consumption for the next 3-5 years?

Understanding your business's energy usage over the next 1-3 years is essential. If energy consumption is expected to increase, decrease, or shift to different times of the day, this can significantly impact your costs, or variation on what your current annual expenditure is.

Locking in a long-term contract without accurate usage forecasts may lead to overpaying for excess capacity or facing penalties for under-utilization. Conversely, if your business will use more energy during peak periods, it could raise costs. Tailoring your contract to your actual usage patterns ensures cost efficiency, aligns with demand, and mitigates financial risks in a fluctuating market.

## Fee Structures for Brokers and Consultants

Brokers and consultants operate under various business models that can be tailored to suit your business needs. Fees or commissions are negotiated directly with you and may be either fee-for-service or commission-based. Payments can be made upfront or incorporated into your energy retail bill over the contract duration. It's crucial to understand that energy retailers typically do not pay brokers or consultants for introducing opportunities but rather for facilitating a contract between you and the chosen retailer, which is selected through a competitive process.

## FEE STRUCTURES

### 1. Fee-for-Service Model

In this model, you pay the broker or consultant a predetermined fee or hourly rate agreed upon in advance. This fee is for managing your energy procurement needs.

- It may cover additional services beyond just procurement.
- Occasionally, a retailer might pay the broker a fixed fee upfront per site, which usually applies to smaller businesses linked to larger contracts.
- This agreement is separate from your energy supply contract.

### 2. Commission-Based Model

Here, the broker or consultant earns a commission through your contracted energy retailer. This is often a trailing commission, meaning that you don't pay anything upfront. Instead, once the contract with the energy retailer is signed, the broker or consultant receives a commission based on a percentage or cents per kWh of your ongoing energy charges over the contract's life.

- The commission rate is typically negotiated between you and the broker/consultant.
- Your chosen retailer is informed about the agreed commission, which is then added to the energy rates and is payable for the duration of the contract.
- The commission amount is tied to your annual energy consumption, and you may see it as a separate line item on your retail bill or included in the overall usage charges.

### 3. Metering Service Fees

Metering Providers are responsible for the installation and maintenance of your electricity meters, which ensure accurate billing from your energy retailer.

- You can choose your own Metering Provider or use the one recommended by your retailer. There may be cost benefits and continuity advantages in selecting your own provider, including better access to historical data and potentially avoiding additional fees when changing retailers.
- A separate Direct Metering Agreement (DMA) is required, typically for a 3-5 year term, which may exceed the length of your energy retail contract. Brokers or consultants can assist insigning a DMA and may charge an additional fee or commission for this service.

### 4. Value-Added Service (VAS) Fees

These fees cover extra services beyond energy procurement, such as ongoing support and additional consultations.

- The VAS fee is negotiated between you and the broker or consultant for a defined period, usually aligned with the DMA.
- These fees are added to your energy bill by the retailer and passed on to the metering provider, who then pays the broker or consultant.

We are also a signatory to the Nation Customer Code for Energy Brokers who have produced a great document regarding dealing with energy brokers. **This can be found HERE.**

# You now have the knowledge – go forth and save!

Hopefully we have given you some helpful information and some useful tips for improving your cost of energy.

We love what we do, and are proud of our reputation in the market as being the **hardest working energy consultant** in Australia. We don't rest until we have found a savings opportunity for our clients, and we do this each and every year.

## Introducing a Completely New Approach to Energy Procurement

Spinifex Energy is the ONLY energy consultant whose **energy procurement process gives time back to busy professionals so they can focus on more important tasks** and still be home for dinner.

From the first meeting the Spinifex team builds a file of data and a client specific workflow to achieve best possible energy pricing on an ongoing basis, from the very first competitive tender.

Smart features like *annual client pricing reviews* **allows our clients to know what their electricity will cost in 3-5 years time, so if any attractive savings opportunities are uncovered, they can be LOCKED IN TODAY.**

As a result, our clients can focus on growing their business, **focusing on high value activities** like strategy and service delivery – or simply enjoying more time with the family.

## Book a Call.

Discover how Spinifex Energy can work for you.

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