

17 November 2017

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



Business SA
Chamber of Commerce
and Industry South Australia

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Dear Ms Holland

I write in response to the ACCC's request for submissions on the preliminary report of its Retail Electricity Pricing Inquiry.

Working for your business.
Working for South Australia

Executive Summary

- Business SA appreciates the ACCC's strong focus on impacts of electricity prices on SME large market customers, particularly given the wholesale market impacts began hitting this cohort of customers from mid-2015 when South Australia's electricity futures market doubled on the announcement of Northern Power Station's closure
- Business SA also supports the separate focus on small business customers which demonstrates that South Australian small businesses indeed pay the highest electricity costs in Australia
- We recognise that there are still several outstanding data requests from retailers to ensure the ACCC's final report can provide more complete analysis of bill impacts over the past decade, and their specific drivers for both the small and larger customer market, and this must be a priority to deliver
- The final report must also include information about how the large customer market works in practice from a competition perspective, for example, businesses in South Australian not being able to enter firm contracts with generators in different NEM jurisdictions.

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





Key Policy Points

1. Business SA would like to reiterate that 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. The ACCC Draft Report has made a good start on this point with its specific attention to the plight of South Australian SME manufacturers, but the final report must pay much more attention to how the large customer market works and provide a comparable analysis of market dynamics to that provided for small market customers.

In South Australia, there are approximately 6,000 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 \$60,000 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 typically 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 genuinely competing for SME's' contracts.

2. Business SA would appreciate if the ACCC could spend some time in its final 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. This would benefit from analysis as to how future interconnectors may impact on the existing market design limitations, particularly given the recommendation in the Finkel Report for renewable energy zones.
3. In its final report, 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.
4. While it may be useful to understand real cost increases for the electricity market, the end consumer does not pay a 'real price' and it is useful for such analysis to be complemented with nominal price analysis.
5. Business SA appreciates the ACCC's acknowledgement that affordability has not always been a strong focus of energy policy development and this inquiry is a clear step in the right direction to addressing such an imbalance, particularly as neither reliability or affordability are prioritised over one another in the national electricity objective.
6. The draft report shows the ACCC has a good grip on the complexity of the challenge electricity cost increases put on SMEs and it is important that the final report includes a mix of qualitative and quantitative analysis.
7. The final report should reflect how recent changes to competition laws can better allow SME collectives to purchase electricity and gas, or other inputs, without going through an ACCC authorisation process; which should reduce both the cost and time of adapting to market challenges.



8. The chart describing growth in regulatory asset bases for each state should separate the eastern states from South Australia and Tasmania to more clearly delineate the growth from a smaller starting base, and be segmented for transmission and distribution companies. For example, SA Power Networks' RAB has increased from \$2.5 billion in 2005/06 to \$4.3 billion in 2016/17¹ while ElectraNet's has increased from \$824 million in 2003 to \$2.55 billion today. It would also be useful for the ACCC to articulate how much revenues attributed to regulated networks are either directly or indirectly a function of RAB value.

¹ Estimate from the forecast at time of the AER's 2015 regulatory determination for closing RAB at end of 2016/17