

The ACCC Electricity Market Monitoring agenda

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Thank you for inviting me to speak at your stakeholder forum.

The ACCC very much values the work done by Energy Consumers Australia in representing residential and small business energy consumers and welcomes the opportunity to speak today.

We're currently in caretaker period, so I can't go into ACCC views on government or opposition policies.

What I can do and I hope you'll find useful is to outline the ACCC's new roles in electricity:

1. long-term role in the national electricity market – inquiry role
2. role in enforcing the DMO (default market offer) code.

New branch

- Following the ACCC's 2018 Retail Electricity Pricing Inquiry (which we refer to as REPI), the government in August 2018, gave us a further inquiry direction.
- This current inquiry is a 7-year inquiry and we have therefore set up a dedicated branch within our Infrastructure Regulation Division, which I am managing.
- We have just recently finished recruiting members into the team and we have team members in Melbourne (majority), Canberra, Sydney and one person in Perth. It's a branch of about 15 people.
 - Two of them are here today – Nicole Joffe, director of our policy and investigation team and Melissa Head, assistant director in that team, both based in Canberra.

Inquiry:

I'll speak first about our inquiry role.

Direction

- It is a public inquiry under Part 7A of the Competition and Consumer Act, as was our REPI inquiry. This means that we have the power to compel the provision of information.
- It is an inquiry into the prices, profits and margins in the supply of electricity in the NEM.
- The matters which we are required to monitor are:
 - i. Retail prices, including both the level and spread of offers, analysing how wholesale prices are influencing retail prices
 - ii. Wholesale prices, including contributing factors such as input costs and bidding behaviour
 - iii. Generation and retail profits

- iv. Contract market liquidity
- v. And the effects of policy changes in the NEM, including those resulting from REPI recommendations
- We will also continue to make policy recommendations to government(s) where we see that there is a market failure or a problem with the market, with the ultimate objective of delivering competitive and efficient electricity prices for customers.
- We will be reporting at least every 6 months and may also provide information to the market as appropriate.

March report

- We provided our first report to government in March.
- Under our direction, the first report was to set out our analytical framework for monitoring and provide information about expectations of market outcomes and market participant behaviour.
- We also used the report to continue to advocate for our REPI reforms to be picked up, but I won't go into that today, given we're in caretaker mode.
- The report is on our website.
- I'll draw out a few aspects of our plan for future reporting on:
 - Retail costs
 - Retail pricing
 - The wholesale market
 - Network costs
 - And environmental costs.

Retail costs

- **On retail costs**, in REPI, we collected information from retailers and reported a 'cost stack' to show how an average bill was made up of various costs, and how these components had changed over time. We will repeat this exercise for the life of the inquiry.
- This will give us important information on:
 - How input costs are changing over time and whether any changes in input costs are flowing through to final retail prices. Specifically our direction requires us to examine whether any wholesale cost savings are being passed through to retail customers.

Retail prices

- **On retail prices**, we will have a big policy change coming into effect on 1 July with the DMO price cap and reference price reforms coming into effect – and I'll speak about those in more detail later, under our code role
- But under our inquiry, we will monitor the effect of these reforms, looking at the level and spread of offers – both market offers and standing offers that are currently priced below the DMO levels set. We will also be looking at prices in Victoria following the introduction of the VDO.

- We will also continue our focus on examining the way retailers advertise their offers and how the DMO reforms affect this - a particular concern of ours has been how conditional discounts are used in the market

Wholesale market

- **On the wholesale market**, our approach to monitoring will be informed by competition analysis and whether there are inefficiencies or failures that are impeding competitive forces.
- Our analysis will have regard to the energy only nature of the NEM, where there occasional high prices, which are necessary for investment signals for additional generation capacity.
- We will have regard to monitoring being undertaken by other bodies (AER) and focus our efforts on adding value through information we can obtain that is not otherwise public:
 - Such as wholesale market costs incurred by retailers
 - The contract market
 - And looking into issues of market power and barriers to entry.

Network costs

- **On network costs**, which are a significant component of retail costs, feeding in through the allowed revenues that network service providers charge retailers,
 - there is a significant wave on new investment planned under AEMO's Integrated System Plan (multi billion \$ over 20 years)
 - so, we will be monitoring the impact of network costs on overall retail costs.

Environmental costs

- **And, on environmental costs**, we will monitor the costs of complying with the various environmental schemes, including the large-scale renewable energy target (LRET) and the small-scale renewable energy scheme (SRES).

Code

The second major focus for us in addition to our inquiry role is to enforce the new industry code which implements the DMO and reference price reforms.

- The Competition and Consumer (Industry Code – Electricity Retail) Regulation 2019 – is a mandatory industry code under the Competition and Consumer Act
- It implements REPI recommendations for a default price, set by the AER, and for that default price to be used as a reference price for advertising discounts
- It imposes obligations on retailers in NSW, SA and SEQld from 1 July (whereas the VDO will operate in Victoria)
- Our role is to enforce the Code
- The main obligations on retailers are:
 - A price cap set by AER on certain standing offers – applies to residential (flat rate, controlled load tariff) and small business customers (flat rate tariff)
 - The AER has determined prices in annual \$ amounts for each distribution zone and model annual usages.

- A retailer would need to ensure that its SO charges, when the model annual usages are applied, do not exceed the price set by the AER.
- Market offers must be compared to the DMO as a reference price, with the % difference shown as the headline discount
- Conditional discounts are to be shown off the reference price and separate to the headline discount
- Breaches of the code's obligations are subject to penalties and the Australian Consumer Law still needs to be complied with – ie not misleading or deceptive
- We will be consulting on and issuing guidance on our approach to enforcing the code – sending a draft around 20 May and holding a stakeholder forum on 7 June – and we look forward to your input into this process.

I hope that's given you a picture of the current work program of the ACCC on electricity and welcome any comments or questions you have.