

Queensland Competition Authority

Submission

ACCC monitoring of the electricity supply in the National Electricity Market

December 2018

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THE ROLE OF THE QCA – TASK, TIMING AND CONTACTS

The Queensland Competition Authority (QCA) is an independent statutory body which promotes competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's retail electricity market monitoring functions are set out in sections 89B and 89C of the *Electricity Act 1994* (Qld).

- Section 89B allows the Minister to give the QCA a written direction requiring the QCA to monitor, and give a written report on, the operation of the retail electricity market in a designated retail market area.
- Section 89C allows the QCA to, by written notice given to a retailer for a designated retail market area, require the retailer to give the QCA the relevant information the QCA requires to comply with the direction from the Minister.

Task, timing and contacts

The QCA is making a submission to the Australian Competition and Consumer Commission's (ACCC) discussion paper on the ACCC's monitoring of the National Electricity Market.

Contacts

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OVERVIEW

ACCC's new electricity price monitoring role

The Australian Competition and Consumer Commission (ACCC) has been directed to monitor the prices, profits and margins in the supply of electricity in the National Electricity Market (NEM). The ACCC is required to provide its first report to the Commonwealth Treasurer by 31 March 2019, and to report no less frequently than every six months thereafter until August 2025.

The direction requires the ACCC to monitor the prices faced by customers in the NEM, including the level and spread of price offers, and encourages the ACCC to make use of publicly available information where appropriate.

The Queensland Competition Authority (QCA) welcomes the opportunity to make a submission on the ACCC's discussion paper on the ACCC's new electricity market monitoring role. The QCA has monitored the south east Queensland (SEQ) retail electricity market since prices in the market were deregulated in July 2016. Drawing on our experience in monitoring the SEQ retail market, we provide views on two questions in the ACCC's discussion paper:

- Current overlapping and inconsistent methodologies to market monitoring, and suggestions for preferred approaches (Question 2).
- Is there retail price data not reported on in the inquiry that would be useful to understanding how well the market is functioning? (Question 4)

Existing methodologies for market monitoring

There is a degree of overlap in the reporting of retail electricity bills in SEQ by the Australian Energy Market Commission, the Australian Energy Regulator and QCA. However, the QCA provides the most extensive monitoring of electricity bills in SEQ.

We agree with the ACCC's observation that there are inconsistent methodologies for price monitoring across NEM jurisdictions. However, there are also a number of consistent elements of the approaches and methodologies used by various agencies to monitor retail electricity prices across the NEM. The fact that the reports prepared by a number of agencies share certain key features suggests that these aspects of existing price monitoring are relevant to governments and policymakers.

Other useful retail data

The QCA suggests the ACCC consider using data from Energy Made Easy to monitor electricity prices in the NEM. We do not suggest that Energy Made Easy would be likely to provide all of the information the ACCC will need to meet the direction. However, meaningful conclusions about how well retail electricity markets are functioning can be drawn from 'desktop' analysis of electricity offer information on Energy Made Easy. Further, using Energy Made Easy does not require retailers to respond to information notices from a regulator, and allows each retailer's prices to be presented, by distribution zone.

Our purpose in outlining some of the overlap, inconsistencies and consistencies in the existing approaches to price monitoring across the NEM is to assist the ACCC to develop its price monitoring using Energy Made Easy, should it choose to do so.

1 INTRODUCTION

1.1 ACCC retail electricity pricing inquiry

In July 2018, the Australian Competition and Consumer Commission (ACCC) published the final report of its retail electricity pricing inquiry (the inquiry).¹

In August 2018, the (then) Commonwealth Treasurer directed the ACCC to monitor the prices, profits and margins in the supply of electricity in the National Electricity Market (NEM). The ACCC is required to provide its first report to the Commonwealth Treasurer by 31 March 2019, and to report no less frequently than every six months thereafter until August 2025.²

1.2 ACCC discussion paper

In November 2018, the ACCC published a discussion paper regarding its new market monitoring role.³ The discussion paper suggests that the March 2019 report will focus on the ACCC's approach to monitoring the NEM, with the reports from September 2019 focussing on the ACCC's analysis of the NEM.

The discussion paper seeks views from stakeholders on the approach the ACCC should take to monitor the electricity market. The paper lists 21 specific questions for which stakeholders are invited to provide comment. The paper also states that the ACCC will have regard to its experience in the inquiry, which it says involved many types of analysis that may also be applied in the new market monitoring role.⁴

1.3 QCA submission

The Queensland Competition Authority (QCA) welcomes the opportunity to make a submission on the ACCC's discussion paper. Drawing on our experience in monitoring the south east Queensland (SEQ) retail electricity market since July 2016⁵, we provide views on two questions in the discussion paper:

- Current overlapping and inconsistent methodologies to market monitoring, and suggestions for preferred approaches (Question 2).
- Is there retail price data not reported on in the inquiry that would be useful to understanding how well the market is functioning? (Question 4)

Our views on Question 2 are articulated in chapter 2 of this submission, and our views on Question 4 are in chapter 3.

¹ ACCC 2018, *Restoring electricity affordability and Australia's competitive advantage: Retail Electricity Pricing Inquiry*, final report, June [ACCC 2018a].

² The Hon Scott Morrison MP 2018 [Commonwealth Treasurer 2018].

³ ACCC 2018, *ACCC monitoring of electricity supply in the National Electricity Market*, discussion paper, November [ACCC 2018b].

⁴ ACCC 2018b, page 2.

⁵ Our market monitoring reports are available on the QCA website, [SEQ Market Monitoring](#).

2 EXISTING METHODOLOGIES FOR MARKET MONITORING

2.1 ACCC question

Question 2 of the ACCC's discussion paper seeks stakeholders' views on current overlapping and inconsistent methodologies to market monitoring, and suggestions for preferred approaches.

2.2 ACCC view

2.2.1 Existing methodologies and recommended reform

In the discussion paper and in the final report of the inquiry, the ACCC listed the large number of electricity reports that monitor prices across the NEM.⁶

In terms of our submission on the discussion paper, the following reports are relevant:

- Australian Energy Market Commission (AEMC) reports on residential electricity price trends and retail energy competition reviews
- Australian Energy Regulator (AER) reports on the compliance and performance of the retail energy market
- Independent Pricing and Regulatory Tribunal (IPART) market monitoring reports for New South Wales
- Essential Services Commission Victoria (ESC) energy market reports
- Essential Services Commission of South Australia (ESCOSA) energy retail offer prices reports
- QCA annual and quarterly market monitoring reports.

For the purpose of this submission, the reports listed above are defined as the 'regulatory reports'.

In the inquiry final report, the ACCC acknowledged the 'significant value to the public and policy makers' of the various reports on retail electricity offers.⁷ However, the ACCC outlined what it described as the 'deficiencies' in the current approach as including:

- none of the reports provide transparency around what consumers are actually paying. Current price reporting only provides estimates of consumer bills based on benchmark usage amounts
- the way pricing is constructed (including the applied assumptions and methodologies) by the different reporting bodies varies and pricing results are not readily comparable
- none of the reports are supported by effective information gathering powers to allow regulators or governments to have a full understanding of retail costs and margins, and other complementary information like what types of offers consumers are on
- while there is duplication of effort around residential prices, there are also significant gaps particularly around business customer price reporting and outcomes. Prior to 2017, there was very little transparency of business offers and outcomes.⁸

⁶ ACCC 2018a, page 319 (Box 16.1); ACCC 2018b, page 10.

⁷ ACCC 2018a, page 320.

⁸ ACCC 2018a, page 320.

The ACCC went on to say that its inquiry had filled in gaps in the current price monitoring arrangements, and that it was able to determine what 'electricity customers are actually paying'. The ACCC commented that it was only able to determine this by exercising its information gathering powers under section 95ZK of the *Competition and Consumer Act 2010* (Cth).⁹

Accordingly, recommendation 40 of the inquiry final report stated that:

Retail price monitoring should be streamlined, strengthened and appropriately funded to ensure greater transparency in the market, reduced costs, and allow governments to more effectively respond to emerging market issues. This should be done by:

- COAG Energy Council agreeing to streamline price reporting and monitoring to the AER and the AER receiving all the necessary powers to obtain information from retailers about price, offers, customer billing data and retail costs
- COAG Energy Council agreeing to extend price reporting for retail electricity services to small to medium business customers
- state governments agreeing to close their own price reporting and monitoring schemes in favour of an expanded and strengthened NEM-wide regime.

A NEM-wide price reporting and monitoring framework should include a combination of price monitoring with full EBITA [sic] data (including standardised costs to serve, attract and retain consumers, and margins), and consumer expenditure surveys. This reporting should be done on a regular basis and include customer expenditure data, based on representative customer surveys and retailer billing and offer data, and be reflective of demographic information.¹⁰

The ACCC synthesised its position in the discussion paper by saying:

...[A] consistent NEM-wide approach to retail price monitoring, including collection of data on revenue, costs and profits as well as what consumers are actually paying, is essential to providing governments and policymakers with a clear picture of how well the electricity market is functioning.¹¹

2.2.2 ACCC methodology

The key elements of the ACCC's price monitoring methodology for the inquiry were the 'dollar per customer' and 'cents per kilowatt hour' measures. In the inquiry final report, the ACCC described the measures as follows:

- A 'dollar per customer' measure was derived by dividing revenue and costs by numbers of customers. This can be considered a proxy for the annual amount that an average customer would pay for electricity. However, it is only a general representation due to significant usage differences between geographic regions, time periods and customer types.
- A 'cents per kilowatt hour' measure was derived by dividing revenue and costs by usage. This can be considered a proxy for the effective price faced by an electricity user for a unit of electricity. It does not take into account usage differences between customers which can vary dramatically. Retail tariffs are often structured with a fixed fee component, which in this case is averaged over the usage.¹²

⁹ ACCC 2018a, page 320.

¹⁰ ACCC 2018a, page 321 (recommendation 40).

¹¹ ACCC 2018b, page 6.

¹² ACCC 2018a, page 2 (Box 1.1).

To prepare its analysis, the ACCC said that it collected data from 18 retailers, and that it had to 'clean' the data for inconsistencies or potential errors, and check it against other data sources, including public data from the AER or the information provided by network companies. The ACCC added that it 'engaged with retailers to clarify identified inconsistencies and errors'.¹³

2.3 QCA view

2.3.1 Overlapping and inconsistent methodologies

The discussion paper characterises the existing methodologies for market monitoring as 'overlapping and inconsistent', and seeks stakeholders' views on, and suggested preferred approaches to, the arrangements.

Overlapping reporting on SEQ

With respect to monitoring the SEQ retail electricity market, the AEMC, AER and QCA each report on retail market offers in SEQ.

AEMC

The AEMC presents annual electricity bills in SEQ using a 'representative consumer' approach.

- In its report of its 2018 retail energy competition review, the AEMC presented the median standing offer bill, and cheapest market offer bill, for a representative consumer in SEQ using 4,434 kilowatt hours [on the primary tariff] plus controlled load consumption of 806 kilowatt hours.¹⁴
- In its 2017 residential electricity prices report, the AEMC presented prices in SEQ using the annual bill and cents per kilowatt hour approaches. The annual bills were described as the 'representative standing offer' and 'representative market offer'.¹⁵

AER

The AER presents annual electricity bills in SEQ using a 'typical household' approach. In its 2016–17 report on the compliance and performance of the retail energy market, the AER presented the median standing offer bill, and median market offer bill, for a typical household using 4,100 kilowatt hours.¹⁶

QCA

The QCA presents annual and quarterly bills in SEQ using a 'typical customer' approach.¹⁷ In our annual market monitoring report for 2017–18, we presented the lowest standing offer¹⁸, average market offer, lowest market offer and highest market offer, by retailer, for each quarter of 2017–18. We presented these bills for each of the five most common residential and

¹³ ACCC 2018a, page 2 (Box 1.1).

¹⁴ AEMC 2018, *2018 Retail Energy Competition Review*, final report [AEMC 2018], pages 264–265.

¹⁵ AEMC 2017, *2017 Residential Electricity Price Trends*, final report, December [AEMC 2017], pages 86–87.

¹⁶ AER 2017, *Annual Report on Compliance & Performance of the Retail Energy Market 2016–17*, pages 6 and 61–62.

¹⁷ The QCA has published four quarterly market monitoring reports for the SEQ retail electricity market.

¹⁸ Where retailers offer more than one standing offer per tariff or tariff combination, we report the lowest standing offer on the basis that, generally, higher priced standing offers are for solar customers.

small business tariffs and tariff combinations in SEQ, using median consumption level data provided by Energex.¹⁹

Conclusion

There is a degree of overlap in the reporting by the AEMC, AER and QCA of retail electricity bills in SEQ. However, the QCA provides the most extensive monitoring of electricity bills in SEQ.

Inconsistencies across the regulatory reports

Three areas where inconsistencies are evident are the types of bills presented, data sources used and treatment of incentives and benefits.

Types of bills

The regulatory reports present customer bills in an inconsistent way. For example:

- IPART presents average annual bills, weighted by offer type, by distribution zone (Ausgrid, Endeavour and Essential Energy).²⁰
- the ESC presents the highest annual standing offer and the range of annual market offer bills, for flat and multi-flat tariffs, by retailer in each distribution zone (Jemena, AusNet, CitiPower, Powercor and United Energy).²¹
- ESCOSA presents average annual standing offer bills and the lowest annual market offer, by retailer in the South Australian Power Networks distribution zone.²²
- as stated, the QCA presents the lowest standing offer, average market offer, lowest market offer and highest market offer, by retailer, for each quarter, for each of the five most common tariffs and tariff combinations in the Energex distribution zone.

Data sources

There are inconsistencies in the data sources, and the use of data sources, across the regulatory reports.

- The AEMC uses electricity offers available on Energy Made Easy using what we describe as a 'point in time' approach. For example, the AEMC's 2018 retail energy competition review report used data from Energy Made Easy on 21 March 2018, and the 2017 residential electricity price trends report used data from Energy Made Easy on 25 July 2017.²³ For consumption data for its representative consumer, the AEMC uses the AER's electricity bill benchmarks consumption data or information provided by state and territory governments.²⁴

¹⁹ QCA 2018, *SEQ retail electricity market monitoring: 2017–18*, market monitoring report, November [QCA 2018a], pages 6–45.

²⁰ IPART 2018, *Review of the performance and competitiveness of the retail energy market in NSW—From July 1 2017 to 30 June 2018*, draft report [IPART 2018], pages 34–35.

²¹ ESC 2018, *Victorian Energy Market Snapshot 2017–18*, November, pages 18–20.

²² ESCOSA 2018, *Energy Retail Offers Comparison Report 2017–18*, report to the Minister, August [ESCOSA 2018], pages 8 and 12.

²³ AEMC 2017, page 63; AEMC 2018, page 263.

²⁴ AEMC 2017, pages 13–14. In the 2017 residential electricity price trends report, the AEMC also explained two reasons why prices between jurisdictions in the report should not be directly compared: (1) the representative consumer is different in each jurisdiction; and (2) consumption levels are different for each jurisdiction and are impacted by numerous factors including weather, availability and use of gas and penetration of air-conditioning: AEMC 2017, page 14.

- IPART uses price data from Energy Made Easy to estimate bills for the lowest and standing offers for all retailers, and retailers also provide IPART with their prices for their most common offers, and the number of customers on these offers. IPART calculates electricity bills for a 'typical customer' using the survey for the AER's electricity bill benchmarks for residential customers.²⁵
- ESCOSA uses the database that underlies Energy Made Easy, supplemented or confirmed with information from retailers (either directly or from retailers' websites and price fact sheets). ESCOSA downloads offer data on or as near as possible to the last business day of each quarter. ESCOSA uses average annual consumption profiles which it described in its 2018 energy retail offer prices report as 'generally consistent with the average historical consumption of electricity by small customers in South Australia, and are consistent with the average consumption figures used in previous' reports.²⁶
- The QCA uses the database that underlies Energy Made Easy. For our 2017–18 annual report, and 2018–19 first quarterly report, we included retailers' offers that were published and expired within quarters. In our annual report, we also updated consumption levels for the typical customer for each of the tariffs and tariff combinations we reported on, and published datasets of offers to allow stakeholders to calculate bills based on different consumption levels.²⁷

Treatment of incentives and benefits

The QCA applies the value of incentives that provide a direct financial reduction to bills. For example, in our bill calculations we:

- apply the value of sign-up incentives and monthly credits on bills
- exclude the value of benefits such as airline points schemes, movie tickets or free electronic devices.²⁸

To our knowledge, across the regulatory reports, ESCOSA is the only other regulator that applies the value of incentives that provide a direct financial reduction to bills to its bill calculations.²⁹

Conclusion

We agree with the ACCC's observation that there are inconsistencies across NEM jurisdictions in terms of the methodologies used for price monitoring. Our interpretation of the inconsistencies is that they reflect the particular circumstances in each distribution zone / jurisdiction, and the requirements of the legal instruments under which the regulatory reports are prepared.

Consistencies across the regulatory reports

We consider that there are a number of consistent elements of the approaches and methodologies used by the various agencies to monitor retail prices in NEM markets. Some of the areas of consistency across the regulatory reports are:

- presentation of electricity prices as annual bills, for a customer on a particular consumption level, by distribution zone

²⁵ IPART 2018, pages 34–35 and 48.

²⁶ ESCOSA 2018, pages 27–28.

²⁷ QCA 2018a, pages 5 and 173; QCA 2018, *SEQ retail electricity market monitoring: July to September 2018*, market monitoring report, October [QCA 2018b], pages 16–17.

²⁸ See, for example, QCA 2018b, page 17.

²⁹ See ESCOSA 2018, page 29.

- use of existing, publicly available data.

The reports by the state regulatory agencies also present bills by retailer (except for IPART), and appear to require lower levels of engagement with retailers than was the case with the inquiry final report.

Although the QCA is not a policymaking agency, we consider the fact that the regulatory reports share certain key features suggests that these aspects of existing price monitoring are relevant to governments and policymakers.

2.3.2 Direction to ACCC

The direction requires the ACCC to monitor the prices 'faced' by customers in the NEM, 'including the level and spread of price offers'. The direction also encourages the ACCC to 'make use' of publicly available information where appropriate.³⁰

The QCA considers that these elements of the direction suggest that the ACCC should consider including monitoring of electricity offers in the NEM as part of its price monitoring framework. In terms of the reference to publicly available information in the direction, we suggest that offer information be drawn from the two databases of electricity offers available in the NEM—Energy Made Easy and Victorian Energy Compare.

2.3.3 Regulatory compliance costs

In the inquiry final report, the ACCC stated that the cost of regulatory compliance was a 'key focus of the submissions to the inquiry and [its] meetings with retailers'.³¹ In terms of retail price monitoring specifically, the ACCC described the existing reporting as 'more costly for retailers than is necessary', and recommendation 40 also cited 'reduced costs' as an objective of proposed reforms to retail price monitoring.³²

We are not aware of any publicly available reporting of the actual costs to retailers of complying with existing price monitoring obligations, nor how previous/current costs would compare with the costs of complying with future information requirements imposed by the ACCC. We also note that the ACCC said in the inquiry final report that regulatory costs were 'not readily quantifiable from the data provided by retailers as retailers did not identify regulatory costs'.³³ However, we do support the general proposition that the cost to retailers of complying with price monitoring obligations should be minimised.

It is, in our view, uncontroversial to say that issuing information notices to retailers imposes direct costs on the regulator issuing them, and the retailers who have to respond to them. We also note the comments made by the ACCC regarding the data validation process it undertook to prepare the analysis shown in the inquiry final report (see section 2.2.2 above). The process of the ACCC checking retailers' data against other sources and engaging with retailers to correct data, would have imposed further direct costs on the ACCC and retailers.

Accordingly, we encourage the ACCC, in finalising its approach to price monitoring, to consider the costs of issuing information notices to retailers, and weigh the costs against the benefits to governments and policymakers of the analysis generated through retailers' own data.

³⁰ Commonwealth Treasurer 2018.

³¹ ACCC 2018a, page 226.

³² ACCC 2018a, page 321.

³³ ACCC 2018a, page 226.

3 OTHER USEFUL RETAIL DATA

3.1 ACCC question

Question 4 of the ACCC's discussion paper seeks views on whether there is retail price data not reported on in the inquiry that would be useful to understanding how well the retail market is functioning.

3.2 QCA view

As indicated above the QCA suggests the ACCC consider using data from Energy Made Easy and Victorian Energy Compare to monitor electricity prices in the NEM. As the QCA only has experience in using Energy Made Easy data for market monitoring, we focus in this chapter of the submission on the benefits we think Energy Made Easy could add to the ACCC's price monitoring.

3.2.1 QCA's market monitoring reports

The QCA has used data from Energy Made Easy to prepare a number of reports on the SEQ electricity market since July 2016. In addition to presenting electricity bills for a typical customer, we have used Energy Made Easy to:

- analyse retailers' use of discounts to compete with each other, and show how complex discounting can be for customers
- detail the retail fees attached to electricity offers, and highlight the need for retailers to improve the way they present fees and to include payment options on their offers
- demonstrate the increase in the spread of prices in the SEQ market since price deregulation due to standing offers generally increasing by more than the lowest priced market offers
- detail retailers' increasing use, in recent months, of incentives and benefits to attract customers, and explain the opportunities and complexity to customers of this new trend
- show the increase in headline discounts by some retailers following Alinta Energy's entry into the SEQ market in August 2017.

The other regulatory reports that use Energy Made Easy data present findings on similar aspects of retail electricity markets.

3.2.2 Advantages of Energy Made Easy data

We do not suggest that Energy Made Easy would be likely to provide all of the information the ACCC will need to meet the retail price monitoring elements of the direction. However, meaningful conclusions about retail electricity markets can be drawn from 'desktop' analysis of electricity offer information on Energy Made Easy. Further, using Energy Made Easy does not require the regulator to issue, and retailers to respond to, information notices.

If the ACCC does decide to use Energy Made Easy as a data source for price monitoring, it may wish to establish consistent approaches to the various elements of electricity offers to maximise the comparability of bills across distribution zones. We have sought to identify some of the areas of inconsistency that the ACCC could address in section 2.3.1 above.

3.2.3 Default Market Offer price

In November 2018, the AER published a position paper on its development of default market offer prices.³⁴ The position paper states that the default market offer 'is intended to be a service, which all retailers in a distribution zone are obliged to offer customers that do not otherwise take up a market offer for the provision of electricity retail services'.³⁵ The AER also states that it will rely on publicly available data to estimate a 'representative customer's annual bill' for each standing and market offer available in each distribution zone. The AER proposes to establish a default market offer for flat rate usage, and controlled load, tariffs.³⁶

Although the ACCC's price monitoring role and the AER's default market offer are separate initiatives arising out of the inquiry final report, we encourage the ACCC to consider how its price monitoring framework can present bill outcomes that are comparable to the default market offers in each distribution zone across the NEM. We anticipate that comparisons between generally available offers, and default market offers, will be of interest to governments and policymakers.

³⁴ AER 2018, *Default Market Offer Price*, AER position paper, November [AER 2018].

³⁵ AER 2018, page 5.

³⁶ AER 2018, page 10.