



21 February 2017

Australian Competition & Consumer Commission

E: adjudication@accc.gov.au

Dear Sir/Madam,

**A91567 & A91568 – SACOME & Ors - submission**

Origin Energy Limited (Origin) welcomes the opportunity to make a submission on the South Australian Chamber of Mines and Energy Inc (SACOME) and Ors application for authorisation to collectively conduct a tender process for electricity supply.

Our comments on the questions raised in the application on which we have knowledge are found below:

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

*There is no barrier to the Applicants securing electricity contracts that provide reliable retailer services but a retail electricity sale agreement cannot guarantee continuity of supply which is the responsibility of the market and network operators.*

*Energy is priced not only on throughput but on daily and/or seasonal consumption profile. Collective purchasing may provide a more favourable consumption profile resulting in some price benefit. However, we note the Application states that the participating members will enter into separate contracts, which may reduce the potential benefits of the more favourable group consumption profile.*

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

*The Application proposes that the authorisation of a joint purchasing group will increase competition by attracting new build generation to South Australia. The proposed length of the term is unlikely to support investment in new build generation. The lack of new demand and lack of committed throughput and profile also contribute to this (but term is most relevant).*

*Collective purchasing is unlikely to have any lasting impact on competition between existing retailers in South Australia as it creates no new demand. Without new demand the most likely outcome is that the load would consolidate under an existing retailer followed by churning of displaced load to rebalance retailer portfolios. We also note that the overall size of the tender may be too large for some retailers to participate.*

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

*The South Australian region of the NEM is part of one national electricity market. It is not a separate market.*

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

*Bargaining power as a group or as individual loads is unlikely to be significantly different because under the proposed arrangement the Applicants contract individually and are not bound to contract with successful supplier which diminishes any benefits that may be achieved by a similar load under a single agreement as there is no firm throughput or consumption profile.*

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

*The proposed length of the term is unlikely to support investment in new build generation. Without new demand the most likely outcome is that the load would consolidate under an existing retailer followed by churning of displaced load to rebalance retailer portfolios.*

*The NEM is currently subject to considerable policy uncertainty which makes investing in new generation capacity unattractive. In the absence of firmer policy settings, particularly over long-term climate change policy, we do not see the proposed arrangement as likely to incentivise new entry or expansion of electricity generation.*

*Currently, investment in large scale generation is only occurring as required under the Large-scale Renewable Energy Target (LRET) which has an increasing target to 2020. Typically, these investments will require a firm power purchase agreement over a long time period. The current average in the market is about 12-13 years which corresponds with the end of the current LRET scheme in 2030.*

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

*If the proposed arrangement did incentivise a new generator and that generator was a synchronous gas-fired generator, then there could be potential improvements to system security and reliability in the NEM. However, we think it is unlikely that the proposed arrangement will incentivise a new generator.*

*Further, if a new generator did enter the market, this increase in supply may be short term in nature. If overall demand did not increase, then the new generator may displace an older generator in the longer term, depending on their relative position in the merit order.*

*Currently there are a number of reviews considering the issues of NEM system security and reliability, including the Independent Review into the Future Security of the National Electricity Market (Finkel Review) and the AEMC System Security Frameworks Review. Both of these reviews have highlighted the importance of inertia and frequency response rates in maintaining system security. Synchronous gas-fired generation can aid in the provision of inertia and help frequency be maintained within appropriate limits, depending on its location in the network. We note that AEMO currently requires at least two significantly large units of generation to be on line in South Australia at all times.*

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.

*Whilst we do not consider the overall period of authorisation unreasonable, we note that a firm 3-5 year contract period is unlikely to be long enough to incentivise new generation to enter the market, as stated in the response to question 8 above.*

*Historically, power purchase agreements have been agreed for terms of about 15 years with the buyer making firm commitments to take all or most of the electricity output. More recently, this period has shortened slightly for renewable energy projects eligible under the LRET, to align with the scheme end date in 2030.*

If you have any questions regarding this submission please contact Matthew Kaspura (Manager Climate Change Policy) 02 9503 5178.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'K. Robertson'.

**Keith Robertson**  
Manager Wholesale and Retail Regulatory Policy  
Origin Energy Limited  
GPO Box 5376  
Sydney NSW 2001  
+61 2 9503 5674—[Keith.Robertson@originenergy.com.au](mailto:Keith.Robertson@originenergy.com.au)