



17 November 2017

Australian Competition and  
Consumer Commission  
Retail Electricity Pricing Inquiry  
By email: [retailelectricityinquiry@accc.gov.au](mailto:retailelectricityinquiry@accc.gov.au)

Dear Sir / Madam

## **Australian Competition and Consumer Commission Retail Electricity Pricing Inquiry Preliminary Report**

Alinta Energy Retail Sales Pty Ltd (**Alinta Energy**) welcomes the opportunity to make a submission on the ACCC's Preliminary Report.

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has around 2000 megawatts of generation capacity in Australia (and New Zealand) and a growing customer base of over 800,000 customers in Western Australia and across the National Energy Market.

Alinta Energy notes the growing concern and focus on the issue of energy affordability and the challenges faced by some consumers in meeting the costs of their energy supply. Retailers, generators, transmission and distribution operators along with governments, all play a role in ensuring the affordable, reliable and efficient supply of electricity to consumers.

However, as highlighted in the Preliminary Report, addressing the issue of affordability is complex. Accordingly, to appropriately and effectively deal with energy affordability, all stakeholders must work together toward achieving a common objective.

In particular, it's noted that energy retailers who are responsible for billing customers are often the main focus for providing assistance to customers experiencing financial difficulty. While retailers have an important role to play, so do other market participants, particularly the network operators whose costs account for around 48% of the retail electricity bill.

Whilst the Preliminary Report provides an initial insight to potential opportunities to improve the operation of the market and outcomes for customers, more detailed

consultative work is required to provide evidentiary support for detailed market reform at the end customer level.

In general we support the views that opportunities to improve the following should be further explored by the industry:

- Initiatives that increase competition in the generation and retail markets;
- The lowering of network costs; and
- Ensuring there are cost effective and equitable environmental schemes.

We also note that in addition to the Australian Competition and Consumer Commission (**ACCC**) review that a number of retailers (Alinta Energy being one) have already committed to implementing a number of new initiatives. These initiatives have come out of the recent Prime Minister's Round Table with retailers. It is important that these commitments be given due consideration by the ACCC as part of its continuing review. These commitments should be monitored and assessed in terms of their effectiveness to better inform future recommendations from the ACCC itself.

While Alinta Energy supports many of the conclusions presented in the Preliminary Report, there are some conclusions that we do not agree with and suggest further consultation and review. These contentions include:

- That the practice of discounting is particularly problematic;
- That price deregulation has benefited some customers and hurt others;
- That retailers are operating in ways that appear to be designed to circumvent existing regulation; and;
- That there are significant issues with the operation of the retail electricity market.

Complexity in the retail market is a direct result of the intricate nature of the regulatory framework that governs the market. A key aspect of the ACCC's ongoing review must include an assessment on whether the current regulatory framework under the National Energy Retail Law (**NERL**) and National Energy Consumer Framework (**NECF**) remains fit for purpose. Over-regulation leads to complexity which in turn leads to increasing compliance costs, customer confusion and a lack of customer engagement. We know that customers who engage in the market are more likely to seek out and obtain competitive offers and pricing that better meets their needs and provides long term benefits.

Our more detailed comments and observations are contained in the following document.



Should you have any questions or wish to discuss any aspect of our submission I may be contacted on (02) 9372 2653 or via email: [shaun.ruddy@alintaenergy.com.au](mailto:shaun.ruddy@alintaenergy.com.au)

Yours Sincerely

A handwritten signature in grey ink that reads "Shaun Ruddy".

**Shaun Ruddy**

Manager National Retail Regulation

## Australian Competition and Consumer Commission Retail Electricity Pricing Inquiry Preliminary Report

### Energy Affordability

Energy affordability is a key focus of the ACCC review and the Preliminary Report. When looking at the issue of affordability, that is the end price to customers, there are a number of market elements to consider. As set out in the Preliminary Report, in simple terms a customer's bill is made up of the following costs;

- **Network costs (48%)**
- **Wholesale costs (22%)**
- **Environmental costs (7%)**
- **Retail & other costs (16%)**
- **Retail margin (8%)**

To deliver greater benefits to end customers there needs to be improved levels of competition in the wholesale market so as to manage wholesale costs more effectively. Additionally, a reduction in network costs achieved through efficiencies gained by better balancing security of supply and service delivery, and a rationalisation of environmental schemes will go a long way to delivering desired outcomes.

To achieve improved levels of competition in the wholesale market we need to have certainty in Government policy and market operation, so as to ensure there is long term confidence in the sector, creating opportunity for investment and innovation. The cost and efficiency of environmental schemes are impacted by the diversity across jurisdictions and in the way individual state Governments seek to meet differing environmental targets.

In dealing to the issue of wholesale and environmental costs, the Government (both state and federal) play a vital role in creating an environment for investment and efficient operation. The absence of a bipartisan approach to these key issues limits the opportunities to improve outcomes for end use customers.

To date, the approach to affordability has generally been focussed on the issue of network and retail costs.

The issue of network costs is (somewhat) being addressed through a number of important rule changes, for example the limited merits review process.

Retail and other costs however, are driven significantly by the regulatory framework under which retailers are required to operate. Complexity in the regulatory framework drives costs and limits both efficiency and innovation. An on-going

focus of the ACCC review should be to review the current regulatory framework under the National Energy Retail Law (**NERL**) and National Energy Consumer Framework (**NECF**) to assess whether it remains fit for purpose.

The market has been undergoing significant change with the advancements in technology that provides new platforms for customer interactions and new opportunities for the way customers engage in the market. However the ability for retailers to embrace these new opportunities to provide benefits to customers is limited by the energy market regulatory framework.

This review should take the opportunity to assess the retail market design and consider whether it is flexible enough to cater for future developments in the way customers not only access and use energy, but also how end use customers engage in the market.

### **Boosting Competition in the generation and retail markets**

We note the Preliminary Report comments that wholesale markets are too concentrated and retail markets are not operating as effectively as they should and provide the following observations.

#### **Retail Markets**

Vibrant competitive markets deliver the best outcomes for consumers. A number of previous reviews have found competition in energy to be effective in the majority of jurisdictions. Competition provides the greatest value to customers when they engage in the market. While retailers actively promote customer engagement through marketing and other campaigns, there is a continuing role for Government to promote the benefits to customers from engaging in the market.

Product or pricing discounts are a key component of competitive product offerings; we note with some concern the ACCC comments that the practice of discounting is problematic.

We would posture that it is not the practice of discounting that is the issue, rather it is the issue of the complexities of the underlying price structures to which discounting is applied and customers' ability to conduct meaningful comparisons across retail products.

Simplicity for consumers to enable easy comparison of offers and hence allow them to engage in the market is a key priority. Complexity in offers is driven in part by the complexity of the operation of the market and the regulatory and compliance oversight. This includes regulation concerning price variations which create higher commercial risk profiles that need to be managed.

Retailers, in developing products and services, need to balance the requirement to provide simplistic offers to customers while also managing risk. Given retailers will have differing risk profiles which can be influenced by their market position and any level of vertical integration, underlying prices will vary; this is a function of a competitive market. What is important is for customers to have access to the right tools and information to make an informed decision.

To that end, retailers, as part of the Prime Minister's retailer roundtable, are working together to introduce tools and approaches to assist customers. This includes the introduction of a "comparator rate". These new initiatives will require rule changes, the necessity of which goes to reinforcing the issue that regulatory complexity is delivering poor outcomes for customers.

As previously stated, the ACCC should monitor these and other initiatives from the Prime Minister's roundtable as they will further inform its review.

In addition, Alinta Energy urges the ACCC to consider whether implementing a more light-handed approach to regulation will assist in reducing retail operating and other costs with benefits passed on to customers.

It's important to note that light handed doesn't mean an erosion of consumer protections; rather, it would permit educated and engaged customers to better negotiate regarding the way they receive products and services whilst providing protections for the most vulnerable customers.

## **Generation**

The generation sector is concentrated by the largest three retailers controlling the majority of the generation assets. The only viable option to diffuse this situation is to encourage new investors into the generation sector.

Currently, the biggest barrier to investment is the lack of certainty on energy policy which only a bipartisan national energy policy approach could address. Such an approach would provide confidence to the market to invest in new generation and new generation technologies, acting to dilute the existing level of consolidation across the sector.

The option of reducing concentration by restricting future ownership of generation may have unintended consequences on reliability and supply and should therefore only be considered as an extreme measure.

## **Networks**

The Preliminary Report comments on the issue of over-investment in electricity networks inefficient cost recovery and higher than warranted rates of return, which has led to increased costs for consumers. Some of these costs represent a continuing burden on consumers.

Reform in network regulation and operation is required (and welcome). Network tariff / pricing forms the basis for retail price setting. Complexity in network tariff structures drives complexity in retail tariffs; likewise, inconsistency in tariff structures across networks drives complexity and limits innovation opportunities for products to end customers.

In addressing the issues identified with networks a critical issue to be managed is that of ring-fencing of the networks' traditional activities from those behind-the-meter services that networks are aiming to get involved with. Any costs related to non-traditional network activities should not be cross-subsidised across a wider customer base, increasing costs for all consumers when the benefits are limited to a smaller customer sub-set.

Alinta Energy is also of the view that opportunities exist for network businesses to provide greater levels of assistance to customers experiencing difficulty in meeting their financial obligations associated with their supply of energy. As documented in the Preliminary Report, network costs account for 48% of a customer's retail electricity bill. Noting that the risk of non-payment to the network is limited due to credit support arrangements in place with retailers and that networks remain whole in terms of cost recovery regardless of whether the retailer recovers the network costs from its customers, there is a significant opportunity for networks to provide greater levels of assistance to customers. Working with or through retailers, networks have the ability to provide financial relief options to customers experiencing energy hardship issues.

### **Retail Deregulation**

Again the Preliminary Report asserts that retail deregulation has benefited some and "hurt" others. Alinta Energy understands that some customers find the market complex. We need to understand what is required for the market to work effectively so we can ensure that consumers have the tools to enable them to make informed decisions about their electricity services.

Retail deregulation has provided benefits to those customers who have engaged in the market, but it is questionable whether those who have not engaged in the market are any worse off as a result of deregulation. We note that at any time, should they choose to engage in the market, these customers have the potential to achieve greater benefits and savings.

Whilst we have previously touched on the issue of market complexity, the intricacies of the market are driven by a number of individual factors. In order to make the market work more effectively, a number of initiatives need to be considered. These include:

- Simplicity in offers to customers;
- Implementation of the Prime Minister's Round Table commitments;
- A review of the current regulatory framework to assess whether a more light handed approach would encourage innovation and simplicity of product offers, noting the current approach creates a heightened risk profile that requires more intricate strategies leading to complexity around product offers;

- Review of the operation of third party comparison sites. As there remain some governance issues with these sites and their operations that could be improved to ensure consistency across comparison sites, especially when a customer is using multiple sites to compare the same retail products.