

## Breakdown of a typical bill

The exact amount charged by electricity retailers to consumers varies depending on the retailer and type of consumer account, but electricity bills generally reflect costs incurred by participants across the electricity industry. This fact sheet describes how the costs<sup>1</sup> for a typical household bill are made up.

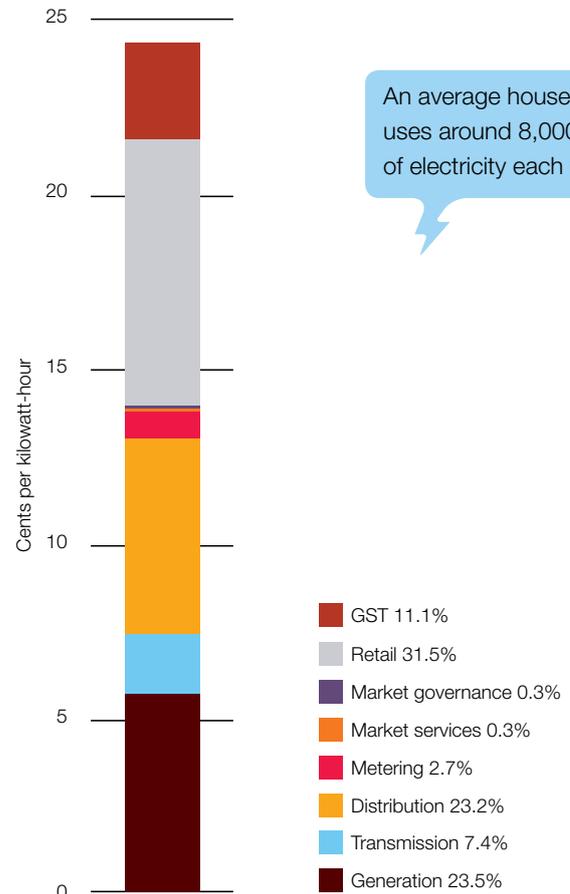
### Breakdown of costs for a typical residential consumer

An average household uses around 8,000 kwh of electricity each year, which equates to a total of about \$1,950 a year or \$160 a month.

Actual generation costs can vary significantly from year-to-year depending on how much rainfall is available for use in the hydro systems that make up around 60 percent of New Zealand's total electricity generation. Retailers take this variation into account when they set rates for consumers, and they normally have arrangements with generators, through hedge contracts<sup>2</sup>, or direct ownership of generating plant, to offset the year-to-year changes.

The graph here shows the breakdown of costs of supplying a typical consumer in cents per kilowatt-hour (c/kwh) for the year ending March 2010.<sup>3</sup>

The generation costs are based on the total market cost – that is the amount generated times the price in the wholesale market in each half hour. Although in 2010 the retailers appear to capture a greater share of total consumer costs, the actual balance between generation and retail will depend on other costs in place at the time and the cost of generation.

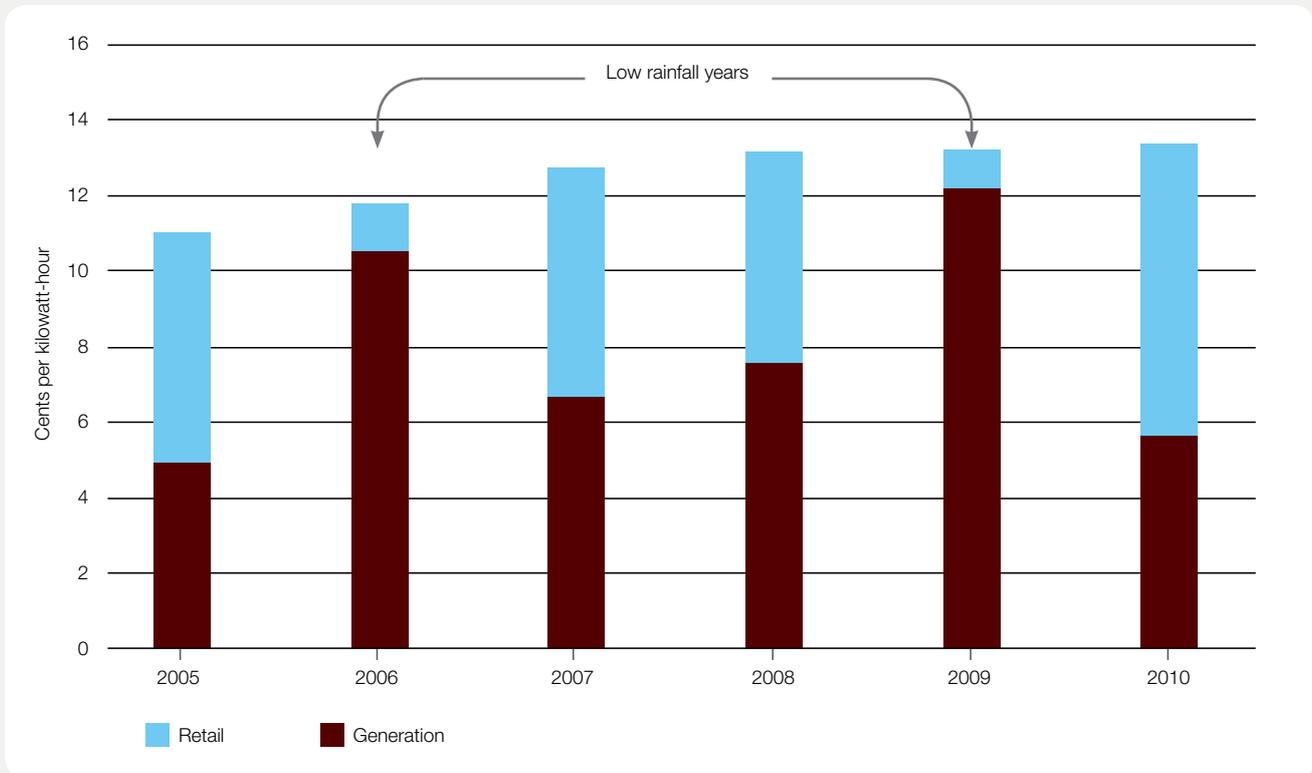


1. The term 'cost' in this paper includes the costs associated with producing electricity, including any profits.
2. A hedge contract is an agreement between two parties used to manage price risk in the wholesale electricity market. There are many different types of hedge contracts, but most are structured in a way that allows retailers to lock in a fixed price for a specified volume of electricity.
3. Data is currently only available up to March 2010 due to the lead times associated with processing and publishing annual data. New data from the Ministry of Business, Innovation & Employment Energy Data File will be published when available.



## Generation and retail cost since 2005

This graph shows the way the balance between generation and retail has changed each year since 2005. Costs for the years 2005 through to 2009 have been adjusted to their 2010 dollar equivalent using the Consumers Price Index.



While the balance between the retail and generation components has varied significantly from year-to-year, the combined total grew steadily initially, and then stabilised. Total generation and retail costs have increased by 21 percent in real<sup>4</sup> terms since 2005, equivalent to an average increase of 3.9 percent per year.

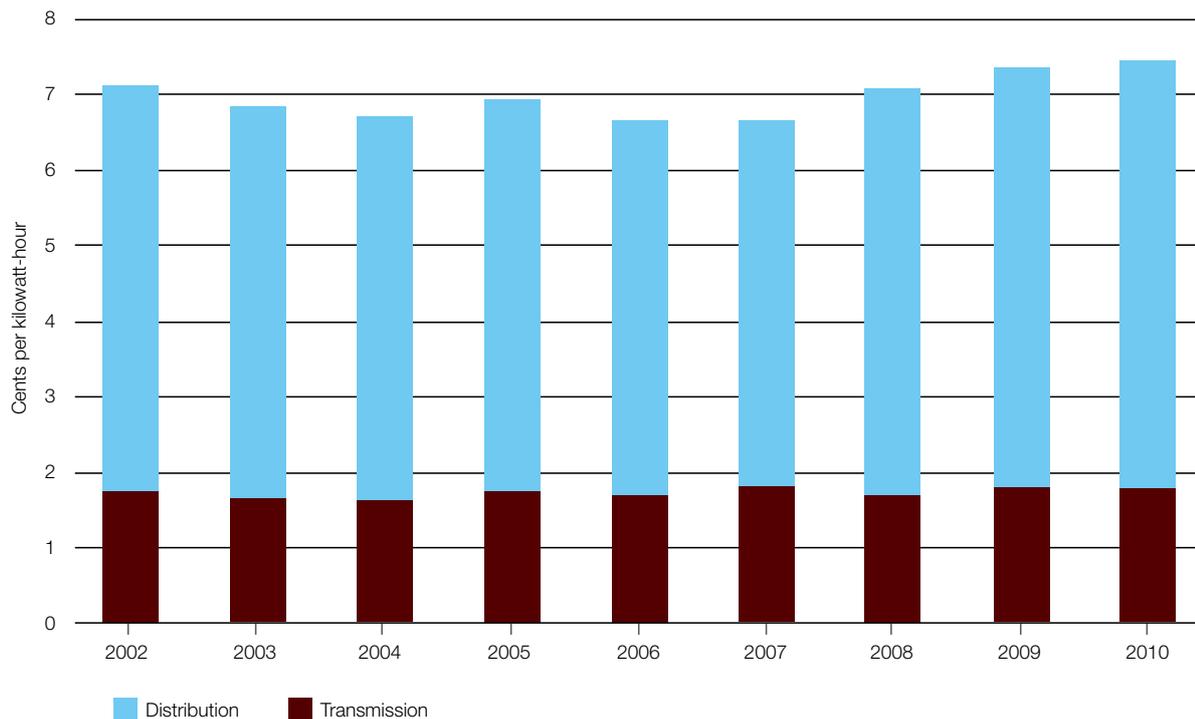
4. After costs are adjusted for inflation



## Transmission and distribution costs since 2002

This graph shows how residential transmission and local distribution system costs have changed since 2002.

While local distribution system costs have varied from year-to-year, in real terms they are only slightly higher in 2010 than they were in 2002. Transmission costs in 2010 are also similar to costs in 2002 once inflation adjustments have been made. Total transmission and distribution costs have increased by 4.5 percent in real terms since 2002, which is 0.6 percent per year on average.



**Fact sheets in this series** cover topics including the electricity supply chain, breakdown of a typical bill, price comparisons between different consumer groups and internationally, and projecting future costs. The full set can be found at [ea.govt.nz/consumer/factsheets](http://ea.govt.nz/consumer/factsheets)