

6 December 2018

Mr Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001



Business SA
Chamber of Commerce
and Industry South Australia

ABN 000 14 725 309 328
Level 1, 136 Greenhill Road
Unley South Australia 5061
T: +61 8 8300 0000

Working for your business.
Working for South Australia

Dear Mr Feather

I write in response to your request for submissions on the AER's position paper on a Default Market Offer Price.

Executive Summary

- Business SA supports increased transparency of median market offer prices for SMEs and residential customers and the top-down approach being proposed by the AER, but we do not support the notion of a 'default price' determined by Government which signals a move towards centralised price fixing
- South Australian SMEs face the highest electricity prices in Australia as evidenced by numerous recent reports and Business SA endorses the Federal Government's focus on affordability, but we are also mindful not to introduce any barriers into the NEM preventing effective competition to deliver firm electricity to end users, particularly in highly concentrated jurisdictions like South Australia
- Substantial pay-on-time discounts appear to be out of step with the true costs retailers face carrying finance and as part of this regulatory process which is predicated on improving electricity price transparency, the AER should also look to analyse and report on the true market costs of late payments
- The threshold level for any analysis of SME electricity costs should be established at no less than 20,000 kWh per annum to ensure it is useful to the vast majority of businesses experiencing the most acute issues from rising electricity prices

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





Why this matter is important to South Australian businesses

As South Australia's Chamber of Commerce and Industry established in 1839, Business SA is the peak business membership organisation in the State. Our 3,200 members are affected by this matter in the following ways:

- The increase in electricity prices over recent years has had a substantial impact on South Australian businesses with major spikes for both small and large market customers; bills typically increasing between 30% and 75% depending on the volume of electricity use.
- South Australian businesses recognise the need for Government policy to address policy failures in the energy market but are also sceptical about the cost of market interventions and their real impact on long run prices.
- South Australian businesses are supportive of a national approach to address energy market policy failures, including increased transparency of available prices, particularly given South Australia's NEM jurisdiction has the nation's highest degree of market concentration.

Key Policy Points

1. Business SA acknowledges South Australia has the highest electricity prices for SMEs in the nation, confirmed in multiple reports delivered in mid-2018, noting Figure 1.29 from the ACCC's Retail Electricity Price Inquiry¹ and Chart 1 from Energy Consumers Australia's SME Retail Tariff Tracker²:

Figure 1.29: Range of effective price outcomes (c/kWh) by region, SME customers, 2017-18 (est.), real \$2016-17, excluding GST



Source: ACCC analysis based on retailers' data.

¹ ACCC, Retail Electricity Price Inquiry Final Report, page 31

² Energy Consumers Australia, 'Analysis of small business retail energy bills in Australia' – Final Report June 2018, Prepared by Alviss Consulting, page 9



2. While Business SA is in no way seeking to diminish the concerns of our members about electricity prices, we are also mindful that Governments do not take measures which reduce the prospect of increased competition in the electricity market. According to the ACCC's 2018 Retail Electricity Price Inquiry - Final Report, '*elevated prices have generally been driven by high and entrenched levels of concentration in the market, combined with fuel source cost factors, rather than identifiable uses or abuses of market power*³.

Furthermore, the ACCC stated '*In certain regions of the NEM, particularly South Australia, the level of liquidity and the advantages enjoyed by vertically integrated retailers make it difficult for new entrants and smaller retailers to compete effectively in the retail market*⁴.

3. Business SA is quite supportive of increased transparency of electricity prices and we have made several submissions in recent years to prosecute various options to deliver that outcome, both in the small and large market customer segments. From that base, we endorse the Federal Government's proposal to provide broad transparency of market offers around Australia, including for small to medium sized businesses (SMEs).

Considering that in South Australia, the AER's report indicates only 11% of customers remain on standing offers, it would seem logical that any reference pricing be based off the median market offer only and exclude the existing standing offers as an upper threshold.

4. While the discussion paper outlines a framework for setting a default market offer price, it is actually predicated on a 'top-down' approach based on the evidence available from existing market offers. Business SA agrees this approach will be transparent and predictable and avoids the information asymmetries faced by regulators in making judgements about the efficient cost elements for a particular retailer, however, it is in effect a market reference

³ ACCC, Retail Electricity Price Inquiry Final Report, page vii

⁴ ACCC, Retail Electricity Price Inquiry Final Report, page ix



price, rather than a default price. Consequently, this approach should not be promoted as a default price established by Government.

Market monitoring of residential customer and SME electricity and gas bills already occurs in South Australia through the Essential Services Commission of South Australia (ESCOSA) and while Business SA is supportive of a national approach, we do not believe the Federal Government needs to go further than shedding light on the actual median market offers available.

It is one thing for the Government to ensure transparency of pricing, but a step change to set a default market offer which is essentially the Government regulating where the market should be pricing electricity. Centralising price fixing by Governments carries with it a range of economic consequences from deadweight losses, essentially costs from Governments inaccurately picking the point at which the market naturally balances supply and demand. States including South Australia have already moved beyond such a model and Business SA views a return to price regulation as a retrograde step, particularly when we actually need to ensure we have adequate competition from retailers to deliver firm electricity to end consumers.

5. In terms of threshold levels for monitoring market offers to SMEs, the threshold annual consumption level should be set at no less than 20,000 kWh per annum. From Business SA's experience dealing with members on electricity cost issues, this better reflects the minimum point at which useful market monitoring of SMEs should be conducted to ensure it captures those businesses most likely facing material concerns from increasing electricity prices. This level also corresponds with the threshold used by Energy Consumers Australia (ECA) as part of their SME Retail Tariff Tracker Project.⁵
6. Considering the relatively small number of SMEs on demand tariffs in South Australia at present, the AER should proportionately weight market offers with demand tariff pricing in assessing a median market offer for each NEM jurisdiction.
7. Business SA recognises there may be a need for the Federal Government to consider other factors related to the transparency of pricing in this process, including the nature of pay-on-time discounts. While market offers are most usefully benchmarked when including the pay-on-time discount, it is concerning that the market is pricing pay-on-time discounts at such a significant premium when compared to borrowing costs.

The default market offer proposal is predicated on improving pricing transparency for consumers who would also benefit from AER analysis of how much costs are carried by electricity retailers for late payments at various time intervals. This should then be compared to the effective discount value at those same intervals. On this point, Business SA supports the recent ACCC recommendation that '*Conditional discounts should be no higher than the reasonable savings that a retailer expects that it will make if a consumer satisfies the conditions attached to the discount. Retailers should bear the onus of substantiating that the conditional discount is reasonable*⁶.

⁵ Energy Consumers Australia, 'Analysis of small business retail energy bills in Australia' – Final Report June 2018, Prepared by Alviss Consulting.

⁶ ACCC, Retail Electricity Price Inquiry Final Report, page 269