

19 December 2018

Michael Drake
A/g Director
Electricity Markets Branch
Level 19 | 2 Lonsdale Street Melbourne 3000
Australian Competition & Consumer Commission
Via email: ElectricityMonitoring@acc.gov.au

Dear Mr. Drake

RE: ACCC discussion paper on monitoring of electricity supply in the NEM

The National Farmers' Federation (NFF) welcomes the opportunity to respond to the Australian Competition and Consumer Commissioner's (ACCC) *Discussion Paper on Monitoring of Electricity Supply in the National Electricity Market*. Currently, the National Electricity Market (NEM) is not working for Australian farmers and needs serious reform, reinforced by the ACCC's findings in its *Retail Electricity Pricing Inquiry* (REPI) final report. Failures in policy, regulatory design and the promotion of competition in the electricity sector have contributed to excessive electricity prices for Australian farmers. In the last five years, electricity prices in some farm businesses have increased by up to 100%, despite Australian farm businesses becoming more efficient¹. Both reliability and affordability are key for agricultural producers, as an industry that exports more than 75% of its produce, is trade-exposed and must remain competitive in international markets.

The NFF supports a national energy plan that:

- is technology-neutral, market-based and economy-wide, delivering affordable, reliable and secure energy;
- supports increased competition across all aspects of the electricity and gas markets;
- ensures sound economic regulation of networks through the Australian Competition and Consumer Commission where competition is low, especially in regional and rural Australia;
- supports innovation to capture the full range of opportunities to improve energy productivity, energy efficiency and low emissions energy generation, including renewable, thermal and kinetic energy;
- recognises the potential of regional Australia to take part in the revolution of energy generation and supply and ensures that the regulatory settings enable this change, rather than create barriers to change;

¹ Heath, R, Darragh, L & Laurie, A (2018), *The impacts of energy costs on the Australian agriculture sector*, Research Report, Australian Farm Institute.

- empowers and builds capacity in regional, rural and remote communities to contribute to secure and reliable energy supply and storage;
- ensures that rural, regional and remote Australia is not disadvantaged or left behind by the disruption, and that the policy solutions are designed for all Australians, not just those in metropolitan areas;
- recognises and rewards landholders, communities and industries that contribute to Australia's emissions reductions goals.

To that effect, a transparent and robust analytical framework for monitoring the NEM is critical to safeguard the tenets of an effective NEM, including competition. An effective NEM would be able to monitor market behaviour on a number of matters including: retail prices, wholesale prices, profits, contract market liquidity, and policy, as noted in the discussion paper. The NFF will provide high level input on outcomes it expects to see within the scope of the inquiry.

In doing so, it is prudent to recognise the nature of electricity use in agriculture. Electricity use is variable across agriculture depending on industry, intensification of operations, location and structure of the business. Farms that require heating, cooling or irrigation have higher levels of electricity use. In some industries electricity consumption is stable year round, in others there can be significant seasonal variability. For some farmers demand is flexible, providing choice as to when electricity is consumed. For others, demand is often driven by factors beyond individual control, such as streamflow, the weather, and regulations that govern access to water, reducing options for an individual to manage their own demand.

As a result, the demand profile of Australian farm businesses can be very different from other energy users, and can fall into multiple classifications including residential, small businesses and commercial and industrial (C&I). Any measures to monitor the market must recognise that electricity use in agriculture is variable.

However, there is some overlap with those in broader rural and regional Australia. The most significant cost components include:

- network costs through 'poles and wires';
- retail prices; and
- wholesale prices

Analytical framework on monitoring

The NFF is of the view that a market failure framework and a distribution or equity framework is most useful for the monitoring of electricity supply in the NEM. Monitoring of legal and regulatory compliance should be a business as usual activity conducted by the ACCC and other regulatory bodies, but the legal framework should be informed by issues surrounding market failure and distribution equity.

Retail price data

The NFF agrees that the breakdown of retail prices by state in figure 1 of the discussion paper is a useful method of identifying the average cost components of electricity prices. However, while it is useful, electricity prices can differ significantly between networks within the state and does not measure the performance of individual networks. The NFF suggests that a breakdown of retail prices by energy networks themselves could be a useful way to examine competition (and potential competition issues) where a high spread indicates healthy competition and a low spread indicates otherwise. In regional areas, this could highlight that retailers make little effort in discounting, but may also highlight that other factors may be driving regional electricity prices.

The NFF notes parallels between this and the Australian Energy Regulator's efforts to develop a default market offer (DMO) price, and suggests that it may also provide a useful baseline to provide transparency into the nature of discounts for residential and small business customers, provided the DMO price is broken down by networks.

The REPI final report also noted that retailers had developed opaque discounting structures which are set with reference to their own independently set prices which were not comparable across the market or zone. This meant that offers with a large headline 'discount' could be more expensive than one with a lower discount. In this instance, the breakdown of market discount offers against the proportion of customers on those offers in figure 2 of the discussion paper provides a useful indicator for both consumer and retailer behaviour.

Effective monitoring of the NEM can be constrained by the ability to efficiently acquire data. As such, the NFF supports **recommendation 40** of the ACCC REPI final report:

Retail price monitoring should be streamlined, strengthened and appropriately funded to ensure greater transparency in the market, reduced costs, and allow governments to more effectively respond to emerging market issues. This should be done by:

- *COAG Energy Council agreeing to streamline price monitoring and reporting to the AER and the AER receiving all the necessary powers to obtain information from retailers*
- *COAG Energy Council agreeing to extend price reporting for retail electricity services to small to medium business customers*
- *state governments agreeing to close their own price reporting and monitoring schemes in favour of an expanded and strengthened NEM-wide regime*

A NEM-wide price reporting and monitoring framework be implemented which includes a combination of price monitoring with full EBITDA data (including standardised costs to serve, attract and retain consumers, and margins), and consumer expenditure surveys. This reporting should be done on a regular basis and include customer expenditure data, based on representative customer surveys and retailer billing and offer data, and be reflective of demographic information.

Wholesale price

The NFF suggests that a state by state index for retail and wholesale prices that is represented in figure one would be a useful mechanism for the ACCC to diagnose areas where there are divergences from a baseline.

The NFF notes that there are a number of agencies that report on retail and wholesale prices, and is neutral on the methodology provided it is credible, transparent and consistent.

Profitability

The independent report by Sapere Research Group *Regulated Australian Electricity Networks – Analysis of rate of return data published by the Australian Energy Regulator* found that electricity networks, over four financial years preceding 30 June 2017, exceeded the allowed rate of return profits determined under the rate of return objective. This amounted to \$2.6 billion with network costs solely, which is the most significant cost component for regional and rural users.

The NFF seeks measures from the ACCC that will meaningfully compare profits from energy companies to prevent price gouging behaviour.

Outcomes

The NFF notes indicators that would allow consumers to analyse costs at a certain level of reliability. From this perspective, useful indicators would include:

- Change in average customer residential, small business, and C&I bill; and
- Change in reliability.

Monitoring the impact of policy developments

The NFF supports the ACCC's directive to monitor the impact of policy changes in the NEM, including those made by the ACCC in the REPI final report. These include:

- *Abolishing the current retail 'standing' offers (which are not the same between retailers), and replacing them with a new 'default' offer consistent across all retailers, set at a price determined by the Australian Energy Regulator (AER).*
- *Requiring retailers to reference any discounts to the new 'default' offer pricing determined by the AER, making it easier for consumers to genuinely compare offers. Conditional discounts, such as pay-on-time discounts, must not be included in any headline discount claim.*
- *Voluntary write downs of network overinvestment, including by the NSW, Queensland and Tasmanian governments (or equivalent rebates).*
- *Premium solar feed-in-tariff schemes should be funded by state governments and the small scale renewable energy scheme should be phased out.*
- *Government support to make bankable new investment by new players in generation capacity to help commercial and industrial customers and drive competition.*
- *Restructuring of Queensland generators into three separately owned portfolios to improve competition.*

- *The introduction of market making obligations in South Australia's contracting market, and a repository of OTC hedge contract trades that provides de-identified trade information to the public.*

However, the NFF does not support the phasing out of the small scale renewable energy scheme. Currently, large scale solar has received twice the subsidy of small scale, ostensibly to correct distortions created by state subsidies; however, in NSW for example, the state subsidy for small scale solar was phased out some time ago. Targeted small scale renewable subsidies that are targeted to reduce network cost should be the number one energy priority for regional Australia. Poles and wires are the most significant cost component for regional users where there are higher transmissions costs and fewer customers to amortise the cost burden across, and to date, there has been little action taken to reduce this cost. Therefore, the NFF strongly supports **recommendation 11** of the ACCC's REPI final report:

The governments of Queensland, NSW and Tasmania should take immediate steps to remedy the past over-investment of their network businesses in order to improve affordability of the network. With appropriate assistance from the Australian Government, this can be done:

- *in Queensland, Tasmania and for Essential Energy in NSW, through a voluntary government write-down of the regulatory asset base*
- *in NSW, where the assets have since been fully or partially privatised, through the use of rebates on network charges (paid to the distribution company to be passed on to consumers) that offset the impact of over-investment in those states.*

Such write-downs would enhance economic efficiency by reducing current distorting price signals. The amount of the write-downs and rebates should be made by reference to the estimates of overinvestment by the Grattan Institute, and should result in at least \$100 a year in savings for average residential customers in those states.

The NFF suggests that ACCC consider the impacts of this recommendation on the NEM. Additionally, it would be beneficial to monitor policies that intervene in the energy market, including the Government's scheme to underwrite new generation in the market. The current suite of Federal, State and Territory policies are distorting and compromising the entire NEM, hampering transition and driving inefficient investment. The NFF remains wary of further policies that may have an effect on the market.

The NFF would be pleased to further engage the ACCC on this issue, and offers to make available contacts that can provide insight and extrapolate the impacts of the ACCC's intended approach on the agricultural sector, or groundtruthing claims, and questions under the process and timing for the collection of information. For further information, please contact Warwick Ragg, General Manager NRM on 02 6269 5666.

Yours sincerely

TONY MAHAR
Chief Executive Officer