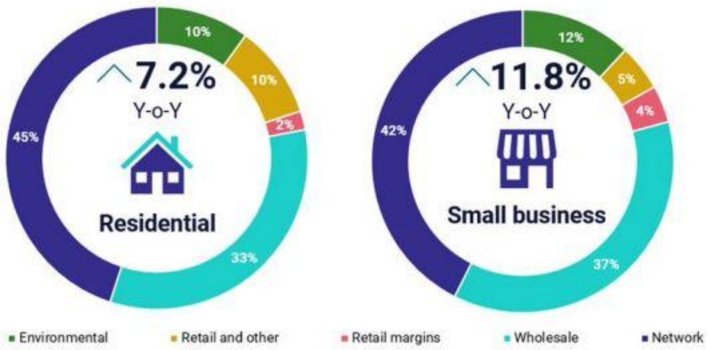
Understanding Household Energy Bills and How to Go About Finding the Best Deals

Household energy bills are made up of several different components, with costs varying from state-to-state depending on things like the types of generation sources, the market size, the network area, and the state-based green schemes. Bills will also vary depending on the retailer and energy plan chosen. To understand energy power bills, it is important to understand what goes into them. This fact sheet details what makes up the typical energy bill and how you can reduce your energy costs.

Broadly, energy bills cover four types of costs:

- Wholesale
- Network
- Retail
- Environmental

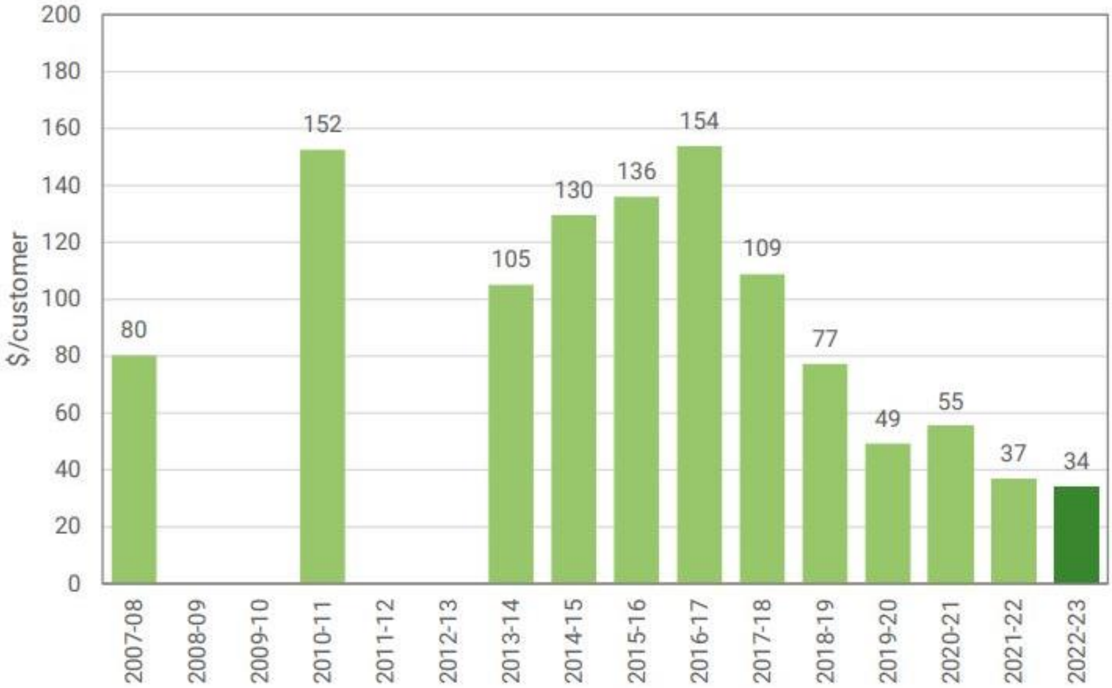
Figure 1: Breakdown of the cost components of an average electricity bill in the NEM for 2022-23.



Source: ACCC, Inquiry into the National Electricity Market: December 2023 Report.

Wholesale	Energy retailers buy gas and electricity from the wholesale market. They then sell this energy to consumers and supply it directly to them. Wholesale prices change frequently, and retailers manage the risk of extreme price fluctuations to ensure customers are paying the same rate every bill and will contract with generators (see our Regulated Prices and Hedging Contracts backgrounder for more details). Wholesale prices are the second biggest cost for a consumer, accounting for 33 per cent of an average electricity bill across the National Electricity Market (NEM), according to the Australian Competition and Consumer Commission (ACCC).
Network	Network charges relate to the transmission and distribution of electricity to consumers. These charges include the cost of building, maintaining, and operating high voltage electricity transmission lines as well as the gas pipes and local poles and wires which deliver electricity to homes and businesses. These costs are passed onto retailers who then pass them onto consumers via their energy bills. The costs of transmission and local poles and wires (distribution networks) can vary from state to state. There are different networks for each state, and there can be multiple networks within each state covering different areas (for example Victoria has 5 network operators). Costs will vary depending on the area that is covered – whether it covers city suburbs or regional areas, for example. Network charges make up an average of 45 per cent of a customer's energy bill across the NEM.
Environmental	Green and environmental government schemes are also included in an energy bill. These may include the costs associated with carbon reduction schemes, renewable energy targets, and feed-in-tariffs for homes with solar panels, as well as government energy efficiency schemes. The costs of all these schemes are passed onto customers by retailers. Green schemes currently make up around 9-12 per cent of a household's bill and 12 per cent of a small business' bill.
Retail	Retail costs refer to the cost directly incurred by retailers in operating their business. This is separate to the retail margin. This includes their cost of operation, such as call centres, account management, IT systems, smart meters, customer support such as hardship programs and payment plans, debt management and even sending out bills to customers. Retail costs make up 10 per cent of household bill which equates to $150 annually when looking at the average electricity bill across the NEM.
Retail Margin	The retailers' margin is in addition to the retail costs and represents the difference between a retailer's costs and the price paid by its customers. Last financial year, across the NEM the average retail margin was 2.3 per cent of a household's bill. This is the lowest it has ever been (see following graph).

Figure 2: Average retail margins per residential customer across the NEM, 2007-09 to 2022-23.



Source: ACCC, Inquiry into the National Electricity Market: December 2023 Report.

Regulated Prices

Regulators set an annual Default Market Offer (DMO) in NSW, SA and South-East Queensland) while Victoria has its own regulated price - the Victorian Default Offer (VDO). The DMO acts as a safety net and is set by the Australian Energy Regulator (AER). In Victoria, the Essential Services Commission (ESC) sets the VDO. Both come into effect on 1 July each year. The regulated tariff is based on the average amount of energy used by a consumer in that region. These default prices are set to protect customers who do not shop around for a market deal while letting retailers recover the costs of supplying electricity.

The price cap set by the DMO also acts as a benchmark known as the reference price. Energy retailers must use this when advertising their market offers to customers. Customers can use the reference price to compare different electricity plans when shopping around for a new offer.

The regulated prices are based on retailers' overall costs in delivering energy to customers. These default offers are not intended to be the lowest priced deals in the market.

Retailers do offer better priced market deals which are not set by the regulator, which is why it is worth shopping around for the best deal.

Note: Every retailer must display a fact sheet for every retail deal, and you can find them on the retailer's website.

How to Compare Prices

You may be able to save on your energy bill by shopping around and finding a plan that suits your household's energy use. If you want to switch retailer or compare plans, you can.

Your retailer must tell you on your bill if you are on their best deal or could save money on a cheaper plan. In Victoria, this Best Offer Notice will be included on the front of your bill every 3 months. For NEM jurisdictions, retailers must include a better offer message at least every 100 days[i] .

Comparison websites like Government run [Energy Made Easy] and [Victorian Energy Compare] can help determine if you are on a good deal or if there is a better offer for you. Have your most recent bill handy so you can compare your bill to other offers in the market.

To find out if there are different plans or cheaper tariffs available you can also **contact your retailer**. If you find a better deal offered by another retailer, you can ask your current retailer if they have a better offer available to you.

Remember to ask if there are any early exit fees and have your energy bill on hand so you can make an accurate comparison of your current household's energy use with any alternative offers.

If you're happy with what you're told and want to switch, contact the retailer who made the offer, and they will do the rest.

If you do switch retailers or plans, always remember:

*Your retailer will provide you with a summary of the offer, including prices, terms and conditions. This is referred to as an **energy price fact sheet.** Reading this will allow you to fully understand all charges included in your energy plan. This must be provided for all generally available offers in Victoria, Queensland, New South Wales, South Australia, Tasmania, and the ACT.*

If you are leaving your current offer early, remember to check with your retailer if you must pay an **early exit fee**.

Usually when you switch retailers or plans, you have ten business days to cancel without incurring an exit fee. This is referred to as a **cooling off** period.

Ask your retailer if they offer flexible **payment options**, such as monthly billing.

What is a tariff?

A tariff is how you are charged for the energy you use. Retailers usually offer different deals and tariffs, but the energy delivered to your home is the same, no matter which energy supplier you are with. A tariff usually has two parts:

1. The daily supply charge is a fixed rate which covers the cost of directing energy to your home, even if you do not use any electricity. It can be displayed as a cents per day cost, or a total amount for the billing period.

2. The cost for the energy households used during the billing period is referred to as a **consumption or usage charge**. This can be displayed on the bill as cents per kilowatt hour (c/kWh) for electricity or cents per megajoule (c/MJ) for gas.

Different types of tariffs

There are three main types of tariffs: **single rate**, **time of use** and **controlled load**. Depending on your retailer and state, these may have a different name.

These tariffs, included in your energy plan, vary from retailer to retailer. Ensuring you are on the right tariff (or plan) which matches your energy consumption is important to reducing your bill cost.

The single rate tariff is also referred to as a flat rate, standard rate, anytime rate or peak rate. If you are using energy at peak times, like Monday to Friday evenings, this offer can be a good choice as the rate is usually lower than time of use.

Time of use is a way of pricing electricity depending on the time of day it is used. This reflects the different costs of generating and distributing electricity throughout the day. There are three different types of costs: **peak, off-peak** and **shoulder**. To access a time of use tariff, you will need a smart meter or time of use meter, which measures your usage at different times of the day.

- **Peak** is when electricity prices are at their highest because this is when energy is most in demand. Usually Monday to Friday evenings.
- **Off peak** is when energy is at its cheapest because there is less demand. This occurs usually overnight on Saturday and Sunday.
- **Shoulder** rates are when Peak and off peak rates are transitioning. These costs are usually between peak and off peak rates.

If your household mainly uses energy during the day or on weekends, a time of use tariff may be suitable for you. Contact your retailer for information on the different periods for their time of use offer.

A controlled load tariff may also be called a dedicated circuit consumption or off-peak. This tariff is only charged for certain appliances, like electric hot water systems or underfloor heating. These appliances will usually run overnight and during off peak times to keep cost down, with the appliance usually having its own meter to track its energy use.

Gas offers have a single rate tariff. Retailers will usually charge one rate under a tariff block, so you will pay one rate for the first part of your usage and another rate for the next block or part of your usage. Your rate may increase during the winter months when demand is high.

How can I reduce my bill?

Energy efficient appliances are readily available and can help reduce your energy bill.

Small changes in your whitegoods can have significant impact on your energy bills. When buying a new appliance, use the **energy rating labels** to compare with other models to determine which will save you more money on your energy bills. If you aren’t in the market to buy new appliances, there are other ways you can lower your bill.

Washing your clothes in cold water, avoiding using the clothes drier, maintaining your fridge so the seals are clean and free from damage, and it is well ventilated, are all ways to be more energy efficient and reduce your energy intake.

Upgrading your **lighting** to LED, turning off your lights when you leave the room and utilising natural light during the day can also help reduce energy consumption.

Minimising your **hot water** use can also have a significant impact. Taking shorter showers, using cold water to wash items when available, and using a low-flow showerhead can keep bill costs down.

In the summer months, blasting the air conditioner when **cooling** the home can rapidly increase energy costs. Opening windows when a cool change arrives, utilising landscaping to provide shade protection, insulation and draught proofing can all keep the temperature in a house down whilst not consuming much energy. Similar techniques can be used when **heating** a home, such as ensuring the home has proper insulation, drawing blinds and curtains to keep the warm air in and reducing draughts. If you have both reverse-cycle airconditioning and gas heating, simply opting to use the air conditioner instead can have a significant impact on your bills.

Many retailers also have **app**s that allow you to track your energy usage in half-hour intervals, which can help identify appliances that may be high use. In home displays are also available, allowing you to track your household usage in real time. This technology can help you manage your usage more effectively and efficiently.

Late payment and support

If you cannot pay your bill, contact your energy retailer. Specialised services are available for customers who cannot pay their bill on time. These services include extending the payments due date or developing a payment plan, which will stop your retailer from cutting off the supply of energy to your home.

Contacting your retailer may also avoid extra fees and stop you from being disconnected.

Hardship programs are also available for vulnerable customers or people in need. These plans can offer additional flexibility and may allow you to access government concession. Retailers can also help connect you to welfare agencies and financial consultants.

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[i] If a customer has agreed to a longer billing cycle the better offer message needs to align to the cycle.