

Power Costs:

Now is the time to take out a market contract

WHERE IS THE ELECTRICITY MARKET HEADING? WHAT WILL WE PAY IN THE FUTURE? THESE ARE JUST SOME OF THE QUESTIONS AND CONCERNS THAT ARE BEING RAISED IN TODAY'S ELECTRICITY MARKET.

The only honest answer anyone can give without a crystal ball is along the lines of a basic business principle. Think about what you can control in your own business and do not waste time and resources on something that is outside your control.

In today's volatile market, more than ever planning is the key to overcoming or minimising the impact of an uncertain market. Energy efficiency, sustainability and long term planning will assist your business to get the best possible outcomes from such a changing market. Each business is unique and solutions vary, yet reducing your energy consumption and waste along with sensible planning will not only will save you money, it will create a sustainable future.

How does the electricity market work? It is all about supply and demand. Think of the market as a swimming pool.

Generators fill the pool with electricity. Retailers (your supplier) buy from this pool through the National Electricity Market or by direct contract (hedging). If the pool is low for many reasons such as increased demand in the electricity market (winter and summer), generators are offline, or there are water shortages, the price the retailers have to pay to buy their electricity from the pool increases. If they have not set their contract prices well into the future, meaning they have not hedged sufficiently, this could mean serious financial losses by the retailer.

Because of the market volatility, there are currently opportunities for those who, through good planning, are able to seize them. February's electricity wholesale prices have dropped, presumably because of the rain. This represents opportunity for those electricity users who are facing contract renewals or considering when to take a market contract.

The Queensland government has agreed to the release of water to Swanbank and Tarong power stations that will allow mothballed generators to be restarted. This could reduce prices in the electricity market further in the short term.

So what are the options for Queensland electricity customers?

If you have a market contract: With the electricity market facing high prices at the moment, for those businesses which have a looming deadline to renew an electricity market

contract, the big question is when do you renew? Start looking at the contract 12 months before expiry and ask an experienced professional for advice. This could save you a lot of money. Why? Hedging. If you give a retailer a chance to use your contract for hedging you will get the price benefit as they can buy from the market at a lower price.

If you are a tariff customer: It has been announced that tariffs may rise by 7% this year, although the Queensland government has sought a review of this. We can expect similar increases in subsequent years. So at least budget for these increases if you wish to do nothing. Yet there are ways to reduce these costs and even make savings.

First check to see if your business is on the correct tariff. There are many commercial tariffs available such as Tariff 20, 22 or 41; the best tariff for your business will depend on your usage patterns. Check with a professional. Usually for a fixed fee a tariff check can be done, which will identify the best tariff for you. Simply changing tariffs could mean great savings for your business.

Other options are available. If you are a customer in Queensland using less than 100,000 kWh per annum, you are considered a small customer and can usually negotiate savings off tariff prices from 2.5% to 10% for one to three-year contracts and can choose to go back to being a tariff customer at the end of the contract period if you don't like the contract arrangements. In some cases you can even break the contract without penalty; check the fine print in the contract before signing.

If you are a customer using more than 100,000 kWh per annum your business is not eligible for these standard tariff arrangements. You have to be more careful and consider your options. There are many variables in working out if there are savings to be made by leaving the tariff pricing and going to the contestable market. The biggest risk factor if not analysed correctly is that once you have left tariff you can never go back, meaning if you get bad advice or you do this yourself and make a bad decision, it could cost your business more than you are paying now.

In today's market it would be very unwise to accept a market contract price without knowing what you are doing. Going from a tariff rate to a market contract is not a bad thing at all, and there are good savings to be made if done correctly.

An example of a proper purchasing strategy is as follows: you could choose to take a market contract in today's market if prices represent a substantial saving over your current costs or you could secure a future-dated market contract and set your price using the same principles as mentioned earlier regarding hedging.

You would do this by arranging for quotes from retailers, doing the analysis to give a sound comparison, and by checking whether a forward-dated market contract would give you greater savings than the contract in today's market.

You can make significant savings and also minimise the increases you would otherwise pay if you had remained on standard tariff pricing. This is because you can lock in contract peak and off-peak electricity prices under the market contract, in which case the only increases are the regulated increases in the network and market charges. Yet the trick is in knowing the best month for your business to secure this contract. ■

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