



Major Energy Users Inc.

15 November 2017

General Manager – Retail Electricity Pricing Inquiry
Australian Competition & Consumer Commission
23 Marcus Clarke St, Canberra, 26000

By email to: retailelectricityinquiry@acc.gov.au

Dear Baethan

ACCC Preliminary Report on Retail Electricity Pricing

Thank you for the opportunity for the Major Energy Users Inc (MEU), to provide input into the ACCC preliminary report on Retail Electricity Pricing.

The MEU provided a detailed response to the ACCC Issues paper and the MEU was pleased that, overall, this input was reflected in the ACCC analysis presented in the ACCC preliminary report. Specifically, the MEU was pleased that the ACCC had analysed the wholesale electricity market as this market has a considerable impact on retail prices, especially the impacts of low competition in the wholesale market.

In its earlier response, the MEU pointed to the futures market and the prices being sought and offered for wholesale electricity. The MEU provided a view that the prices offered reflected more the price of gas fired generation rather than reflecting the average cost of electricity production and that the “gentailers” were not passing the benefit of electricity coming from low cost sources.

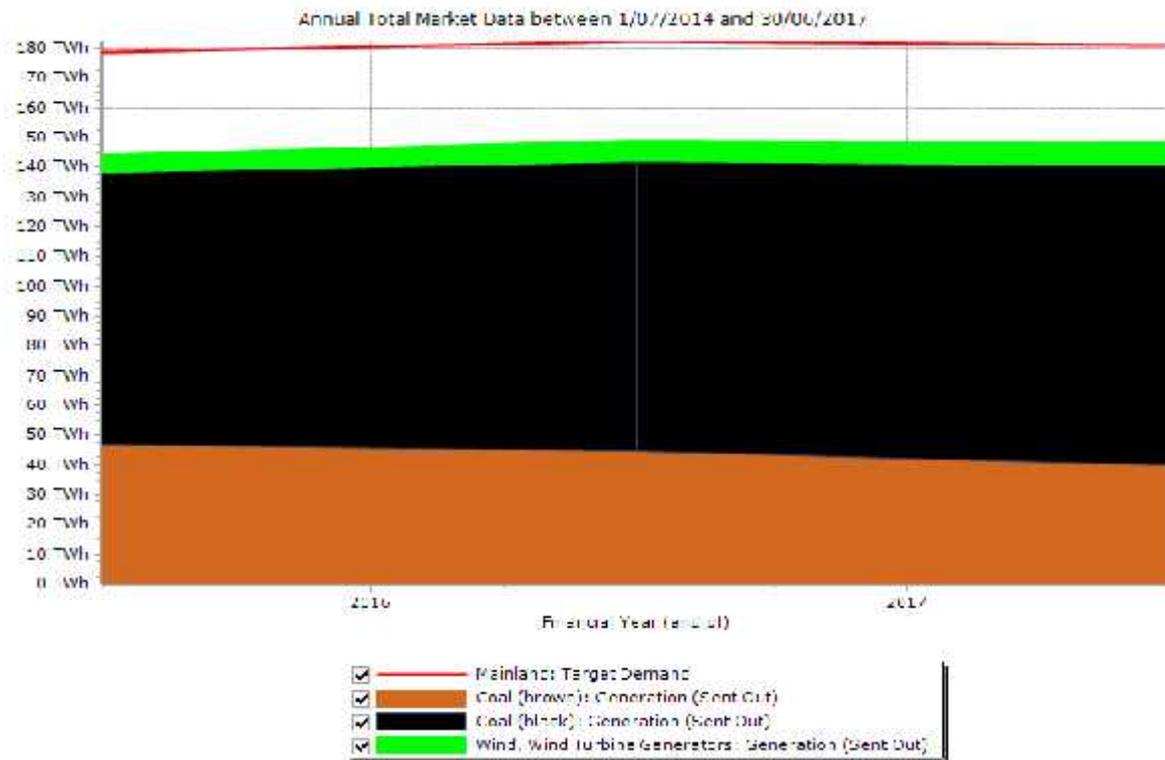
With this in mind, the MEU has carried out some additional analytic work about how much the level of retail prices reflect the average cost of the electricity supplied to consumers. The following chart shows the proportion of electricity generated from coal sources and wind in the mainland states¹. Appendix 1 shows the same data for each of the mainland regions.

What the analysis shows is that over 80% of the electricity used in the mainland NEM states, is generated from wind and coal (black and brown).

¹ Tasmania is excluded because there is little competition in the region and the bulk of the generation is from hydro sources.

2-3 Parkhaven Court, Healesville, Victoria, 3777

ABN 71 278 859 567



Source: NEM data via NEMReview

The short run costs for wind are ~\$0/MWh, for brown coal ~\$11/MWh and black coal ~\$20/MWh². After allowing for the cost of capital and the hours each generator type can operate, the average cost of electricity supply from these sources is probably in the range of \$35/MWh to \$45/MWh. If over 80% of the generation used in the NEM mainland has a cost in this range, then it is clear that the low cost generators are not passing this cost benefit in their offers to retailers, whether they are internal customers or second tier retailers. As the MEU pointed out in its earlier submission, the bulk of this benefit is going to the large “gentailers” and they are able to retain the price vs cost benefit because of a lack of competition.

In its preliminary report, the ACCC has identified that the lack of competition in the wholesale electricity market is providing an ability for the “gentailers” to maximise their profitability at consumer expense because of a market structure that allows electricity prices to be set at the cost of electricity generated from gas.

The MEU agrees with the ACCC that the sale of electricity generation assets have been made without due regard for the competition implications of the sales. In this regard the MEU notes that not only has the sale of Macquarie Generation to AGL resulted in a major detriment to electricity consumers because of the excessive price premium now being acquired by the generation assets, but it is probable that the net public benefit assessed by the Competition Tribunal to support the sale

² See Jacobs report for AEMO Retail electricity price history and projections – Public 23 May 2016 appendix A3

(and over-rule the ACCC opposition to the sale) has been significantly eroded by the high profitability now achieved by Macquarie generation assets³. The MEU points out that similar outcome resulted from the sale of Torrens Island power station in SA, where high regional electricity prices in 2008 and 2009 effectively allowed AGL to recover the purchase price of the power station within a couple of years.

The MEU agrees with the ACCC that the lack of competition in the wholesale electricity market is a core driver of the recent major increases in the retail price for electricity. It is clear that the structure and rules of the NEM have permitted consolidation within the NEM, to the detriment of consumers. The MEU considers that the ACCC needs to assess whether the structure of the NEM is "fit for purpose" in the current environment so that consumers are able to enjoy electricity prices more reflective of the costs of production rather than reflecting prices achieved by very low levels of competition.

What is also concerning to the MEU is that there are already plans to change the electricity market which could further consolidate the already low levels of competition seen in the NEM. Such changes lie with the introduction of:

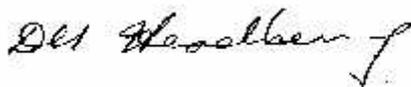
-) 5 minute settlement in the NEM
-) The National Energy Guarantee.

The MEU is very concerned that if such changes are introduced and there is a further lessening of competition, then the outcome for consumers will be even worse than what is currently being seen. With this in mind, the MEU strongly recommends that the ACCC carry out investigations about the changes in competition that could result from the introduction of these changes and any other changes planned for the NEM.

The ACCC should report the outcomes of such investigations to the CoAG Energy Council as a matter of urgency, to prevent unintended consequences for the wholesale electricity market.

Should the ACCC require additional explanation as to the concerns expressed herein, please contact the undersigned.

Yours sincerely



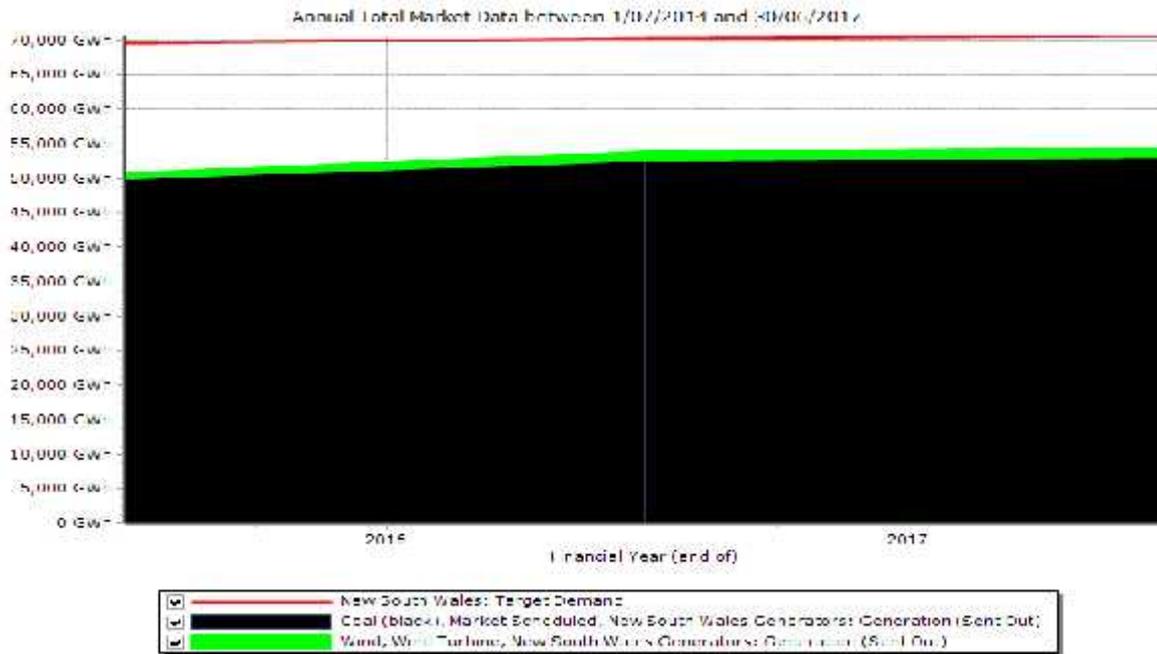
David Headberry
Public Officer

³ The MEU also notes that the sale price for Vales Point power station sold to Sunset Power is grossly under its current valuation, which has been inflated by the excessive prices now received for coal generated electricity

Appendix 1

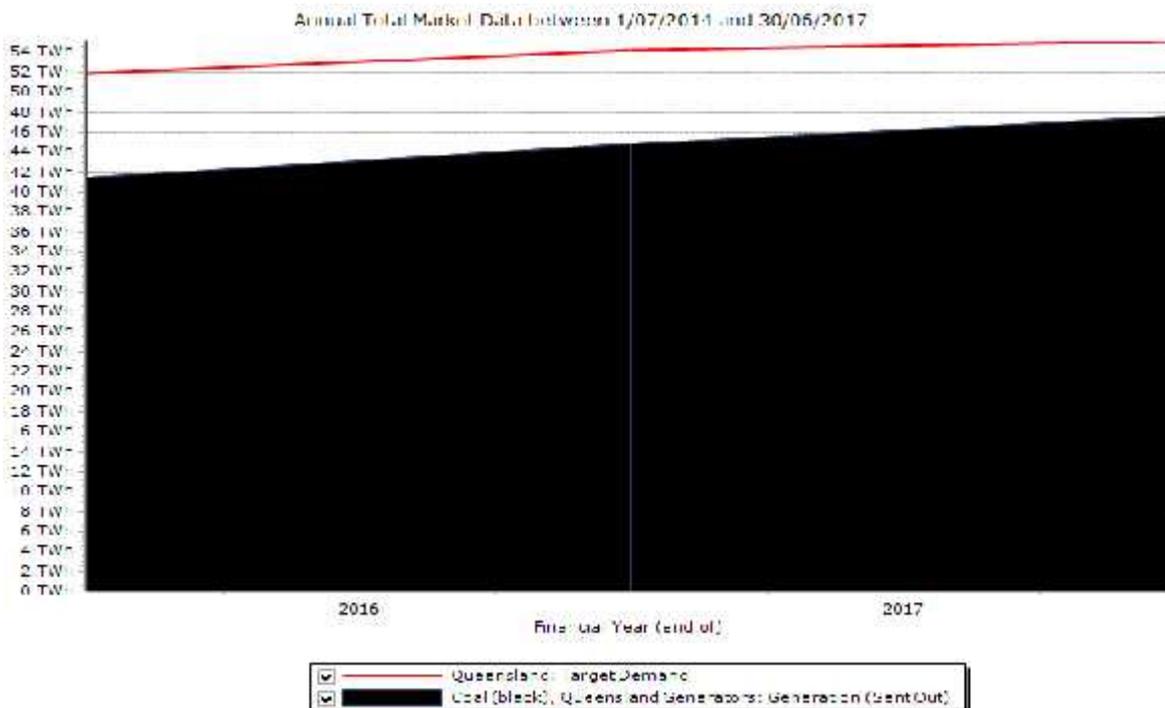
Analysis of NSW, Queensland, Victoria and SA generation by coal and wind compared to the regional demand

NSW



Source: NEM data via NEMReview

Queensland



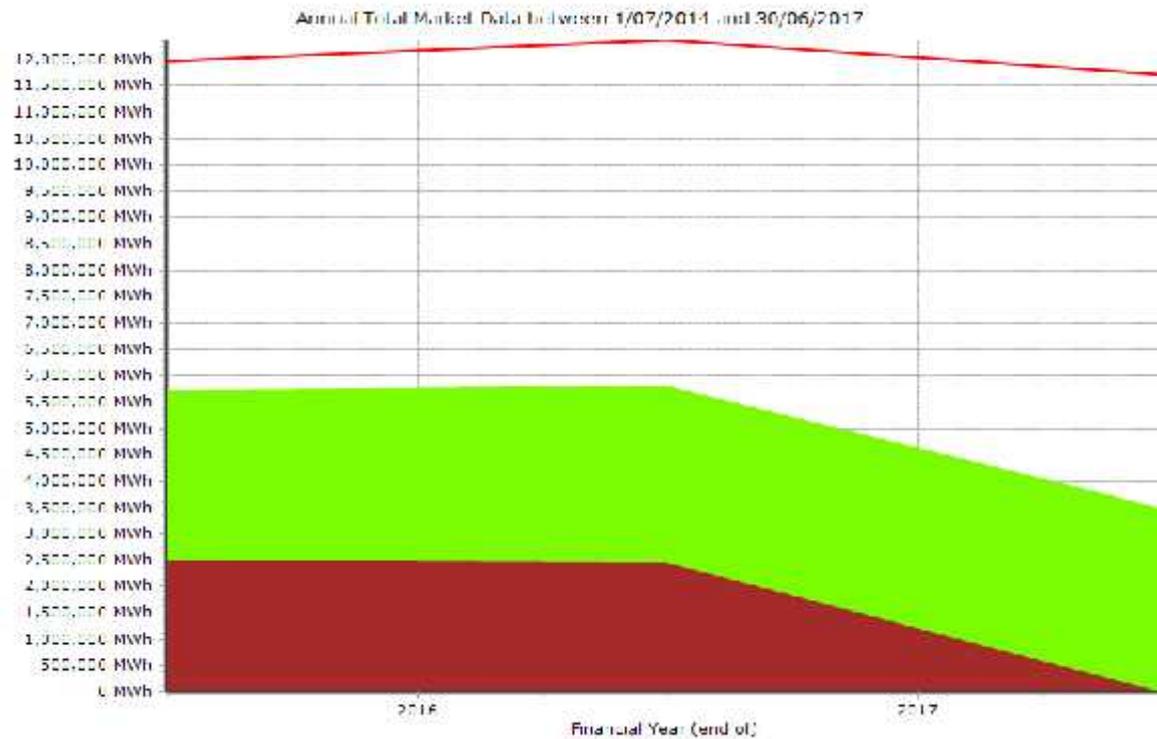
Source: NEM data via NEMReview

Victoria



Source: NEM data via NEMReview

SA



Source: NEM data via NEMReview