It's YOUR Energy Company™

COMMUNITY
OWNED
RENEWABLE
ENERGY

3 July 2017

Eva Wong, Rebecca Holland
Retail Electricity Inquiry
Australian Competition & Consumer Commission

Dear Eva, Rebecca

Please find attached Enova Energy's submission to the ACCC's inquiry into retail electricity supply and pricing – Issues Paper.

Enova Energy is the first community owned renewable energy retailer in Australia, and as a small retailer operating in the Natuional Electricity market we believe that we can make an important contribution to this inquiry.

Please feel free to contact me should you wish to clarify and of the matters we raise in the attached submission.

Yours sincerely,

Tony Pfeiffer,
Managing Director
Enova Community Energy Ltd
Email: tonypfeiffer@enovaenergy.com.au
Mobile: 0417 734 664

ACCC inquiry into retail electricity supply and pricing Issues Paper

31 May 2017

Enova Community Energy is pleased to be able to provide comment on the Issues paper for the ACCC's inquiry into retail electricity supply and pricing.

Enova Energy is the first community owned renewable energy retailer in Australia. Enova has an Electricity Retailing License covering the whole NEM (no VIC), but it has commenced its operations in the Northern Rivers Region of NSW. In addition to Energy retailing Enova has a not-for-profit arm that will return half of the profits to the community through social benefit projects. Enova will support other community renewable energy projects and initiatives, e.g. by making Power Purchase Agreements with generation projects and will eventually act as a model and a hub for other community groups wanting to do the same!

Enova Energy's mission is to demonstrate the viability of an alternative energy model that can be replicated across Australia. Not only will this give local communities ownership of the issue around carbon emissions from energy, but it will challenge the dominance of the larger retailers and facilitate the development of a regionally driven renewable energy industry in Australia.

As a locally-based community owned energy company Enova Energy intends to:

- partner with groups and agencies throughout the community to shape finance and deliver programs to assist vulnerable households, lower socio-economic groups, and community organisations
- employ locally
- invest in energy education, helping potential customers understand the options available to reduce energy costs
- assist customers struggling with high cost grid energy to make the transition to low cost renewable, and will
- develop options to make solar take-up attractive to landlords and renters.

Although Enova is based in the northern rivers region of NSW, we currently sell electricity to consumers anywhere in the Essential Energy Network Zone and plan to enter the Sydney market in August 2017.

As can be seen from the above, the ACCC's inquiry is of interest to Enova as we have very similar aims and intended outcomes.

Comments from Enova on the Issues paper

The ACCC seeks feedback from all interested parties on:

1. The factors that have been driving the rising costs that electricity retailers have incurred in supplying electricity to customers over time.
2. Any factors that may impact on the future price of retail electricity services.
3. The profits and returns made by electricity retailers.
4. Other industries or jurisdictions that the ACCC could look to in making findings or recommendations.

When providing feedback you may wish to comment on:

- Categories of costs that retailers face in supplying electricity to customers, and the extent to which these contribute to the prices paid by customers.
- Types of data that the ACCC should seek from retailers.
- The impact of vertical integration between electricity generators and retailers on costs (including on the costs of hedging and managing financial risk).
- The impact of the level of liquidity in the contract market on retailer costs.
- Risks involved in supplying electricity to customers and how this impacts on price.
- The existence of economies of scale and scope in retail electricity markets and the impact that these have on retailers' costs.
- Any differences in costs incurred by retailers in servicing different types of customers.
- The impact of new and emerging generation technologies on retailer costs and retail electricity prices.
- Whether the introduction of retail competition has resulted in increased costs for retailers (e.g. costs incurred in competing for customers), and what costs retailers have reduced since the introduction of competition.
- The impact of regulatory differences between states and territories on achieving greater economies of scale.

In the relevant jurisdictions, what impact the removal of price regulations (e.g. a price cap or regulated 'base rate') has had on prices and retailer behaviour.

1. The factors that have been driving the rising costs that electricity retailers have incurred in supplying electricity to customers over time.

Enova Community Energy has only been in operation for 12 months and in that short time the underlying costs of retailing electricity, specifically the wholesale and renewable certificate costs have increased significantly. A lot has been written about the wholesale energy costs but not a lot of consideration has been given to new entrants, like Enova, who face these costs and find the liquidity of the contract market to be limited due to the credit requirements of the contract market participants and the costs this imposes on small retailers. Without any form of wholesale protection, the current volatility of the wholesale market is generating very challenging costs for small retailers. There are definite economies of scale for the larger

incumbent retailers which can, and do create barriers to entry for smaller retailers. Particularly as they are vertically integrated and high energy costs on the retail side are to the benefit if the generation side of the same company.

Small retailers face proportionally extremely high prudential requirements (from AEMO) that the vertically integrated retailers can avoid. This means extra capital and fees are incurred by the small retailers. In addition, the reallocation process, that allows retailers to reduce the prudential requirements, effectively means additional fees on top of the hedge that flow straight to the counterparty (who is most likely vertically integrated with the retailer and hence does not actually incur the cost)

Vertical integration reduces derivative trading, making the market more illiquid and hence less transparent. Gaining market knowledge (e.g. by Reuters) is an extra fixed cost that small retailers may have to forego. This puts the big trading counterparties in a strong position of market knowledge when pricing hedge contracts that is not matched by the small retail buyer of the hedge product.

The fixed compliance costs are unreasonable for small start-ups. These are the various audits (like GreenPower, ESS) and system costs related to the complex regulatory requirements both on retailer/customer interface and on the wholesale trading compliance (e.g. the requirement to have AFSL even when trading is purely for hedging purposes and the obligations that follow from there).

The cost of non-payments by customers. The high level of consumer protection means that a customer can accumulate a large debt before retailers can disconnect them. Then the customer can switch to another retailer and do it again. Procuring a credit check for each customer adds a significant cost of acquisition that erodes profit margins significantly. The non-payments will increase the price for all and therefore the industry should look into a black list registry similar to a tenant database. The existence of such registry combined with considerations around hardship and payment plan related obligations should make it less easy and desirable to abuse the system without pushing those in financial hardships out of service.

2. Any factors that may impact on the future price of retail electricity services.

As much as the Power of Choice changes are aimed at giving customers more information on which they can make better informed decisions about retail products and services and hence hopefully save, the costs imposed for retailers will need to be passed on to customers. Again, the large incumbent retailers have a scale advantage and are potentially able to absorb or smear these costs in their business and provide a smother price path for the customers, but this has the challenge of creating barriers to entry and squeezing out the small retailers.

Smart meters result in a net increase in cost to the retail customer of around $100 p.a. The large retailers can smear these costs across their entire customer base however the mall retailers, due to the low retail margin are unable to absorb these costs and must pass them back to the customer, again reducing competitiveness.

Certificate schemes, current and future, to encourage more renewable generation do pose a cost impost on retailers without any apparent consequent reduction in wholesale energy. These costs are passed onto customers through retail pricing. Enova encourages and supports the installation of renewable energy and understands the significance these certificates play in increasing the amount of renewable energy sources in the NEM.

As more and more distributed energy resources are deployed into the NEM, the push for matching local generation to local load will continue to grow also. Under the current arrangements where the local consumption of locally generated renewable energy pays for the full distribution and transmission system,

but does not utilize it, will be a barrier to cheaper energy prices for customers that look to invest locally in their own renewable generation sources.

3. The profits and returns made by electricity retailers

While customer prices do not vary with the costs at the same rate as the current cost structures vary, this has put significant pressure on profits and returns over the past 12 months. Obviously if costs move the other way then this also provides retailers with an improved profit and return.

The economy of scale of the larger incumbent retailers potentially allows them greater opportunity to absorb these costs variations and hence gives them, due to their scale, a competitive advantage and ability in managing the market volatility.

4. Other Industries of Jurisdictions that the ACCC could look to in making findings or recommendations.

No Comment.

The ACCC seeks feedback from all interested parties on:

5. The ways that electricity retailers currently compete.
6. The level of competition between electricity retailers in each NEM area and distribution area within each NEM area.
7. Any impediments to competition between electricity retailers.

When providing feedback you may wish to comment on:

- The market shares of electricity retailers in each distribution area.
- The way that electricity offers are marketed and the use of discounting to attract customers.
- Any differences in offers to different customer groups (e.g. regional and rural customers).
- The key considerations for customers in choosing an electricity provider.
- Strategies used by retailers to retain and attract customers.
- The extent to which privately run comparator services are influencing competition.
- The extent to which price regulation impacts on effective competition.
- The proportion of customers without effective access to choice of retailer or offer (e.g. customers in embedded electricity networks).
- Evidence on the extent of switching between retailers by customers, and the barriers to switching.
- Any barriers to entry, expansion or exit and the extent to which these barriers differ between NEM areas, including economies of scale and scope, fixed costs, access to risk management products, and any regulatory barriers.
- The extent to which vertical integration between generators and retailers impacts on the ability of retailers with little or no generation interests to compete.

The existence of, or potential for, anti-competitive conduct by market participants, including collusive conduct and misuse of market power.

The ACCC notes that questions 5 and 6 are targeted at all industry participants. Question 7 is targeted at existing electricity retailers and those that are interested in entering the retail electricity market.

5. The ways that electricity retailers currently compete

The primary form of competition currently is based on a price offering. This can take the form of discounts or value add offers such as higher feed in tariffs for PV customers. Incumbent retailers with large market shares have the incumbency advantage which makes effective competition by new entrants challenging.

6. The level of competition between electricity retailers in each NEM area and distribution area within each NEM area.

Only need look at the number of retailers in NSW as an example (+20) however 90% of customers are with one of the big 3. Not only does this create a problem of 17 other retailers fighting over 10% of the market, it also limits the opportunities for economies of scale for these retailers. The scale of the large retailers allows pricing behaviors inclusive of deep discounts which are then clawed back from customers at the end

of price plan, i.e. time based discounts. For the smaller retailers to survive under this level of competition requires deep pockets to deal with the cash flow issues this creates

7. Any impediments to competition between electricity retailers

There is no doubt that the economies of scale enable larger retailers to absorb market fluctuations and smooth the impacts on their businesses far easier than for the small retailers. This is particularly so for vertically integrated retailers who can match and manage more closely the costs of supply with the price of sale. Due to a lack of scale and the underlying fixed costs of operating a retail business, small retailers have a higher cost to serve, combine this with lower margins for error or market shifts and less liquidity available to manage the market risks, puting the small retailer in a difficult position.

The ACCC seeks feedback from all interested parties on:

8. Any impediments that customers face in choosing a retail electricity service and any differences between customer types and NEM areas.
9. How customers' ability to make informed choices about electricity can be improved.

When providing feedback you may wish to comment on:

- The complexity of retail electricity offers and the way that they are presented.
- The structure and content of retail electricity bills.
- Relative importance of price and non-price terms.
- The way that time limited discount offers are presented and the impact on customer understanding.
- Reasons why customers do not consider switching or choose to remain with their existing electricity retailer.
- The effect of bundling electricity plans with other services.
- The adequacy of the level of information available to customers and way this is presented.
- Any misleading or deceptive conduct or other unfair trading practices that occur in the retail electricity markets, including through price comparator websites.
- Price comparator tools and in particular the role and effectiveness of government run price comparator websites.
- Tools and/or technology that will assist customers to determine the most appropriate offer for them and the benefits that flow from these, e.g. smart meters.
- Particular issues that vulnerable customers face in dealing with electricity retailers.

While this section of the paper focuses on household and small business customers, the ACCC welcomes views on issues that other customer types face. All interested parties are welcome to respond to these questions, however, they are targeted at customers and customer groups.

8. Any impediments that customers face in choosing a retail electricity service and any differences between customer types and NEM areas.

Customers continue to perceive electricity as a complex product yet treat it in a very low touch manner. However, most customers also manage the very complex product, product bundling and pricing offers from Telco and Internet service providers with apparent ease. One possible reason for this is the ability in the telco and internet industry to keep the customer informed on their current usage and the tracking of their monthly bill and hence remove the issues around bill shock, as well as giving the customers a high degree of control over what their bill will be at the end of the billing period. (they don't have the problem of trading in an extremely volatile market. They sign a contract with a NBN and go out and sell. There is no commodity to be purchased.

9. How customers' ability to make informed choices about electricity can be improved

As mentioned above the Telco and internet industries have the technology to allow providers to give customers current usage and cost information, and hence allow customers to make decisions around usage to manage their accounts. As intelligent meters are progressively rolled out this will enhance the electricity industries ability to provide similar services. However other technologies, such as Home Energy management, PV and Battery management systems are allowing these services to be provided to those customers currently even if they do not have a smart meter. This is rarely the case as when they install such devices (other than Home Energy management) they are being required to also install an intelligent meter at their cost.

There is no doubt that near real time information provided to customers via portals and alerts will allow customers to make better informed decisions, not only about how they are currently using energy but also about which products and services better suit the way they like to use energy. The challenge here is that until the technology to capture this information is ubiquitous then there will continue to be customer segments that are challenged by the current electricity market arrangements.

- Ends -