



17 November 2017

Australian Competition and Consumer Commission
Retail Electricity Inquiry
Via email: retailelectricityinquiry@acc.gov.au

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Dear Sir/Madam,

The NSW Business Chamber (the Chamber) - one of Australia's largest business support groups, welcomes the opportunity to comment on the ACCC *Retail Electricity Pricing Inquiry Preliminary Report* ('The Report').

We welcome the release of the Report and are pleased to see that the ACCC agrees with the Chamber's calls for retailers to provide more information to their prospective and existing business customers and to standardise this information as much as possible in order to enable effective comparison of retailer offers.

In this submission to the Report, we offer specific comments on how the market (retailers and networks) is functioning and possible avenues for ACCC exploration/comment in developing the final report, including some recommendations.

Retailers

The level of retail competition and the associated effects on both the level of service, innovation and price paid by small businesses and consumers has been studied and well documented by the ACCC and others. In general, it seems the only conclusion to be drawn is that retail service outcomes are less than optimal, the incentives for, and level of, retailer innovation minimal, and prices too high for the retailer proportion of the bill (irrespective of whether the network/generation charges and price signals are passed through in full, in part, or in excess by retailers) for the service offered.

Accordingly, it would be worth the ACCC analysing and detailing how effective retailers are at fulfilling each of its primary functions, namely: managing customer billing, developing packages of services tailored for different small business customers (innovation), insuring final customers against volatile electricity spot prices; and contracting with generators to meet the anticipated demand.

For example, it would be useful to have some analysis on how often and how successful retailers are at managing the risks of whole of system peaks, which adds to the cost of retailers supplying energy to their customers; if they are not required to do this often or are not performing it adequately, why should customers pay for services that they may not derive a benefit from or at least price it accordingly, like a risk reflective insurance premium.

It would also be beneficial to have an understanding of the incentives for retailers to pass on network price signals as well as savings from energy efficiency projects/schemes. For example, we note the NSW Government's Energy Savings Scheme (ESS), reduces energy consumption in NSW by creating financial incentives for households and businesses to invest in energy savings by installing, improving or replacing energy savings equipment. The ESS works by placing an obligation on NSW energy retailers and other liable parties to purchase energy savings in the form of Energy Savings Certificates each year. The question for the Review is how are retailers responding to these types of schemes and how are they placed to respond in the future?

Recommendation: The ACCC should provide a scorecard on how retailers are performing against the criteria above. This scorecard would inform the terms of reference for the inquiry as to whether retailer performance is inhibiting consumer choice, and importantly, whether retailer profits are commensurate with the risk they are undertaking on behalf of, and passed through, to the end customer.

Our members note, and the Report agrees, that hardship and disconnection is an emerging issue for small business. Unfortunately, the *National Energy Retail Law* does not provide the same access to hardship and ombudsmen policies for businesses as it does for consumers.

We believe it is important that businesses are offered payment plans or hardship assistance to those who indicate they are in financial hardship before considering disconnection for non-payment of a bill and to manage vulnerable businesses generally.

Recommendation: The ACCC should undertake a regulatory gap analysis for business energy consumers against the National Energy Retail Law and Rules and recommend appropriate changes as necessary to ensure broader coverage for vulnerable businesses, including access to hardship schemes.

Networks

Network access charges (as opposed to energy use or demand charges) associated with the fixed (and sunk) capital costs of energy networks (transmission and distribution) need to be addressed as they represent a significant part of the network component that forms part of the retail bill. Removing or transitioning to a lower fixed access charge would potentially halve a small business's network component of the ultimate retail bill, and would represent a significant cost saving.

However, is addressing the fixed network access component realistic? As alluded to in the Report, the current energy regulatory framework is unlikely to have any short or medium term impact on prices due to the long term cost of recovery on these assets, with decades long economic lives. In addition, with flat demand and excess capacity in the networks, consideration of the long run marginal cost (as required under the *National Electricity Rules*) is likely to lead to higher fixed or flat usage charges, not lower.

In light of the above, shifting the policy thinking to outside the energy and competition regulatory framework is likely to have a greater and more immediate impact on developing solutions for curtailing electricity prices through addressing network access charges. While this is for government policy makers to determine (working with business), it could include (and not be limited to) consideration of tax relief (such as payroll tax threshold increases for small businesses to balance and offset against the energy costs or fixed network access charges being included in the small business ATO asset write down).

The ACCC should acknowledge that the terms of reference of the review may constrain this analysis but reference that innovative policy measures should be considered by policy makers. The Chamber would be more than happy to work with the ACCC in providing information and thought leadership in this regard.

Recommendation: The ACCC should acknowledge the role government policy makers (working with business) have in developing solutions that are likely to have a more immediate impact outside the energy and competition regulatory framework.



Thank you for the opportunity to comment on the Report. For more information please contact Robert Millar on 02 9458 7324 or at robert.millar@nswbc.com.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Luke Aitken", with a long horizontal flourish extending to the right.

Luke Aitken
Senior Manager, Policy