

19 December 2018

Mr Saraj Bhullar and Mr Michael Drake  
Australian Competition and Consumer Commission  
Level 17, 2 Lonsdale Street  
MELBOURNE VIC 3000

via email:

Dear Mr Bhullar and Mr Drake

I write in relation to the ACCC's consultation on implementation of its electricity market monitoring function subsequent to recommendations from the 2018 Retail Electricity Pricing Inquiry, noting the first report is due to be provided to the Federal Treasurer by 31 March 2019.

Business SA is South Australia's peak Chamber of Commerce and Industry, representing over 3,200 businesses across every sector. Being primarily funded by our products and services to thousands of local businesses alongside member subscription support, Business SA is independent of the policy agenda of any government or political party.

In relation to your Terms of Reference, we make the following comments:

- i) Electricity prices faced by customers in the National Electricity Market (NEM) including both the level and the spread of price offers, analysing how wholesale prices are influencing retail prices and whether any wholesale cost savings are being passed through to retail customers*

The ACCC's analysis must include price outcomes for both small and large market customers in each jurisdiction of the NEM. The operation of the market for small and large market customers works quite differently from a range of aspects including demand tariffs, direct tendering and bill structure to name a few. When considering that a large market customer in South Australia (160 MWh upwards) may spend as little as \$60,000 per annum on electricity, for example a large bakery, these are not necessarily 'large businesses' and their price outcomes should be monitored by the ACCC.

Monitoring price outcomes for large market customers also ensures that if there are any unintended consequences from the Federal Government setting default prices in the small customer market, that retailers do not simply pass on additional costs to large market customers, an outcome Business SA would expect the Federal Government is also seeking to avoid. Price protection of small market customers cannot be at the expense of large market customers who are typically larger employers and often in export orientated industries.



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Business SA made similar points through our Finkel Review submission and in submissions to your Retail Electricity Pricing Inquiry,<sup>1</sup> and we note the following excerpt from the ACCC's Final Report;

*'Medium-sized businesses are generally price takers and still experience some challenges when engaging with retail electricity markets. The barriers to engaging with the retail markets as described earlier in the chapter are not limited to small businesses, with many medium-sized businesses facing similar issues with comparing complex offers and negotiating their electricity contracts. Submissions indicated that many medium-sized businesses engage with retailers, or third parties like energy brokers, and rarely engage directly in the wholesale spot market. The ACCC has learnt from consultations with medium-sized businesses that engaging with the wholesale market is generally unattractive due to the complexity of managing energy procurement and the difficulty around procuring competitively priced hedging contracts, particularly in markets with limited liquidity'*<sup>2</sup>

While Business SA acknowledges the large customer market is less visible due to trading of over-the-counter contracts, if companies such as Energy Action are already offering a service to provide part visibility in this market then the ACCC should be able to find an efficient means to provide broader visibility over price outcomes for large market customers. Business SA acknowledges that none of the data sources described on page 10 relate to large market customers which appears to be a market failure and something the ACCC may need to address itself. As the ACCC states in relation to the separate issue of wholesale price monitoring, *'The ACCC expects to have to undertake some data collection of its own either where other agencies do not collect and report on certain aspects of the market or where there are legal or practical issues with the ACCC drawing on their data (for example legal restrictions preventing data sharing between the agencies).'*

Considering there are approximately 5,000 large market customers in South Australia alone, any ACCC electricity market monitoring would be materially deficient without consideration of the large market customer contract market.

Furthermore, your discussion paper only provides data examples for residential customers which needs to be rectified in your first market monitoring report.

***ii) wholesale market prices including the contributing factors to these such as input costs, bidding behaviour and any other relevant factors***

This aspect of the ACCC's market monitoring should include the extent to which various forms of generation are setting each NEM jurisdiction's half-hourly price, disaggregated for South Australia to separate the times at which AEMO directives to curtail wind are effective. Consequently, the ACCC should report on the wholesale prices that would otherwise prevail absent AEMO market directions.

While Business SA accepts the AEMO directives are in place for system security reasons, there should also be visibility on how such directives distort market prices by constraining on conventional generators which may not otherwise be required with sufficient renewables generating.

Subsequently, with better information about the costs of interventions, markets can be better equipped to deliver more cost-effective mechanisms of achieving the same desired outcomes in relation to system security.

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<sup>1</sup> Please refer 1.3.3. from Preliminary Report of Retail Electricity Pricing Inquiry, September 2017

<sup>2</sup> ACCC, Retail Electricity Pricing Inquiry – Final Report, P 349

iii) *contract market liquidity, including assessing whether vertically integrated electricity suppliers are restricting competition and new entry*

Following on from our previous comments, contract market liquidity should include the extent to which retailers in each market jurisdiction are actually making contract offers genuinely available to large market customers. Liquidity dynamics between small and large market customer segments are inherently different and the ACCC needs to be reporting on both. For example, the participation of retailers in the large customer contract market is related to their ability to access firm hedges within a subject NEM jurisdiction.

As your discussion paper states, information asymmetry impedes effective competition and South Australia is definitely in need of effective competition for both small and large market electricity customers.

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Yours sincerely,

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Acting Chief Executive Officer