

17 November 2017

Mr Rod Sims
Chairman
Australian Competition and Consumer Commission
GPO BOX 3131
CANBERRA ACT 2601

By email: retailelectricityinquiry@accg.gov.au

Dear Mr Sims,

Retail Electricity Pricing Inquiry – Preliminary Report

Simply Energy welcomes the opportunity to provide a submission on the Australian Consumer and Competition Commission's (ACCC) Retail Electricity Pricing Inquiry Preliminary Report. As a growing second-tier retailer operating in the National Electricity Market (NEM) Simply Energy supports the ACCC's Retail Pricing Inquiry.

As is widely acknowledged throughout the sector, the drivers behind recent electricity price increases are not isolated to any one segment of the market. For this reason, Simply Energy supports the ACCC's approach of undertaking a full and comprehensive evaluation of market pricing interactions across the entire electricity value chain to better inform consumers, stakeholders, and governments.

To facilitate the long-term efficiency of the retail electricity sector for the benefit of consumers, it is necessary to understand how policy initiatives and competitive markets align. In this regard, Simply Energy suggests market efficiency is reflected by:

- ensuring retail electricity prices is effectively adjust to reflect market conditions and policy settings;
- improving the administration of government policies to better manage obligations and minimise impacts on consumers; and
- enhancing customer engagement and participation in the retail electricity market on the basis that active engagement is in the best interests of customers and maximises competition.

Simply Energy is therefore pleased to see that these areas will be a key focus of ACCC's agenda between now and June 2018.

Retail pricing efficiency

As the Independent Review into Electricity & Gas Retail Markets in Victoria points out, Simply Energy's average retail charges are the lowest among major tier 1 and tier 2 retailers operating in the Victorian Electricity Market.¹ However, the electricity prices we offer to end-use customers are influenced by a range of factors, many of which are beyond Simply Energy's control, including network, wholesale and environmental policy costs.

For this reason, Simply Energy is supportive of the ACCC's focus on identifying practical, viable and meaningful measures to reduce the costs stemming from these segments of the market. Simply Energy believes that doing so will go a long way to easing the cost pressures experienced by households and businesses as a result of rising electricity prices.

¹ See John Thwaites et al, *Independent Review into the Electricity & Gas Retail Markets in Victoria*, 16.

In view of this, Simply Energy believes a balance needs to be struck between ensuring network reliability and containing network maintenance and development costs. Simply Energy would therefore encourage the ACCC to give further consideration to measures such as lowering the threshold limit for the Regulatory Investment Test for Distribution Projects. Lowering this limit will better promote non-network solutions with any efficiencies passed to end-use electricity customers by retailers.

In terms of wholesale energy costs, Simply Energy notes the ACCC's view that increased generation capacity is required, notably in regions that the Australian Energy Market Operator has identified as being at risk of a supply shortfall, such as New South Wales, Victoria and South Australia.

Nonetheless, Simply Energy notes that increased capacity ultimately will lead to market corrections and generator exit. To date, exits of reliable dispatchable generators have not necessarily been in the best interests of customers. As such, caution should be taken in assessing expectations and the desired outcome should be a liquid and transparent contracting market which incentivises efficient operation of and investment in generation over the long run.

Administration of government policy

Simply Energy considers that in administering its environmental policy regime, government needs to pay greater consideration to the overall implications of its decision on the composition of the energy generation mix. It is Simply Energy's view that government-initiated environmental policy changes must be undertaken in a sustainable manner that balances the pursuit of lower emissions technologies with long-term security of supply.

Simply Energy suggests the National Energy Guarantee (NEG) has the potential to assist in ensuring more sustainable investment in generation capacity going forward. That said, the implementation of the NEG needs to be carefully considered to avoid unintended consequences which will ultimately increase costs to consumers. Thus far, Simply Energy is encouraged by the initial work that has been undertaken on the NEG.

At the customer level, government feed-in tariffs have created an incentive for a disproportionate uptake in solar photovoltaic (solar PV) systems over a relatively short period of time. This has distorted the allocation of network costs for those consumers who do not have solar PV systems. This uptake has, in turn, disproportionately affected vulnerable customers who cannot afford solar and battery technologies.

Simply Energy therefore considers that cost-reflective network tariffs (such as demand-based or time-of-use network tariffs) need to be reconsidered across the NEM to ensure those with solar PV systems are paying a more equitable contribution for electricity consumed during peak periods, as usage during these times is what ultimately increases network investment costs.

That said, we acknowledge it is not just government policy changes, but competition that drives better cost outcomes for Australian electricity customers.

Enhancing customer engagement and participation in the market

Australian retail electricity market is still evolving. While over 70 per cent of residential customer market share in the NEM is held by three major retailers it is possible that this market share could be reduced or maintained depending on the choices customers make. Simply Energy therefore considers that ongoing monitoring of competition is important. To this end, the ACCC continues to play an important role along with the Australian Energy Market Commission's retail competition reports.

Simply Energy is, however, concerned by recent State government proposals to re-introduce retail price regulation. It is Simply Energy's view that industry will not be able to effectively develop and service the long-term interests of consumers if its ability to innovate and send cost-reflective signals is unduly constrained. This is especially the case for tier 2 and tier 3 competitors who challenge the position of the large incumbents and play a key role in retail price setting.

Consideration also need to be given to how pricing information will be more effectively provided to consumers to assist them engage more proactively in the market. In saying that it needs to be acknowledged that while providing greater transparency and clarity of energy prices should increase consumer engagement and participation in the retail market, it may be difficult to effectively administer.

Electricity prices are subject to variable cost drivers, including differing network tariffs across service areas and lack of any real means to reliably predict consumer usage patterns. This pricing variability may lead to complexity in marketing to consumers and may even require retailers to segment their pricing structures by network service area.

Technological advancements, such as smart meters, provide retailers the ability to offer more real-time usage and cost information to consumers. That said, smart meters are still an emerging technology in most parts of Australia with the exception of Victoria and rural Western Australia.

The lifestyles of most Australians also means that the majority of energy consumers may not want to commit time to fully engage in the market even with technological advancements. It is possible that customer participation will need to be driven by automated processes administered by third-party service providers. In view of this, consideration will need to be given to how customer data can be more effectively stored and provided to third-party service providers to facilitate objective and informed customer engagement in the market.

Given these practical constraints, Simply Energy believes stakeholder expectations need be to effectively managed to ensure the facilitation of greater consumer engagement is viewed as an incremental process that will develop progressively over time. Developments need to respond to consumers' expectations, not demand consumer engagement of itself. As customers become more engaged Simply Energy believes the market will continue to respond.

Simply Energy is therefore committed to implementing practices to help customers better understand the costs of their electricity usage and will continue to actively implement our commitment to work with the Prime Minister to promote more effective consumer engagement in the retail electricity market.

Concluding remarks

Simply Energy acknowledges the electricity market is evolving and numerous measures are being put in place to improve its efficiency. That being said, Simply Energy considers any short-term, reactive measures to 'correct' retail electricity prices are likely to be counterproductive. In view of this, Simply Energy supports the reasoned and pragmatic assessment of the market which is currently being undertaken by the ACCC.

Simply Energy looks forward to continuing to assist the ACCC through providing information on our retail pricing practices and market interactions as required. If you would like to contact me about Simply Energy's submission please feel free to do so on (03) 8807 1171 or by email at James.Barton@simplyenergy.com.au.

Yours sincerely



James Barton
General Manager, Regulation
Simply Energy