30 June 2017

Ms Rebecca Holland
Acting Director – Retail Electricity Price Enquiry
Australian Competition and Consumer Commission
MELBOURNE VIC 3000

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Working for your business.
Working for South Australia

Dear Ms Holland

I write in response to the ACCC's request for submissions on the Issues Paper for your inquiry into retail electricity supply and pricing.

Executive Summary

- As the peak business membership body in South Australia, it is extremely frustrating that there are no transparent and broadly supported industry wide benchmarks for measuring electricity prices, particularly in the large market customer segment where all consumers are to varying degrees energy intensive businesses and have been impacted the longest by the current energy crisis, particularly in South Australia.
- Transparent price benchmarking across the electricity consumption market will actually help existing retailers to compete against one another as at present, there is no industry average electricity contract price to compare against at key intervals of consumption, particularly in the large customer market.
- Governments are finally reacting to the current energy crisis and in future, to ensure Government policy decisions related to energy costs are adequately informed, there needs to be better price transparency not only across various levels of consumption but also across the various segments of costs which make up a bill, ie networks, retail, generation, green energy and efficiency schemes.
- Competition to provide firm contracts into the electricity market is a key concern for business consumers in South Australia and improved price transparency, along with transparency in relation to gas prices, will better inform consumers and Governments as to the extent of any anti-competitive practices in any given jurisdiction within the NEM which is particularly important in the absence of effective hedging across interconnectors.

Should you require any further information or have questions, please contact
Andrew McKenna, Senior Policy Adviser, on (08) 8300 0000 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney
Executive Director, Industry and Government Engagement

Why this matter is important to South Australian businesses

As South Australia's Chamber of Commerce and Industry, Business SA is the peak business membership organisation in the State. Our more than 3,500 members are affected by this matter in the following ways:

- The increase in electricity prices, particularly over the last two years, has had a devastating impact on South Australian business at a time when the State's economy is attempting to transition with the pending closure of Holden's manufacturing operations in October.

- South Australia has the highest proportion of non-firm renewable generation in the National Electricity Market (NEM) and the exit path of Alinta's Northern Power Station which began in mid-2015 has put significant pressure on South Australia's wholesale electricity market, effectively leaving two key players to hedge the base-load electricity needs of industry meaning large market customers, which consume as little as 160MW hours per annum, have experienced peak energy cost increases from seven cents per KWh ($70/MWh) to as high as 22 cents per KWh ($220/MWh) today.

- Up until mid-2015 when South Australia's wholesale electricity prices began to rise dramatically, network costs had been the primary driver of the significant increases in electricity costs over the past decade and South Australian businesses cannot afford to return to the spending patterns associated with that period which have been compounded through rising regulated asset bases.

- According to the Finkel Review, South Australia has the least amount of competition and highest reliance of its largest generator of the NEM jurisdictions.

Key Policy Points

1. The Finkel Review primarily originated from the severe price pressure placed on South Australian consumers, particularly businesses, which became evident after South Australia lost its last coal-fired power station and the impact that had on competition to provide firm contracts to business which fell to fewer and higher priced gas-fired generators. While it took both gas shortages & retail price hikes in mid-2016, and finally the State-wide blackout to generate the political will for the Council of Australian Governments (COAG) to actually implement the independent Finkel Review, the reality of the situation was that alarm bells had been ringing for South Australian businesses since mid-2015. In fact, just prior to the blackout, Business SA led a coalition of South Australian representative organisations to lobby for an independent review of the transition of the electricity market to low carbon while protecting the long term interests of consumers with respect to price, quality, reliability and safety. Even then, there was broad concern about the impact high wholesale prices were having on the community and economy and what future costs might eventuate in the absence of transparent and evidence based policy decisions.

2. We have attached a list of relevant case studies from Business SA's March 2017 submission to the Finkel Review (refer Attachment A). Note these case studies were collected over January and February this year, prior to the physical closure of Hazelwood Power Station in Victoria which again induced another step change in South Australia's wholesale electricity prices.

   Business SA has been in contact with numerous businesses since and we know that large market customer prices for peak energy have increased even further over the past few months and are now as high as 22 cents/KWh ($220/MWh) for 1 year contracts whereas businesses without contracts are paying approximately 28 cents/KWh ($280/MWh) for peak energy.

Given the majority of SMEs use their energy in the peak times the retailers use, Monday to Friday 7am to 9pm, this is having a substantial impact on their costs.

One beverage manufacturing business we recently spoke to had been on a three-year contract rolling off at the end of June 2017. As a result of the rising wholesale electricity market, their 'total' electricity costs were forecast to increase from approximately $50,000 per annum to over $120,000 per annum from 1 July. This was primarily a function of their wholesale energy costs rising from 7 cents/KWh ($70/MWh) peak, to 22 cents/KWh ($220/MWh) peak.

Unfortunately another local manufacturer, Plastic Granulating Services, was actually forced into liquidation this month leading to the loss of 35 jobs after they publicly stated their electricity costs had increased from $80,000 per month to $180,000 per month.

It is important for the ACCC to ensure that as it collects data for this inquiry that it has the most up to date information given how quickly the market is moving. For example, one of Business SA's food manufacturing members struck its electricity contract in January 2017 and only paid 16 cents/KWh ($160/MWh) for peak energy evidencing another material step change even in the last 6 months. All that said, the most significant jump occurred when Alinta announced it was closing the Northern Power Station in June 2015 and almost overnight the wholesale energy contract market for South Australian consumers doubled.

3. To achieve the necessary outcomes of this inquiry, the ACCC must ensure it gathers the right information at the right consumption intervals and across the relevant periods of time. From Business SA's experience advocating on behalf of energy consuming businesses across the spectrum of industry and commerce, we recommend the following information be compiled:

- price benchmarking for both the small customer market and the large customer market including 'the number of retailers in each jurisdiction active at each level of the market' as per below:

a) The small customer market should be segmented as follows with numbers of customers listed for each;

< 50 MWh use per annum

> 50 MWh use per annum

b) The large customer market should be segmented as follows, again with numbers of customers listed for each, and including average peak and off-peak prices for at least 1 & 3 and year contract terms;

Between 160 MWh and 500 MWh per annum

Between 500 MWh and 1 GWh per annum

Between 1 GWh and 10 GWh per annum

> 10 GWh per annum

c) Price benchmarking should also segment the key components of electricity costs at each consumption level including;

Distribution costs, transmission costs, renewable energy target costs, state energy efficiency scheme costs, state PV scheme costs, guaranteed service levy schemes, generation costs and retail costs

d) In order for the ACCC's inquiry to comprehensively articulate a picture of prices and their drivers over time at each level of consumption, the data should go back at least 10 years and include the full 2016/17 calendar year.

While Business SA does not want there to be an unnecessary impost on electricity retailers through this inquiry, it is important for all parties within the energy sector, including consumers, to understand exactly where prices have been going over time and what the relativity of drivers are at each consumption level. Without this information in an agreed format compiled by an independent authority such as the ACCC, future Government policy decisions will be made without being adequately informed as to the primary drivers of electricity costs. Furthermore, regulated businesses will continue to present data in varying formats to justify their business cases which does not help authorities or consumers to understand what they are willing to pay for.

Business SA is also deeply concerned, and has expressed this in numerous forums, that the large customer market is often glossed over or simplified in Government reports / commentary on how businesses are being impacted by electricity prices. Too often we only see a breakdown of small and large businesses without the consideration for the multitude of businesses in between. In South Australia, there are approximately 5,500 large market customers and only a very few number of businesses actually operate in the spot market with the vast majority of 'large market customers' being price takers in the contract market.

Large market customers are not all 'big businesses', in fact most are not and are primarily SMEs which happen to be relatively energy intensive from large bakeries to irrigators to metal galvanisers and a whole range of manufacturers. These businesses might only spend as little as $50,000 to $100,000 per annum on electricity but in many cases in South Australia over the past two years have experienced their total electricity costs more than double, on top of sharp increases in gas costs. These businesses are definite 'price takers' in the contract market and because of the way the NEM and its system of jurisdictional pricing works, the only retailers that can genuinely offer 'competitive' pricing to these businesses need to have 'base-load' or firm dispatchable power within South Australia. This means that in most instances, there is only one or two energy businesses competing for their contract.

Business SA would appreciate if the ACCC could spend some time in its report commentating on how the market for 'large market customers' actually works within the NEM, including how it operates as a series of State based markets where all the various aspects of competition are actually confined within each State given the lack of effective hedging options across interconnectors.

4. South Australia's small market customers, which include most small businesses, have also been caught up in the energy crisis and although the impacts have been delayed due to nature of annual price reviews, last year bill increases were approximately 10% on average, depending on the retailer, and small businesses have been hit again this year with circa 20% bill increases effective from 1 July 2017. Small businesses are the lifeblood of South Australia's economy and these types of increases are not only unaffordable in an economy which is barely growing, but are hardly conducive to the type of job creation we need to remove our stranglehold on having the nation's highest unemployment rate. While the ACCC's inquiry is not about bringing down prices per se, it is about ensuring that as an economy and society, that if electricity consumers are having to pay such high prices, that we fully understand what the drivers are and that Governments take appropriate action to reign in those drivers to mitigate current and future impacts on consumers.

5. The ACCC should also investigate any market practices which prohibit businesses from accessing prices directly from retailers in the large customer market.

6. In South Australia, the ACCC should investigate aggregated local synchronous generation revenues, adjusted for the price of gas for each, over a ten year period to understand how issues of competition and gas prices are impacting current wholesale electricity prices in a relative sense. Business SA recognises that the price of gas has, and is having, a substantial impact on the costs of base-load generation within South Australia, but there is no transparent analysis from an independent authority to work out precisely 'to what extent rising electricity prices are a function of rising gas prices'. This analysis needs to be completed over the longer term to enable a fair and reasonable assessment of investment paybacks for generators.

Appendix A – case studies relating to price impacts from Business SA submission to Finkel Review (dated March 2017 prior to Hazelwood closure)

a) *Adelaide based Garon Plastics owned by Garry Thompson:*

"We are an Adelaide based manufacturer that exports world leading oyster farming products and technology to many destinations including The USA, Mexico, France, Ireland and Japan. We are attempting to continue to supply these products from our factory here in Edwardstown, however with continuing electricity price increases we are now looking at alternatives. South Australia must remain globally competitive, we are under continual pressure from a fluctuating Australian dollar, high wages and the last thing we need is the world's highest prices and unreliable power. My businesses started 25 years ago with a single injection moulding machine in the backyard of my house. We now employ close to 25 people locally and another 3 representatives in overseas territories. These jobs are not as secure as they could be due to the cost of business in this state."

b) *Regional independent supermarket owners, (Grenfell & Slavka Koch) employing 70 people:*

Owning both an IGA and a Foodland supermarket situated in South Australia's Riverland, this business has experienced a 130 percent increase in the cost of electricity since the beginning of 2017 after going onto a new contract. For the Koch's, this has been particularly difficult to absorb in a broader grocery market which has become much more competitive in recent years, with new players such as Aldi and the like.

"The cost of power is ridiculous and will deter businesses from expanding in South Australia. To put it in perspective, we were paying seven cents a kilo-watt during peak periods in 2016 and now we're paying 16.9 cents a kilowatt. That started on January 1 and our power bill is going to go up by well over $100,000 per annum, and on top of that, we haven't got a reliable source"

"If it's frozen, meat or seafood, you can't have the power off for long periods of time. It's ridiculous that people would even consider buying generators. You would think things have improved over the years, but there aren't any alternatives at the moment. There is solar with batteries, but that's still evolving. With solar you can put power back into the grid, but you can't store it efficiently at this stage. And with generators, it is difficult to justify the cost and the other issues is with a generator, for example having to have diesel in the building. Quite often these generators need to be in a standalone building away from the building itself, so there's certainly requirements and regulations you have to abide by when you install them."

c) *Regional feed mill JT Johnson & Sons employing 85 people:*

JT Johnson runs a regional exporting business, centred around the export of hay and pellets to Middle Eastern and Asian fodder markets. In mid 2016, and after just having undergone a major upgrade its power infrastructure, JT Johnson's total energy bill increased from $800,000 to $1.6 million after its wholesale energy peak price trebled from 6.4 cents to 19.3 cents.

"We were shocked to receive prices detailed on our new supply contract detailing increases in power charges by up to 300%. We have invested $17 million dollars to improve efficiency and increase capacity however with cost increases representing an additional $15 per metric tonne, it will be difficult to achieve any growth. These costs are not shared in other states and therefore our market competitiveness is completely eroded. Our industry is volume based with very thin margins. Cost increases such as this can not just be passed on to the end user as they will be able to source the product from either Victoria or Western Australia at cheaper prices…..The Government's pursuit of clean energy targets is putting the whole state at a disadvantage. There must be action taken to reduce the cost to business or risk losing more manufacturing interstate."

“In regards to reliability, of course if the electricity supply is cut our ability to supply to market is greatly reduced. We have not experienced too many issues of late, however the uncertainty causes us to prepare for black outs and in order to be prepared we must double handle product. This results in additional handling costs” For example, in the case of a pending shipment additional stock will need to be stored to ensure a power loss does not result in a contract being short, which is particularly relevant for container ships which do not wait.

“Our main concern is the high cost of business and the impact that has on our ability to remain competitive in the domestic markets and international markets that we compete in. We are already budgeting an additional $1.2 to $1.4 million in electricity costs for 2017 compared to 2016.”

d) Adelaide based Aged Care provider:

“I recently tendered an energy contract for several sites and the cost of net energy jumped from 7.9 cents/kwh to over 17 cents/kwh, this just commenced from 1 January 2017 and was the absolute best we could get in SA, our existing retailer would not even match the amount, which was less than 0.3 cents/kwh so we switched.

I simply cannot understand why this Government allowed Alinta Energy to shut their plant down when we have always had issues with the base load in this state, it must have been common knowledge to them and that we would have load issues, particularly through summer with ongoing load-shedding.

Unfortunately, we are not in a position to pass on any of this massive cost to our clients and it has impacted how we now look at our strategic planning moving forward in this state.

The other huge issue is the amount of power failures/cuts we experience in this state. I cannot understand why the Government does not look at strategies to run cables / infrastructure underground which would limit the power outages through time and the impact on shutting power down due to trees and storms, yes it would be costly but so is shutting down the state every time we have a hot day or a small storm.”

e) Small winery based in Adelaide Hills:

“In the past 18 months, our electricity costs have doubled. By reviewing our bills closely, it is clear to see that not only has the base per-kwh rate increased, but also Network Charges (for maintaining poles and lines), demand charges (so the grid can build capacity to cope with the very brief peak demands) and the always mysterious "other" charges.

I feel very strongly that the energy independence of this state lies with stronger investment and increased speed of transition to renewables. South Australia were leaders in wind and solar power adoption. Now is the time to support business and households to transition to further energy independence using battery banks and by driving our grid to do the same.”

f) *Regional sawmill NF (McDonnell & Sons) is a fourth generation family owned business employing 130 people and in recent years has invested $15 million in state of the art sawmilling equipment:*

While the business sells wood packaging and garden products into all Australian states, the majority of its recent sales growth has been export driven to countries throughout Asia and the Middle East.

“Electricity forms a major component of our manufacturing operation. We will consume an estimated 4.3 Gigawatt hours during 2016/17 at a cost of $680,000. Based on current South Australian energy market rates, our annual energy cost will increase by a projected $320,000, an energy cost increase of over 125 percent. In addition, an increase to the LRET emission charge will add a further $20,000 per annum cost.

Our export and domestic markets are competitive and price sensitive. Cost increases erode our market competitiveness against sawmills operating in other Australian states who are not experiencing the magnitude of electricity cost increases specific to South Australia.

In addition, our sawmill importantly adds value to lower value plantation log grown in the South East region. As our production costs rise, it becomes more attractive for export customers to import an unprocessed log directly from the plantation owner and manufacture timber products themselves.

In summary, we cannot simply pass this cost onto our export or domestic customers. We expect a negative impact will occur to our future employment levels as we endeavour to minimise production cost impacts.

We are also facing significant issues with reliability and just over the last month have had to reset our IT system three times due to power outages.

Again, thank you for the opportunity to present our situation. A situation which is being replicated across every manufacturing business in South Australia.”