

Energy Markets Transformation Project Team

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24 November 2017

Retail Electricity Pricing Inquiry: Preliminary Report

The Australian Energy Council (AEC) welcomes the opportunity to make a submission to the Australian Competition and Consumer Commission's (ACCC's) Preliminary Report for its Retail Electricity Pricing Inquiry.

The AEC is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

As we stated in our previous submission, the AEC believes that is important to maintain both confidence in and the competitiveness of retail electricity markets in the National Electricity Market (NEM), as they facilitate the efficient and secure operation of the Australian energy market.

Transformation of the wholesale market

The ACCC's Preliminary Report makes a valuable contribution to improved understanding of the operation of retail and wholesale electricity markets in Australia. Some of the data collected by the ACCC has never been collated before. Competition policy reforms were introduced into the electricity industry in the 1990s. This review by the ACCC is an opportunity to guide the completion of those reforms. The benefits of competitive electricity markets are material for consumers. The risk in an increasingly politicised debate around electricity prices is that governments either unwittingly or by design seek to unwind those reforms, and the benefits they have delivered for the past two decades.

The electricity industry in Australia is undergoing a transformational change. This is driven by two key factors. First, the impact of climate change and its associated risks on investment in the sector. Second, the gradual transformation of electricity from a utility service to a consumer good. This is best illustrated by the rapid consumer uptake of rooftop solar PV systems, but is likely to apply to a widening range of new technologies and systems over the rest of this century.

The effect of both of these disruptions is evident in electricity markets. The sharp increase in wholesale prices in 2016-17 follows the closure of the Northern and Hazelwood power stations. These closures, and the resulting drop in supply of dispatchable generation, were affected by policy mechanisms responding to climate risk. These drivers are substantial and will continue to impact the operation of markets for the foreseeable future. The entry of new, smaller generators into existing markets is a welcome increase in competition in these markets. Prior to making recommendations, the ACCC should undertake comprehensive analysis to fully understand the reasons for changes in the wholesale price.

Wholesale market structure

The market shares of generation capacity presented in chapter 3 are not especially concentrated in comparison to other sectors of the Australian economy, nor are they in comparison to international electricity markets. All private mergers and acquisitions transactions have been subject to section 50 of the Competition and Consumer Act. The Act is the appropriate way to consider anti-trust matters in any industry, including electricity. The AEC notes that the concentration is presented by states rather than nationally, despite the

ability of generators to trade across the interconnectors. We also note the most concentrated states are those where government ownership continues.

The report cites claims of a lack of liquidity in contract markets caused by vertical integration impacting the ability non-integrated retailers. However vertically integrated participants still need to trade, and there is no evidence of a decline in exchange traded contracts since the increased vertical integration that followed NSW privatisations. This is shown in the figure below.



Figure: Total turnover of base, peak and cap contracts on Australian Stock exchange during historical quarters
Source: Australian Energy Regulator statistical data

Complexity of the market

The ACCC has noted that the electricity market is 'exceptionally complex' (p. 5, p. 151). This is indeed true, and for all levels of the supply chain. As the ACCC is aware, this complexity extends to how retailers manage risk in order to bill and serve their customers. This has been reflected in comments made to the ACCC, where stakeholders have stated 'consumers would benefit from a greater availability of simple information' (p. 126).

For almost two decades, the retail energy policy community across the various jurisdictions has grappled with the issue of how to simplify communications with consumers about the industry and about consumers' options in the market. Whether this is in general advertising, offer-specific pre-contractual information, contracts, bills or other customer collateral, the need to provide consumers with all the relevant information while keeping things simple has been a challenge.

This challenge is amplified by the status of electricity as an essential service, and the range of consumer needs to be met. Communications must be able to be meaningful for both those who are highly energy literate and those who are not.

Further, there is the paradox that efforts to simplify the complex market often then require *more* information to be provided separately (or in the small print) to provide necessary caveats about assumptions made and what this might actually mean for various consumers. More information then creates the need to again simplify, in the hope that one document, one number, one page or one statement can meet the various needs.

These matters are regularly discussed in various policy fora, and as new matters arise and need to be communicated to the community, whether by industry or the government.

While the Preliminary Report focusses on the residential sector, the ACCC's analysis of the small business and commercial and industrial market segments is also helpful. We encourage the ACCC to continue considering the different traits and challenges facing these sectors, to ensure that any recommendations are appropriately targeted.

Current policy changes to manage retail issues

Retailers and the AEC are currently engaged with the Prime Minister's office to implement major policy reform in the marketing of offers and in customer communications. The changes underway have been addressed by the ACCC in its Preliminary Report, but are worth repeating here.

Among other things, eight retailers (serving the vast majority of the consumers in the NEM) have committed to:

- marketing offers in dollar terms, rather than percentage discounts, which addresses the concerns to the ACCC raised about discounting in marketing (pp. 127-9);
- contacting customers on standing offer contracts and those on market contracts with elapsed fixed term benefits to advise them that better offers are available in the market (the latter was recently put through as a rule change); this addresses the concern about how the end of fixed benefit periods noted by the ACCC (p. 127, 132-3);
- working with the AER to develop clear, user-friendly fact sheets and a comparator rate so that consumers have the basis for a standardised comparison of offers (p. 133, 138-9); and
- improving standardised consent and verification forms as part of the switching process (p. 140-2).

These commitments alone go a long way to addressing the concerns raised by the ACCC about retail market outcomes.

The future of the electricity market

The ACCC has stated that we 'must be mindful of the history of interventions in this market which have too often had unintended consequences to the detriment of energy users' (p. 152).

The AEC and its members strongly agree with this point. It is all the more important at this time as we are on the edge of significant technology changes that provide for innovation and responsive energy services, and ultimately the best hope for decarbonisation of the industry.

We must discourage any regulatory move that may have the unintended effect of stifling the competition required to best support industry transition.

Any questions about our submission should be addressed to me at fiona.simon@energycouncil.com.au or on (03) 9205 3111.

Yours sincerely,

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