SOUTH AUSTRALIAN Business Chamber EST. 1839

Level 1, 136 Greenhill Road
Unley SA 5061
08 8300 0000
info@sabusinesschamber.com.au
sabusinesschamber.com.au

30 April 2025

Natalie Elkins
General Manager, Market Performance Branch
Australian Energy Regulator
Level 17, 2 Lonsdale Street
MELBOURNE VIC 3000

By email: DMO@aer.gov.au

Dear Natalie

RE: Default Market Offer Prices 2025-26 (DMO7) – Draft Determination

Thank you for the opportunity to make a submission regarding the Australian Energy Regulator's (AER's) draft determination on the Default Market Offer Prices 2025-26 (DMO7). As you may be aware, the South Australian Business Chamber is a not-for-profit, membership-based organisation representing the interests of the state's businesses.

Since our submission on the DMO7 Issues Paper in November 2024, we have appreciated the engagement with the AER's DMO Team and our meeting with Board Member, Kate Symons, to discuss this and the broader issues facing businesses regarding the cost of electricity.

For the purposes of this submission, whilst we understand it only forms a small part of the overall electricity cost stack, we are focussing on the Retail Margin element of the DMO and providing updated data from our quarterly Survey of Business Expectations.

Cost of Doing Business

In the Chamber's December 2024 *Survey of Business Expectations*, 75.1% of respondents identified the cost of doing business as one of the top five issues affecting them. We can confirm that this figure has risen to 77.5% in the March 2025 quarter survey, with the results to be released shortly.

Increasing costs contribute to the number of businesses becoming insolvent in South Australia, which over the past three years has increased threefold. ASIC data released in January 2025 showed that 449 South Australia companies had external administrators or controllers appointed because they were unable to pay their outstanding 2024 debts. This was double the insolvent businesses in 2023 (224) and almost triple 2022 (153).

We know that escalating electricity prices are a constant source of concern for businesses as part of this increasing cost of doing business crisis. This was confirmed in our Cost of Overheads Index of 153.2 points out of a maximum of 166, which reflects the view that 81.3% of respondents saw their costs rise in the last quarter of 2024. The index has been above 150 points since December 2022.

To further understand this, our December 2024 survey included supplementary questions on the topic of energy. *Attachment 1* includes a summary of key results, including several direct quotes from respondents, and a link to the full survey report.

A vast majority of businesses saw an increase in their energy bills in 2024, with nearly a quarter of businesses reported their energy bills increasing by 11% to 20%. A further 22.7% of respondents reported increases of more than 30%, this includes 8.1% of respondents whose bills had risen by more than 50%. Interestingly, the 19.7% of businesses who saw their bills remain unchanged or decline told us that this was due to negotiating better energy contracts or where energy infrastructure/systems such as solar, batteries and energy management systems had been installed.

ABN 14 725 309 328

While the survey results show business energy bills increased at a lower rate than the previous two years, ongoing cost increases remain significant. Businesses consistently comment on the challenge of dealing with these increases balanced with having to pass price increases on to their customers, which ultimately contributes to the broader cost of living crisis.

The current energy affordability crisis in South Australia, which is consistently having a detrimental impact on the cost of doing business. It is imperative that this remains a 'relevant consideration' in the AER's DMO determinations.

The Chamber, along with several other community and business representatives, spends substantial time advocating for secure, reliable and affordable energy, as this is critical to supporting the viability and success of South Australian businesses of all sizes.

This includes participation on the ElectraNet Consumer Advisory Panel (transmission) and SA Power Networks Consumer Retail Tariffs Advisory Group (distribution). We see firsthand the extensive and costly stakeholder engagement processes those organisations undertake to meet their regulatory obligations and the effort that is put into justifying every expense and cost increase that may be passed on to consumers.

Despite the efforts at the transmission and distribution level, it appears that the SA retail elements of the cost stack are experiencing greater volatility, especially compared to other states. The impact of this was highlighted in our December survey, where 48.9% of respondents recommended "regulating retail energy prices" when asked what measures would assist SA businesses. The Chamber does not have a policy position on this given the risks involved with the introduction of any new regulation and the potential flow on costs to end users. We recommend that potential regulatory considerations must be pragmatic, efficient and cost-neutral.

Retail Margin

As stated in our previous submission to the AER's DMO7 Issues Paper, the Chamber continues to seek a decrease in the retail margin for small business from 11% to 6% to provide a more reasonable base and align with residential customers.

While we agree with the AER's principle that an electricity retailer should be able to make a reasonable profit in relation to supplying electricity in the region and cover the cost of acquiring, retaining and serving small customers, this <u>must be balanced</u> with the principle that small business electricity customers should *also* be able to make a reasonable profit or, at a minimum, remain solvent. In addition, small business customers may be forced to absorb or pass on rising electricity costs to their clients, compounding the impact at multiple points along the supply chain. Given the inflationary effect of this, it should be carefully considered during the current cost of living crisis.

We continue to be concerned at how the small business retail margin of 11% (versus 6% for residential) contributes to the reality faced by small businesses in South Australia. The ACCC's December 2024 *Inquiry into the National Electricity Market (NEM) report* states that NEM-wide retail margins in 2023-24 increased materially to their highest level since 2018-19 for small business customers (*Attachment 2* Figure 3.14).

The retail margin for the average small business customer across the NEM in 2023-24 was reported as 9% and yet South Australia reported the highest increase with a substantial spike with the retail margin reaching 19% of the cost stack (*Attachment 2* Figures C5.5, C5.7, C7.3 and C7.4).

The ACCC explains that the sharp increase in retail margins may have been driven by unique circumstances in the 2023–24 financial year. Further, the ACCC considers the reasons for these high retail margins, particularly for the big 3 retailers, may have occurred due to higher overall costs, primarily driven by wholesale costs, causing most retailers to increase their prices from July 2023. The ACCC also says that some retailers were able to avoid some of these cost increases, which may have contributed to the higher margins.

The other reason presented to us for the retail margin being higher than the residential rate, is the view that small businesses have a higher doubtful and bad debt risk profile and cost. Whilst we understand this is a factor, we find it interesting that in the ACCC's report the debt collection element for the 'Average Cost to Serve' per customer is the same for both residential and small business customers (Attachment 2 Figures C11.19 and C11.22a).

We have concerns that if the retail margin is based on earnings before interest, tax, depreciation, and amortisation (EBITDA), which reflects what a retailer earns after accounting for its costs of delivering electricity to customers, then is there potentially a duplication of accounting for bad and doubtful debts in retailer costs in addition to using this to substantiate a higher retail margin. This creates a potential cycle where higher costs will continue to contribute further to the risk of more doubtful and bad debts.

Anecdotally we have also received comments that the high margins in SA may related to the volatility of our electricity market due to the high penetration of renewables.

Despite the range of reasons being provided to explain the recent retail margin spikes, we are yet to be convinced that this justifies the difference between residential and small business customers for the purposes of the retail margin.

In addition, South Australian electricity consumers appear to be paying a premium to cover the risk management and contingency planning of retailers and government. This includes estimates for bad and doubtful debt risk management, market volatility, anticipated future expenses (that may not eventuate), plus the growing impact of jurisdictional programs such as the Small Claims Compensation Scheme and the impending Firm Energy Reliability Mechanism.

The Chamber acknowledges the AER's commitment to continue to consider the best approach to determining the retail cost component of the DMO and the challenges created by the unique circumstances in the South Australian electricity market. We are keen to remain engaged on this topic outside of the formal consultation cycle to build our knowledge of the DMO and how we can best advocate for small businesses in South Australia whilst remaining supportive of retailers of all sizes.

At the Chamber we are also working to provide information and education to South Australian businesses on energy matters, including upcoming partnerships with Bill Hero and Sustainable Energy Commitment that will hopefully assist many of the small businesses on standing offers in SA. We would be happy to disseminate information on this matter to our broad network of over 30,000 businesses.

Thank you once again for the opportunity to provide feedback on this important matter. Should you require additional information or wish to discuss this further, please contact Cathi Buttfield, Senior Policy Adviser, via email at cathi.buttfield@sabusinesschamber.com.au.

Yours sincerely,

Andrew Kay

Andrew Kay
Chief Executive Officer
South Australian Business Chamber

Attachment 1: SA Business Chamber – Survey of Business Expectations Excerpts

Attachment 2: General Small Business Electricity Data

SA Business Chamber - Survey of Business Expectations Data

December 2024 Quarter – View Full Report

Issues Affecting Businesses

Chart 6
Main Issues Affecting My Business (%)

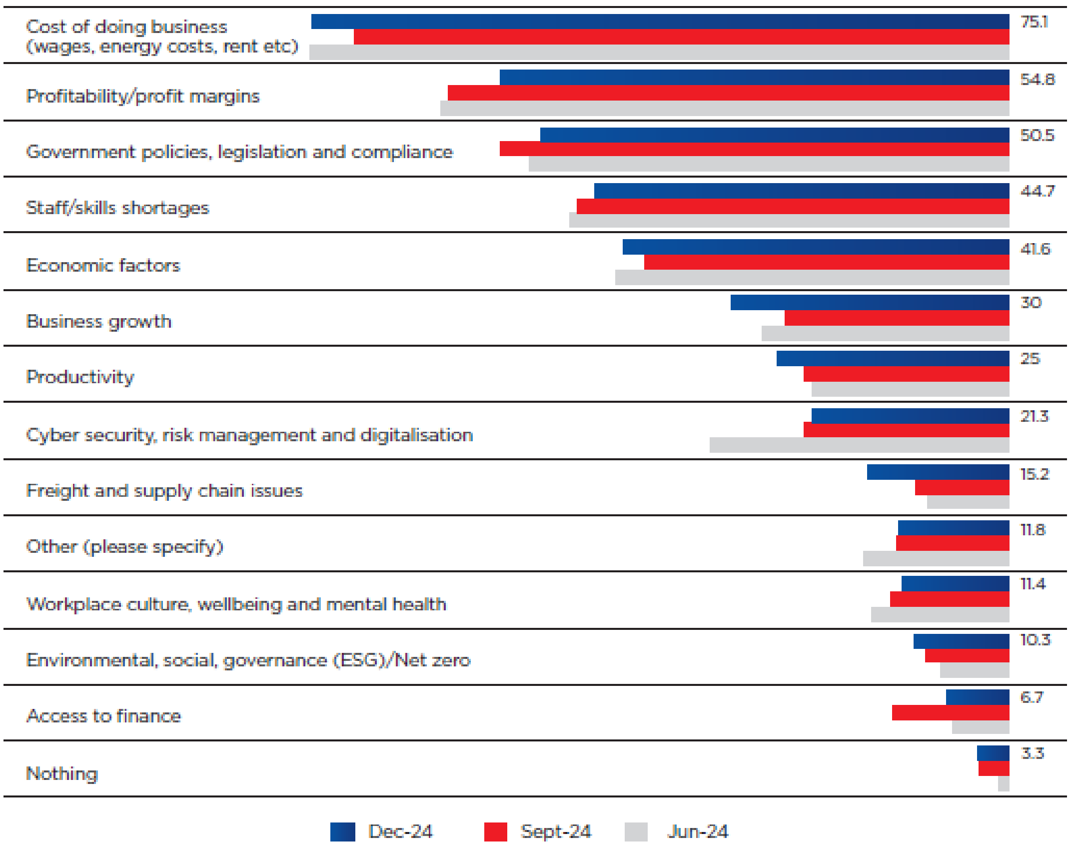
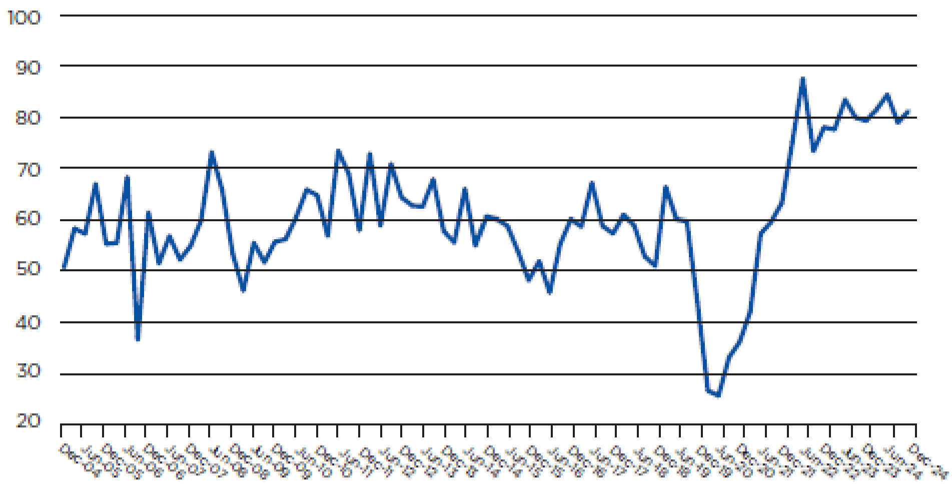


Chart 8
% of Businesses Reporting Cost of Overheads Increasing



Quotes from respondents:

“As a small-medium sized not-for profit organisation with exceptionally tight budgets, it is becoming harder to meet the needs of our clients without passing on increasing expenses to a demographic that is already financially under significant pressure too.”
Education and Training, 20-49 employees

In the two years that I’ve been involved in this business, our energy costs have almost doubled. Our annual electricity bill is approximately $1 million, and we can’t put solar on the roof as we rent and our landlord will not allow it.
Manufacturing, 20-49 employees

We are still in very uncertain times with fragile consumer spending. A manic focus on renewable climate issues while all costs are going up and no prospect of reduction is killing business. A transition requires a broad base of solutions to keep the economy competitive and sustainable.
Manufacturing, 200+employees

“The cost if power water and fuel are going up. If something doesn’t change soon this year might be the last for my little business.”
Personal & Other Services, 1-4 employees

“Very high electricity and gas prices have a significant effect on our business.”
Hospitality, 20-49 employees

ABN 14 725 309 328

Chart 10
How Have Your Electricity Bills Changed in the last 12 Months? (%)

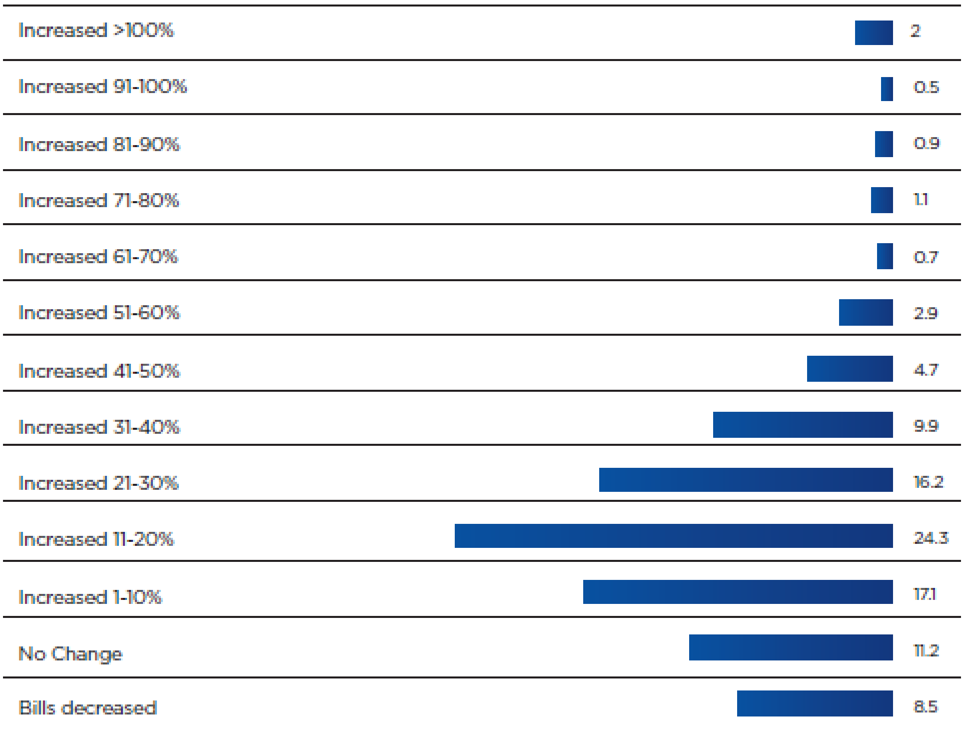
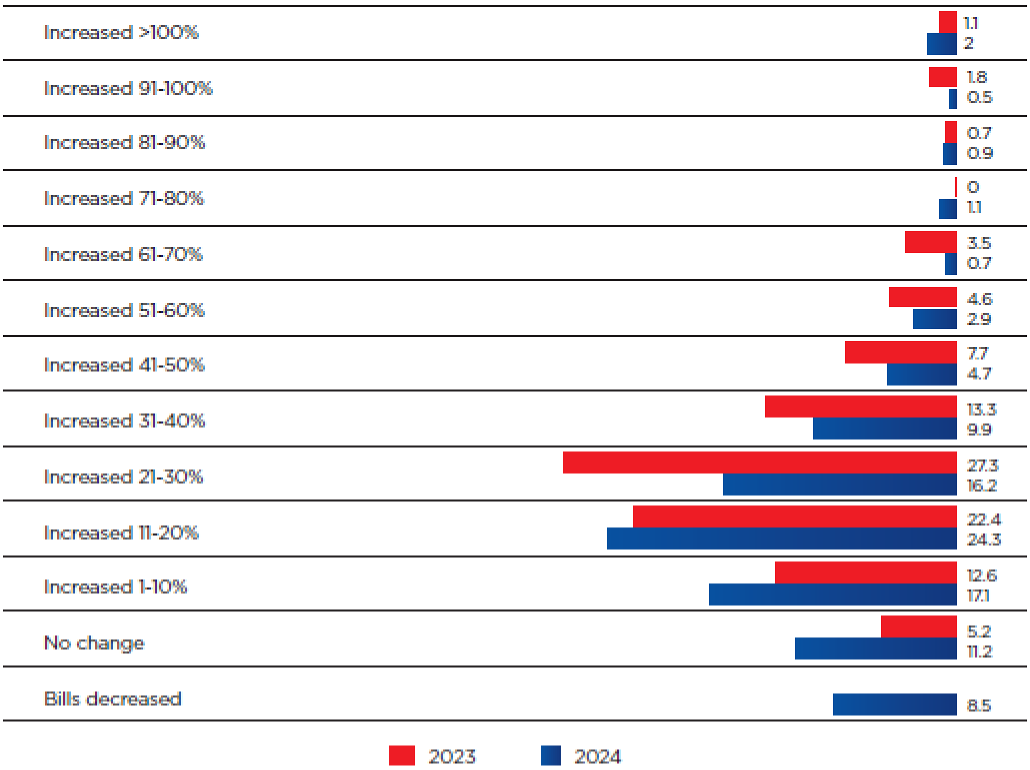


Chart 11
How Have Your Electricity Bills Changed? (%)



Quotes from respondents regarding electricity bill changes:

~20% of respondents – Bills Decreased or No Change

"Government rebate"
Professional Services, 10-19 employees

"Renegotiated 3 yr contract - 15% reduction"
Hospitality, 50-199 employees

"Cost has remained fairly static. We have 30kw solar and will have batteries installed within the next month. We anticipate reducing or eliminating power bills completely. We may also financially benefit from exporting at peak times."
Manufacturing, 10-19 employees

"Signed up with Flow Power just recently who are great with load shifting along with solar and battery we expect to significantly reduce our bills"
Transport, Postal & Warehousing, 50-199 employees

~72% respondents – Bills Increased 1-50%

"Prices have increased & reduced solar rebates by ALL suppliers"
Security, 20-49 employees

"Contract prices increased - New online metering"
10-19 employees

"Our monthly electricity bill is now the same amount as our quarterly bill was one year ago"
Wholesale Trade, 5-9 employees

"Price increases. Tariff calculation changes."
Manufacturing, 10-19 employees

"Coming off fixed contract or contract price increased"
Multiple Respondents

~8% respondents – Bills Increased 51-100+%

"More production and higher costs from supplier. No chance for solar to help."
Mining, 10-19 employees

"Solar feed in terrible and daily connection fee to grid is extortion"
Hospitality, 1-4 employees

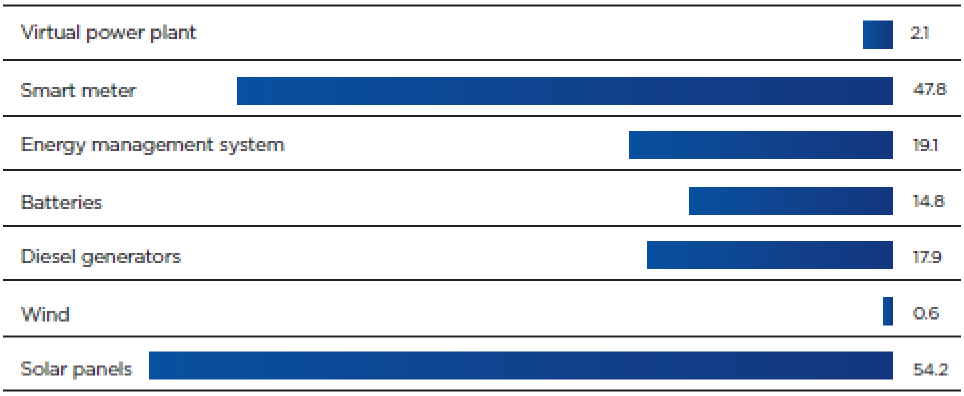
"In the two years that I've been involved in this business, our energy costs have almost doubled. Our annual electricity bill is approximately $1 million, and we can't put solar on the roof as we rent and our landlord will not allow it."
Manufacturing, 20-49 employees

"Demand tariff introduced. Solar input credits reduced."
Wholesale Trade, 50-199 employees

ABN 14 725 309 328

Chart 12

Energy Infrastructure Installed (%)



*respondents could make multiple selections

Chart 13

What Electricity Tariff is Your Business On? (%)

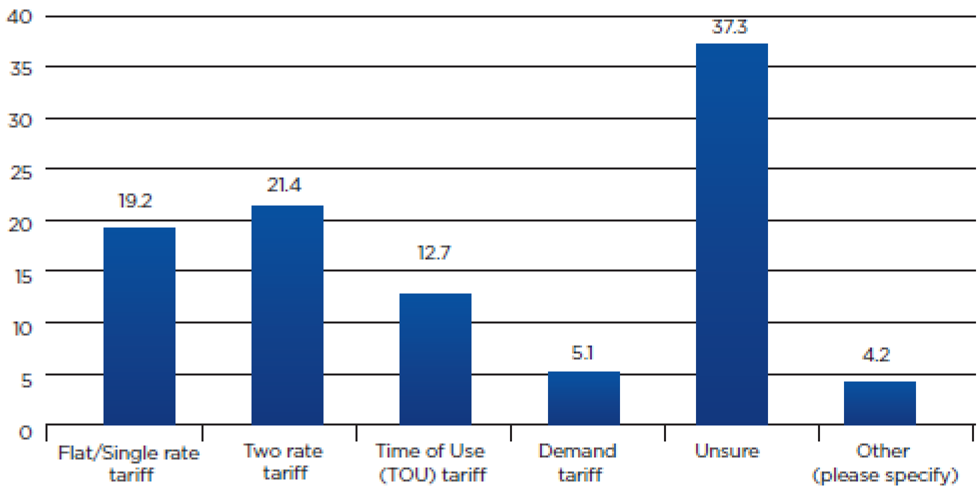
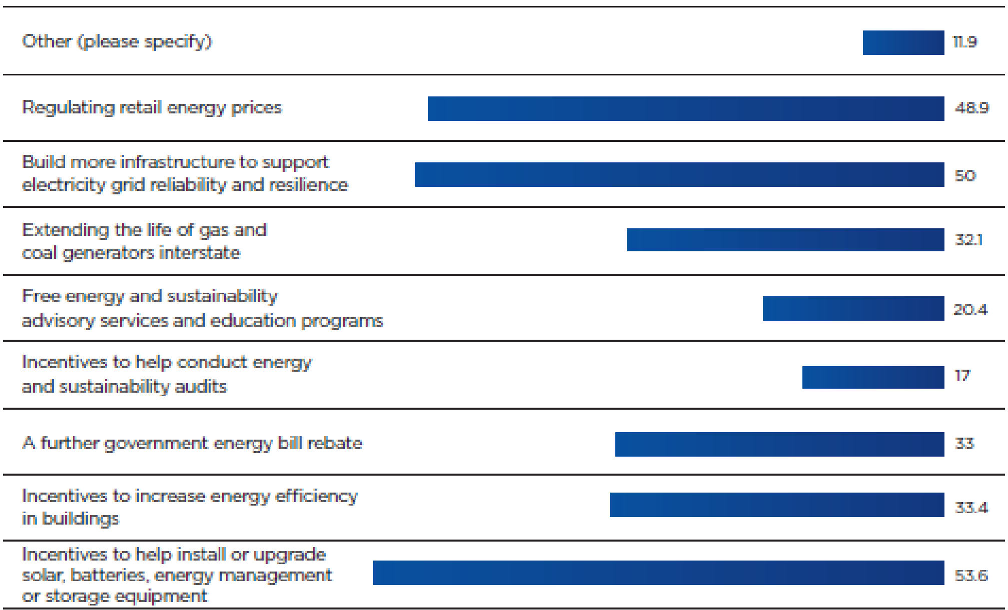


Chart 14

What Energy Measures Would Benefit Your Business? (%)



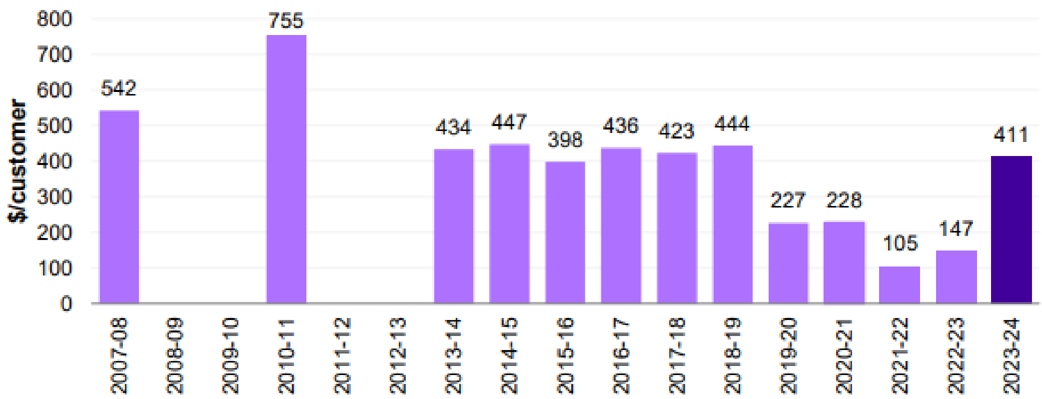
*respondents could make multiple selections

General Small Business Electricity Data

Source: [ACCC – Inquiry into the National Electricity Market – December 2024 Report] and [Appendix C]

Figure 3.14: National Electricity Market-wide retail margins in 2023–24 increased materially to their highest level since 2018–19 for small business customers

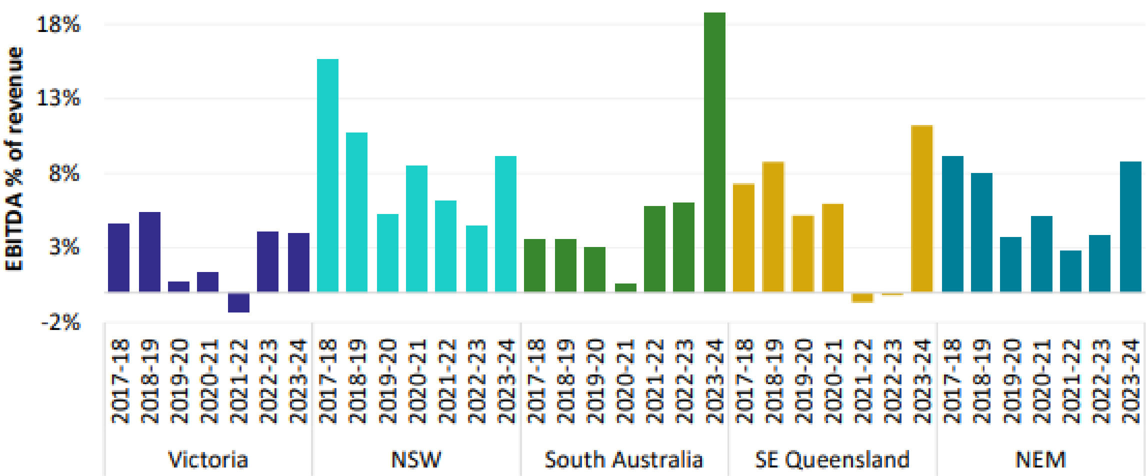
Average retail margins (earnings before interest, tax, depreciation and amortisation), small business customer across the NEM, 2007–08 to 2023–24, real terms, excluding GST



Source: ACCC analysis of retailers' data.

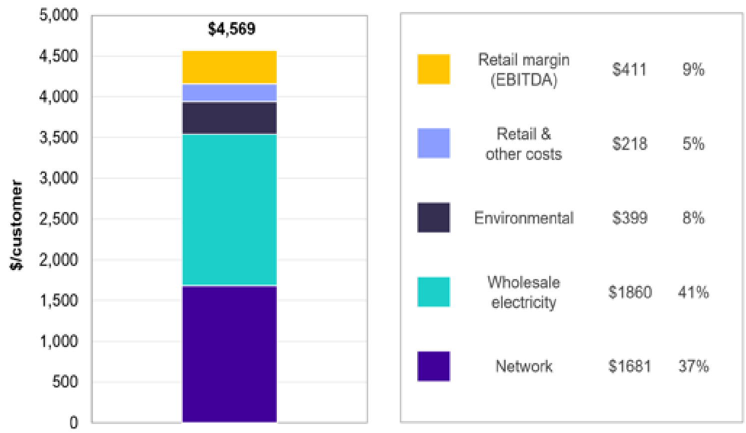
Figure 3.16: Retail margins for small business customers increased in all NEM regions except Victoria in 2023–24

Average retail margins (earnings before interest, tax, depreciation and amortisation) as a share of retailers' revenue per residential customer, by NEM region, 2017–18 to 2023–24, real terms, excluding GST



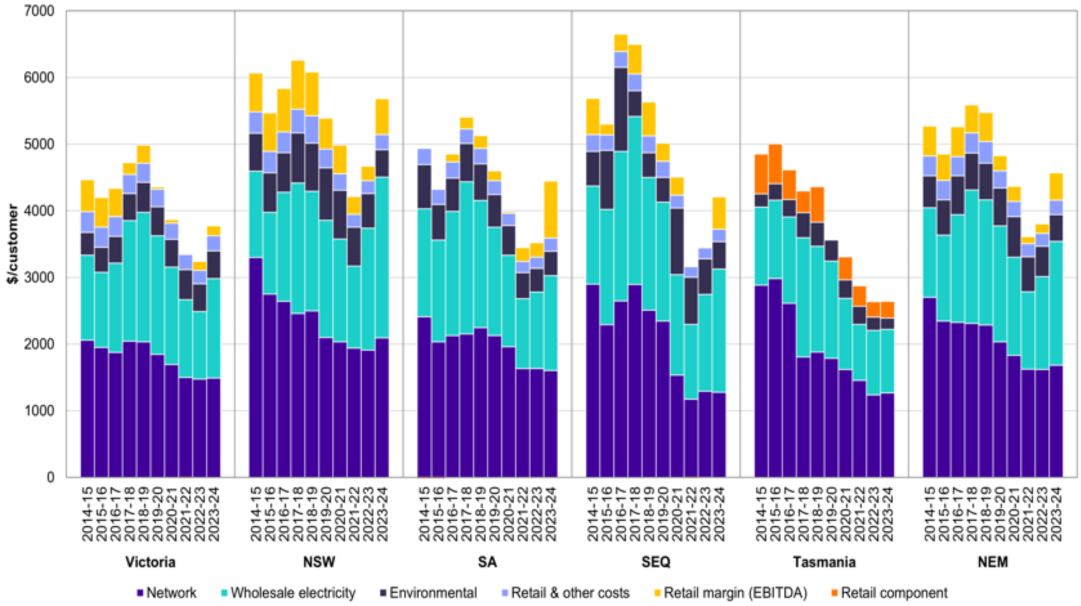
Source: ACCC analysis of retailers' data.

Figure C5.5: Cost components for the average small business customer across the NEM in 2023–24, nominal, excluding GST



Source: ACCC analysis based on retailers' data.

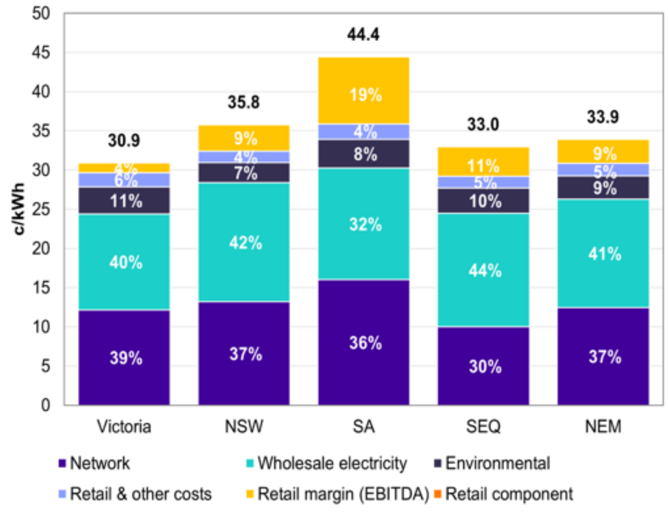
Figure C5.7: Average small business customer bills by NEM regions, 2014–15 to 2023–24, real $2023–24, excluding GST



Source: ACCC analysis based on retailers' data.

Note: Small negative EBITDA for 2020–21 for SA and SEQ not shown for readability. The small negative EBITDA for 2020–21 for SA and SEQ means that actual total cost stack is lower than the sum of the cost components shown.

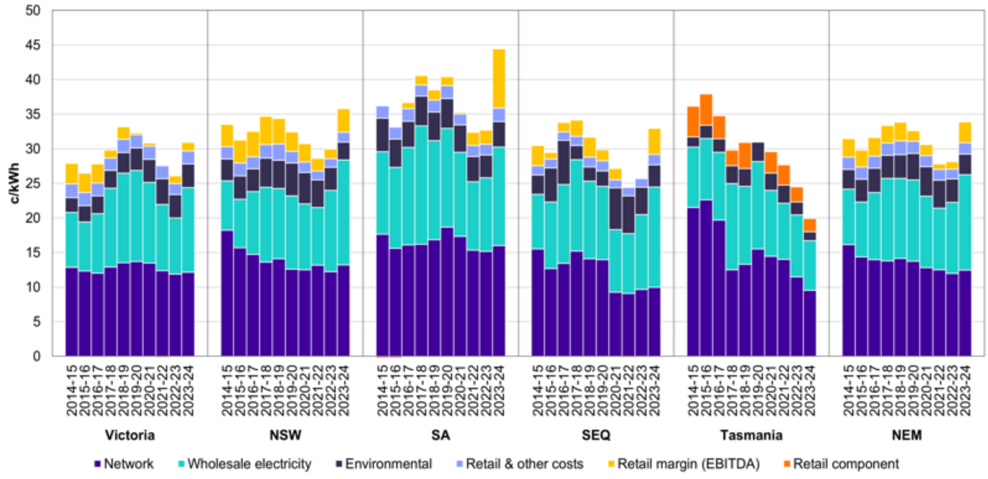
Figure C7.3: Average small business customer effective costs by NEM regions, 2023–24, real $2023–24, excluding GST



Source: ACCC analysis based on retailers' data.

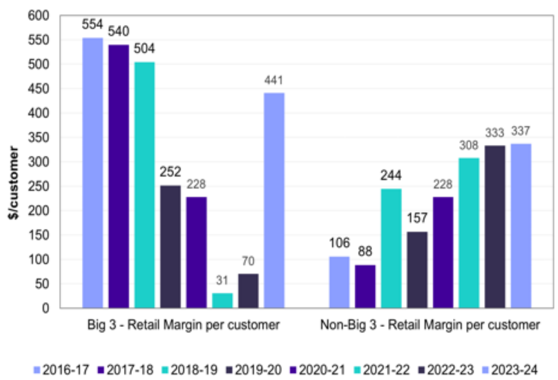
Note: Data labels for small cost components have been omitted for readability.

Figure C7.4: Average small business customer effective cost by NEM regions, 2014–15 to 2023–24, real $2023–24, excluding GST



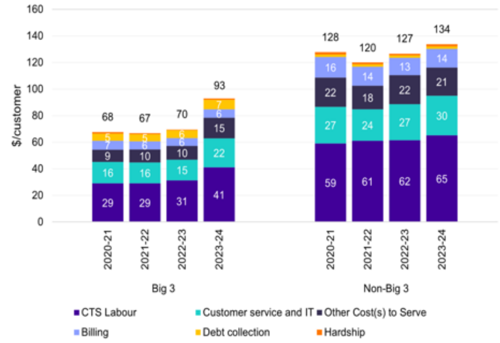
Source: ACCC analysis based on retailers' data.

Figure C11.12 Average retail margins per small business customer across the NEM by retailer tier, 2016-17 to 2023-24, real $ 2023-24, excluding GST



Source: ACCC analysis based on retailers' data.

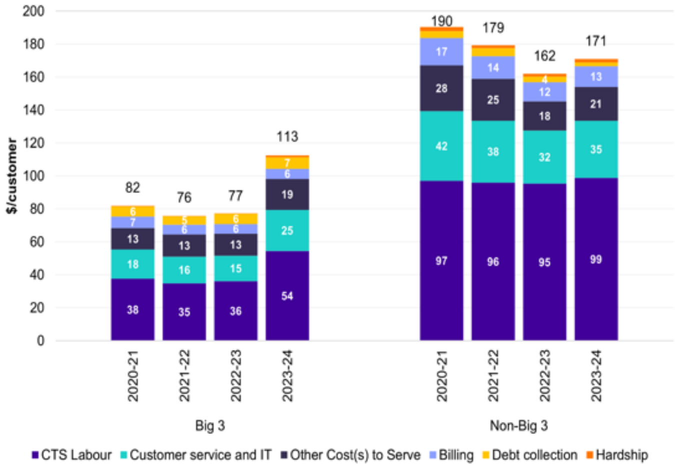
Figure C11.19 (Figure 3.20 in report): Average Cost to Serve per residential customer across the NEM by retailer tier, 2020-21 to 2023–24, real $ 2023-24, excluding GST



Source: ACCC analysis based on retailers' data.

Note: Data labels for small cost components have been omitted for readability. CTS = Cost to serve.

Figure C11.22a: Average Cost to Serve per small business customer across the NEM by retailer tier, 2020-21 to 2022–23, real $2023-24, excluding GST



Source: ACCC analysis based on retailers' data.

Note: Data labels for small cost components have been omitted for readability.