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DELWP
Energy Market Review
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Submission on Consultation Paper – Response to the Bipartisan Independent Review of the Electricity and Gas Retail Markets in Victoria

1. Background

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (*Powershop*) (together the *MEA Group*) provides the following submission to DELWP in relation to the Consultation Paper – Response to the Bipartisan Independent Review of the Electricity and Gas Retail Markets in Victoria (the *Paper*).

Powershop operates an electricity retailing business with over 100,000 customers in the National Electricity Market, in Victoria, New South Wales and Queensland. Powershop was recently ranked Australia's Greenest Power Company in the Greenpeace Green Electricity Guide for the third time and has been awarded Canstar's Most Satisfied Customers Electricity Providers - Victoria for three years running.

Powershop is based in Melbourne and its ultimate parent entity Meridian Energy Limited, is an exclusively renewable generator, and has one of the Australasia's largest renewable-only generation portfolios. In Australia, the MEA Group owns the Mt Mercer Wind Farm (a 131MW generation facility near Ballarat, Victoria) and Mt Millar Wind Farm (a 70MW generation facility in South Australia), and assists with the operation of the Hepburn Wind Farm (in Daylesford, Victoria). The MEA Group recently made significant investments in additional renewable energy facilities to support the transition to a lower carbon energy market. This included the purchase of the Hume hydro power station in Northern Victoria, the Burrinjuck and Keepit hydro power stations in NSW and entering into power purchase agreements with the Salt Creek Wind Farm and the Kiamal Solar Farm in Victoria and the Crudine Ridge Wind Farm in NSW.

As we have previously submitted, retail competition has been somewhat effective in Victoria, with many good examples of innovation (in the last 12-24 months in particular), customer service improvements and lower prices as a result of competition. Powershop has delivered a number of innovations to the market, including:

- the first phone app giving customers information on electricity usage and cost;
- the first retailer to deliver carbon neutral products to the market;
- the first at scale demonstration of peer to peer solar trading;

- at scale rollout of residential demand response; and
- at scale rollout of a virtual power plant offer.

Despite Powershop’s broad support for the bulk of the recommendations in the Independent Review of the Electricity and Gas Retail Market in Victoria (the *Review*), we are extremely disappointed by the lack of both formal and informal opportunities to comment and provide feedback on the Independent Review Panel’s (the *Panel*) findings. Due to the absence of that opportunity, we have set out below some brief comments on the methodology and conclusions of the Review.

- The Review makes broad conclusions on the market post price deregulation and confuses correlation and causation. No attempt is made to model what Victorian electricity or gas prices would be had price deregulation not occurred.
- The Review uses cost build ups based on CME analysis to make conclusions on the retail component of energy bills. There are a number of issues with this analysis.
 - The analysis failed to analyse real retailer costs such as wholesale market risk management, line losses and customer debt. Failure to quantify these costs leads to a high retail component which was regularly described by the Review panel members as for ‘simply sending a bill’. Powershop notes the large differences in the retailer component in this flawed analysis and how it compares to that found by the ACCC and as described in their Retail Electricity Pricing Inquiry preliminary report.
 - The analysis failed to examine different customer segments, most notably lower usage and solar customers, where the retailer component can vary significantly from the average customer.
- The Review failed to recognise and quantify the costs of a retailer’s main role in the electricity and gas value chain, that is, wholesale energy risk management. This is evidenced by the comparisons made of the retail component of an electricity bill to those in a water bill. These comparisons were used to drive the conclusion that the retailer component is unreasonably high in electricity. The fact that comparisons to the water industry are made suggests a fundamental misunderstanding in how the water and electricity industries operate and the differences between the two.
- The Review compared the retailer charges in Victoria to other states and internationally, and made no attempt to account for the differences in electricity systems internationally. As wholesale and distribution systems vary by country, it is not surprising to see fundamental differences in retail charges.
- There was a major focus on the comparison of retail charges in Victoria and the ACT. This comparison is not valid, given that the retailer in the ACT that serves the vast majority of customers is also the distribution network business. In effect, this may allow the retailer to offer reduced retail prices as they can recover lost margin on the retail side from the network side of their business.

Set out below are responses to the issues and questions raised in the Paper.

2. Submission

3. Introduction of Basic Service Offer and abolition of Standing Offers (Recommendations 1 & 2)

3.2 Interim Government Response

We do not believe the implementation of a regulated BSO will have the desired outcomes that the Government is seeking to achieve, this is because a BSO will have likely impacts on:

- renewable and dispatchable generation investment;
All forms of investment in generation (build, buy or offtake) involve committing to acquiring in advance a volume of energy at a particular price over the long term. A

disincentive is created when the price at which that energy can be sold to consumers is fixed with reference to a short term market price. It is conceivable that in some years the price at which energy has been secured in the long term arrangement will be above the price in the short term market. In these periods, a retailer will lose money, potentially to a significant level. The effect will be that retailers will be discouraged from making generation investments, leading to higher wholesale prices and less reliability. Although investments will likely be made as wholesale prices rise well above generation costs, this introduces inefficiency into the market that all consumers, *including those on a regulated price*, will pay for. Effectively undermining the very objective the regulated price was seeking to achieve.

If a BSO were to be adopted there would be a disincentive for investments in renewable and dispatchable generation in Victoria. Making these investments, and therefore the subsequent construction and operations jobs created, more attractive in other States.

- investment in innovation and customer service; and.
It appears that there has been more investment in consumer side innovation in the energy market in the past 24 months than in the last 24 years. Every week new reports emerge of virtual power plants, demand response, peer to peer trading and so on. These schemes, which rely on the use of smart meter data, all allow consumers to participate in the energy market like never before. Retailers do play a central role in this innovation, through both the development of new technologies and services, or the go to market of technologies and services developed by others. Small retailers in particular, although not exclusively, have played a role in driving this innovation.

If a BSO were to be adopted there would be a disincentive for a retailer to rollout innovative products and services to customers to help address high energy costs. This is because the payback on these services occurs over time. The provision of such services is unlikely to be provided by retailers in an environment where customers can switch to a regulated price at any time. In addition, a regulated retail market means there will be a price set with no room for research and development.

There is also a real risk that retailers deliver a lower standard of service to all customers due to retailers being less incentivized to invest in customer service.

- competition.
A BSO has the outcome of delivering uncertain returns for investors as returns are determined by the regulator. A BSO will lead to a lower number of retailers in the market owing to investor concerns which will have the impact of diluting competition over time. In addition as larger retailers have incumbent customer bases who are less likely to switch in the current market it follows that these customers are less likely to take up a BSO. Therefore, smaller tier two and three retailers would be placed at a disadvantage to larger retailers as a result of the BSO. While the Panel concluded that competition has not been effectively working for consumers in Victoria, this does not necessarily mean that a reduction of competition will be beneficial for consumers. This is particularly the case where their conclusion about a lack of benefits from competition was based on the flawed comparison to the water industry and also ignored the significant benefits of improved customer service and innovation in the energy market. Finally, a reduction in competition at the retail level will likely lead to a reduction to competition at the wholesale level as business models such as that of Meridian and

Powershop (as well as others) will be less viable. It is surely not up for debate that a reduction in wholesale competition and generation investment would be bad for customers.

The alternative mechanism to address the concerns of the Review is to implement Recommendations 3-11 effectively and in a timely manner with the co-operation of industry and consumer groups. As we have seen since the Panel delivered its Recommendations, while there is a possibility of a BSO being implemented, industry groups, consumer groups, government and regulators have focused their attention and efforts on the BSO rather than on the timely implementation of Recommendations 3-11 which are broadly supported by industry. Furthermore Recommendations 3-11 will benefit all consumers rather than only those likely to take up a BSO.

3.3 Design and scope of a regulated BSO

At the DELWP consultation meeting on Friday 16 March 2018, representatives of DELWP stated that they did not believe that Recommendations 3-11, in and of themselves, would deliver the Government's objectives of providing a clear price signal, a choice of a 'no frills product' or immediate downward pressure on retail prices and therefore a BSO or similar measure was required.

The fact that numerous significant questions as outlined in the Paper, on the design and scope of a regulated BSO, remain outstanding it is puzzling that DELWP holds such strong views as to the benefits of the BSO. As we believe that the BSO is both unworkable owing to the challenges of a regulator setting multiple reference prices (which we will outline to the ESC) and not to the benefit of consumers, we will not be responding to the questions raised by DELWP in this section.

3.4 Alternatives to a regulated BSO

The alternative mechanism to the BSO is to ensure that customers can receive the full benefits of true competition. This can be achieved by implementing Recommendations 3-11 effectively and in a timely manner with the co-operation of industry and consumer groups. Furthermore Recommendations 3-11 will benefit all consumers rather than only those likely to take up a BSO. The Government should place its focus on monitoring the impact of these changes and fine tuning their implementation to ensure all customers receive the expected benefits including reduced prices.

4. Marketing information and contract periods, practices and variations (Recommendations 3 & 4)

4.3 Recommendations 4A to 4E

While Powershop supports Recommendations 4A to 4E, DWELP needs to hold detailed consultation on each of these issues to uncover and understand all potential unintended consequences. For example, recommendation 4A has the potential to add cost and complexity, as in theory a retailer will be required to change its prices every day of the year and the ESC will need to change the reference price every day of the year. The number of other potential related issues that arise in relation to each of the above are too numerous to outline here effectively.

5. Other Recommendations

5.2 Recommendations being progressed in full or in part.

Powershop has been a key user of smart meter data to provide its customers with increased information and control of their energy usage. Many of its recent innovations (including demand response, peer to peer solar trading, supporting energy storage and improved customer user experience) all depend on the utilization of smart meter data.

The Government should continue to promote the benefits of smart meters and the emerging innovative new energy economy that is starting to thrive as a result of the roll out of smart meters. However, it should be noted that this multi-billion dollar investment paid for by Victorian consumers is now at risk by the prospect of re-regulated retail prices.

6. ACCC Electricity Supply and Prices Enquiry

Given the broad scope and detailed review that the ACCC is currently undertaking and the fact their full report is due on 30 June 2018, it seems inappropriate that the Victorian Government, having taken so long to initially respond to the Thwaites Review Recommendations, is now rushing through the implementation process. We question whether it would be more appropriate for the Government to await the recommendations of the ACCC report before taking action, especially in relation to the BSO.

In conclusion, Powershop would like to reiterate our disappointment in the lack of opportunity provided to stakeholders to comment on the Review's analysis and conclusions. We do not believe the analysis to be robust and do not believe that it would survive peer review. This does not change our support for the majority of the Recommendations, with the exclusion of Recommendations 1 and 2.

We would be happy to meet to discuss our response should this be required.

Yours sincerely,



Ed McManus
Chief Executive Officer
Powershop Australia Pty Ltd & Meridian Energy Australia