NEWSLETTER

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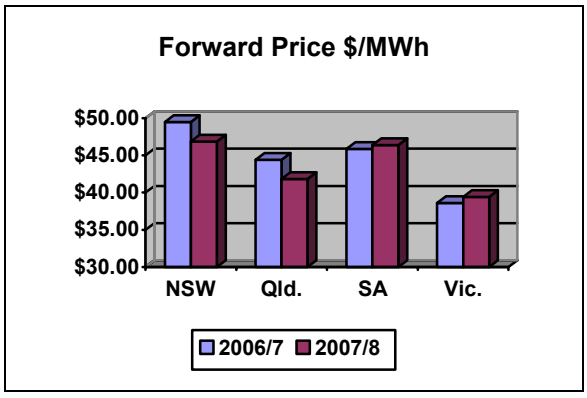
Key Energy & Resources

Key Energy Review – April 2006

Welcome to the April edition of our Newsletter. Good news for Victorian consumers continues. Following hot on the heels of the ESC's electricity pricing review that promulgated a reduction in network prices there has also been some softening in retail prices. Many Victorian consumers are paying no more for electricity than they were three years ago. Perhaps the real question is why are prices higher in other jurisdictions, especially NSW? As usual **further information** about energy prices or any energy / greenhouse related item can be obtained by e-mailing us at info@thekeygroup.com.au.

Electricity prices for the next year or two are a mixed bag. April has traditionally been a good time to negotiate our electricity contracts, so how are prices looking? The figure below shows the 2006/7 and 2007/8 forward prices for a typical load that is 67% peak and 33% off peak. (No allowance has been made for 'volume risk' or retail margin). Interestingly, these prices have moved up over the last few weeks.



As we have said before, electricity prices are a bit like the weather and there is no use complaining; make the most of what is available. In response to these price signals many of our clients are buying long in Victoria and buying short in NSW. It might mean that contracts across NEM jurisdictions are with different retailers, but I have yet to see a compelling argument for a 'National Contract' with one retailer.

Separate metering contracts are still on the agenda for a number of large users. Unlike the more typical arrangement where the electricity retailer is responsible for all metering provisions, these contracts specify a nominated metering provider. Setting in place a long-term (say ten years) metering arrangement usually reduces metering costs. It may also be possible to negotiate enhanced data provision and data management. However, these cost savings need to be put into perspective. Metering costs usually represent less than 0.1% of delivered energy costs for a large HV site, so the savings potential may be less than 0.01%. Offsetting this there could be demarcation issue, especially if there are billing problems or problems with site transfer. A separate metering contract may also adversely affect a retailer's willingness to do business, thus reducing your negotiating strength. Separate metering contracts might make sense for users with large numbers of small sites, but I am not sure that they are for all of us.

KVA / power factor tariffs are on the way for Queensland consumers. There is an old saying, "If you understand power factor then no explanation is necessary and if you don't understand power factor then no explanation is possible". For a number of technically valid reasons kVA / power factor network tariffs have been foreshadowed in Queensland. For some users this may mean an opportunity for savings, but be warned, sites that transfer to a kVA tariff have no right of return. More importantly, if you would like more information and a proper explanation please feel free to contact us at info@thekeygroup.com.au.

Note: Any advice contained herein is general in nature and not specific to any client's requirements. Further personal advice should be sought from a qualified consultant before making any decisions relating to material contained herein.