

17 February 2017

Ms Lyn Camilleri
Director, Adjudication
ACCC
23 Marcus Clarke Street
CANBERRA ACT 2601



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Working for your business.
Working for South Australia

Dear Ms Camilleri

I write in response to your request for submissions on SACOME's application for authorisation A91567 and A91568 in relation to a joint electricity tender on behalf of participating businesses.

Executive Summary

- Business SA strongly supports SACOME's request for interim authorisation to proceed with an electricity tender on behalf of several large energy using businesses, particularly given the positive externalities which will flow to small businesses and residential consumers alike
- The price hikes South Australian businesses have had to absorb as a result of wholesale generation price rises since mid-2015 have been nothing short of extreme and have brought into question the ongoing viability of many energy intensive businesses, including many SME large market customers which include the likes of local independent supermarkets and bakeries, not just major miners or manufacturers.
- Competitively priced and reliable electricity has been a cornerstone of South Australia's economy and is absolutely critical as we transition through the closure of our auto-production sector which shuts in late 2017 and need to attract replacement industries which can compete in world markets
- The current national electricity market does not allow businesses to access firm hedges (contracts) across interconnectors leaving South Australian businesses access to limited local competition to provide them with firm electricity which cannot yet be provided by renewable power
- Any arrangement which can bring additional synchronous generation on line in South Australia will be critical to improving the security of the network and reducing the likelihood of future load shedding events

Should you require any further information or have questions, please contact Andrew McKenna, Senior Policy Adviser, on (08) 8300 0000 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney
Executive Director, Industry and Government Engagement





Responses to questions posed by ACCC

1. Please identify major developments expected to impact on the wholesale and retail electricity industries in South Australia in the coming decade.

At present, the market for firm electricity contracts in South Australia is dominated by two generators providing physical hedges against their gas fired generators. Given South Australian businesses cannot hedge across the existing interconnectors, their access to firm power contracts is inherently limited. The existing situation has been exacerbated by the market exit of South Australia's last coal fire power station, Northern, in 2016, with the price impacts being felt even earlier when the announcement was made by Alinta in mid-2015. Whether it's building a new interconnector, building a solar-thermal plant, building pumped hydro, building grid-scale battery storage, all of these options will take several years leaving South Australian businesses exposed to a highly uncompetitive firm electricity price.

For some sense of relativity, for large market customers¹ having to re-contract since mid-2015, depending on timing, 'energy costs' which represent on average approximately half total costs for such consumers have increased between 100 and 150 percent. This is a much more significant and recent increase than what is described in the preliminary report of the Finkel Review which references average residential price outcomes across the entire NEM from 2008/09 to 2012/13.

2. Without the proposed collective purchasing, are there barriers to the Applicants securing reliable and similarly priced electricity contracts?

Yes, from Business SA's experience, South Australian retailers/generators are quite reluctant to contract with large customers or groups of customers and if SACOME's arrangement can entice a new market entrant, that will overcome this existing barrier. Furthermore, under the existing limitations of the NEM, SA businesses cannot access firm contracts across the interconnectors which acts to limit their access to competition.

3. Without the proposed collective purchasing, are any of the Applicants likely to cease operations in South Australia?

While Business SA cannot comment on the applicants themselves, we are aware of many businesses in this predicament while many more will not invest further unless the current issues of price and reliability are overcome. There are also businesses outside the State delaying further investment in South Australia which is very concerning due to our broader economic malaise, particularly given we are yet to face the full impact of the auto-manufacturing sector's closure in late 2017.

4. Is the collective purchasing likely to increase competition between suppliers of electricity in South Australia? Why?

Yes, because it is large enough to enable new generation or an existing generator to offer further capacity to the market which is necessary to break the existing duopoly on available firm generation capacity. Despite South Australia having approximately 45% of its energy generated by renewables, none of this is able to offer firm contracts given the intermittent nature of these sources.

¹ ie consuming more than 160MWh per annum or equivalent of spending approximately \$50k or more on electricity



5. Please comment on whether the South Australian region of the NEM constitutes a separate market.

Yes, as it has its own price both in the spot and futures market and consumers are not able to get firm contracts across either existing interconnectors.

6. Please comment on whether any upstream or downstream markets are likely to be impacted by the proposed conduct.

Additional competition for firm electricity supply in South Australia will help all businesses, not just the applicants, to access competitively priced power which is desperately needed to limit the damage of the wholesale price hikes which commenced in mid-2015.

7. Please comment on the relative bargaining power of the Applicants (individually and as a group) and of relevant electricity suppliers.

Given the applicants represent nearly 10% of South Australia's electricity demand, as much as Osborne Power Station owned by Origin which is able to offer firm contracts, this group would have substantial bargaining power.

8. Do you consider the proposed arrangements are likely to incentivise new entry or expansion in the relevant electricity supply market?

Yes, as per answer to question 4.

9. Please comment on the likelihood and extent that the proposed conduct may increase power system security and reliability and prevent future instances of unreliable electrical supply.

AEMO has recognised that a higher penetration of renewables raises issues around the stability of a local network and businesses like ElectraNet are already involved in work now to improve the security of South Australia's network to mitigate against the high penetration of renewables and associated low inertia.

If the applicants are successful in introducing further competition into the South Australian market, this will bring on line additional synchronous generation with inertia and help to stabilise the State's network. This is particularly important to Business SA given the \$367 million cost to business of the State-wide blackout, refer Attachment 1.

Further to what the ACCC have referenced, South Australia has since had two additional load shedding events due to a lack of available supply for consumers. Considering we only experienced three load shedding events in the fifteen years to 2015, it is critical that new or under-utilised generation capacity enters the market to avoid any such future events, particularly considering Hazelwood Power Station is slated for closure in March and AEMO are already predicting reserve shortfalls next summer for both South Australia and Victoria.



10. Please provide any other comments regarding the public benefits claimed by the applicants or any other public benefits of the proposed collective purchasing.

All businesses and consumers will benefit from increased supply in the market, particularly those large market customer SME businesses which have been significantly impacted by recent increases in wholesale prices and have very little market power to mitigate against them.

Business SA would also expect that the SACOME arrangement will open up the possibility for other aggregations of business customers to improve the bargaining power of energy intensive consumers, particularly the 5,500 large market businesses² up against a handful of generators able to offer firm power contracts.

11. Please provide any other comments regarding any public detriments likely to arise from the proposed collective purchasing.

We cannot see any public detriment to this arrangement as it is only likely to result in reduced electricity prices and improved system stability which will benefit all South Australian energy consumers, including small businesses.

12. Please comment on the appropriateness of the period of authorisation requested, which is a total of 11 years, comprising 6-12 months for the tendering process, a 3-5 year contract term plus the option to extend for a further 3-5 years.

Business SA supports SACOME's proposed contract term which will provide adequate security to bring on new generation into the market or entice back on underutilised capacity through enabling them enough security to enter a suitable long term gas contract.



Blackout Survey Results

Understanding the effects of
South Australia's State-wide
blackout on Wednesday
28 September 2016.



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South Australia's State-wide blackout analysis



Total cost of blackout on South Australian businesses

\$367 MILLION¹

Following South Australia's State-wide blackout on Wednesday 28 September 2016, Business SA surveyed its membership, and the broader membership of South Australia's regional Chambers of Commerce, to validate the associated cost impacts for the productive economy².

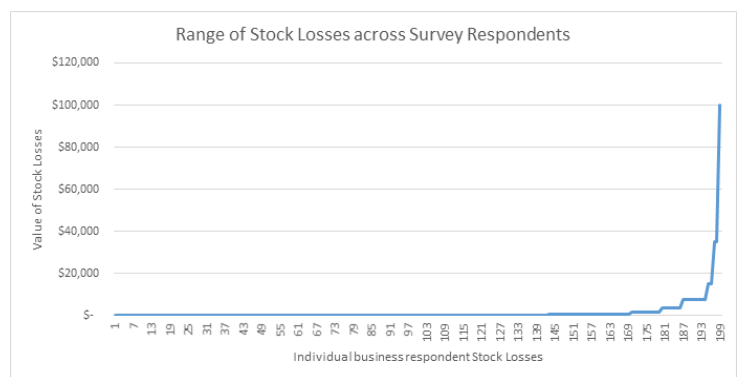
As South Australia's recognised peak business membership organisation, Business SA is endeavouring to ensure that the debate on how to improve South Australia's network security is adequately informed about what a system failure actually costs.

Businesses were asked a broad range of questions about various cost impacts, from lost production and wages to running a generator, as well as in relation to their insurance coverage. There was also an opportunity for business to provide broader feedback on how the system failure impacted their businesses, including with respect to lost mobile phone and internet coverage.

Our summary of survey findings focuses on the total South Australian business impacts as extrapolated from our survey sample³ and further analysis of key economic sectors including manufacturing and retail. Furthermore, in consideration of the multiple day outage in Port Lincoln, we have provided separate analysis to specifically articulate the cost impacts on Eyre Peninsula businesses.

At Business SA, we are passionate about raising the profile of regional business issues as it is crucial that all stakeholders in the electricity supply chain from generators and networks to State and Federal Governments recognise the importance of reliability across the entire State, not just Adelaide.

While Business SA has presented both 'median' and 'average' results for each question, the median results are more statistically reflective of the broader impacts of the blackout on South Australian business. For any reported result, the 'median' refers to the mid-point of responses while the 'average' is the total of all responses divided by the number of responses. To demonstrate with a graph below, while the majority of business respondents did not suffer a stock loss and the median loss was zero, there were still businesses which suffered stock losses giving a respondent average of \$1,589 however we cannot say that on average businesses suffered this loss as the median result was zero:



¹ Includes estimated \$115 million impact on major South Australian businesses including Arrium, Nyrstar, Oz Minerals and BHP. Furthermore, Business SA has only extrapolated losses to the population size where the median was greater than zero to ensure we do not overestimate the costs of the blackout.

² The survey was conducted from the 9 to 25 of October 2016. The survey also asked about costs related to the associated floods to ensure we were adequately delineating between the two events. We have not discounted costs related to floods given they comprised less than 10% of total advised costs and we have only extrapolated the survey findings to employing businesses, not sole traders, given only one sole trader responded to our survey.

³ Note while there were 260 respondents, only 207 gave responses to the substantive questions. Those 207 respondents provided a statistically significant sample size to enable us to extrapolate our findings to the population of 50,300 employing businesses in South Australia.

Key Findings across all South Australian businesses



a) Median trading/production losses –

\$3,500

Average trading/production losses – \$12,441



b) Median wages paid when business non-operational –

\$1,500

Average wages paid when business non-operational – \$3,355



c) Median property losses/damage – **\$0**

While the relative number of businesses who suffered property losses/damage was low, the average property loss/damage was \$10,425



d) Median stock losses – **\$0**

While the relative number of businesses who suffered stock losses was low, the average stock loss was \$1,589



e) Median costs of re-commencing operations – **\$0**

While the relative number of businesses who incurred costs restarting operations was low, the average cost to re-commence operations was \$763



f) Median generator costs – **\$0**

Given only 12% of businesses had a back-up generator, the relative number of businesses who incurred generator costs was low, but the average cost was \$649

Key Findings across Manufacturing Sector

g) Median property losses/damage – \$1,500

Average property losses/damage – \$8,505

h) Median trading /production losses – \$7,500

Average trading/production losses – \$15,369

i) Median wages paid when business non-operational – \$1,500

Average wages paid when business non-operational – \$3,916

j) Median stock losses – \$0

While the relative number of businesses who suffered stock losses was low, **the average stock loss was \$5,484**

k) Median costs of re-commencing operations – \$0

While the relative number of businesses who incurred costs restarting operations was low, **the average cost to re-commence operations was \$1,394**

l) Median generator cost – \$0

Average generator costs – \$2,031

Key Findings across Retail Sector

m) Median property losses/damage – \$625

Average property losses/damage – \$2,812

n) Median trading /production losses – \$1,500

Average trading/production losses – \$4,513

o) Median wages paid when business non-operational – \$625

Average wages paid when business non-operational – \$979

p) Median stock losses – \$0

While the relative number of businesses who suffered stock losses was low, **the average stock loss was \$450**

q) Median costs of re-commencing operations – \$0

While the relative number of businesses who incurred costs restarting operations was low, **the average cost to re-commence operations was \$284**

r) Median generator cost – \$0

Average generator costs – \$113

Key Findings across all Eyre Peninsula businesses



Total cost of the blackout to the Eyre Peninsula (predominantly regional city of Pt Lincoln)

\$8.33 MILLION⁴

While Port Lincoln's back-up generators initially responded to restore electricity supply at 6.45pm on Wednesday the 28 of September, only three hours after the State-wide blackout, five and a half hours later the backup generators failed and Port

Lincoln's electricity supply was not fully restored until 2 days later at 8.25pm on Friday 30 of September. Given the extended outage in Port Lincoln, Business SA has specifically analysed the impacts of the blackout on the Eyre Peninsula.⁵



s) **Median property losses/damage – \$313**

Average property losses/damage – \$5,157



t) **Median stock losses – \$313**

Average stock loss was \$1,187



u) **Median trading/production losses – \$7,500**

Average trading/production losses – \$22,284



v) **Median wages paid when business non-operational – \$1,500**

Average wages paid when business non-operational – \$4,631

w) **Median costs of re-commencing operations – \$0**

While the relative number of businesses who incurred costs restarting operations was low, the average cost to re-commence operations was \$1,169

x) **Median generator costs – \$0**

Average generator costs – \$944

⁴The 42 respondents from the Eyre Peninsula provides a statistically significant sample size to enable us to extrapolate our findings to the population of 618 employing businesses in Port Lincoln and 247 employing businesses on the Eyre Peninsula excluding Port Lincoln (to calculate 247 employing businesses outside Port Lincoln, we have estimated 80% of the 1239 employing businesses on the Eyre Peninsula outside Port Lincoln are farms. This ratio accords with the relative breakdown of Business SA's own membership on the Eyre Peninsula).

⁵AEMO, 'Update Report – Black System Event in South Australia on 28 September 2016', 19 October 2016.

Key Findings in relation to insurance coverage of businesses



Only **37%**

of businesses have business interruption insurance

Of those businesses,



54%

were not covered for any costs associated with the blackout and only 12% of covered businesses were fully covered for costs associated with the blackout

Other Key Findings of blackout survey



Only **12%**

of businesses had a back-up generator



83%

of businesses had to cease operations as a result of the blackout

Telecommunications/internet impacts on business:

While the majority of the State's power was back up and running the same night, one of the most concerning impacts of the blackout, particularly for businesses on the Eyre Peninsula, was the lack of telecommunications and internet access. For some businesses in fact, this was considered more problematic than the power loss alone. There was even a suggestion to enable impacted businesses to be able to access free messaging through radio stations, including the ABC, if they are otherwise unable to reach customers or employees.

"The biggest issue for us was loss of all mobile and landline communications. Incredibly worrying not being able to contact emergency services."

– Eyre Peninsula agribusiness

"The black out was one thing, the bigger issue for my business was the disruption to telecommunications which is never mentioned. People and businesses can have a back-up generator and get by (if they choose to do so) however, we have no control over the telecommunications system. I'd rather endure a week without power than half a day with no mobile or landlines/internet. Not being able to respond to emails and phone calls caused several guests to not show up for charters..."

– Eyre Peninsula tourism operator

Feedback from business regarding network operators:

While the feedback from businesses regarding network operator response varied depending on region, there was general acceptance that a storm can bring down the network to some extent. However when businesses are literally hundreds of kilometres away from such a weather event, the acceptance of such an occurrence quickly diminishes.

For many businesses who were back up and running in a few hours, they were much more tolerant of the blackout and generally pleased to have power returned when they did. However, many other businesses in regional areas such as the Eyre Peninsula were not so forgiving and were particularly critical of the communications received and the uncertainty regarding when the power was likely to be restored.

"As a food business we were worried at the length of time the power was going to be off for. Such an amazing job in getting power restored to SA...Well Done!!!"

– Riverland hospitality business

"The blackout itself was acceptable, the time it took for power to be turned back on was not."

– Adelaide manufacturing business

"It was inconvenient but luckily we weren't drastically affected. We were grateful power was restored so quickly as loss of refrigerated goods would have become a significant cost (& inconvenience) had the power stayed off much longer"

– South East veterinary business

"Disgraceful that an event 600kms brought down the entire state. We lost a complete production shift plus associated IT problems after resumption of power. The involved parties should admit responsibility for the blackout rather than play political games. Including assurance it won't happen again."

– South East manufacturing business

Policy concerns from business:

While Business SA's advocacy prior to and following the blackout has been squarely focused on ensuring we have reliable and competitively priced power in future, businesses did raise a number of concerns from the blackout about Government energy policy. While there were views for and against renewables in relation to the cause of the blackout, even pro-renewable voices were not tolerant about a lower level of reliability with higher renewable energy penetration. There was also a realisation that even with a higher penetration of renewables in South Australia, that we are still reliant on coal fired power from Victoria.

"Extremely angry that state Govt are blaming everything on the storm instead of admitting they should have spent less money & focus on chasing "green" energy instead of making sure we had guarantee of supply."

– Mid-North property and business services company

"The government needs to make it a very high priority to secure electricity for the state and also to secure competitive prices for SA. This incident reflects very poorly on Jay Weatherill as does the very high prices we are currently paying. Take some action now."

– Adelaide Hills retailer

"Please ask Jay why the peak and off peak spot kwh rates for large businesses (using more than 160MWh per year) are more than double any other state in Australia?"

– Adelaide manufacturing business

"Although the Blackout was a result of an extreme weather event it should serve as a trigger to ensure that this cannot happen again and fail safe systems should be investigated and implemented as a matter of high priority. It is not a time for political gamesmanship - the public of SA deserve better than that. The public have responded with generosity and maturity to the challenges that were presented - politicians should do the same."

– Adelaide accountancy business

"SA now suffers from actual (or perceived) disadvantage in two areas - lack of power security and the highest cost of power in Australia. All of this has been achieved for the sake of renewable energy growth which is underpinned by dirty brown coal power via the Victorian interconnector. SA Great??"

– Adelaide law firm

Insurance observations for business:

What the survey uncovered was that generally businesses' losses associated with the blackout were not covered, or at least fully covered, by insurance, even where businesses had business interruption insurance. While for the most part, that related to the time businesses actually lost power, it did underscore the fact that businesses rely on a secure electricity network as a foundation for doing business in a first world country like Australia. Insurance and generators come at a cost but businesses are now looking at, and some already spending more on, such mitigation measures to ensure they can withstand future events. However, from a policy perspective, Business SA recognises this is money not being spent in the productive part of South Australia's economy. Notwithstanding, any future spending on preventing a future blackout needs to be kept in perspective in so far as how it relates to the costs of a blackout.

"Our business interruption insurance for electrical problems only applies for power outages greater than 48 hours...we had already lost stock after 12 hours."

– Adelaide Hills manufacturing business

"This is why insurance exists - to account for the rare occurrence. I don't want to see hundreds of millions of dollars put towards a once-in-20 year occurrence. Far more important things to invest in that will actually help drive the state forward."

– Adelaide based IT business

How long businesses were unable to operate as a result of the blackout:

